

SDI Limited

ABN 27 008 075 581

Interim Report - 31 December 2022

Commentary - Half-year results	2
Appendix 4D	5
Directors' report	8
Auditor's independence declaration	10
Consolidated statement of profit or loss and other comprehensive income	11
Consolidated statement of financial position	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15
Directors' declaration	23
Independent auditor's review report to the members of SDI Limited	24

MELBOURNE, Australia – SDI Limited (ASX: SDI). Net profit after tax of \$2.7 million for the six months ending 31 December 2022, equal to the previous corresponding period last year.

Summary financials (AUD)	HY 2023	HY 2022	Change %
Sales (\$m)	50.5	46.3	9.0
Gross product margin (%)	56.2	52.4	7.3
EBITDA (\$m)	6.1	6.0	0.1
NPAT (\$m)	2.7	2.7	0.9
Earnings per share (cents)	2.28	2.26	0.9
Cash on hand	6.0	6.5	(7.7)
Short-term borrowings	9.0	-	100.0
Long-term borrowings	17.8	-	100.0
Interim ordinary dividend (cents)	1.50	1.50	-

1H FY23 Highlights

- Record total sales of \$50.5 million, up 9.0% on the previous corresponding period (“pcp”), with strong growth in Aesthetics and Amalgam product categories, and strong growth from the European and Brazilian business units.
- Product margin improvement to 56.2%, up by 7.3% on pcp, reflecting price increases and some relief from lower logistic costs, notwithstanding logistics costs still remain high.
- Operating expenses of \$25.1 million, up 22.8% on pcp, is driven by the return to normalised travel and exhibition costs, increase in marketing, and inflationary cost pressures.
- Increase in gross profit was offset by the increase in operating expenses, resulting in a flat period on period EBITDA result of \$6.1 million (1H FY22 \$6.0 million).
- Earnings per share (‘EPS’) was up 0.02 cents to 2.28 cents compared to 2.26 cents for the same period last year.
- Cash position down with continued investment in research and development, and capital expenditure.
- Strategic purchase of six-acre site to support future growth was financed by bank debt.
- Interim fully franked ordinary dividend maintained at 1.5 cents per share.

Commenting on the result Chief Executive Officer Samantha Cheetham said: “We are very pleased with the revenue growth momentum which continued over the half, achieving a record sales result of \$50.5 million. We also improved margins assisted by product price rises implemented in the period, coupled with a slight softening in some logistics costs, but not yet back to pre-COVID levels. Our focus continues to be making sure we meet customer demand. Whilst this has meant some additional costs and some inefficiencies in the short term, we remain confident that this deliberate strategic decision is supporting our top line growth and will deliver longer term benefits for our group.

Thankfully, we are back to being able to educate and market our products around the world, seeing travel and essential trade shows back in the calendar. As a result, operating expenses have increased, reflecting normalised marketing and travel expenses, as well as inflationary pressures on other expenses.

We will be releasing new products and showcasing other new products to be released in the next fiscal year at the International Dental Show held in Germany in March 2023. The dental industry is almost back to normal operating conditions in most regions.”

Key product category sales

Category	Growth in local currency %	Growth in AUD %	Total AUD sales %
Aesthetics	8.4	12.4	47.4
Whitening	(1.9)	-	28.9
Equipment	(8.6)	(3.0)	6.3
Amalgam	17.8	22.5	17.4

In local currencies, Aesthetics sales continued to show strong growth of 8.4% on pcp, increasing across all business units. The decline in Whitening (1.9)%, and Equipment (8.6)% were predominately driven by the European market, in particular France where inflation is beginning to affect expenditure patterns, resulting in softening demand for these product categories (Whitening and Equipment). This was not the case with Aesthetics and Amalgam, evidenced by overall European business unit sales up 11.9% on pcp.

Although there is very little sales focus on Amalgam, the category increased by 17.8% in local currencies on pcp, and now represents 17.5% (\$8.7 million) of total sales. This result was driven by the withdrawal of two major competitors last year from the Amalgam market.

