



**SDI** **ANNUAL  
REPORT** 2017



A female scientist with reddish-brown hair tied back, wearing glasses and large hoop earrings, is focused on looking through a microscope. She is wearing a white lab coat with an SDI logo on the left chest. The microscope is a Leica M205 C. The background shows a laboratory environment with various equipment and cables.

SDI

**RESEARCH.  
INNOVATION.  
RESULTS.**

**SDI Limited**

**ABN 27 008 075 581**

**Annual Report - 30 June 2017**

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## **Chairman's Report**

Dear Shareholders,

On behalf of the Board of Directors of SDI Limited it is my pleasure to present SDI Limited's Annual Report for the financial year to 30 June 2017.

As announced in June this year, I have taken up the role of Non-Executive Chairman stepping down from the Executive Chairman role. Over the last year Ms. Samantha Cheetham has led the business, building stronger foundations and ensuring a smooth leadership transition for our Company. Furthermore, she is thoroughly supported by Mr. Slaviero as COO/CFO and the rest of the management team, to continue developing our business to meet current challenges and to take advantage of the substantial opportunities that lay ahead.

As the Founder of SDI the decision to step away from the day-to-day activities of the Company's operations was not an easy one to make. However, it is pleasing for me to be able to pass over control, with the business in such a very strong financial position, growing organic sales, and with a strong pipeline of innovative products that will continue to fuel sales growth for the foreseeable future. As Chairman of the Board, I will continue to guide the Company to deliver meaningful and sustainable shareholder returns. I will also make myself available to the research and development team who are bringing valuable advances in dental technologies to the world market.

SDI is a globally exposed Australian manufacturer, whose results are impacted by currency changes. The higher relative Australian dollar over the 2017 financial year impacted margins and lowered translated revenues. However, in constant currency terms our business continued to see growth in non-Amalgam products, which more than offset the decline in Amalgam products. The Company generates strong cash flows, has no net debt and is well placed to capitalise on future opportunities. The Board has confidence in the strength of the business and the increased dividend payment is reflective of this.

Over the years, SDI has built an enviable research and development portfolio, including patents and trademarks that will deliver solid returns well into the future. The Company's transition from being known as a high-quality Amalgam company to an innovative Aesthetic and Whitening Company is well progressed with over two thirds of sales today coming from non-Amalgam products. In addition to SDI's strong product portfolio, the Company has developed a distribution network which extends to over 100 countries. This strategic network, developed over many years, is reinforced by a strong working relationship with the Company's worldwide network of Distributors.

There has been a lot of investment made into the products, manufacturing capability, marketing, and into the expansion of our distribution channels. It is a credit to the Management who have built this great Australian company which is now positioned to address future challenges and embrace future opportunities.

In closing, I wish to acknowledge the contribution made by the Board of Directors who have served with distinction by advising, encouraging and assisting management. Additionally, I wish to express my appreciation to the managers and all the staff for their tremendous efforts. SDI is a great Australian manufacturing and exporting company and we are very confident that we will continue to grow the business in the future and reward its shareholders.

Thank you for your ongoing support.



Jeffery Cheetham, OAM  
Chairman  
SDI Limited

## Managing Director's Report

This has been a challenging year for the group; however, we have made significant progress with the business. We have continued to make investments in new products and have kept pace with market trends; we have invested in new teams, especially in the US; and are making material progress as a leading manufacturer in the dental industry.

Sales and EBITDA are lower than we achieved in FY16, but we are pleased with the steady progress we have made over the longer term with compound annual growth in sales and EBITDA in AUD of 7% and 8% respectively since 2013.

Encouragingly, the primary product areas of our investment focus have continued to show strong sales growth. Aesthetics sales, which include glass ionomer and composite fillings, recorded 12% growth in local currency, while Whitening sales in local currency showed sales growth of 7%. The Australia direct export sales were also up very strongly, achieving 15% growth in local currency. These destinations are primarily the emerging economies and interestingly, their consumption trends are similar to those we have observed in developed markets, with an increasing preference for non-Amalgam products.

As we talked about at the interim we continue our focus on efficiency gains and I am pleased to advise that we have managed to achieve a flat result on our operating expenses for the year. We continue to invest in research and development, seeing this as a key driver of creating value, spending \$3m over the last 12 months.

Finally, reflective of our strong financial position we continue to repay debt, with a further repayment of \$1.6m over the year, and the Board have declared a 2.3 cent dividend per share, up 15% on the previous year, showing their confidence in the operating performance and outlook for the group. We enter FY18 with a strong balance sheet, good cash flows and a bright outlook.

Overall the mix of sales has shifted dramatically over the last five years, with Amalgam sales falling from 45% to 31% of sales today. The compound annual growth rate over the last four years of Aesthetics and Whitening have been 17.1% and 12.8% respectively, with these two segments in aggregate now representing 60% of total sales. This is a function of both the markets preference for alternative products and the shift in our focus to the non-Amalgam products.

Over FY17 we released a number of new products which will contribute to earnings as they gain industry acceptance. Of note, our new Aura product has been well received and is indicative of the trust placed in this brand. In addition, Rarii Xpert, a new curing light, has received positive feedback from evaluators and will contribute to improved equipment sales through FY18 and beyond.

Finally, and excitingly, we are supporting research trials for Riva Star. If the studies are successful this product may result in significant savings to public health and reduce patient trauma. Today 4,000 Victorian children undergo general anaesthetics each year to perform routine dental treatments. This product has the potential to be used topically for the treatment of cavities and avoid such aggressive treatment.

We have five strategic priorities:

1. Achieve operational excellence;
2. Continue to innovate and maintain product quality;
3. Develop a dynamic brand and culture;

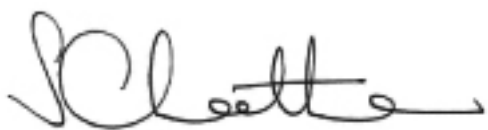
4. Develop high performing teams; and finally
5. As a manufacturer have a focus on safety

SDI began life as an Amalgam manufacturer; however, today this represents only 30% of our sales. The remaining 70% are the result of targeted research and development which has seen the business transform to being a contemporary dental manufacturer at the leading edge of new product development in the industry globally.

We expect to see continued growth in sales of non-Amalgam products and are well placed by product and region to participate in this growth. We also expect the decline in Amalgam sales to continue.

One of the other very important resources SDI has is its people. The dedication, knowledge and experience of our teams around the world are outstanding. The SDI teams we have in place and the quality products we offer the market, have ensured that the Company will have a strong, stable business that will deliver returns well into the future. I am proud to be a part of an innovative Australian producer and together we have an exciting future ahead of us.

In closing, I wish to express my appreciation to the Board, Managers and all the staff for their tremendous efforts and support over the year.



Samantha Cheetham  
Managing Director  
SDI Limited



The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of SDI Limited (referred to hereafter as the 'Company', 'SDI' or 'parent entity') and the entities it controlled at the end of, or during, the financial year ended 30 June 2017.

## Directors

The following persons were Directors of SDI Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jeffery James Cheetham OAM - Chairman  
 Samantha Jane Cheetham  
 John Joseph Slaviero  
 Dr Geoffrey Macdonald Knight  
 Gerald Allan Bullon  
 Cameron Neil Allen  
 Gerard Desmond Kennedy

## Alternate Director

Pamela Joy Cheetham (alternate for Jeffery James Cheetham)

## Principal activities

During the financial year the principal activities of the consolidated entity continued to be the manufacture and distribution of Amalgam and composite restorative materials, other dental materials and product research and development.

## Dividends

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2016 of 1.2 cents (2015: 1.0 cents) per ordinary share	1,426	1,189
Interim dividend for the year ended 30 June 2017 of 1.0 cents (2016: 0.8 cents) per ordinary share	1,189	951
	<u>2,615</u>	<u>2,140</u>

On 24 August 2017, the Directors declared a final franked dividend of 1.3 cents per share to be paid on 22 September 2017. This equates to a total estimated distribution of \$1,545,000, based on the number of ordinary shares on issue as at 30 June 2017. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2017 financial statements and will be recognised in subsequent financial reports.

Total dividends for the 2017 financial year increased by 15.0% to 2.3 cents compared to 2.0 cents in the previous year. The Directors decided that the Company's Dividend Reinvestment Plan ('DRP') not be offered to Shareholders for this dividend payment.

## Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$5,576,000 (30 June 2016: \$7,566,000).

Highlights of the results from operations for the financial year ending 30 June 2017 are provided below:

- Sales were flat compared to prior year
- Group operating expenses (in Australian dollars) increased by 0.6% compared to the prior year
- EBITDA decreased by 19.1% to \$12,285,000
- NPBT decreased by 26.2% to \$8,191,000
- NPAT decreased by 26.3% to \$5,576,000
- Cash decreased by \$247,000 to \$5,784,000
- Dividends increased by 15% to 2.3 cents

Profit after tax decreased by \$1,990,000 to \$5,576,000 compared to \$7,566,000 for the previous year.



