

ANNUAL REPORT 2016



SDI

Your Smile. Our Vision.



SDI



**RESEARCH.
INNOVATION.
RESULTS.**

SDI Limited

ABN 27 008 075 581

Annual Report - 30 June 2016

Executive Chairman's report	2
Managing Director's report	3
Directors' report	4
Auditor's independence declaration	15
Statement of profit or loss and other comprehensive income	16
Statement of financial position	17
Statement of changes in equity	18
Statement of cash flows	19
Notes to the financial statements	20
Directors' declaration	48
Independent auditor's report to the members of SDI Limited	49
Corporate directory	51
Shareholder information	52

Executive Chairman's Report

I have served with great pride as Founder & Managing Director of SDI for 45 years. As the company continues to evolve and grow, a strategic decision was made to appoint Ms. Samantha Cheetham as Managing Director, effective 1 July 2016. I will assume the role of Executive Chairman and look forward to continuing my involvement in this outstanding company, particularly in research and development.

Ms. Cheetham has over 20 years of diverse experience with SDI, in both its overseas and local operations, and has been the Executive Director of Sales and Marketing for over 15 years. Over the years she has demonstrated great leadership and a deep understanding of the industry.

The business over the last 18 months has undergone substantial restructuring, as we have built a stronger management team in both the Australian and overseas operations to ensure that SDI is well placed for future global growth. This is further reinforced by a strong balance sheet and cash flow.

The 2016 financial year results have confirmed a substantial improvement on the previous year due to the Company's underlying strengths. Positive results are now being experienced from the Company's continued investment in infrastructure and research and development. The result further reinforces the sound fundamentals of SDI.

As a result of SDI's strong commitment to its R & D programs, the Company expects new Composite, Glass Ionomer and other restorative products to be released in the short and medium term. Additionally, a major new electronic product will be released into the market towards the end of the financial year. This continuing investment in R & D is in line with the Company's strategy of being less reliant on Amalgam products and moving towards more highly technical and sophisticated dental products.

In closing, I wish to acknowledge the contribution made by the Board of Directors to the year's success as they have served with distinction by advising, encouraging and assisting with the management of the Company. 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 can continue to improve and do better in the future and reward its shareholders.

Thank you for your ongoing support.



Jeffery Cheetham
Executive Chairman
SDI Limited

Managing Director's Report

It is with great pleasure that I introduce my first report to shareholders as Managing Director. I am also delighted to have been appointed to the role to help steer this great company towards long-term success, with a plan to preserve its important heritage and help define its future.

I am pleased to report that SDI has reported another year of sales growth with sales reaching \$74.1 million, representing an increase of 8 per cent on last year, which translated into a net profit after tax increase of 23 per cent to \$7.6 million.

In a year of change, the company made a very steady progress. Against a backdrop of operational change, global volatility and increased competition, the management worked to improve SDI's strategic discipline, boost its distribution relationships and continued to invest in innovation.

SDI is one of the world's leading dental technology manufacturers, with a proud history and growing international footprint and reputation. Innovation is the backbone of our growth and we will continue to innovate for the future.

The company is a fully integrated operation with a comprehensive specialist product offering which sets it apart. We remain opportunistic as we reinvest in key markets and expand the pipeline in current markets, shifting the product mix to meet changing needs. The balance sheet is strong and well placed for continued investment in products, markets, production facilities and to meet future threats or opportunities.

A key challenge for SDI over the past few years has been our reliance on sales of amalgam restoratives or "silver fillings". The company is working hard to shift this trend and has invested heavily in new product development and sales teams to increase its sales of the non-amalgam products. Each year the proportion of non-amalgam sales has increased.

SDI's research and development focus is on non-amalgam restoratives "tooth coloured fillings" and whitening products. Our product pipeline is strong and we continue to successfully expand it, to meet the changing needs of the industry. The teams are aggressively working on quick new product releases, but also have longer term product goals.

We have a strong distribution network to over 100 countries in all parts of the globe. This is an extensive reach that we have built over the course of five decades. We have long-standing, trusted relationships with our distributors, which is critical to our reputation. Each country has its own unique distribution model and SDI invests in our distributors to ensure they provide solid returns.

SDI's key growth drivers around the world are the ageing population, the growing demand for aesthetics, emerging markets and technological advancement. The dental markets of Australia, Europe and North America are also key to our growth. We invest in our sales teams in these regions to ensure our continued growth.

Both developed and emerging markets have a growing demand for aesthetics. As discretionary income increases, healthcare is becoming a growing priority in emerging markets particularly to the middle classes.

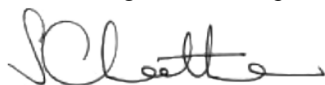
We have also embarked on a marketing program to build the SDI brand worldwide. The goal is to ensure dentists know SDI as an innovative and leading Australian dental technology manufacturer and simultaneously reposition SDI away from being known as an amalgam manufacturer.

Latin America is a critical market for our growth aspirations. SDI's Brazilian subsidiary has started to pack bulk product which has been manufactured in Australia. This will enable SDI to have lower import costs, lower freight costs and lower labour costs. The result will ensure that we will become more competitive with local players in the Latin American markets. SDI's strategy is to establish its Brazilian business as the South American headquarters.

We have and always will remain dedicated to manufacturing in Australia where we can control difficult manufacturing processes with our specialised production teams. SDI will continue to invest in its production facilities to decrease costs and improve efficiencies. The Lean production process is currently being implemented across the organisation to help achieve this. It is a long term project and one where waste will be eliminated.

