

SDI Limited

ABN 27 008 075 581

Interim Report - 31 December 2019

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1. Company details

Name of entity:	SDI Limited
ABN:	27 008 075 581
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

The consolidated entity applied AASB 16 'Leases' from 1 July 2019 using the modified retrospective approach and as such the comparatives have not been restated.

			\$'000
Revenues from ordinary activities	up	7.7% to	39,969
Profit from ordinary activities after tax attributable to the owners of SDI Limited	up	11.9% to	3,497
Profit for the half-year attributable to the owners of SDI Limited	up	11.9% to	3,497

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2019 paid on 22 August 2019	1.5	1.5

On 13th February 2020, the Directors declared an interim franked dividend of 1.35 cents per share to be paid on 17th April 2020. This equates to a total estimated distribution of \$1,604,685 based on the number of ordinary shares on issue as at 31 December 2019. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2019 financial statements and will be recognised in subsequent financial reports.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$3,497,000 (31 December 2018: \$3,126,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 11.37% to \$7,119,000 (31 December 2018: \$6,392,000).

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 31 Dec 2019 \$'000	31 Dec 2018 \$'000
Profit after tax	3,497	3,126
Add: taxation	1,456	1,320
Add: interest expense	41	33
Less: interest income	(6)	(6)
Add: depreciation and amortisation	2,131	1,919
EBITDA	7,119	6,392

SDI Limited adopted AASB 16 'Leases' from 1 July 2019. The adoption had the following impact on the current period. Current profit before income tax expense was reduced by \$17,000. This included an increased depreciation and amortisation expense of \$223,000 and increased finance costs of \$40,000, offset by a reduction in other expenses (reclassification of lease expenses) of \$246,000. As at 31 December 2019, net current assets were reduced by \$212,000 (attributable to current lease liabilities) and net assets were reduced by \$17,000 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	41.58	40.79

4. Control gained over entities

Name of entities (or group of entities)	Dentech Innovations Pty Ltd
Date control gained	Incorporation date 7 June 2019 and trading commenced 1 July 2019

5. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2019 paid on 22 August 2019	1.5	1.5

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2018 paid on 21 September 2018	1.4	1.4
Interim dividend for the year ended 30 June 2019 paid on 12 April 2019	1.2	1.2
Special dividend for the year ended 30 June 2019 paid on 12 April 2019	1.0	1.0

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.

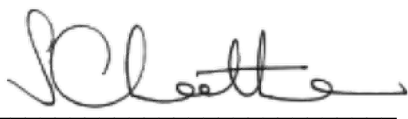
7. Audit qualification or review

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 2019 is attached.

9. Signed

Signed 

Date: 13 February 2020

Samantha Jane Cheetham
Managing Director
Melbourne

HY 20 Highlights

- **After tax profit up 11.9% to \$3.5 million**
- **Total sales up 4.1% in local currencies (AUD 7.7%)**
- **Aesthetics sales up 11.6% in local currencies (AUD 15.3%)**
- **Whitening sales up 12.9% in local currencies (AUD 16.3%)**
- **Interim fully franked ordinary dividends up by 12.5% to 1.35 cents**

MELBOURNE, Australia – SDI Limited (ASX: SDI). After tax profit increased by \$0.4 million to \$3.5 million, compared with \$3.1million for the same period last year. This result was driven by strong sales increase and product margin improvement. Unrealised currency losses reduced after-tax profit by \$0.5 million due to the unfavourable closing rates on 31 December 2019, compared to an unrealised gain of \$0.5 million for the same period last year.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 11.4 per cent to \$7.1 million, compared to \$6.4 million for the corresponding period last year. Earnings per share for the 6 months ended 31 December 2019 increased by 0.31 cents to 2.94 cents compared to 2.63 cents for the same period last year.

	HY 2020 (AUD)	HY 2019 (AUD)	Change %
Sales	40.0m	37.1m	7.7
EBITDA	7.1m	6.4m	11.4
NPBT	5.0m	4.4m	11.4
NPAT	3.5m	3.1m	11.9
Cash	6.1m	6.1m	0
Interim ordinary dividend	1.35c	1.20c	12.5

Sales in Australian dollars for the 6 months ended 31 December 2019 were \$40.0 million, up 7.7% on the previous corresponding period of \$37.1 million. Approximately 90% of sales are exported, and when adjusted for currency movements, sales were up 4.1%. This growth was driven by strong growth in Whitening sales and continued strong growth in Aesthetics sales, including Glass Ionomers and Composites, offset by the ongoing decline in Amalgam sales.