Profit before tax decreased by \$2,907,000 to \$8,191,000 compared to \$11,098,000 for the previous year.

The current year's profit before tax includes \$479,000 of unrealised currency losses due to the revaluation of assets held in foreign currencies.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 19.1% to \$12,285,000 compared to \$15,127,000 for the corresponding period last year. Earnings per share for the 12 months ending 30 June 2017 decreased by 1.68 cents to 4.69 cents compared to 6.37 cents for the same period last year.

Reported sales in Australian dollars at \$74,066,000 for the period showed no increase when compared to the corresponding period last year. SDI exports approximately 90% of its products and when adjusted for currency movements, sales increased by 2.6% compared to prior year.

Sales growth was driven by increased sales of Aesthetics (up 11.6% in local currency) and Whitening products (up 6.9% in local currency) offset by a continuing decline in Amalgam sales (down 7.4% in local currency), which represented 30.9% of the Company's total sales.

Australian sales including direct exports (excluding inter-company sales) increased by 11.3%. These price competitive export markets include Latin America, Africa, Asia, and some European markets.

SDI North America's sales decreased 6.5% in local currency. The decline in North American sales is a result of the disruption caused by the restructuring of the sales force over the last 12 months and significant decline in Amalgam sales.

Sales in SDI Europe in local currency were flat. Europe has many diverse markets within it where some markets such as France, Spain and UK (when adjusted for the weakening of the Pound to the Euro) showed positive growth, while European exports to non-EU countries weakened.

Brazilian sales in local currency increased by 7.6%. SDI Brazil commenced packing some Amalgam products in May 2016, and will continue to expand this process with the view of packing all of its Amalgam and Whitening products locally therefore lowering importation costs allowing a more aggressive pricing model to better compete with local manufacturers.

Total Group operating expenses (in Australian dollars) increased by 0.6% compared to the previous year. Approximately 57% of SDI's total operating expenses relate to its offshore subsidiaries and are subject to currency movements when reporting in Australian dollars. When adjusted for currency movements, expenses increased by 1.5%.

The consolidated entity's total cash holdings decreased by \$247,000 after further reducing debt by \$1,593,000, increasing dividend payments by \$475,000 as well as the purchase of adjoining land for \$677,000. Inventories decreased by \$1,230,000, highlighting better inventory management due to improvements in manufacturing processes

SDI has a Risk Management Framework that is reviewed annually by SDI's Audit Committee. The Risk Management Process that underlies this framework sets a process for identifying, assessing, evaluating and monitoring SDI's key risks, primarily achieved via internal six-monthly Risk Workshops. Material business risks that could have an adverse impact on SDI's future financial prospects include the following:

- Sales of Amalgam products - Amalgam sales currently represents approximately 31% of total sales and continues to show a decreasing sales trend as markets are moving to Aesthetic products. SDI has existing strategies and controls in place to increase the Company's focus on replacement products, but also to continue to promote its Amalgam products to lower socio-economic markets.
- Foreign exchange risk - SDI exports approximately 90% of its products which are invoiced in various foreign currencies. The foreign currency exchange exposure is partially offset as SDI incurs approximately 57% of its operating expenses in foreign currencies. In addition to this, where possible the Company purchases raw materials in foreign currencies to further increase its natural hedge. Hedging instruments are considered when net foreign currency cash flows are in surplus.

#### **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

### **Matters subsequent to the end of the financial year**

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### **Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations has been included in the 'Review of operations' section above.

### **Environmental regulation**

The consolidated entity holds licences issued by the Environmental Protection Authority, which specify limits for discharges to the environment arising from the consolidated entity's operations. These licences regulate the management of discharges to the air and storm water run-off associated with the manufacturing operations as well as the storage of hazardous materials. The Directors are not aware of any breaches of the licence conditions during the year ended 30 June 2017 and up to the date of this report.

### **Information on Directors**

<b>Name:</b>	Jeffery James Cheetham OAM
<b>Title:</b>	Chairman (from 1 July 2017) (Former Executive Chairman)
<b>Experience and expertise:</b>	Founder of SDI Limited.
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Chairman of the SDI Limited Board
<b>Interests in shares:</b>	5 ordinary shares held directly and 54,470,242 ordinary shares held indirectly

<b>Name:</b>	Samantha Jane Cheetham
<b>Title:</b>	Managing Director and Chief Executive Officer
<b>Qualifications:</b>	Bachelor of Business (Banking and Finance), Master of Business Administration
<b>Experience and expertise:</b>	Extensive experience in sales and marketing in Australia and overseas
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Responsible for marketing and sales activities of the consolidated entity
<b>Interests in shares:</b>	333,565 ordinary shares held directly and 25,708 ordinary shares held indirectly

<b>Name:</b>	John Joseph Slaviero
<b>Title:</b>	Executive Director, Chief Operating Officer, Chief Financial Officer and Company Secretary
<b>Qualifications:</b>	Bachelor of Business, Certified Practising Accountant, Fellow of the Association of Taxation and Management Accountants
<b>Experience and expertise:</b>	John has been the Chief Financial Officer and Company Secretary of SDI Limited since 2002 and has extensive finance and accounting experience in both the commercial and professional fields. Much of this experience was gained from working in senior finance and accounting roles in large multi-national and medium size manufacturing companies
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Company Secretary
<b>Interests in shares:</b>	2,689 ordinary shares held directly

**Name:** Dr Geoffrey Macdonald Knight  
**Title:** Non-Executive Director  
**Qualifications:** Bachelor of Dental Science, Master of Business Administration, Master of Science (London University), Doctor of Philosophy (Adelaide University)  
**Experience and expertise:** Geoffrey is an experienced and world recognised dental scientist as well as a practicing dentist. He has published numerous technical dentistry papers both locally and internationally and has held senior positions with the Australian Dental Association (Victorian Branch), Australian Society of Periodontology (Victorian Branch), Australian Society of Dental Aesthetics, the Society of Occlusal Studies and other professional groups  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Member of the Audit Committee and member of the Remuneration Committee  
**Interests in shares:** 165,516 ordinary shares held directly and 1,215,790 ordinary shares held indirectly

**Name:** Gerald Allan Bullon  
**Title:** Non-Executive Director  
**Qualifications:** Fellow of the Australian Institute of Company Directors  
**Experience and expertise:** Gerald has managed his own Investor Relations consultancy firm, Insor Pty Ltd, since 1996. He has been involved with several ASX initial public offerings including Australian Hospital Care Limited, Sigma Pharmaceuticals Limited and Nick Scali Limited. He has also held senior executive roles in a number of public companies  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Member of the Audit Committee and Chairman of the Remuneration Committee  
**Interests in shares:** 252,716 ordinary shares held indirectly

**Name:** Cameron Neil Allen  
**Title:** Non-Executive Director  
**Qualifications:** Master of Taxation (University of Melbourne), Bachelor of Business (Accounting) (Deakin University), Chartered Tax Adviser and Member of The Tax Institute (Australia)  
**Experience and expertise:** Cameron is currently the Managing Partner of A&A Tax Legal Consulting (formerly WTS Australia), which he established in 2010. A&A is a founding member firm of the FTI Consulting Global Tax Network. Prior to A&A, Cameron was a tax partner at Deloitte Touche Tohmatsu and BDO, as well as holding a senior role at Ernst & Young. He has over 25 years' experience in advising large and small corporate organisations on domestic and international taxation and "best practice" processes. In addition to his extensive career, Cameron also sits on the global board of FTI Consulting Global Tax Network which coordinates its network activities in over 100 countries  
**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chairman of the Audit Committee and member of the Remuneration Committee  
**Interests in shares:** None

Name: Gerard Desmond Kennedy  
Title: Non-Executive Director  
Qualifications: Law Institute of Victoria Accredited Business Law Specialist, Barrister and Solicitor of the Supreme Court of Victoria and the High Court of Australia, Post graduate Diploma in Commercial Law (Monash University) majoring in International Trade Law and International Banking and Finance Law, Notary Public and a Member of the Victorian Lawyers RPA Ltd  
Experience and expertise: Gerard is a Principal in the Law firm of Macpherson and Kelley Lawyers and has spent many years in advising clients on matters of mergers and acquisitions, contract, licensing, joint ventures, tenders, corporate governance and compliance, Corporation law and international trade  
Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Member of the Audit Committee and member of the Remuneration Committee  
Interests in shares: 40,000 ordinary shares held directly

Name: Pamela Joy Cheetham  
Title: Alternate Director for Jeffery James Cheetham  
Experience and expertise: Co-founder of SDI Limited  
Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: None  
Interests in shares: Co-holder of shares shown for Jeffery James Cheetham

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

### Company Secretary

John Joseph Slaviero is an Executive Director and Company Secretary. Details of John's experience and expertise are detailed in the 'Information on Directors' section above.

### Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each Director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Jeffery James Cheetham	8	9	-	-	-	-
Samantha Jane Cheetham	8	9	-	-	-	-
John Joseph Slaviero	9	9	-	-	-	-
Dr Geoffrey Macdonald Knight	8	9	1	1	1	2
Gerald Allan Bullon	9	9	1	1	2	2
Cameron Neil Allen	9	9	1	1	2	2
Gerard Desmond Kennedy	8	9	1	1	2	2

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

### Remuneration report (audited)

The Remuneration Report, which has been audited, outlines the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP

#### ***Principles used to determine the nature and amount of remuneration***

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is market competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for delivery of reward.

The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the consolidated entity depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

Based on external remuneration benchmarking reports, the Remuneration Committee has structured an executive remuneration framework based on external remuneration reports that is market competitive and complementary to the reward strategy of the consolidated entity. The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Directors and Executive Directors remuneration are separate.

#### ***Non-Executive Directors remuneration***

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, these Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. Non-Executive Directors do not receive share options or other incentives.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 25 November 2016, where the shareholders approved an aggregate maximum remuneration of \$400,000 per annum.

#### ***Executive remuneration***

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.



The executive remuneration and reward framework has three components:

- base pay and non-monetary benefits;
- short-term performance incentives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are reviewed annually by the Remuneration Committee based on individual responsibilities and the overall performance of the consolidated entity and comparable market remunerations. Executives may receive their fixed remuneration in the form of cash or other fringe benefits.

#### *Consolidated entity performance and link to remuneration*

The short-term incentives ('STI') program is designed to link the achievement of the consolidated entity's operational targets with the remuneration received by the executives responsible with meeting those targets.

A maximum STI value of 20% of each executive's fixed remuneration is granted depending on the extent to which specific targets set at the beginning of the financial year are met. STI payments are made as follows:

- 25% of the STI is paid if the executive meets their individual KPI's for the half year.
- 25% of the STI is paid if the executive team achieves 95% or greater of budgeted Net Profit After Tax (NPAT) for the half year.
- 50% of the STI is paid if the executive meets their individual KPI's for the full year.
- 50% of the STI is paid if the executive team achieve 95% or greater of budgeted Net Profit After Tax (NPAT) for the full year.
- If the executive team exceeds 100% of budgeted NPAT they may receive an extraordinary payment at the discretion of the Board.
- Once confirmation is received by the Audit Committee and Board of Directors of the results for the relevant reporting period any proposed Executive STI payments are referred to the Remuneration Committee for final approval prior to any payments being made.
- All STI payments are made in the form of cash.

The aggregate pool of potential STI payments is approved by the Remuneration Committee. The Board, at its discretion, determine whether events which are uncontrollable by management have impacted on the actual earnings and therefore should be excluded from the calculation of NPAT in the year's STI hurdles.

There are no long-term incentives ('LTIs') embedded into the executive remuneration structure.

#### *Voting and comments made at the Company's 2016 Annual General Meeting ('AGM')*

At the 2016 AGM, more than 25% of the votes received did not support the adoption of the remuneration report for the year ended 30 June 2016 resulting in a 'first strike'. The Company did not take any additional actions as it did not receive any specific feedback at the AGM regarding its remuneration practices.

#### *Details of remuneration*

##### *Amounts of remuneration*

The KMP of the consolidated entity consisted of the Directors of SDI Limited.

Changes since the end of the reporting period:

J J Cheetham's position changed from Executive Chairman to Chairman of the Board on 1 July 2017.

Details of the remuneration of the KMP of the consolidated entity are set out in the following tables:

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Employee benefits \$	Equity-settled \$	
<b>2017</b>							
<i>Non-Executive Directors:</i>							
Dr G M Knight	50,038	-	-	4,754	-	-	54,792
G A Bullon	55,365	-	-	5,260	-	-	60,625
C N Allen	64,792	-	-	-	-	-	64,792
G D Kennedy	50,038	-	-	4,754	-	-	54,792
<i>Executive Directors:</i>							
J J Cheetham	289,231	54,880	105,681	32,691	5,333	-	487,816
S J Cheetham	424,860	37,920	48,165	43,964	7,081	-	561,990
J J Slaviero	373,566	34,130	48,181	38,731	6,449	-	501,057
	1,307,890	126,930	202,027	130,154	18,863	-	1,785,864

\* Bonus payments detailed in the table above relate to the prior financial year's performance.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Incentive plans \$	Non-monetary \$	Super-annuation \$	Employee benefits \$	Equity-settled \$	
<b>2016</b>							
<i>Non-Executive Directors:</i>							
Dr G M Knight	43,378	-	-	4,121	-	-	47,499
G A Bullon	43,378	-	-	4,121	-	-	47,499
C N Allen	57,500	-	-	-	-	-	57,500
G D Kennedy	43,378	-	-	4,121	-	-	47,499
<i>Executive Directors:</i>							
J J Cheetham	468,800	109,760	66,181	54,963	7,813	-	707,517
S J Cheetham	371,907	75,840	48,165	42,536	6,320	-	544,768
J J Slaviero	341,299	68,260	48,181	38,908	5,688	-	502,336
	1,369,640	253,860	162,527	148,770	19,821	-	1,954,618

\* 50% of the bonus payments detailed in the table above relate to the prior financial year's performance.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2017	2016	2017	2016	2017	2016
<i>Non-Executive Directors:</i>						
Dr G M Knight	100%	100%	-	-	-	-
G A Bullon	100%	100%	-	-	-	-
C N Allen	100%	100%	-	-	-	-
G D Kennedy	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
J J Cheetham	80%	80%	20%	20%	-	-
S J Cheetham	80%	80%	20%	20%	-	-
J J Slaviero	80%	80%	20%	20%	-	-

## Share-based compensation

### Issue of shares

There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2017.

### Options

There were no options over ordinary shares issued to Directors and other KMP as part of compensation that were outstanding as at 30 June 2017.

There were no options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2017.

## Additional information

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000
Sales revenue and other income	74,166	74,335	68,881	65,444	57,357
Profit before income tax	8,191	11,098	8,700	7,469	5,840
Profit after income tax	5,576	7,566	6,200	6,467	4,690

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017	2016	2015	2014	2013
Share price at financial year end (\$)	0.58	0.52	0.50	0.43	0.51
Total dividends declared (cents per share)	2.30	2.00	1.40	0.70	0.50
Basic earnings per share (cents per share)	4.69	6.37	5.22	5.44	3.95
Diluted earnings per share (cents per share)	4.69	6.37	5.22	5.44	3.95

## Additional disclosures relating to KMP

### Shareholding

The number of shares in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
J J Cheetham	54,470,247	-	-	-	54,470,247
S J Cheetham	359,273	-	-	-	359,273
J J Slaviero	2,689	-	-	-	2,689
Dr G M Knight	1,281,306	-	100,000	-	1,381,306
G A Bullon	252,716	-	-	-	252,716
G D Kennedy	40,000	-	-	-	40,000
	<u>56,406,231</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>56,506,231</u>

*Other transactions with KMP and their related parties*

Sale of goods to:

- Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$19,197

Provision of consulting services by:

- Insor Pty Ltd, a company controlled by Director, Gerald Allan Bullon amounted to \$10,000.
- A&A Tax Legal Consulting formerly (WTS Australia Consulting Pty Ltd), a company controlled by Director, Cameron Neil Allen amounted to \$16,981.
- Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$2,935.
- Director, Gerard D Kennedy amounted to \$8,606.

Payments for the lease of property owned by Silver Glades Pty Ltd, a company controlled by Director Jeffery James Cheetham amounted to \$90,000.

***This concludes the remuneration report, which has been audited.***

**Shares under option**

There were no unissued ordinary shares of SDI Limited under option outstanding at the date of this report.

**Shares issued on the exercise of options**

There were no ordinary shares of SDI Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

**Indemnity and insurance of officers**

The Company has indemnified the Directors and Executives of the Company for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

**Officers of the Company who are former partners of Deloitte Touche Tohmatsu**

There are no officers of the Company who were former audit partners of Deloitte Touche Tohmatsu. Cameron Neil Allen was a former tax partner of Deloitte Touche Tohmatsu. Refer to 'Information on Directors' for further details.

**Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Auditor's independence declaration**

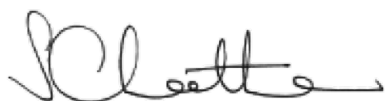
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

**Auditor**

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



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Samantha Jane Cheetham  
Managing Director

28 September 2017  
Melbourne



28 September 2017

The Board of Directors  
SDI Limited  
5-7 Brunsdon Street  
BAYSWATER VIC 3153

Dear Board Members


SDI Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of SDI Limited.