Sales by business unit

Business unit	Growth in local currency %	Growth in AUD %	Total AUD sales %
Australia (incl direct exports)	(0.6)	5.3	36.5
North America	4.4	13.7	23.1
Europe	11.9	6.8	31.9
Brazil	10.5	22.9	8.5
Total	5.4	9.0	100.0%

The business unit performance reflects a return to normal operating conditions.

European sales were up 11.9% in local currencies, driven by strong demand in the UK market where conditions have now normalised.

Australian sales, which include Australian domestic and direct export markets, were down slightly, (0.6)% on pcp, with Australian direct exports decreasing by (2.4)%. This was partly offset by domestic sales which were up 4.1% on pcp as the Australian dental industry returned to pre-COVID normal operating conditions.

Brazilian sales increased by 10.5% on pcp in local currencies reflecting overall market growth.

North American sales increased by 4.4% on pcp reflecting the slower uptake of Aesthetics compared to other markets. North America is still a strong Amalgam market and Amalgam sales in this market grew by 13.1% on pcp and represents 31.0% of North American sales.

Sales by region

Region	HY 2023 (AUD)	HY 2022 (AUD)	% Change
APAC	\$9.2m	\$7.9m	17.1
Middle East / Africa	\$5.6m	\$6.0m	(5.3)
South America	\$6.2m	\$5.6m	9.8
North America	\$11.7m	\$10.3m	13.7
Europe	\$17.8m	\$16.5m	7.1

The strong growth across most regions was underpinned by the normalising of operating conditions. The Middle East/Africa region was down (5.3)% on pcp, reflecting the inconsistent ordering pattern of some countries in this region.

Gross profit margins

Product margins in Australian dollars increased by 7.3% to 56.2%, driven by slightly improved logistics costs and price increases. SDI exports to over 100 countries and the margins enjoyed in these regions are not uniform which impacts the overall outcome. Additionally, the strong sales growth in the lower margin Amalgam product impacted overall gross margins.

Operating expenses

Total operating expenses in Australian dollars increased by 22.8% on pcp. After adjusting for currency movements operating expenses increased by 20.7% compared to pcp.

Expense category	% Increase Local Currencies	
Employee related	11.6	Increased superannuation and payroll tax rates, employee pay rate pressure
Travel	89.4	Global travel back to pre-pandemic levels
Promotional / marketing	27.3	New products releases, exhibition costs back to pre-pandemic levels.
Utilities	18.3	Increase electricity cost
Information technology	19.7	Increase expenditure on cyber security and other IT projects

Most notable increase in operating expenses is travel, up 89.4% on pcp, and marketing expenses, up 27.3% on pcp. These increases relate to operating conditions returning to normal and the recommencement of important education and marketing activities such as trade shows. Inflation is having an impact across several operating expenses, including utilities and wage pressures.

Balance sheet

The Company has invested an additional \$0.5 million in inventories, \$1.0 million in plant and equipment, \$1.5 million in product development expenditure, financed partly by cash and debt. The inventory increase reflects the strategic decision to meet customer demand, as well as a deliberate build-up of newly released products. The Company has also invested \$24.8 million in land and buildings financed by bank borrowings, which will be reduced by \$5.8 million pending the sale of existing properties. The Company has unused bank facilities of \$6.6 million and \$6.0 million cash in bank.

Strategy and outlook

The Company remains focused on its strategic priorities:

- Aesthetics and Whitening products continue to be the focus for new product development. The Company's Aesthetic product 'Stela', designed as an Amalgam replacement product and general posterior restorative, and will compete in the wider Aesthetic categories due to its natural tooth colour and strength. It is on schedule to be released in several markets at the International Dental Show ('IDS') held in Cologne, Germany in March 2023 along with another Aesthetic product 'Riva Cem Auto Mix';
- Achieving manufacturing and logistic efficiencies. The Company has reviewed its footprint, has purchased a six-acre property for \$19.0 million (including stamp duty) and is expecting to relocate its warehousing in July 2023. This will release much needed space for manufacturing and the opportunity to refurbish its current production site to improve processes and manufacturing efficiencies;
- Investment in production automation and processes to achieve operating efficiencies and manage new and existing future product growth. The Company has recently purchased a high-speed production machine which will increase its syringe output on four products, moving from one to approximately eight syringes per minute. Other machines are on order for delivery over the next 12 months;
- On-going investment in research and development to release one to two products per year; and
- Investing in sales and marketing to further increase the Company's market share in its core product categories.