Product category sales	Growth in local currency	Growth in AUD	% of Total AUD Sales
Aesthetics	11.5%	15.3%	45.7%
Equipment	(7.2%)	(4.1%)	7.1%
Whitening	12.9%	16.3%	26.6%
Amalgam	(13.6%)	(10.6%)	20.6%

Sales growth in Europe and Brazil were back on track with sales in non-Amalgam products increasing significantly faster than the decline in Amalgam sales, highlighting a lower reliance on Amalgam products in these markets. North American sales are still challenging due to Amalgam products representing a significant portion of its sales and the disappointing sales in Whitening products. It is expected that North American Whitening sales will improve in the second half of this financial year with the release of new premium packaging, and the start of a new marketing campaign for the 2020 calendar year.

Sales by Business Unit	Growth in local currency	Growth in AUD	% of Total AUD Sales
Australian sales (including direct exports)	3.2%	7.2%	38.5%
North America	(5.0%)	0.2%	22.2%
Europe	9.0%	10.9%	32.1%
Brazil	21.0%	23.3%	7.2%
TOTAL	4.1%	7.7%	100.0%

Product sales by Business Unit adjusted for currency movements	Amalgam		Non - Amalgam	
	% Change	% of Total Sales	% Change	% of Total Sales
Australia (including direct exports)	(28.9)	14.7	11.9	85.3
Brazil	(19.9)	22.0	41.3	78.0
Europe	(4.3)	17.1	11.9	82.9
North America	(4.3)	35.4	(5.4)	64.6

Regional sales highlighted strong sales growth from the APAC, European and South American markets, and lower than expected sales from the Middle East due to economic and logistic factors adversely affecting some markets in this region. Orders received post 31 December suggests that the Middle East region will show a stronger second half. North American sales were impacted by declines in both the Amalgam and Whitening products which were partly offset by a 5.9% increase in Aesthetics. Amalgam currently represents 35.4% of this region's total sales.

Sales by region	HY 2020 (AUD)	HY 2019 (AUD)	Growth
APAC	7.8m	7.1m	10.9%
Middle East / Africa	4.4m	4.6m	(3.9%)
North America	8.8m	8.8m	0.1%
South America	4.5m	3.8m	19.9%
Europe	14.5m	12.8m	11.7%

Gross product margins in Australian Dollars increased by 5.3% to 66.2% compared to 60.9% for the corresponding period last year. When adjusted for favourable currency movements, gross margin increased by 4.1% to 65% compared to the previous corresponding period. This result is encouraging and reflective of the improved product mix and the increase in sales in the higher margin markets.

Total operating expenses in Australian dollars increased by 12.0% when compared to the previous corresponding period. Approximately 50% of SDI's total operating expenses relate to its offshore subsidiaries and after adjusting for currency movements, total operating expenses increased by 9.7%.

Sales, marketing and distribution expenses increased by AUD \$1.3 million for the six months due to increased sales, continued promotion of SDI's Aesthetic products strategy and additional sales staff. In addition to this the Company has expensed an additional \$0.3 million in research activities to explore new product ideas.

The Company's total cash holdings for the six months decreased by \$0.4 million after increasing inventories by \$3.4 million, investment in plant and equipment of \$1.8 million and product development expenditure of \$1.1 million. Inventories increased

due to the initial stocking of packaging for the rebranding of Whitening products, stocking of the new light curing light in preparation for release into all markets, and the over stocking of products for some markets. It is expected that inventories will be back to normal levels in the second half of the financial year. The Company has invested in new machinery for new product lines and continues to upgrade its current equipment in line with its automation strategy.

The Board of Directors has declared an interim franked ordinary dividend of 1.35 cents per share which is 0.15 cents higher than the previous interim dividend.

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

About SDI Limited

Founded in 1972 and publicly listed on the Australian Securities Exchange in 1985, SDI Limited is a leading dental technology company that conducts research and development, manufacturing and marketing of specialist dental materials. SDI's products combine innovation and excellence to provide the ideal restorative materials for the dental profession.

All of SDI's products are manufactured in Victoria, Australia. SDI's products are distributed through distributors and retailers in over 100 countries throughout the world. SDI has offices and warehouses in Australia, USA, Germany, and Brazil.