As lead audit partner for the audit of the financial statements of Morris Finance Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit ; and
- (ii) any applicable code of professional conduct in relation to the audit

Yours sincerely

  
DELOITTE TOUCHE TOHMATSU



Craig Bryan  
Partner  
Chartered Accountants

**SDI Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2017**



	Note	Consolidated 2017 \$'000	2016 \$'000
<b>Revenue</b>			
Sales revenue		74,066	74,077
Cost of goods sold		(29,625)	(27,988)
Gross profit		44,441	46,089
Other income	5	100	258
<b>Expenses</b>			
Selling and administration expenses		(32,829)	(32,642)
Research and development costs		(921)	(680)
Other expenses		(2,381)	(1,604)
Finance costs	6	(219)	(323)
<b>Profit before income tax expense</b>		8,191	11,098
Income tax expense	7	(2,615)	(3,532)
<b>Profit after income tax expense for the year attributable to the owners of SDI Limited</b>		5,576	7,566
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		-	(37)
Exchange differences arising on translation of foreign controlled entities		(397)	299
Other comprehensive income for the year, net of tax		(397)	262
<b>Total comprehensive income for the year attributable to the owners of SDI Limited</b>		5,179	7,828
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	8	4.69	6.37
Diluted earnings per share	8	4.69	6.37

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

	Note	Consolidated 2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		5,754	6,001
Trade and other receivables	9	15,451	14,454
Inventories	10	17,135	18,365
Prepayments		818	550
Total current assets		39,158	39,370
<b>Non-current assets</b>			
Other receivables	11	1,124	1,165
Property, plant and equipment	12	18,121	18,334
Intangibles	13	22,859	21,533
Total non-current assets		42,104	41,032
<b>Total assets</b>		81,262	80,402
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	4,551	4,375
Borrowings	15	1,137	2,521
Derivative financial instruments		62	-
Provision for income tax	7	248	1,516
Employee benefits		3,506	3,322
Total current liabilities		9,504	11,734
<b>Non-current liabilities</b>			
Borrowings	16	3,000	3,209
Deferred tax liability	7	2,206	1,488
Employee benefits		209	192
Total non-current liabilities		5,415	4,889
<b>Total liabilities</b>		14,919	16,623
<b>Net assets</b>		66,343	63,779
<b>Equity</b>			
Issued capital	17	12,890	12,890
Reserves	18	763	1,160
Retained profits		52,690	49,729
<b>Total equity</b>		66,343	63,779

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

**SDI Limited**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2017**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2015	12,890	1,170	44,031	58,091
Profit after income tax expense for the year	-	-	7,566	7,566
Other comprehensive income for the year, net of tax	-	262	-	262
Total comprehensive income for the year	-	262	7,566	7,828
<i>Transactions with owners in their capacity as owners:</i>				
Transfer of revaluation reserve	-	(272)	272	-
Dividends paid (note 19)	-	-	(2,140)	(2,140)
Balance at 30 June 2016	<u>12,890</u>	<u>1,160</u>	<u>49,729</u>	<u>63,779</u>
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	12,890	1,160	49,729	63,779
Profit after income tax expense for the year	-	-	5,576	5,576
Other comprehensive income for the year, net of tax	-	(397)	-	(397)
Total comprehensive income for the year	-	(397)	5,576	5,179
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 19)	-	-	(2,615)	(2,615)
Balance at 30 June 2017	<u>12,890</u>	<u>763</u>	<u>52,690</u>	<u>66,343</u>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

	<b>Note</b>	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		73,110	72,533
Payments to suppliers and employees		(60,454)	(61,272)
		12,656	11,261
Other revenue		100	258
Interest and other finance costs paid		(219)	(323)
Income taxes paid		(3,165)	(2,417)
Net cash from operating activities	27	9,372	8,779
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	12	(2,678)	(2,433)
Payments for intangibles	13	(2,920)	(2,073)
Proceeds from disposal of property, plant and equipment		275	76
Net cash used in investing activities		(5,323)	(4,430)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		346	4,794
Dividends paid	19	(2,615)	(2,140)
Repayment of borrowings		(1,939)	(6,178)
Net cash used in financing activities		(4,208)	(3,524)
Net (decrease)/increase in cash and cash equivalents		(159)	825
Cash and cash equivalents at the beginning of the financial year		6,001	5,037
Effects of exchange rate changes on cash and cash equivalents		(88)	139
Cash and cash equivalents at the end of the financial year		5,754	6,001

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*



## **Note 1. General information**

The financial statements cover SDI Limited as a consolidated entity comprising of SDI Limited ('Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'consolidated entity'). The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency.

SDI Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

### **Registered office**

5 - 9 Brunsdon Street  
Bayswater VIC 3153

### **Principal place of business**

3 - 15 Brunsdon Street  
Bayswater VIC 3153

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 September 2017. The Directors have the power to amend and reissue the financial statements.

## **Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted as discussed in note 28.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are measured at fair value.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SDI Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

## **Note 2. Significant accounting policies (continued)**

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### **Foreign currency translation**

The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

#### *Sales revenue*

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

### **Research and development expense**

Expenditure during the research phase of a project is expensed to profit or loss when incurred. Expenditure incurred in the development phase of a project is capitalised as an intangible asset when the criteria for capitalisation has been satisfied (refer to accounting policy for intangible assets). Development costs are expensed to profit or loss when it cannot be demonstrated that it is probable that the expenditure results in the control of future economic benefits.

### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading if it is expected to be realised within 12 months after the reporting period or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

## **Note 2. Significant accounting policies (continued)**

A liability is current when it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### **Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

#### *Cash flow hedges*

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to the particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### **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.

### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

## Note 2. Significant accounting policies (continued)

### Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date is measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows

#### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or related dentistry techniques. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### *Impairment of finite life non-financial assets*

The consolidated entity assesses impairment of finite life non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Income tax*

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### *Employee benefits provision*

As discussed in the accounting policy for employee benefits, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

#### *Capitalisation of development costs*

Expenditure incurred on the development phase of the consolidated entity's research projects are capitalised as intangible assets when the recognition criteria detailed in the accounting policy for intangible assets has been met. Significant judgement is involved in assessing whether the carrying value of such assets can be recovered through subsequent commercialisation and involves consideration as to the ability to patent or trademark the intellectual property and successfully market related products in a competitive market. The carrying values of such assets are continually reviewed for indicators of impairment which also requires judgement.

### Note 4. Operating segments

#### *Identification of reportable operating segments*

The consolidated entity's operations consist of the manufacture of dental restorative products, tooth whitening systems and small dental equipment for sale to dental distributors, dental dealers and dentists worldwide.

Operating segments are determined using the 'management approach', where the information presented is on the same basis as the internal reports reviewed by the Board of Directors (identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The consolidated entity comprises four separate reportable operating segments which are primarily identified on the basis of subsidiary companies in different geographical markets.

#### *Reportable segments*

The consolidated entity's reportable segments are as follows:

Australia:	SDI Limited
Europe:	SDI Dental Limited (Ireland), SDI Germany GmbH (Germany) and SDI Italy S.r.l (Italy)
USA:	SDI (North America), Inc.
Brazil:	SDI Brasil Industria e Comercio Ltda

SDI New Zealand Limited's segment result has been included under other segments as the results were judged as being immaterial for separate inclusion in the segment report.

Information detailing revenue by individual country has not been included as this information is not available and the cost to develop such information would be excessive.

#### *Intersegment transactions*

The segment revenues, expenses and results include transfers between segments. The pricing of the intersegment transactions is based on cost plus an appropriate mark-up, which reflects market conditions of the segment into which the sales are made. These transfers are eliminated on consolidation of the consolidated entity's financial statements.

#### *Intersegment receivables, payables and loans*

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

**Note 4. Operating segments (continued)**

*Major customers*

The consolidated entity has a number of customers to whom it sells products. No single customer represents 10% or more of the consolidated entity's revenue.