Dividends

Showing the Board's confidence in the future of the business, the Directors have declared an interim fully franked ordinary dividend of 1.50 cents per share, compared to 1.50 cents 1H FY22.

The Board has decided that the Company's Dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for these dividend payments.

1. Company details

Name of entity:	SDI Limited
ABN:	27 008 075 581
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	9.0% to	50,497
Profit from ordinary activities after tax attributable to the owners of SDI Limited	up	0.9% to	2,713
Profit for the half-year attributable to the owners of SDI Limited	up	0.9% to	2,713

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2022 paid on 19 September 2022	1.75	1.75

On 28 February 2023, the Directors declared an interim franked dividend of 1.5 cents per share to be paid on 28 April 2023. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2022. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2022 financial statements and will be recognised in subsequent financial reports.

The record date for determining entitlements to dividends is 14 April 2023.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$2,713,000 (31 December 2021: \$2,690,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 0.1% to \$6,050,000 (31 December 2021: \$6,042,000).

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit adjusted for specific items after the application of AASB16.

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

	Consolidated 31 Dec 2022 \$'000	31 Dec 2021 \$'000
Profit after tax	2,713	2,690
Add: taxation	991	907
Add: interest expense	231	13
Less: interest income	(6)	(1)
Add: depreciation and amortisation	2,121	2,433
EBITDA	6,050	6,042

Further information on the results is detailed in the 'Commentary - Half-year results' immediately preceding this report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>49.22</u>	<u>46.96</u>

NTA includes the written down value of right of use assets.

4. Control gained over entities

Not applicable.

5. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2022 paid on 19 September 2022	1.75	1.75

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2021 paid on 20 September 2021	1.65	1.65

6. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Company has a Dividend Reinvestment Plan ('DRP'). However the Directors have decided that the DRP will not be offered to Shareholders for the dividend payments.

7. Audit qualification or review

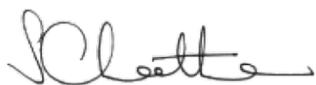
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

The Interim Report of SDI Limited for the half-year ended 31 December 2022 is attached.

9. Signed

Authorised by the Board of Directors.



Signed _____

Date: 28 February 2023

Samantha Jane Cheetham
Managing Director
Melbourne

The Directors present their report, together with the financial statements, on 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 half-year ended 31 December 2022 (referred to hereafter as the 'consolidated entity').

Directors

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

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

Principal activities

During the financial half-year, the principal activities of the consolidated entity consisted of the manufacture and distribution of dental restorative materials, whitening systems, other dental materials and product research and development.

Dividends

Dividends paid during the financial half-year were as follows:

	Consolidated 31 Dec 2022 \$'000	31 Dec 2021 \$'000
Final dividend for the year ended 30 June 2022 of 1.75 cents (2021: 1.65 cents) per ordinary share	2,080	1,961

On 28 February 2023, the Directors declared an interim franked dividend of 1.5 cents per share to be paid on 28 April 2023. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2022. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2022 financial statements and will be recognised in subsequent financial reports.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$2,713,000 (31 December 2021: \$2,690,000).

Highlights of the results from operations for the financial half-year ended 31 December 2022 are provided below:

Net profit after tax increased by 0.9% to \$2,713,000 compared to \$2,690,000 for the previous half-year. Profit before tax increased by 3.0% to \$3,704,000 compared to \$3,597,000 for the previous half-year.