With the tremendous team we have in place and the quality products we offer the market, we have a strong, stable business that will deliver strong and stable returns well into the future. And it's a journey I am excited to be a part of.

In closing, I wish to express my appreciation to the Managers and all the staff for their tremendous efforts in achieving the 2016 result.



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 2016.

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 O.A.M - 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:

	Consolidated	
	2016	2015
	\$'000	\$'000
Final dividend for the year ended 30 June 2015 of 1.0 cents (2014: 0.5 cents) per ordinary share	1,189	595
Interim dividend for the year ended 30 June 2016 of 0.8 cents (2015: 0.4 cents) per ordinary share	951	475
	<u>2,140</u>	<u>1,070</u>

On 29 August 2016, the Directors declared a final dividend of 1.2 cents per share to be paid on 23 September 2016. Total dividends for the 2016 financial year increased by 42.8% to 2.0 cents compared to 1.4 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 \$7,566,000 (30 June 2015: \$6,200,000).

Profit before income tax increased by 27.6% to \$11,098,000 (2015: \$8,700,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 25.1% to \$15,440,000 (2015: \$12,338,000).

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items.

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

	Consolidated	
	2016 \$'000	2015 \$'000
Profit after tax	7,566	6,200
Add: taxation	3,532	2,500
Add: interest expense	323	422
Less: interest income	(10)	(10)
Add: depreciation and amortisation	4,029	3,226
EBITDA	<u>15,440</u>	<u>12,338</u>

Earnings per share for the financial year increased by 1.15 cents to 6.37 cents (2015: 5.22 cents).

Sales reported in Australian dollars for the financial year increased by 7.9% to \$74,077,000 (2015: \$68,655,000). The consolidated entity exports approximately 90% of its products and when adjusted for currency movements, sales increased by 1.3%.

Glass Ionomer sales increased by 28.2%, composites by 15.6%, whitening by 22.9% and equipment by 5.0%, whereas amalgam sales decreased by 7.5%. Global demand for non-amalgam products is increasing and although the consolidated entity experienced significant increases in its non-amalgam sales, these were offset by the decline in amalgam sales, which represented 34.1% of the consolidated entity's total sales.

Domestic Australian sales increased by 5.5%. In Australian dollars, Australian direct exports (excluding inter-company sales) decreased by 5.7%. When adjusted for currency movements, sales decreased by 15.4%.

These export markets include Latin America, Africa, Asia and the Middle East. Amalgam products represent a large proportion of sales in these price competitive markets.

North American sales, (in local currency), decreased by 7.8% and the major contributor to this result was amalgam sales. This market presents challenges as it is becoming more price-competitive with the growth of Dental Group Practices and Corporates. SDI is re-aligning its marketing strategy to better reflect the targeted product mix in this market and expects greater growth in non-amalgam products in the future.

Sales in Europe increased by 19.9%, (in local currency). The recent restructure of the European operations is showing positive results across all European markets, with strong growth in the whitening and glass Ionomer product range. SDI is in the process of consolidating its Irish and German operations with the view of having one European company located in Germany. SDI expects that this will reduce operating costs and strengthen its presence in Europe.

Brazilian sales increased by 14.1%, (in local currency), highlighting strong growth in non-amalgam products. SDI Brazil commenced packing some products in May 2016, and will continue to expand this process with the view of packing all products for the South American market. The devaluation of the Brazilian Real has continued to have an adverse effect on the results for this market.

Total expenses, in Australian dollars, increased by 13.7% when 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, once-off restructuring costs, and additional amortisation of intellectual property, expenses increased by 8.2%.

The consolidated entity's total cash holdings increased by \$964,000 after further decreasing debt by \$1,384,000 and increasing dividend payments to \$2,140,000. Inventories increased by \$1,797,000 due to bulk purchase of materials from overseas suppliers which have long lead times, and the revaluation of inventories held in foreign currencies to the lower Australian dollar.

Financial year ending 30 June 2017 will be one of sound progress as the consolidated entity continues to build on its foundations, accelerate its market leadership across regions, invest in innovation and new product development, consolidate European operations, implement lean processes across the manufacturing operation and invest further in growing the South American and North American markets. SDI has earned a strong industry reputation and will continue to work hard to enhance its value and remain competitive.

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 2016 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 2016 and up to the date of this report.

Information on Directors

Name:	Jeffery James Cheetham O.A.M
Title:	Executive Chairman
Experience and expertise:	Founder of SDI Limited
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Executive Chairman of the SDI Limited Board
Interests in shares:	5 ordinary shares held directly and 54,470,242 ordinary shares held indirectly

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

Name:	John Joseph Slaviero
Title:	Executive Director, Chief Operating Officer, Chief Financial Officer and Company Secretary
Qualifications:	Bachelor of Business, Certified Practising Accounting, Fellow of the Association of Taxation & Management Accountants
Experience and expertise:	John has been the Chief Financial Officer and Company Secretary of SDI Limited for over 15 years 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.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Company Secretary
Interests in shares:	2,689 ordinary shares 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 1,115,790 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 degree (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 WTS Australia which he established in 2010. WTS Australia is the Australian member firm of international professional services organisation, WTS - Tax Legal Consulting. Prior to WTS Australia, Cameron was a tax partner at Deloitte Touche Tohmatsu and BDO, as well as holding a senior role at Ernst & Young. He has over 20 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 WTS Alliance 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 2016, 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	7	8	-	-	-	-
Samantha Jane Cheetham	8	8	-	-	-	-
John Joseph Slaviero	8	8	-	-	-	-
Dr Geoffrey Macdonald Knight	8	8	2	2	2	2
Gerald Allan Bullon	7	8	1	2	2	2
Cameron Neil Allen	7	8	2	2	2	2
Gerard Desmond Kennedy	8	8	2	2	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 framework reflects:

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 Director and Executive Director remuneration is 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 5 November 2003, where the shareholders approved an aggregate maximum remuneration of \$200,000 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 based on the executive team achieving the budgeted Net Profit after tax ('NPAT'), as follows:

- 25% of the STI is paid if the executive team achieves 95% of budgeted NPAT for the half year.
- 50% of the STI is paid if the executive team achieves 100% of budgeted NPAT for the half year.
- 50% of the STI is paid if the executive team achieve 95% of budgeted NPAT for the full year.
- 100% of the STI is paid if the executive team achieve 100% of budgeted 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; and
- payments will be 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.

Long-term incentives ('LTIs') are yet to be formally embedded into the executive remuneration structure. It is the intention of the Board and Executive to do this but requires more time to thoroughly investigate the most appropriate structure for LTIs. The intention of LTIs will be to:

- provide incentives for executives;
- reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth; and
- align LTI performance hurdles to promote activities within the consolidated entity to increase shareholder value.
- reviewing and bench marking position descriptions and remuneration of the executives roles with regards to a specific market perspective; and
- reviewing short and long term incentives in the specific market.

Voting and comments made at the Company's 2015 Annual General Meeting ('AGM')

At the 2015 AGM, more than 25% of the votes received did not support the adoption of the remuneration report for the year ended 30 June 2015 resulting in a 'second strike'. Immediately following the second strike a resolution to remove the directors ('spill motion') was presented to the shareholders at the AGM. The spill motion was not passed. 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.

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	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Employee benefits	Equity-settled	Total
2016	\$	\$	\$	\$	\$	\$	\$
<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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Incentive plans	Non-monetary	Super-annuation	Employee benefits	Equity-settled	Total
2015	\$	\$	\$	\$	\$	\$	\$
<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	455,368	53,537	70,493	48,346	7,589	-	635,333
S J Cheetham	369,942	36,994	45,689	38,659	6,166	-	497,450
J J Slaviero	327,800	32,780	45,147	34,255	5,463	-	445,445
	1,340,744	123,311	161,329	133,623	19,218	-	1,778,225

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<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 2016.

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 2016.

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 2016.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000
Sales revenue and other income	74,335	68,881	65,444	57,357	56,681
Profit before income tax	11,098	8,700	7,469	5,840	2,201
Profit after income tax	7,566	6,200	6,467	4,690	1,967

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

	2016	2015	2014	2013	2012
Share price at financial year end (\$)	0.52	0.50	0.43	0.51	0.11
Total dividends declared (cents per share)	2.00	1.40	0.70	0.50	0.30
Basic earnings per share (cents per share)	6.37	5.22	5.44	3.95	1.70
Diluted earnings per share (cents per share)	6.37	5.22	5.44	3.95	1.70

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	-	-	-	1,281,306
G A Bullon	212,716	-	40,000	-	252,716
G D Kennedy	20,000	-	20,000	-	40,000
	<u>56,346,231</u>	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>56,406,231</u>

Other transactions with key management personnel and their related parties

Sale of goods to:

- to Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$15,623

Provision of consulting services by:

- Silver Glades Pty Ltd, a company controlled by Director, Jeffery James Cheetham amounted to \$ 80,000
- Insor Pty Ltd, a company controlled by Director, Gerald Allan Bullon amounted to \$ 28,392
- WTS Australia Consulting Pty Ltd, a company controlled by Director, Cameron Neil Allen amounted to \$ 54,307
- Gemko Pty Ltd, a company controlled by Director, Dr Geoffrey Macdonald Knight amounted to \$ 7,157
- Director, Gerard D Kennedy amounted to \$ 12,500

Payments for the lease of property owned by Silver Glades Pty Ltd, a company controlled by Director Jeffery James Cheetham amounted to \$ 80,000

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 2016 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



Samantha Jane Cheetham
Managing Director

29 September 2016
Melbourne

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

29 September 2016

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 SDI Limited for the financial year ended 30 June 2016, 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

DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants

SDI Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016



	Note	Consolidated 2016 \$'000	2015 \$'000
Revenue			
Sales revenue		74,077	68,655
Cost of goods sold		(27,988)	(29,182)
Gross profit		46,089	39,473
Other income	5	258	226
Expenses			
Selling and administration expenses		(32,642)	(29,000)
Research and development costs		(680)	(550)
Other expenses		(1,604)	(1,027)
Finance costs	6	(323)	(422)
Profit before income tax expense		11,098	8,700
Income tax expense	7	(3,532)	(2,500)
Profit after income tax expense for the year attributable to the owners of SDI Limited		7,566	6,200
Other comprehensive income			
<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)	1
Exchange differences arising on translation of foreign controlled entities		299	885
Other comprehensive income for the year, net of tax		262	886
Total comprehensive income for the year attributable to the owners of SDI Limited		7,828	7,086
		Cents	Cents
Basic earnings per share	8	6.37	5.22
Diluted earnings per share	8	6.37	5.22