*Operating segment information*

	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Other segments \$'000	Total \$'000
<b>Consolidated - 2017</b>						
<b>Revenue</b>						
Sales to external customers	25,330	23,156	18,851	6,632	97	74,066
Intersegment sales	23,744	-	-	-	-	23,744
Total sales revenue	49,074	23,156	18,851	6,632	97	97,810
Total segment revenue	49,074	23,156	18,851	6,632	97	97,810
Intersegment eliminations						(23,744)
<b>Total revenue</b>						74,066
<b>Segment results before tax</b>	13,469	863	618	(57)	(100)	14,793
Intersegment eliminations	(2,298)	-	-	-	-	(2,298)
Depreciation and amortisation	(3,723)	(211)	(52)	(103)	(5)	(4,094)
Interest revenue	1	-	-	8	-	9
Finance costs	(214)	-	-	(5)	-	(219)
<b>Profit/(loss) before income tax expense</b>	7,235	652	566	(157)	(105)	8,191
Income tax expense						(2,615)
<b>Profit after income tax expense</b>						5,576
<b>Assets</b>						
Segment assets	78,088	8,493	7,542	8,087	112	102,322
Intersegment eliminations						(21,060)
<b>Total assets</b>						81,262
<b>Liabilities</b>						
Segment liabilities	13,123	6,853	2,035	8,088	652	30,751
Intersegment eliminations						(15,832)
<b>Total liabilities</b>						14,919



**Note 4. Operating segments (continued)**

<b>Consolidated - 2016</b>	<b>SDI Australia \$'000</b>	<b>SDI Europe \$'000</b>	<b>SDI USA \$'000</b>	<b>SDI Brazil \$'000</b>	<b>Other segments \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>						
Sales to external customers	23,264	24,262	20,876	5,552	123	74,077
Intersegment sales	26,191	10,047	-	-	-	36,238
Total sales revenue	49,455	34,309	20,876	5,552	123	110,315
Total segment revenue	49,455	34,309	20,876	5,552	123	110,315
Intersegment eliminations						(36,238)
<b>Total revenue</b>						<b>74,077</b>
<b>Segment results before tax</b>	17,079	2,888	1,560	(341)	(111)	21,075
Intersegment eliminations	(5,635)	-	-	-	-	(5,635)
Depreciation and amortisation	(3,668)	(221)	(51)	(84)	(5)	(4,029)
Interest revenue	-	1	-	9	-	10
Finance costs	(320)	-	-	(3)	-	(323)
<b>Profit/(loss) before income tax expense</b>	7,456	2,668	1,509	(419)	(116)	11,098
Income tax expense						(3,532)
<b>Profit after income tax expense</b>						<b>7,566</b>
<b>Assets</b>						
Segment assets	75,966	9,722	7,806	7,600	67	101,161
Intersegment eliminations						(20,759)
<b>Total assets</b>						<b>80,402</b>
<b>Liabilities</b>						
Segment liabilities	15,930	6,387	1,250	7,443	502	31,512
Intersegment eliminations						(14,889)
<b>Total liabilities</b>						<b>16,623</b>

**Note 5. Other income**

	<b>Consolidated</b>	
	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Net foreign exchange gain	-	208
Interest revenue	9	10
Other income	91	40
<b>Other income</b>	<b>100</b>	<b>258</b>

**Note 6. Expenses**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Land and buildings	118	116
Plant and equipment	2,382	2,343
Total depreciation	2,500	2,459
<i>Amortisation</i>		
Product development costs	1,023	933
Intellectual property	571	637
Total amortisation	1,594	1,570
Total depreciation and amortisation	4,094	4,029
<i>Employee benefit expense</i>		
Employee costs other than superannuation expense	26,891	27,132
Superannuation expenses	1,378	1,321
Total employee benefit expense	28,269	28,453
<i>Finance costs</i>		
Interest and finance charges paid/payable	219	323
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	116	119
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	518	490
<i>Other</i>		
Foreign exchange losses - realised	462	-
Foreign exchange losses - unrealised	479	-
Bad and doubtful debts	5	9
	946	9

*Accounting policy for finance costs*

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

**Note 7. Income tax**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax	1,476	3,161
Deferred tax - origination and reversal of temporary differences	718	(173)
Adjustment recognised for prior periods	421	544
	<u>2,615</u>	<u>3,532</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities	718	(173)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	8,191	11,098
Tax at the statutory tax rate of 30%	2,457	3,329
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development concession	(335)	(208)
Other deductible / non deductible items	25	46
	<u>2,147</u>	<u>3,167</u>
Adjustment recognised for prior periods	421	544
Difference in overseas tax rates	47	(179)
	<u>2,615</u>	<u>3,532</u>
Income tax expense		

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(1,041)	(981)
Intangible assets	5,219	4,967
Accrued expenses	(1,253)	(1,534)
Elimination of profit held in stock sold to subsidiaries	(602)	(876)
Other	(117)	(88)
	<u>2,206</u>	<u>1,488</u>
Deferred tax liability		
Movements:		
Opening balance	1,488	1,661
Charged/(credited) to profit or loss	718	(173)
	<u>2,206</u>	<u>1,488</u>
Closing balance		

**Note 7. Income tax (continued)**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Provision for income tax</i>		
Provision for income tax	248	1,516

*Accounting policy for income tax*

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Note 8. Earnings per share**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax attributable to the owners of SDI Limited	5,576	7,566
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	118,865,530	118,865,530
Weighted average number of ordinary shares used in calculating diluted earnings per share	118,865,530	118,865,530
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	4.69	6.37
Diluted earnings per share	4.69	6.37

*Accounting policy for earnings per share*

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of SDI Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Note 9. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	13,682	13,239
Less: Provision for impairment of receivables	(85)	(101)
	<u>13,597</u>	<u>13,138</u>
Other receivables	1,854	1,316
	<u>15,451</u>	<u>14,454</u>

*Impairment of receivables*

The ageing of the impaired receivables provided for above is as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Over two months past due	<u>85</u>	<u>101</u>

Movements in the provision for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	101	143
Receivables written off during the year as uncollectable	(16)	(42)
Closing balance	<u>85</u>	<u>101</u>

*Past due but not impaired*

As at 30 June 2017 and 30 June 2016 there were no material balances in existence that are considered to be past due and not impaired.

*Accounting policy for trade and other receivables*

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 - 90 days from invoice date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Note 10. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Raw materials - at cost	8,843	9,184
Finished goods - at cost	8,442	9,398
Less: Provision for inventory obsolescence	(150)	(217)
	<u>17,135</u>	<u>18,365</u>

*Accounting policy for inventories*

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Note 11. Non-current assets - other receivables**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade and other receivables	<u>1,124</u>	<u>1,165</u>

Other non-current receivables is made up of foreign input tax credits not expected to be utilised within 12 months of the reporting date.

**Note 12. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Land and buildings - at cost	10,157	9,480
Less: Accumulated depreciation	(1,441)	(1,323)
	<u>8,716</u>	<u>8,157</u>
Plant and equipment - at cost	30,822	29,857
Less: Accumulated depreciation	(21,417)	(19,680)
	<u>9,405</u>	<u>10,177</u>
	<u>18,121</u>	<u>18,334</u>



**Note 12. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Land and buildings \$'000</b>	<b>Plant and equipment \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2015	8,273	10,282	18,555
Additions	-	2,433	2,433
Disposals	-	(195)	(195)
Depreciation expense	(116)	(2,343)	(2,459)
Balance at 30 June 2016	8,157	10,177	18,334
Additions	677	2,001	2,678
Disposals	-	(391)	(391)
Depreciation expense	(118)	(2,382)	(2,500)
Balance at 30 June 2017	<u>8,716</u>	<u>9,405</u>	<u>18,121</u>

*Property, plant and equipment secured under finance leases*

Refer to note 23 for further information on property, plant and equipment secured under finance leases.

Also refer to note 16 for property, plant and equipment used as security for borrowings.

*Accounting policy for property, plant and equipment*

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	50 years
Plant and equipment	2.5 - 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Note 13. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Product development costs - at cost	23,753	20,425
Less: Accumulated amortisation	<u>(8,488)</u>	<u>(7,465)</u>
	<u>15,265</u>	<u>12,960</u>
Intellectual property - at cost	6,930	6,433
Less: Accumulated amortisation	<u>(3,500)</u>	<u>(3,032)</u>
	<u>3,430</u>	<u>3,401</u>
Development work in progress - at cost	<u>4,164</u>	<u>5,172</u>
	<u><u>22,859</u></u>	<u><u>21,533</u></u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Product development costs \$'000</b>	<b>Intellectual property \$'000</b>	<b>Development work in progress \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2015	13,638	3,683	3,709	21,030
Additions	255	355	1,463	2,073
Amortisation expense	<u>(933)</u>	<u>(637)</u>	<u>-</u>	<u>(1,570)</u>
Balance at 30 June 2016	12,960	3,401	5,172	21,533
Additions	283	600	2,037	2,920
Transfers in/(out)	3,045	-	(3,045)	-
Amortisation expense	<u>(1,023)</u>	<u>(571)</u>	<u>-</u>	<u>(1,594)</u>
Balance at 30 June 2017	<u><u>15,265</u></u>	<u><u>3,430</u></u>	<u><u>4,164</u></u>	<u><u>22,859</u></u>

*Impairment of intangibles*

Impairment testing was undertaken on the consolidated entity's capitalised project development costs and intellectual property.

The recoverable amount of each cash-generating unit by product group to which such assets are allocated is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period plus the terminal value. The cash flows are discounted using a discount rate of 10.8% (2016: 13.9%) at the beginning of the budget period.

These budgets use historical weighted average growth rates and average exchange rates and silver costs for the previous 12 months to project future revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular cash generating unit.

Based on the value-in-use calculations the recoverable amount exceeded the carrying amounts of the cash generating units and therefore no impairment charge was required.