	31 Dec 2022 \$'000	31 Dec 2021 \$'000	Change \$'000	Change %
Net profit	2,713	2,690	23	0.9%
EPS	2	2	-	0.9%
PBT	3,704	3,597	107	3.0%
EBITDA	6,050	6,042	8	0.1%

Earnings per share for the half-year ended 31 December 2022 decreased by 0.02 cents to 2.28 cents compared to 2.26 cents for the same period last half-year.

Earnings before interest, taxation, depreciation and amortisation ('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 directors consider EBITDA to represent the underlying earnings measure of the consolidated entity.

EBITDA increased by 0.1% to \$6,050,000 (31 December 2021: \$6,042,000).

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

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Profit after tax	2,713	2,690
Add: taxation	991	907
Add: interest expense	231	13
Less: interest income	(6)	(1)
Add: depreciation and amortisation	2,121	2,433
EBITDA	<u>6,050</u>	<u>6,042</u>

Significant changes in the state of affairs

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

Rounding of amounts

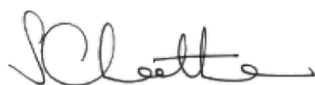
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument 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.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

28 February 2023
Melbourne

28 February 2023

The Board of Directors
SDI Limited
5-9 Brunsdon Street
BAYSWATER VIC 3153

Dear Board Members

SDI Limited

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

As lead audit partner for the review of the financial statements of SDI Limited for the half-year ended 31 December 2022, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants

SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2022



		Consolidated	
	Note	31 Dec 2022	31 Dec 2021
		\$'000	\$'000
Revenue			
Sales revenue	4	50,491	46,328
Cost of goods sold		(22,091)	(22,051)
Gross profit		28,400	24,277
Other gains/(losses), net	5	427	(224)
Interest income		6	1
Expenses			
Selling and administration expenses		(23,388)	(18,899)
Research and development costs		(753)	(566)
Impairment of receivables		(30)	5
Other expenses		(715)	(984)
Finance costs	6	(243)	(13)
Total expenses		(25,129)	(20,457)
Profit before income tax expense		3,704	3,597
Income tax expense		(991)	(907)
Profit after income tax expense for the half-year attributable to the owners of SDI Limited		2,713	2,690
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign controlled entities		226	41
Other comprehensive income for the half-year, net of tax		226	41
Total comprehensive income for the half-year attributable to the owners of SDI Limited		2,939	2,731
		Cents	Cents
Basic earnings per share	7	2.28	2.26
Diluted earnings per share	7	2.28	2.26

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

		Consolidated	
	Note	31 Dec 2022	30 Jun 2022
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		6,003	7,013
Trade and other receivables	8	20,202	19,598
Inventories		26,529	26,005
Current tax asset		-	4
Prepayments		3,125	3,384
		<u>55,859</u>	<u>56,004</u>
Non-current assets classified as held for sale		5,816	-
Total current assets		<u>61,675</u>	<u>56,004</u>
Non-current assets			
Trade and other receivables	8	-	847
Property, plant and equipment	9	37,593	18,634
Right-of-use assets		1,178	1,377
Intangibles	10	26,134	25,208
Total non-current assets		<u>64,905</u>	<u>46,066</u>
Total assets		<u>126,580</u>	<u>102,070</u>
Liabilities			
Current liabilities			
Trade and other payables		7,794	9,017
Borrowings	11	9,000	669
Lease liabilities		446	437
Provision for income tax		(395)	918
Employee benefits		3,769	3,606
Total current liabilities		<u>20,614</u>	<u>14,647</u>
Non-current liabilities			
Borrowings	11	17,800	-
Lease liabilities		727	918
Deferred tax liability		2,604	2,582
Employee benefits		192	189
Total non-current liabilities		<u>21,323</u>	<u>3,689</u>
Total liabilities		<u>41,937</u>	<u>18,336</u>
Net assets		<u>84,643</u>	<u>83,734</u>
Equity			
Issued capital	12	12,890	12,890
Reserves		1,622	1,346
Retained profits		70,131	69,498
Total equity		<u>84,643</u>	<u>83,734</u>