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

	Note	Consolidated 2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents		6,001	5,037
Trade and other receivables	9	14,454	13,285
Inventories	10	18,365	16,568
Derivative financial instruments		-	54
Prepayments		550	614
Total current assets		39,370	35,558
Non-current assets			
Other receivables	11	1,165	790
Property, plant and equipment	12	18,334	18,555
Intangibles	13	21,533	21,030
Total non-current assets		41,032	40,375
Total assets		80,402	75,933
Liabilities			
Current liabilities			
Trade and other payables	14	4,375	5,415
Borrowings	15	2,521	3,676
Provision for income tax	7	1,516	322
Employee benefits		3,322	3,202
Total current liabilities		11,734	12,615
Non-current liabilities			
Borrowings	16	3,209	3,438
Deferred tax liability	7	1,488	1,661
Employee benefits		192	128
Total non-current liabilities		4,889	5,227
Total liabilities		16,623	17,842
Net assets		63,779	58,091
Equity			
Issued capital	17	12,890	12,890
Reserves	18	1,160	1,170
Retained profits		49,729	44,031
Total equity		63,779	58,091

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

SDI Limited
Statement of changes in equity
For the year ended 30 June 2016



Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2014	12,890	284	38,901	52,075
Profit after income tax expense for the year	-	-	6,200	6,200
Other comprehensive income for the year, net of tax	-	886	-	886
Total comprehensive income for the year	-	886	6,200	7,086
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 19)	-	-	(1,070)	(1,070)
Balance at 30 June 2015	<u>12,890</u>	<u>1,170</u>	<u>44,031</u>	<u>58,091</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
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>

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

	Note	Consolidated 2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers		72,533	67,686
Payments to suppliers and employees		(61,272)	(57,093)
		11,261	10,593
Other revenue		258	161
Interest and other finance costs paid		(323)	(422)
Income taxes paid		(2,417)	(2,634)
Net cash from operating activities	28	8,779	7,698
Cash flows from investing activities			
Payments for property, plant and equipment	12	(2,433)	(2,889)
Payments for intangibles	13	(2,073)	(1,808)
Proceeds from disposal of property, plant and equipment		76	121
Net cash used in investing activities		(4,430)	(4,576)
Cash flows from financing activities			
Proceeds from borrowings		4,794	6,132
Dividends paid	19	(2,140)	(1,070)
Repayment of borrowings		(6,178)	(7,593)
Net cash used in financing activities		(3,524)	(2,531)
Net increase in cash and cash equivalents		825	591
Cash and cash equivalents at the beginning of the financial year		5,037	3,994
Effects of exchange rate changes on cash and cash equivalents		139	452
Cash and cash equivalents at the end of the financial year		6,001	5,037

The above 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 29 September 2016. 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 mandatory for the current reporting period.

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'. This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

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 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SDI Limited as at 30 June 2016 and the results of all subsidiaries for the year then ended.

Note 2. Significant accounting policies (continued)

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.

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 capitalisation 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.

Note 2. Significant accounting policies (continued)

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.

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 an 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.

Note 2. Significant accounting policies (continued)

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.

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 using the projected unit credit method. 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.

Comparatives

Comparatives in the statement of financial position have been realigned with the current period presentation. There has been no effect on the net assets of the consolidated entity.

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.

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

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 some other event. 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 non-financial assets

The consolidated entity assesses impairment of 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.

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 note 2, 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 intangible assets accounting policy 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 operating segments. These are primarily identified on the basis of subsidiary companies in different markets.

Reportable segments

The consolidated entity's reportable segments are as follows:

SDI Australia:	SDI Limited
SDI Europe:	SDI Dental Limited (Ireland), SDI GmbH (Germany) and SDI Italy S.r.l (Italy)
SDI USA:	SDI (North America), Inc.
SDI 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 immaterial for separate inclusion in the segment report.

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

Note 4. Operating segments (continued)

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.

Major customers

The consolidated entity has a number of customers to whom it provides 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
Consolidated - 2016						
Revenue						
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)
Total revenue						74,077
Segment results before tax	17,079	2,888	1,560	(341)	(111)	21,075
Inter-segment 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)
Profit/(loss) before income tax expense	7,456	2,668	1,509	(419)	(116)	11,098
Income tax expense						(3,532)
Profit after income tax expense						7,566
Assets						
Segment assets	75,966	9,722	7,806	7,600	67	101,161
Intersegment eliminations						(20,759)
Total assets						80,402
Liabilities						
Segment liabilities	15,930	6,387	1,250	7,443	502	31,512
Intersegment eliminations						(14,889)
Total liabilities						16,623

Note 4. Operating segments (continued)

	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Other segments \$'000	Total \$'000
Consolidated - 2015						
Revenue						
Sales to external customers	23,760	19,175	19,689	5,900	131	68,655
Intersegment sales	23,500	10,519	-	-	-	34,019
Total sales revenue	47,260	29,694	19,689	5,900	131	102,674
Total segment revenue	47,260	29,694	19,689	5,900	131	102,674
Intersegment eliminations						(34,019)
Total revenue						68,655
Segment results before tax	11,099	2,301	1,234	(195)	(78)	14,361
Inter-segment eliminations	(2,023)	-	-	-	-	(2,023)
Depreciation and amortisation	(2,890)	(204)	(39)	(82)	(11)	(3,226)
Interest revenue	-	3	-	7	-	10
Finance costs	(422)	-	-	-	-	(422)
Profit/(loss) before income tax expense	5,764	2,100	1,195	(270)	(89)	8,700
Income tax expense						(2,500)
Profit after income tax expense						6,200
Assets						
Segment assets	67,901	7,924	8,874	5,494	46	90,239
Intersegment eliminations						(14,306)
Total assets						75,933
Liabilities						
Segment liabilities	16,152	4,331	990	4,866	336	26,675
Intersegment eliminations						(8,833)
Total liabilities						17,842