Any reasonable change in the key assumptions on which the value-in-use calculations are based would not cause the carrying value to exceed the recoverable amount.

### Note 13. Non-current assets - intangibles (continued)

#### *Accounting policy for intangible assets*

Intangible assets acquired are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Amortisation commences when the asset is available for use in the manner intended by management.

#### *Product development costs*

Development costs are capitalised when it is probable that the project will be a success, considering its commercial and technical feasibility, the consolidated entity will be able to use or sell the asset, the consolidated entity has sufficient resources and intent to complete the development and its costs can be measured reliably. The majority of additions to Capital Work in Progress are developed internally. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit being their finite useful lives of between 10 and 30 years. The useful life is determined based on past experience and an assessment of the projected life cycle of the product.

#### *Intellectual property*

Intellectual property consists of patents, trademarks, licences and other technical know-how, which have a benefit or relationship for more than one period. Intellectual property is recognised at cost of acquisition. Intellectual property with a finite life is carried at cost less any accumulated amortisation and any impairment losses. They are amortised over their finite useful life of up to 10 years.

### Note 14. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	2,457	2,308
Other payables and accrued expenses	2,094	2,067
	<u>4,551</u>	<u>4,375</u>

Refer to note 20 for further information on financial instruments.

#### *Accounting policy for trade and other payables*

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The average credit period on the purchases of goods and services ranges from 7 to 60 days. No interest is charged on trade payables and the amounts are unsecured.

### Note 15. Current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	1,137	2,319
Hire purchase liability	-	202
	<u>1,137</u>	<u>2,521</u>

Refer to note 16 for further information on assets pledged as security and financing arrangements.

Refer to note 20 for further information on financial instruments.

**Note 16. Non-current liabilities - borrowings**

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Bank loans	3,000	3,000
Hire purchase liabilities	-	209
	<u>3,000</u>	<u>3,209</u>

Refer to note 20 for further information on financial instruments.

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Bank loans	4,137	5,319
Hire purchase liabilities	-	411
	<u>4,137</u>	<u>5,730</u>

*Assets pledged as security*

The bank loans are secured by a registered first mortgage debenture over the assets of the Parent entity and a registered first mortgage over its freehold properties. The consolidated entity has a loan facility of \$10,000,000 and an export line facility of \$450,000. The facilities allow for both fixed and variable rate loans. The loan period does not exceed 5 years. Finance will be provided under all facilities, which are reviewed annually, provided the Parent entity is within the terms and conditions of the Agreement.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Freehold land and buildings	8,716	8,157
Other assets	40,009	48,526
	<u>48,725</u>	<u>56,683</u>

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated 2017 \$'000</b>	<b>2016 \$'000</b>
Total facilities		
Bank loans	<u>10,450</u>	<u>10,474</u>
Used at the reporting date		
Bank loans	<u>4,137</u>	<u>5,319</u>
Unused at the reporting date		
Bank loans	<u>6,313</u>	<u>5,155</u>

## Note 16. Non-current liabilities - borrowings (continued)

### Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

## Note 17. Equity - issued capital

	2017 Shares	Consolidated 2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	118,865,530	118,865,530	12,890	12,890

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Share buy-back

There is no current on-market share buy-back.

### Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy has not changed from the 2016 Annual Report.

### Accounting policy for issued 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, net of tax, from the proceeds.

## Note 18. Equity - reserves

	Consolidated 2017 \$'000	2016 \$'000
Foreign currency reserve	400	797
Capital profits reserve	363	363
	<u>763</u>	<u>1,160</u>

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Capital profits reserve

The reserve is used to recognise non-taxable capital profits arising from the disposal of investments.

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Revaluation surplus \$'000	Foreign currency \$'000	Capital profits \$'000	Hedging \$'000	Total \$'000
Balance at 1 July 2015	272	498	363	37	1,170
Foreign currency translation	-	299	-	-	299
Hedging reserve - cash flow hedges	-	-	-	(37)	(37)
Transfer to retained profits	(272)	-	-	-	(272)
	<u>-</u>	<u>797</u>	<u>363</u>	<u>-</u>	<u>1,160</u>
Balance at 30 June 2016	-	797	363	-	1,160
Foreign currency translation	-	(397)	-	-	(397)
	<u>-</u>	<u>400</u>	<u>363</u>	<u>-</u>	<u>763</u>
Balance at 30 June 2017	-	400	363	-	763

## Note 19. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated 2017 \$'000	2016 \$'000
Final dividend for the year ended 30 June 2016 of 1.2 cents (2015: 1.0 cents) per ordinary share	1,426	1,189
Interim dividend for the year ended 30 June 2017 of 1.0 cents (2016: 0.8 cents) per ordinary share	1,189	951
	<u>2,615</u>	<u>2,140</u>

On 24 August 2017, the Directors declared a final franked dividend of 1.3 cents per share to be paid on 22 September 2017. This equates to a total estimated distribution of \$1,545,000, based on the number of ordinary shares on issue as at 30 June 2017. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2017 financial statements and will be recognised in subsequent financial reports.

Total dividends for the 2017 financial year increased by 15.0% to 2.3 cents compared to 2.0 cents in the previous year. The Directors decided that the Company's Dividend Reinvestment Plan ('DRP') not be offered to Shareholders for this dividend payment.



## Note 20. Financial instruments

### Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as cash flow hedges to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a regular basis.

### Market risk

#### Foreign currency risk

The consolidated entity invoices international customers in various currencies and is therefore exposed to foreign currency risk through foreign exchange rate fluctuations. Where considered appropriate, hedging against currency movements is undertaken to protect margins using forward foreign exchange contracts.

It is the consolidated entity's policy that net foreign exchange exposure, be hedged where deemed appropriate. At the reporting date, the fair value loss on unexpired foreign currency hedges was \$61,804 (2016: nil).

The following table shows the foreign currency risk on the financial assets and liabilities of the consolidated entity's operations denominated in currencies other than the functional currency of the operations.

Consolidated	Assets		Liabilities	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
US dollars	4,748	4,048	656	611
Euros	4,444	5,959	1,070	931
Brazilian Real	5,594	3,777	430	254
Other	56	45	20	1
	<u>14,842</u>	<u>13,829</u>	<u>2,176</u>	<u>1,797</u>

#### Sensitivity analysis

The following table illustrates sensitivities to the consolidated entity's exposure to changes in exchange rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Consolidated - 2017	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollars	10%	484	339	10%	(484)	(339)
Euros	10%	456	319	10%	(456)	(319)
Brazilian Real	10%	185	130	10%	(185)	(130)
Other	10%	3	2	10%	(3)	(2)
		<u>1,128</u>	<u>790</u>		<u>(1,128)</u>	<u>(790)</u>

**Note 20. Financial instruments (continued)**

Consolidated - 2016	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US dollars	10%	344	241	10%	(344)	(241)
Euros	10%	503	352	10%	(503)	(352)
Brazilian Real	10%	352	246	10%	(352)	(246)
Other	10%	4	3	10%	(4)	(3)
		<u>1,203</u>	<u>842</u>		<u>(1,203)</u>	<u>(842)</u>

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

*Price risk*

The consolidated entity is exposed to commodity price risk due to the use of Silver in its Amalgam products. The consolidated entity has no hedges in place at the reporting date due to the requirement for silver reducing, making the benefit of hedging silver uneconomical.

During the financial year, the net gain / (loss) on fair value hedges recognised was nil (2016: \$151,000).

*Sensitivity analysis*

The effect on profit and equity as a result of changes in the price risk on the hedge is not significant.