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

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	12,890	929	65,961	79,780
Profit after income tax expense for the half-year	-	-	2,690	2,690
Other comprehensive income for the half-year, net of tax	-	41	-	41
Total comprehensive income for the half-year	-	41	2,690	2,731
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 13)	-	-	(1,961)	(1,961)
Balance at 31 December 2021	<u>12,890</u>	<u>970</u>	<u>66,690</u>	<u>80,550</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2022	12,890	1,346	69,498	83,734
Profit after income tax expense for the half-year	-	-	2,713	2,713
Other comprehensive income for the half-year, net of tax	-	226	-	226
Total comprehensive income for the half-year	-	226	2,713	2,939
<i>Transactions with owners in their capacity as owners:</i>				
Capital reserve	-	50	-	50
Dividends paid (note 13)	-	-	(2,080)	(2,080)
Balance at 31 December 2022	<u>12,890</u>	<u>1,622</u>	<u>70,131</u>	<u>84,643</u>

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

		Consolidated	
	Note	31 Dec 2022	31 Dec 2021
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		51,426	47,335
Payments to suppliers and employees		(46,680)	(44,171)
		4,746	3,164
Interest received		6	1
Other revenue		401	(236)
Interest and other finance costs paid		(243)	(13)
Income taxes paid		(2,278)	(2,902)
Net cash from operating activities		2,632	14
Cash flows from investing activities			
Payments for property, plant and equipment	9	(25,831)	(647)
Payments for intangibles	10	(1,778)	(1,298)
Proceeds from disposal of property, plant and equipment		27	12
Net cash used in investing activities		(27,582)	(1,933)
Cash flows from financing activities			
Proceeds from borrowings		26,800	-
Repayment of lease liabilities		(197)	(177)
Dividends paid	13	(2,080)	(1,961)
Repayment of borrowings		(669)	-
Net cash from/(used in) financing activities		23,854	(2,138)
Net decrease in cash and cash equivalents		(1,096)	(4,057)
Cash and cash equivalents at the beginning of the financial half-year		7,013	10,559
Effects of exchange rate changes on cash and cash equivalents		86	21
Cash and cash equivalents at the end of the financial half-year		6,003	6,523

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

Note 1. General information

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

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

Registered office

5 - 9 Brunsdon Street
Bayswater VIC 3153

Principal place of business

3 - 15 Brunsdon Street
Bayswater VIC 3153

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 February 2023. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as stated below.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 3. 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. Refer to note 4 for revenue from product lines.

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

Note 3. Operating segments (continued)

Reportable segments

The consolidated entity's reportable segments are as follows:

Australia:	SDI Limited
Europe:	SDI Germany GmbH (Germany) and SDI Dental Innovations Limited (United Kingdom)
USA:	SDI (North America), Inc.
Brazil:	SDI Brasil Industria e Comercio Ltda and SDI Holdings Do Brazil Ltda

Intersegment transactions

The segment revenues, expenses and result 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.

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 sells products. No single customer represents 10% or more of the consolidated entity's revenue.

Operating segment information

Consolidated - 31 Dec 2022	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Total \$'000
Revenue					
Sales to external customers	18,402	16,125	11,661	4,303	50,491
Intersegment sales	12,600	3,023	-	1,985	17,608
Total sales revenue	31,002	19,148	11,661	6,288	68,099
Total segment revenue	31,002	19,148	11,661	6,288	68,099
Intersegment eliminations					(17,608)
Total revenue					50,491
Segment results before tax and adjustments below	4,353	682	430	444	5,909
Intersegment adjustments	153	-	-	-	153
Depreciation and amortisation	(1,792)	(136)	(75)	(118)	(2,121)
Interest revenue	1	-	-	5	6
Finance costs	(243)	-	-	-	(243)
Profit before income tax expense	2,472	546	355	331	3,704
Income tax expense					(991)
Profit after income tax expense					2,713
Assets					
Segment assets	113,504	13,298	10,175	11,127	148,104
Intersegment eliminations					(21,524)
Total assets					126,580
Liabilities					
Segment liabilities	38,094	8,213	3,034	10,191	59,532
Intersegment eliminations					(17,595)
Total liabilities					41,937