Note 5. Other income

	Consolidated	
	2016 \$'000	2015 \$'000
Net foreign exchange gain	208	115
Net gain on disposal of property, plant and equipment	-	65
Interest revenue	10	10
Other income	40	36
Other income	258	226

Note 6. Expenses

Consolidated
2016 **2015**
\$'000 **\$'000**

Profit before income tax includes the following specific expenses:

Depreciation

Land and buildings	116	114
Plant and equipment	2,343	2,031

Total depreciation	2,459	2,145
--------------------	-------	-------

Amortisation

Product development costs	933	863
Intellectual property	637	218

Total amortisation	1,570	1,081
--------------------	-------	-------

Total depreciation and amortisation	4,029	3,226
-------------------------------------	-------	-------

Employee benefit expense

Employee costs other than superannuation expense	27,132	23,585
Superannuation expenses	1,321	1,317

Total employee benefit expense	28,453	24,902
--------------------------------	--------	--------

Finance costs

Interest and finance charges paid/payable	323	422
---	-----	-----

Net loss on disposal

Net loss on disposal of property, plant and equipment	119	-
---	-----	---

Rental expense relating to operating leases

Minimum lease payments	490	514
------------------------	-----	-----

Other

Bad and doubtful debts	9	34
------------------------	---	----

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

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	3,161	1,529
Deferred tax - origination and reversal of temporary differences	(173)	437
Adjustment recognised for prior periods	544	534
	<u>3,532</u>	<u>2,500</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities	(173)	437
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	11,098	8,700
Tax at the statutory tax rate of 30%	3,329	2,610
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development concession	(208)	(491)
Other deductible items	46	(46)
Sundry items	-	68
	<u>3,167</u>	<u>2,141</u>
Adjustment recognised for prior periods	544	534
Difference in overseas tax rates	(179)	(175)
	<u>3,532</u>	<u>2,500</u>
Income tax expense		

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(981)	(771)
Intangible assets	4,967	4,772
Accrued expenses	(1,534)	(1,529)
Elimination of profit held in stock sold to subsidiaries	(876)	(702)
Other	(88)	(109)
	<u>1,488</u>	<u>1,661</u>
Deferred tax liability		
Movements:		
Opening balance	1,661	1,224
Charged/(credited) to profit or loss	(173)	437
	<u>1,488</u>	<u>1,661</u>
Closing balance		

Note 7. Income tax (continued)

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Provision for income tax</i>		
Provision for income tax	<u>1,516</u>	<u>322</u>

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax attributable to the owners of SDI Limited	<u>7,566</u>	<u>6,200</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>118,865,530</u>	<u>118,865,530</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>118,865,530</u>	<u>118,865,530</u>
	Cents	Cents
Basic earnings per share	6.37	5.22
Diluted earnings per share	6.37	5.22

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade receivables	13,239	12,683
Less: Provision for impairment of receivables	(101)	(143)
	<u>13,138</u>	<u>12,540</u>
Other receivables	1,316	745
	<u>14,454</u>	<u>13,285</u>

Impairment of receivables

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Over two months past due	<u>101</u>	<u>143</u>

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Opening balance	143	219
Receivables written off during the year as uncollectable	(42)	(76)
Closing balance	<u>101</u>	<u>143</u>

Past due but not impaired

As at 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

	Consolidated	
	2016	2015
	\$'000	\$'000
Raw materials - at cost	9,184	8,748
Finished goods - at cost	9,398	8,032
Less: Provision for inventory obsolescence	(217)	(212)
	<u>18,365</u>	<u>16,568</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

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade and other receivables	<u>1,165</u>	<u>790</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

	Consolidated	
	2016	2015
	\$'000	\$'000
Land and buildings - at cost	9,480	9,480
Less: Accumulated depreciation	(1,323)	(1,207)
	<u>8,157</u>	<u>8,273</u>
Plant and equipment - at cost	29,857	28,541
Less: Accumulated depreciation	(19,680)	(18,259)
	<u>10,177</u>	<u>10,282</u>
	<u>18,334</u>	<u>18,555</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:

Consolidated	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2014	8,083	9,784	17,867
Additions	304	2,585	2,889
Disposals	-	(56)	(56)
Depreciation expense	(114)	(2,031)	(2,145)
Balance at 30 June 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	<u>8,157</u>	<u>10,177</u>	<u>18,334</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 15 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

	Consolidated	
	2016	2015
	\$'000	\$'000
Product development costs - at cost	20,425	20,170
Less: Accumulated amortisation	<u>(7,465)</u>	<u>(6,532)</u>
	<u>12,960</u>	<u>13,638</u>
Intellectual property - at cost	6,433	6,081
Less: Accumulated amortisation	<u>(3,032)</u>	<u>(2,398)</u>
	<u>3,401</u>	<u>3,683</u>
Capital work in progress - at cost	<u>5,172</u>	<u>3,709</u>
	<u><u>21,533</u></u>	<u><u>21,030</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:

Consolidated	Product development \$'000	Intellectual property \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2014	11,406	3,844	5,053	20,303
Additions	-	-	1,808	1,808
Transfers in/(out)	3,095	57	(3,152)	-
Amortisation expense	<u>(863)</u>	<u>(218)</u>	<u>-</u>	<u>(1,081)</u>
Balance at 30 June 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	<u><u>12,960</u></u>	<u><u>3,401</u></u>	<u><u>5,172</u></u>	<u><u>21,533</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 13.9% (2015: 14.4%) 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 is 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	
	2016	2015
	\$'000	\$'000
Trade payables	2,308	3,600
Other payables and accrued expenses	2,067	1,815
	<u>4,375</u>	<u>5,415</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 day. No interest is charged on trade payables and the amounts are unsecured.