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 half-year ended 31 December 2019.

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 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 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 2019	31 Dec 2018
	\$'000	\$'000
Final dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.4 cents) per ordinary share	<u>1,783</u>	<u>1,664</u>

On 13th February 2020, the Directors declared an interim franked dividend of 1.35 cents per share to be paid on 17th April 2020. This equates to a total estimated distribution of \$1,604,685 based on the number of ordinary shares on issue as at 31 December 2019. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2019 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 \$3,497,000 (31 December 2018: \$3,126,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 11.37% to \$7,119,000 (31 December 2018: \$6,392,000).

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Add: depreciation and amortisation	2,131	1,919
EBITDA	<u>7,119</u>	<u>6,392</u>

SDI Limited adopted AASB 16 'Leases' from 1 July 2019. The adoption had the following impact on the current period. Current profit before income tax expense was reduced by \$17,000. This included an increased depreciation and amortisation expense of \$223,000 and increased finance costs of \$40,000, offset by a reduction in other expenses (reclassification of lease expenses) of \$246,000. As at 31 December 2019, net current assets were reduced by \$212,000 (attributable to current lease liabilities) and net assets were reduced by \$17,000 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

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

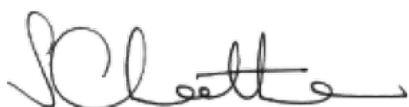
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument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

13 February 2020
Melbourne

13 February 2020

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 2019, 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

DELOITTE TOUCHE TOHMATSU



Anneke du Toit
Partner
Chartered Accountants

SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019



		Consolidated	
	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue			
Sales revenue	4	39,963	37,103
Cost of goods sold		(13,502)	(14,495)
Gross profit		26,461	22,608
Other (loss)/gain	5	(413)	669
Interest revenue calculated using the effective interest method		6	6
Expenses			
Selling and administration expenses		(19,255)	(17,505)
Research and development costs		(901)	(648)
Impairment of receivables		(22)	(84)
Other expenses		(882)	(567)
Finance costs		(41)	(33)
Profit before income tax expense		4,953	4,446
Income tax expense		(1,456)	(1,320)
Profit after income tax expense for the half-year attributable to the owners of SDI Limited		3,497	3,126
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign controlled entities		(94)	444
Other comprehensive income for the half-year, net of tax		(94)	444
Total comprehensive income for the half-year attributable to the owners of SDI Limited		3,403	3,570
		Cents	Cents
Basic earnings per share	7	2.94	2.63
Diluted earnings per share	7	2.94	2.63

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 2019	30 Jun 2019
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		6,058	6,481
Trade and other receivables	8	14,203	17,780
Inventories		20,655	17,242
Prepayments		2,716	1,100
Total current assets		<u>43,632</u>	<u>42,603</u>
Non-current assets			
Other receivables	9	507	713
Property, plant and equipment		19,387	18,680
Right-of-use assets		882	-
Intangibles		25,298	24,603
Total non-current assets		<u>46,074</u>	<u>43,996</u>
Total assets		<u>89,706</u>	<u>86,599</u>
Liabilities			
Current liabilities			
Trade and other payables		7,562	6,249
Lease liabilities		212	-
Provision for income tax		566	1,386
Employee benefits		3,297	3,344
Total current liabilities		<u>11,637</u>	<u>10,979</u>
Non-current liabilities			
Lease liabilities		687	-
Deferred tax liability		2,475	2,363
Employee benefits		202	172
Total non-current liabilities		<u>3,364</u>	<u>2,535</u>
Total liabilities		<u>15,001</u>	<u>13,514</u>
Net assets		<u>74,705</u>	<u>73,085</u>
Equity			
Issued capital	10	12,890	12,890
Reserves		1,553	1,647
Retained profits		60,262	58,548
Total equity		<u>74,705</u>	<u>73,085</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 2018	12,890	1,166	55,498	69,554
Profit after income tax expense for the half-year	-	-	3,126	3,126
Other comprehensive income for the half-year, net of tax	-	444	-	444
Total comprehensive income for the half-year	-	444	3,126	3,570
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 11)	-	-	(1,664)	(1,664)
Balance at 31 December 2018	<u>12,890</u>	<u>1,610</u>	<u>56,960</u>	<u>71,460</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	12,890	1,647	58,548	73,085
Adjustment for change in accounting policy (note 2)	-	-	-	-
Balance at 1 July 2019 - restated	12,890	1,647	58,548	73,085
Profit after income tax expense for the half-year	-	-	3,497	3,497
Other comprehensive income for the half-year, net of tax	-	(94)	-	(94)
Total comprehensive income for the half-year	-	(94)	3,497	3,403
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 11)	-	-	(1,783)	(1,783)
Balance at 31 December 2019	<u>12,890</u>	<u>1,553</u>	<u>60,262</u>	<u>74,705</u>