*Interest rate risk*

The consolidated entity's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

Consolidated	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	3.35%	<u>4,137</u>	3.72%	<u>5,319</u>
Net exposure to cash flow interest rate risk		<u>4,137</u>		<u>5,319</u>

*Sensitivity analysis*

The following table illustrates sensitivities to the consolidated entity's exposure to changes in interest rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Consolidated - 2017	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax \$'000	Effect on equity \$'000		Effect on profit before tax \$'000	Effect on equity \$'000
Bank loans	50	<u>(21)</u>	<u>(14)</u>	(50)	<u>21</u>	<u>14</u>

**Note 20. Financial instruments (continued)**

Consolidated - 2016	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax \$'000	Effect on equity \$'000		Effect on profit before tax \$'000	Effect on equity \$'000
Bank loans	50	<u>(27)</u>	<u>(19)</u>	(50)	<u>27</u>	<u>19</u>

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

**Liquidity risk**

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

**Financing arrangements**

Unused borrowing facilities at the reporting date:

	Consolidated	
	2017 \$'000	2016 \$'000
Bank loans	<u>6,313</u>	<u>5,155</u>

**Note 20. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

<b>Consolidated - 2017</b>	Weighted average interest rate %	Less than 1 month \$'000	Between 1 and 3 months \$'000	Between 3 months to 1 year \$'000	Between 1 to 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	2,344	92	21	-	2,457
Other payables	-	1,676	-	-	-	1,676
<i>Interest-bearing - variable</i>						
Bank loans	3.35%	-	137	1,000	3,000	4,137
Total non-derivatives		4,020	229	1,021	3,000	8,270
<b>Derivatives</b>						
Forward foreign exchange contracts outflow	-	62	-	-	-	62
Total derivatives		62	-	-	-	62

<b>Consolidated - 2016</b>	Weighted average interest rate %	Less than 1 month \$'000	Between 1 and 3 months \$'000	Between 3 months to 1 year \$'000	Between 1 to 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	2,023	285	-	-	2,308
Other payables	-	1,646	-	-	-	1,646
<i>Interest-bearing - variable</i>						
Bank loans	3.72%	319	48	2,144	3,116	5,627
<i>Interest-bearing - fixed rate</i>						
Hire purchase	7.60%	19	57	171	191	438
Total non-derivatives		4,007	390	2,315	3,307	10,019

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Fair value of financial instruments**

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## Note 21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and unrelated firms:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	202,600	196,500
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	51,825	64,764
	<u>254,425</u>	<u>261,264</u>
<i>Audit services of subsidiaries - unrelated firms</i>		
Audit or review of the financial statements	<u>37,082</u>	<u>50,731</u>

Remuneration of auditors for unrelated firms relate to the audit of subsidiaries by:

- Crowe Horwath LLP. (USA)
- Fickus & Fickus, (Germany)
- Stephens Cooke and Associates, (Ireland)
- Owen McLeod & Co, (New Zealand)
- Assessor-Bordin Consultores Empresariais Ltda. (Brazil)

## Note 22. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

## Note 23. Commitments

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	391	377
One to five years	923	1,003
More than five years	-	14
	<u>1,314</u>	<u>1,394</u>
<i>Hire purchase lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	-	223
One to five years	-	216
Total commitment	-	439
Less: Future finance charges	-	(28)
Net commitment recognised as liabilities	<u>-</u>	<u>411</u>

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. On renewal, the terms of the leases are renegotiated.

### Note 23. Commitments (continued)

At the balance date the Company did not have any commitments relating to hire purchase leases for plant and equipment (2016: \$439,000). All hire purchase commitments for plant and equipment were paid out during the financial year. The consolidated entity exercised its option to acquire the leased assets for predetermined residual values during the financial year under the terms of the leases.

### Note 24. Related party transactions

#### *Parent entity*

SDI Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 26.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the Directors' report.

#### *Transactions with related parties*

The following transactions occurred with related parties:

	Consolidated 2017 \$	2016 \$
Sale of goods and services:		
Sale of goods to director controlled companies	19,197	15,623
Payment for goods and services:		
Provision of consulting services by director controlled companies	29,916	169,856
Provision of consulting services by a director	8,606	12,500
Payment for other expenses:		
Payments for the lease of property (expiring 1 February 2018) to a director controlled company	90,000	80,000

#### *Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2017 \$	2016 \$
Current receivables:		
Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight.	1,090	1,418
Current payables:		
Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight.	-	295

#### *Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

#### *Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.



**Note 25. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,637,347	1,786,027
Post-employment benefits	130,154	148,770
Long-term benefits	18,363	19,821
	<u>1,785,864</u>	<u>1,954,618</u>

**Note 26. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Ownership interest</b>	
		<b>2017</b>	<b>2016</b>
		<b>%</b>	<b>%</b>
SDI (North America), Inc.	United States of America	100%	100%
SDI Holdings Pty Ltd	Australia	100%	100%
SDI Germany GmbH	Germany	100%	100%
SDI Brasil Industria e Comercio Ltda	Brazil	100%	100%
SDI Dental Limited	Ireland	100%	100%
SDI New Zealand Limited	New Zealand	100%	100%
SDI Italy S.r.l	Italy	100%	100%

**Note 27. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	5,576	7,566
Adjustments for:		
Depreciation and amortisation	4,094	4,029
Net loss on disposal of non-current assets	116	119
Foreign currency differences	(309)	160
Change in operating assets and liabilities:		
Increase in trade and other receivables	(956)	(1,544)
Decrease/(increase) in inventories	1,230	(1,797)
Decrease in deferred tax assets	-	94
Decrease in derivative assets	-	17
Decrease/(increase) in prepayments	(268)	64
Increase/(decrease) in trade and other payables	176	(1,134)
Increase in derivative liabilities	62	-
Increase/(decrease) in provision for income tax	(1,268)	1,194
Increase/(decrease) in deferred tax liabilities	718	(173)
Increase in employee benefits	201	184
Net cash from operating activities	<u>9,372</u>	<u>8,779</u>

## **Note 28. New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the consolidated entity. There will be minimal impact on financial liabilities on adoption of the standard.

### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that most of the consolidated entity's revenue is recognised at the time of transfer of goods and services to customer which represents the satisfaction of the primary performance obligation.

### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019. Information on the undiscounted amount of the consolidated entity's operating lease commitments under AASB 117, the current leasing standard, is disclosed in note 23. The consolidated entity is considering the available options for transition. To date, work has focused on the identification of the provisions of the standard which will most impact the consolidated entity and the next phase is a detailed review of the contracts and the financial reporting impact of AASB 16.

### *Other amending accounting standards*

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

## Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

	Parent	
	2017 \$'000	2016 \$'000
Profit after income tax	7,547	10,462
Other comprehensive income for the year, net of tax	-	(37)
Total comprehensive income	7,547	10,425

### Statement of financial position

	Parent	
	2017 \$'000	2016 \$'000
Total current assets	33,955	33,161
Total non-current assets	44,134	42,804
Total assets	78,089	75,965
Total current liabilities	7,096	10,162
Total non-current liabilities	6,022	5,764
Total liabilities	13,118	15,926
Net assets	64,971	60,039
Equity		
Issued capital	12,890	12,890
Capital profits reserve	363	363
Retained profits	51,718	46,786
Total equity	64,971	60,039

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

### Capital commitments - Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 30. Events after the reporting period**

Apart from the dividend declared as disclosed in note 19, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

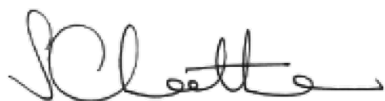
In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



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Samantha Jane Cheetham  
Managing Director

28 September 2017  
Melbourne

## Independent Auditor's Report to the members of SDI Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of SDI Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the Company and the entities it controlled at year's end or from time to time during the financial year as set out on pages 17 to 49.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### *Key Audit Matters*

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Capitalisation of Development Costs</b></p> <p>As at 30 June 2017 the Group has capitalised development costs of \$2.9M as disclosed in Note 13.</p> <p>Judgment is required by management in determining if the internal labour and external supplier costs incurred are directly attributable to develop the existing product development projects and the appropriateness of these costs to be capitalised.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Holding discussions with the department heads involved in product development to understand the basis and rationale for capitalising internal labour and external supplier costs,</li> <li>• Assessing the status of the current ongoing projects and understanding the nature of the internal labour and external supplier costs capitalised during the period to ensure they are in accordance with the criteria for capitalisation under the applicable accounting standards,</li> <li>• Evaluating of the status of the projects in progress that have not incurred any development costs during the year and testing those projects for indicators of impairment,</li> <li>• Testing on a sample basis, capitalised costs by reviewing the supplier invoice, project budgets and/or employee timesheets, and</li> <li>• Challenging management's key assumptions in the internal labour cost capitalisation calculation.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 13 to the financial statements.</p>
<p><b>Amortisation of Intangible Assets</b></p> <p>SDI has three major categories of finite life intangible assets being capitalised product development costs of \$15.3M, along with patents and trademarks costs totalling \$3.4M as disclosed in Note 13.</p> <p>The determination of the useful lives in relation to capitalised development costs and patents &amp; trademarks is subject to management judgement including:</p> <ul style="list-style-type: none"> <li>• Estimations of the product lifecycle of general dental products based on historical experience,</li> <li>• Assessing the impact of changes in technological and market trends, and</li> <li>• Review of historical and forecasted sales of product ranges supporting the appropriateness of the useful life determined.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing the estimated useful lives of the intellectual property and capitalised development costs, ensuring the amortisation period applied and the assumptions used for patents and trademarks are appropriate,</li> <li>• Assessing amortisation rates used by comparing with industry benchmarks,</li> <li>• Assessing the product life cycle and market demand for the underlying products including assessing the possibility of product obsolescence or cannibalisation as a result of recently released products or products that are likely to be released in the near term, and</li> <li>• Evaluating the legal rights and period of the patents and trademarks.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 13 to the financial statements.</p>



<p><b>Impairment of Intangible Assets</b></p> <p>As at 30 June 2017 the carrying amount of the intangible assets is \$22.86M as disclosed in Note 13.</p> <p>SDI has finite life intangible assets being capitalised product development costs and patents and trademarks along with development work in progress.</p> <p>The intangible assets are subject to impairment testing annually and whenever an impairment indicator is identified. The determination of the recoverable amount is subject to management judgement including:</p> <ul style="list-style-type: none"> <li>• Cash flow projections</li> <li>• Estimated future growth in the product market</li> <li>• The likelihood of future economic benefits, and</li> <li>• Discount rates</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Engaging with internal experts to assess the appropriateness of management's processes and policies in the development of the cash flow model as well as testing the mathematical accuracy and the reasonableness of the assumptions used,</li> <li>• Evaluating the present value of future cash-flows derived from the sale of the products that the development costs relate to,</li> <li>• Assessing the possibility of product obsolescence or cannibalisation as a result of recently released products or products that are likely to be released in the near term,</li> <li>• Assessing amortisation rates used by comparable companies, and</li> <li>• Assessing the product life cycle and comparison of actual sales to budget for the underlying products.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 13 to the financial statements.</p>
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#### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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.

#### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 14 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of SDI Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

The logo for Deloitte Touche Tohmatsu, featuring the company name in a stylized, handwritten-style font.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'Craig Bryan'.

Craig Bryan  
Partner  
Chartered Accountants  
Melbourne, 28 September 2017

The shareholder information set out below was applicable as at 31 August 2017.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	230	-
1,001 to 5,000	453	-
5,001 to 10,000	278	-
10,001 to 100,000	453	-
100,001 and over	101	-
	<b>1,515</b>	<b>-</b>
Holding less than a marketable parcel	<b>118</b>	<b>-</b>

### Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
CURRANGO PASTORAL COMPANY PTY LTD	50,691,328	42.65
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,964,028	4.18
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,412,294	3.71
GARRETT SMYTHE LTD	2,559,600	2.15
SILVERGLADES PTY LTD	2,357,829	1.98
MR NICHOLAS BARRY DEBENHAM & MRS ANNETTE CECILIA DEBENHAM	1,825,283	1.54
BNP PARIBAS NOMS PTY LTD	1,771,169	1.49
NATIONAL NOMINEES LIMITED	1,530,002	1.29
INDCORP CONSULTING GROUP PTY LIMITED (SUPERANNUATION FUND A/C)	1,519,043	1.28
JEFFNPAM SUPERANNUATION FUND PTY LTD	1,421,085	1.20
MR NICHOLAS BARRY DEBENHAM	1,415,769	1.19
DR GEOFFREY MACDONALD KNIGHT & MS ANNELI KAARINA KNIGHT	1,215,790	1.02
MR GERARD JAMES VAN PAASSEN	1,104,348	0.93
MR BRENDAN FRANCIS CARROLL	1,040,490	0.88
CHARLOTTE B PTY LTD	1,000,000	0.84
DR MARTIN JAMES GREHAN & DR PENELOPE JANE SPRING	931,500	0.78
MR MICHAEL LAZZARIN	925,000	0.78
BFA SUPER PTY LTD	800,000	0.67
MR NEIL PETER GOOSEN	763,142	0.64
MDF SUPERANNUATION PTY LIMITED (MDF SUPER FUND A/C)	755,909	0.64
	<b>83,003,609</b>	<b>69.84</b>

#### Unquoted equity securities

There are no unquoted equity securities.

### Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares Number held	% of total shares issued
CURRANGO PASTORAL COMPANY PTY LTD	50,691,328	42.65

\*These entities are the registered holder of the relevant interest but may not be registered holder of the securities.

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### *Ordinary shares*

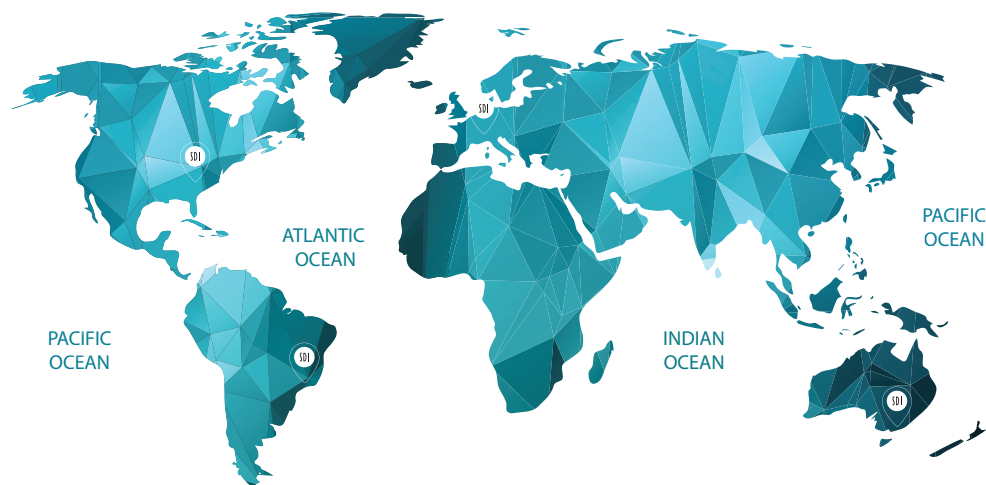
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Directors	<p>Jeffery James Cheetham OAM - Chairman Samantha Jane Cheetham John Joseph Slaviero Dr Geoffrey Macdonald Knight Gerald Allan Bullon Cameron Neil Allen Gerard Desmond Kennedy</p>
Alternate director	Pamela Joy Cheetham (alternate for Jeffery James Cheetham)
Company secretary	John Joseph Slaviero
Registered office	<p>5 - 9 Brunsdon Street Bayswater VIC 3153 P: (03) 8727 7111 or 1800 337 003 F: (03) 8727 7222</p>
Share register	<p>Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008 P: (03) 9615 9800 or 1300 554 474 F: (03) 9615 9900</p>
Auditor	<p>Deloitte Touche Tohmatsu 550 Bourke Street Melbourne VIC 3000</p>
Bankers	<p>HSBC Bank Australia Limited Level 10 333 Collins Street Melbourne VIC 3000</p>
Stock exchange listing	SDI Limited shares are listed on the Australian Securities Exchange (ASX code: SDI)
Website	<a href="http://www.sdi.com.au">www.sdi.com.au</a>
Email	<a href="mailto:info@sdi.com.au">info@sdi.com.au</a>
Corporate governance statement ('CGS')	<p>SDI's Directors and management are committed to conducting its business in an ethical manner and in accordance with the highest standards of corporate governance. SDI has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of its business.</p> <p>In accordance with Listing Rule 4.10.3, the Company has prepared a CGS which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any recommendations that have not been followed, and provides reasons for not following such recommendations.</p> <p>The Company's CGS has been approved at the same time as the Annual Report, can be found on its website: <a href="http://www.sdi.com.au/en-au/corporate-governance.html">http://www.sdi.com.au/en-au/corporate-governance.html</a></p> <p>In accordance with Listing Rules 4.7.4 and 4.7.3, the CGS and the Appendix 4G has been lodged with the ASX at the same time that this Annual Report. The Appendix 4G details the Recommendations that the Company needs to report against and provides shareholders with information regarding where the Company's disclosures in relation to the Recommendations can be found.</p>

# SDI LIMITED WORLDWIDE

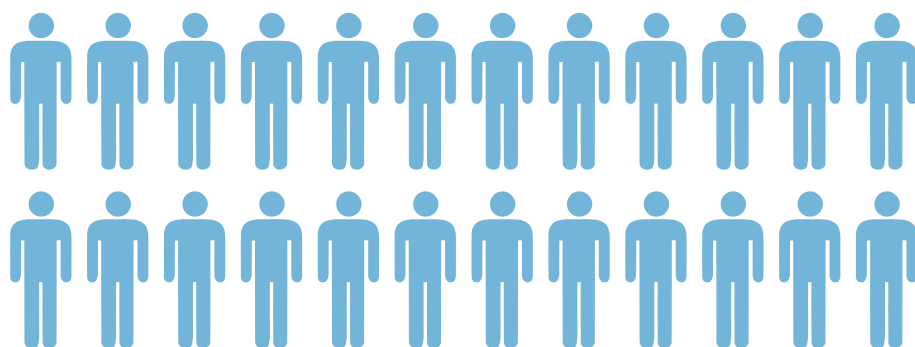
SDI



Distributed in

# 100+

countries  
throughout  
the world



Over

# 250 +

hardworking  
and dedicated  
employees  
worldwide

## Subsidiaries

### AUSTRALIA (Head Office)

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Bayswater  
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Toll Free 1 800 337 003  
Email: [Info@sdi.com.au](mailto:Info@sdi.com.au)

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Fax +55 11 3092 7101  
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Free phone 0800 1005759  
Email: [Germany@sdi.com.au](mailto:Germany@sdi.com.au)

### USA and CANADA

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## Branches

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