Note 15. Current liabilities - borrowings

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans	2,319	3,177
Hire purchase liability	202	499
	<u>2,521</u>	<u>3,676</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

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans	3,000	3,000
Hire purchase liabilities	209	438
	<u>3,209</u>	<u>3,438</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:

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans	5,319	6,177
Hire purchase liabilities	411	937
	<u>5,730</u>	<u>7,114</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, an export line facility of \$450,000 and an insurance premium funding facility of \$24,000. 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 consolidated 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:

	Consolidated	
	2016	2015
	\$'000	\$'000
Freehold land and buildings	8,157	8,273
Other assets	48,526	43,749
	<u>56,683</u>	<u>52,022</u>

Financing arrangements

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Total facilities		
Bank loans	<u>10,474</u>	<u>10,489</u>
Used at the reporting date		
Bank loans	<u>5,319</u>	<u>6,177</u>
Unused at the reporting date		
Bank loans	<u>5,155</u>	<u>4,312</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

	2016 Shares	Consolidated 2015 Shares	2016 \$'000	2015 \$'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 changed from the 2015 Annual Report, Due to the low levels of debt, management no longer monitor capital on the basis of gearing ratio, hence the gearing ratio disclosure is not presented.

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	
	2016	2015
	\$'000	\$'000
Revaluation surplus reserve	-	272
Foreign currency reserve	797	498
Capital profits reserve	363	363
Hedging reserve - cash flow hedges	-	37
	<u>1,160</u>	<u>1,170</u>

Revaluation surplus reserve

The reserve is used to recognise increments and decrements in the fair value of land and buildings, excluding investment properties.

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.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

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 2014	272	(387)	363	36	284
Foreign currency translation	-	885	-	-	885
Hedging reserve - cash flow hedges	-	-	-	1	1
Balance at 30 June 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)
Balance at 30 June 2016	<u>-</u>	<u>797</u>	<u>363</u>	<u>-</u>	<u>1,160</u>

Note 19. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2016 \$'000	2015 \$'000
Final dividend for the year ended 30 June 2015 of 1.0 cents (2014: 0.5 cents) per ordinary share	1,189	595
Interim dividend for the year ended 30 June 2016 of 0.8 cents (2015: 0.4 cents) per ordinary share	951	475
	<u>2,140</u>	<u>1,070</u>

On 29 August 2016, the Directors declared a final dividend of 1.2 cents per share to be paid on 23 September 2016. Total dividends for the 2016 financial year increased by 42.8% to 2.0 cents compared to 1.4 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.

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

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 monthly 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 there were no foreign currency hedges set in place.

Note 20. Financial instruments (continued)

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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
US dollars	4,048	5,539	611	697
Euros	5,959	4,071	931	1,150
Brazilian Real	3,777	2,383	254	178
Other	45	16	1	2
	<u>13,829</u>	<u>12,009</u>	<u>1,797</u>	<u>2,027</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 - 2016	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity		Effect on equity	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>

Consolidated - 2015	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity		Effect on equity	Effect on equity
US dollars	10%	484	339	10%	(484)	(339)
Euros	10%	292	204	10%	(292)	(204)
Brazilian Real	10%	221	155	10%	(221)	(155)
Other	10%	1	1	10%	(1)	(1)
		<u>998</u>	<u>699</u>		<u>(998)</u>	<u>(699)</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 reporting date due to the requirement for silver reducing, making the benefit of hedging silver uneconomical.

Note 20. Financial instruments (continued)

During the financial year, the net gain/(loss) on fair value hedges recognised was \$151,000 (2015: \$54,000).

Sensitivity analysis

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

Sensitivity analysis

The effect on profit and equity as a result of changes in the price risk on the hedge, with all other variables remaining constant is indicated in the following table. These sensitivities assume that the movement in a particular variable is independent of other variables.

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	2016		2015	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	3.72%	5,319	3.91%	6,177
Net exposure to cash flow interest rate risk		5,319		6,177

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 - 2016	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Basis points	Effect on profit before tax \$'000		Basis points	Effect on profit before tax \$'000
Bank loans	50	(27)	(19)	(50)	27	19

Consolidated - 2015	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Basis points	Effect on profit before tax \$'000		Basis points	Effect on profit before tax \$'000
Bank loans	50	(31)	(22)	(50)	31	22

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.

Note 20. Financial instruments (continued)

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	
	2016	2015
	\$'000	\$'000
Bank loans	5,155	4,312

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 un-discounted 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.

Consolidated - 2016	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
Non-derivatives						
<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
Consolidated - 2015	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
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,115	1,485	-	-	3,600
Other payables	-	1,316	-	-	-	1,316
<i>Interest-bearing - variable</i>						
Bank loans	3.91%	1,234	1,024	1,112	3,129	6,499
<i>Interest-bearing - fixed rate</i>						
Hire purchase	7.60%	35	105	410	466	1,016
Total non-derivatives		4,700	2,614	1,522	3,595	12,431

Note 20. Financial instruments (continued)

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:

	Consolidated	
	2016	2015
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	196,500	190,245
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	64,764	25,568
	<u>261,264</u>	<u>215,813</u>
<i>Audit services of subsidiaries - unrelated firms</i>		
Audit or review of the financial statements	<u>50,731</u>	<u>45,357</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 2016 and 30 June 2015.