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2021	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Total \$'000
Revenue					
Sales to external customers	17,477	15,097	10,254	3,500	46,328
Intersegment sales	15,873	2,053	-	523	18,449
Total sales revenue	33,350	17,150	10,254	4,023	64,777
Total segment revenue	33,350	17,150	10,254	4,023	64,777
Intersegment eliminations					(18,449)
Total revenue					46,328
Segment results before tax and adjustments below					
Intersegment adjustments	4,909	662	376	653	6,600
Depreciation and amortisation	(571)	-	-	-	(571)
Interest revenue	(2,172)	(139)	(88)	(34)	(2,433)
Finance costs	-	-	-	1	1
Profit before income tax expense	-	-	-	-	-
Income tax expense	2,166	523	288	620	3,597
Profit after income tax expense					(907)
					2,690
Consolidated - 30 Jun 2022					
Assets					
Segment assets	89,187	16,870	10,600	10,378	127,035
Intersegment eliminations					(24,965)
Total assets					102,070
Liabilities					
Segment liabilities	14,024	12,177	3,728	9,338	39,267
Intersegment eliminations					(20,931)
Total liabilities					18,336

Note 4. Sales revenue

	Consolidated 31 Dec 2022 \$'000	31 Dec 2021 \$'000
Sales revenue	50,491	46,328
Major product lines		
Aesthetics	23,918	21,274
Amalgam	8,816	7,196
Equipment	3,157	3,256
Whitening	14,600	14,602
	50,491	46,328
Timing of revenue recognition		
Goods transferred at a point in time	50,491	46,328

Note 4. Sales revenue (continued)

Refer to note 3 for disaggregation of revenue from contracts with customers based on geographical regions.

Note 5. Other gains/(losses), net

	Consolidated	Consolidated
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Net foreign exchange gain/(loss)	323	(236)
Net gain on disposal of property, plant and equipment	26	12
Other	78	-
	<u>427</u>	<u>(224)</u>

Note 6. Expenses

	Consolidated	Consolidated
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	74	43
Plant and equipment	981	1,256
Right-of-use-assets - land and buildings	214	170
Total depreciation	<u>1,269</u>	<u>1,469</u>
<i>Amortisation</i>		
Product development costs	570	661
Intellectual property	282	303
Total amortisation	<u>852</u>	<u>964</u>
Total depreciation and amortisation	<u>2,121</u>	<u>2,433</u>
<i>Employee benefit expense</i>		
Employee costs other than superannuation expense	19,017	18,098
Superannuation expenses	1,098	919
Total employee benefit expense	<u>20,115</u>	<u>19,017</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	231	-
Interest and finance charges paid/payable on lease liabilities	12	13
Finance costs	<u>243</u>	<u>13</u>

Note 7. Earnings per share

	Consolidated	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Profit after income tax attributable to the owners of SDI Limited	2,713	2,690
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	118,865,530	118,865,530
Weighted average number of ordinary shares used in calculating diluted earnings per share	118,865,530	118,865,530
	Cents	Cents
Basic earnings per share	2.28	2.26
Diluted earnings per share	2.28	2.26

Note 8. Trade and other receivables

	Consolidated	
	31 Dec 2022 \$'000	30 Jun 2022 \$'000
<i>Current assets</i>		
Trade receivables	18,760	18,388
Less: Allowance for expected credit losses	(107)	(95)
	18,653	18,293
Other receivables	1,549	1,305
	20,202	19,598
<i>Non-current assets</i>		
Other receivables	-	847
	20,202	20,445

Allowance for expected credit losses

The consolidated entity has recognised an expense of \$30,000 (31 December 2021: gain of \$5,000) in profit or loss in respect of the expected credit losses for the half-year ended 31 December 2022.

Other receivables relate to prepaid taxes.