Note 23. Commitments

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	377	441
One to five years	1,003	1,111
More than five years	14	265
	<u>1,394</u>	<u>1,817</u>
<i>Hire purchase lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	223	550
One to five years	216	465
	<u>439</u>	<u>1,015</u>
Total commitment	(28)	(78)
Less: Future finance charges		
	<u>411</u>	<u>937</u>
Net commitment recognised as liabilities		

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

Hire purchase lease commitments includes contracted amounts for various plant and equipment with a written down value of \$439,000 (2015: \$907,000) secured under finance leases expiring within one to four years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry 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 27.

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

Note 24. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2016 \$	2015 \$
Sale of goods and services:		
Sale of goods to director controlled companies	15,623	21,955
Payment for goods and services:		
Provision of consulting services by director controlled companies	169,856	119,868
Provision of consulting services by a director	12,500	12,500
Payment for other expenses:		
Payments for the lease of property (expiring 1 February 2018) to a director controlled company	80,000	87,188

Receivable from and payable to related parties

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

	Consolidated 2016 \$	2015 \$
Current receivables:		
Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	1,418	1,600
Current payables:		
Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	295	268

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:

	Consolidated 2016 \$	2015 \$
Short-term employee benefits	1,786,027	1,625,384
Post-employment benefits	148,770	133,623
Long-term benefits	19,821	19,218
	<u>1,954,618</u>	<u>1,778,225</u>

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2016 \$'000	2015 \$'000
Profit after income tax	10,462	6,067
Other comprehensive income for the year, net of tax	(37)	1
Total comprehensive income	10,425	6,068

Statement of financial position

	Parent	
	2016 \$'000	2015 \$'000
Total current assets	33,161	25,602
Total non-current assets	42,804	42,296
Total assets	75,965	67,898
Total current liabilities	10,162	10,213
Total non-current liabilities	5,764	5,931
Total liabilities	15,926	16,144
Net assets	60,039	51,754
Equity		
Issued capital	12,890	12,890
Revaluation surplus reserve	-	272
Capital profits reserve	363	363
Hedging reserve - cash flow hedges	-	37
Retained profits	46,786	38,192
Total equity	60,039	51,754

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 2016 and 30 June 2015.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015.

Capital commitments - Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015.

Note 26. Parent entity information (continued)

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 27. 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:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
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 28. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2016 \$'000	2015 \$'000
Profit after income tax expense for the year	7,566	6,200
Adjustments for:		
Depreciation and amortisation	4,029	3,226
Net loss/(gain) on disposal of non-current assets	119	(65)
Foreign currency differences	160	433
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,544)	(969)
Increase in inventories	(1,797)	(2,199)
Decrease in deferred tax assets	94	126
Decrease/(increase) in derivative assets	17	(2)
Decrease in prepayments	64	294
Increase/(decrease) in trade and other payables	(1,134)	804
Increase/(decrease) in provision for income tax	1,194	(571)
Increase/(decrease) in deferred tax liabilities	(173)	311
Increase in employee benefits	184	160
Decrease in other provisions	-	(50)
Net cash from operating activities	<u>8,779</u>	<u>7,698</u>

Note 29. 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 2016. 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.

Note 29. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

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 IAS 39 '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 expects to adopt this standard from 1 July 2018 and the impact on the consolidated entity is likely to be immaterial.

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 expects to adopt this standard from 1 July 2018 but the impact of its adoption on the consolidated entity is yet to be assessed by management.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as 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 expects to adopt this standard from 1 July 2019 but the impact of its adoption on the consolidated entity is yet to be assessed by management.

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 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 2016 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 2016 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



Samantha Jane Cheetham
Managing Director

29 September 2016
Melbourne

Independent Auditor's Report to the members of SDI Limited

Report on the Financial Report

We have audited the accompanying financial report of SDI Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising 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 the year's end or from time to time during the financial year as set out on pages 16 to 48.

Directors' Responsibility 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SDI Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of SDI Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion the Remuneration Report of SDI Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants
Melbourne, 29 September 2016

Directors	<p>Jeffery James Cheetham O.A.M - 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	www.sdi.com.au
Email	info@sdi.com.au
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: http://www.sdi.com.au/en-au/corporate-governance.html</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>

The shareholder information set out below was applicable as at 31 August 2016.

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	201	-
1,001 to 5,000	436	-
5,001 to 10,000	228	-
10,001 to 100,000	446	-
100,001 and over	102	-
	1,413	-
Holding less than a marketable parcel	89	-

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
CITICORP NOMINEES PTY LIMITED	7,455,609	6.27
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,480,600	2.93
SILVERGLADES PTY LTD	2,357,829	1.98
GARRETT SMYTHE LTD	2,030,600	1.71
INDCORP CONSULTING GROUP PTY LIMITED (SUPERANNUATION FUND A/C)	1,650,000	1.39
JEFFNPAM SUPERANNUATION FUND PTY LTD	1,421,085	1.20
CAPITAL H MANAGEMENT PTY LTD	1,200,000	1.01
DR GEOFFREY MACDONALD KNIGHT & MS ANNELI KAARINA KNIGHT	1,115,790	0.94
MR GERARD JAMES VAN PAASSEN	1,104,348	0.93
MR BRENDAN FRANCIS CARROLL	1,040,490	0.88
BFA SUPER PTY LTD	1,000,000	0.84
CHARLOTTE B PTY LTD	1,000,000	0.84
MR MICHAEL LAZZARIN	865,000	0.73
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	795,846	0.67
MR NEIL PETER GOOSEN	763,142	0.64
RUMINATOR PTY LTD	761,474	0.64
MDF SUPERANNUATION PTY LIMITED (MDF SUPER FUND A/C)	755,909	0.64
BRANKA NOMINEES PTY LTD	750,220	0.63
DR MARTIN JAMES GREHAN & DR PENELOPE JANE SPRING	708,500	0.60
	80,947,770	68.12

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
PIE FUND MANAGEMENT LIMITED	8,287,210	6.97

*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:

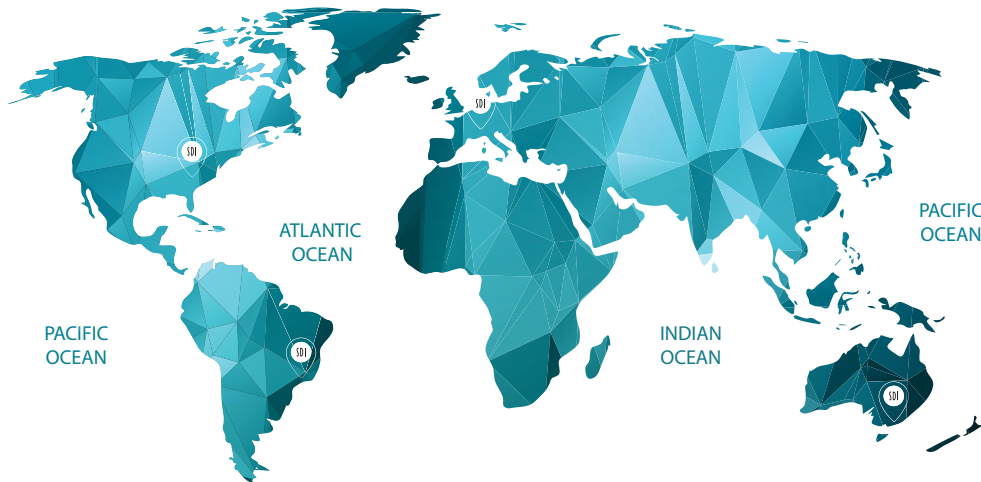
Ordinary shares

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.

SDI LIMITED WORLDWIDE

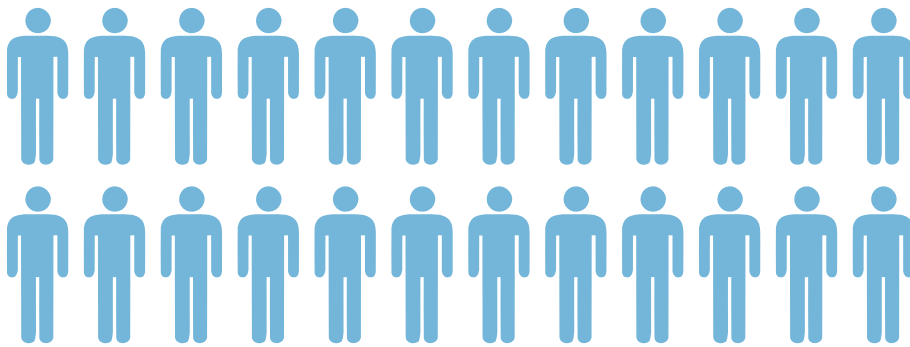
SDI



Distributed in

100+

countries
throughout
the world



Over

250 +

hardworking
and dedicated
employees
worldwide

Subsidiaries

AUSTRALIA (Head Office)

SDI Limited.
3-15 Brunsdon Street
Bayswater
Victoria 3153
Telephone +61 3 8727 7111
Fax +61 3 8727 7222
Toll Free 1 800 337 003
Email: Info@sdi.com.au

BRAZIL

SDI BRASIL INDUSTRIA
E COMERCIO LTDA.
Rua Dr. Virgílio de
Carvalho Pinto, 612
CEP 05415-020
São Paulo, SP
Brazil
Tel +55 11 3092 7100
Fax +55 11 3092 7101
Email: Brasil@sdi.com.au

GERMANY

SDI Germany GmbH
Hansestrasse 85
51149, Cologne Germany
Tel +49 (0) 2203 9255 0
Fax +49 (0) 2203 9255 200
Free phone 0800 1005759
Email: Germany@sdi.com.au

USA and CANADA

SDI (North America) Inc.
1279 Hamilton Parkway
Itasca, IL 60143 USA
Tel +1 630 361 9200
Fax +1 630 361 9222
Toll Free 1 800 228 5166
Email: USA.Canada@sdi.com.au

Branches

AUSTRIA

Free Phone: 00800 0225 5734
Email: Austria@sdi.com.au

FRANCE

Free Phone: 00800 0225 5734
Email: France@sdi.com.au

IRELAND

Free Phone: 00800 0225 5734
Email: Ireland@sdi.com.au

ITALY

Free Phone: 00800 0225 5734
Email: Italy@sdi.com.au

NEW ZEALAND

Free phone: 0800 734 034
Email: Info@sdi.com.au

SPAIN

Free Phone: 00800 0225 5734
Email: Spain@sdi.com.au

UNITED KINGDOM

Free Phone: 00800 0225 5734
Email: UK@sdi.com.au



SDI