Note 9. Property, plant and equipment

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Land and buildings - at cost	30,499	11,482
Less: Accumulated depreciation	(2,185)	(2,112)
	<u>28,314</u>	<u>9,370</u>
Plant and equipment - at cost	39,550	38,667
Less: Accumulated depreciation	(30,271)	(29,403)
	<u>9,279</u>	<u>9,264</u>
	<u><u>37,593</u></u>	<u><u>18,634</u></u>

Reconciliations

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

Consolidated	Land and Building	Plant and equipment	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2022	9,370	9,264	18,634
Additions	24,834	997	25,831
Classified as held for sale	(5,816)	-	(5,816)
Disposal	-	(1)	(1)
Depreciation expense	(74)	(981)	(1,055)
	<u>28,314</u>	<u>9,279</u>	<u>37,593</u>

Note 10. Intangibles

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-current assets</i>		
Development costs - at cost	32,874	32,705
Less: Accumulated amortisation	(15,498)	(14,910)
	<u>17,376</u>	<u>17,795</u>
Trademarks and licences - at cost	8,908	8,665
Less: Accumulated amortisation	(6,529)	(6,270)
	<u>2,379</u>	<u>2,395</u>
Product development in progress - at cost	<u>6,379</u>	<u>5,018</u>
	<u><u>26,134</u></u>	<u><u>25,208</u></u>

Note 10. Intangibles (continued)

Reconciliations

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

Consolidated	Development costs \$'000	Trademarks and licences \$'000	Capital work in progress \$'000	Total \$'000
Balance at 1 July 2022	17,795	2,395	5,018	25,208
Additions	151	266	1,361	1,778
Transfers in/(out)	-	-	-	-
Amortisation expense	(570)	(282)	-	(852)
Balance at 31 December 2022	17,376	2,379	6,379	26,134

Note 11. Borrowings

	Consolidated 31 Dec 2022 \$'000	30 Jun 2022 \$'000
<i>Current liabilities</i>		
Bank loans (i)	5,000	-
Short term borrowing (ii)	-	669
Bank bills payable (iii)	4,000	-
	9,000	669
<i>Non-current liabilities</i>		
Bank loans (i)	17,800	-
	26,800	669

- (i) This facility is used to fund the purchase of the property's held in Power Road, Bayswater, Victoria and Canterbury Road Montrose, Victoria.
(ii) The facility is used to fund the Company's annual insurance premium. This funding is unsecured.
(iii) This facility is used to fund short term working capital requirements.

Financing arrangements

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

	Consolidated 31 Dec 2022 \$'000	30 Jun 2022 \$'000
Total facilities		
Bank loans	33,515	10,450
Used at the reporting date		
Bank loans	26,921	-
Unused at the reporting date		
Bank loans	6,594	10,450

Note 12. Issued capital

	31 Dec 2022 Shares	30 Jun 2022 Shares	Consolidated 31 Dec 2022 \$'000	30 Jun 2022 \$'000
Ordinary shares - fully paid	<u>118,865,530</u>	<u>118,865,530</u>	<u>12,890</u>	<u>12,890</u>

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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.

Note 13. Dividends

Dividends paid during the financial half-year were as follows:

	31 Dec 2022 \$'000	Consolidated 31 Dec 2021 \$'000
Final dividend for the year ended 30 June 2022 of 1.75 cents (2021: 1.65 cents) per ordinary share	<u>2,080</u>	<u>1,961</u>

On 28 February 2023, the Directors declared an interim franked dividend of 1.5 cents per share to be paid on 28 April 2023. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2022. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2022 financial statements and will be recognised in subsequent financial reports.

Note 14. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2022 and 30 June 2022.

Note 15. Events after the reporting period

Apart from the dividend declared as disclosed in note 13, no other matter or circumstance has arisen since 31 December 2022 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.

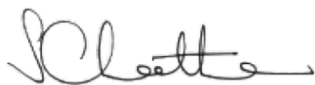
In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial half-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 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

28 February 2023
Melbourne

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

Conclusion

We have reviewed the accompanying half-year financial report of SDI Limited (the "Entity") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Director's Declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

DELOITTE TOUCHE TOHMATSU

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

Craig Bryan
Partner
Chartered Accountants
Melbourne, 28 February 2023