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

	Consolidated	
Note	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	43,746	38,029
Payments to suppliers and employees	(36,826)	(32,792)
	6,920	5,237
Interest received	6	6
Other revenue	(2)	-
Interest and other finance costs paid	(41)	(33)
Income taxes paid	(2,164)	(1,029)
Net cash from operating activities	4,719	4,181
Cash flows from investing activities		
Payments for property, plant and equipment	(1,754)	(1,388)
Payments for intangibles	(1,702)	(1,245)
Proceeds from disposal of property, plant and equipment	187	27
Net cash used in investing activities	(3,269)	(2,606)
Cash flows from financing activities		
Dividends paid	11 (1,783)	(1,664)
Repayment of borrowings	-	(2,214)
Net cash used in financing activities	(1,783)	(3,878)
Net decrease in cash and cash equivalents	(333)	(2,303)
Cash and cash equivalents at the beginning of the financial half-year	6,481	8,246
Effects of exchange rate changes on cash and cash equivalents	(90)	125
Cash and cash equivalents at the end of the financial half-year	6,058	6,068

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 consisting of SDI Limited (the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (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 13 February 2020. 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 2019 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 2019 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.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

The effect on 1 July 2019 of the recognition of the new right-of-use assets and lease liabilities is disclosed below.

Note 2. Significant accounting policies (continued)

	1 July 2019 \$'000
Increase in right of use assets	1,103
Increase in lease liabilities – current	(309)
Increase in lease liabilities – non-current	(794)
	<hr/>
Right-of-use assets (AASB 16) Impact on retained earnings	<hr/> <hr/> -

Note 2. Significant accounting policies (continued)

Interpretation 23 *Uncertainty over Income Tax Treatments*

The consolidated entity has adopted Interpretation 23 *Uncertainty over Income Tax Treatments* and AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatment* from 1 July 2019. The adoption of Interpretation 23 does not have a material impact on the financial statements of the consolidated entity.

Standards and Interpretations in issue not yet effective

At the date of authorisation of the consolidated financial statements, other Standards and Interpretations in issue but not yet effective were listed below.

Standard and Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
	1 January 2022	30 June 2023
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB10 & AASB128]</i> , AASB 2015-10 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>		
	1 January 2022	30 June 2023
AASB 2018-6 <i>Amendments to Australian Accounting Standards - Definition of a Business</i>		
	1 January 2022	30 June 2023
Australian Accounting Standards – <i>Definition of Material</i>		
	1 January 2022	30 June 2023
AASB 2019-1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>		
	1 January 2022	30 June 2023
AASB 2019-3 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i>		
	1 January 2022	30 June 2023
AASB 2019-5 <i>Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i>		

The Directors of the consolidated entity do not anticipate that the adoption of above amendments will have a material impact in future periods on the financial statements of the consolidated entity.

Note 2. Significant accounting policies (continued)

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

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

Reportable segments

The consolidated entity's reportable segments are as follows:

Australia:	SDI Limited and SDI Dentech Innovations Pty Ltd from 1 July 2019
Europe:	SDI Germany GmbH (Germany) and SDI Dental Innovations Limited (United Kingdom).
USA:	SDI (North America), Inc.
Brazil:	SDI Brasil Industria e Comercio 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.

Note 3. Operating segments (continued)

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 2019	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	15,380	12,835	8,855	2,893	-	39,963
Intersegment sales	11,579	2,578	-	-	-	14,157
Total sales revenue	26,959	15,413	8,855	2,893	-	54,120
Total segment revenue	26,959	15,413	8,855	2,893	-	54,120
Intersegment eliminations						(14,157)
Total revenue						39,963
Segment results before tax	5,154	722	311	(202)	-	5,985
Intersegment eliminations	1,134	-	-	-	-	1,134
Depreciation and amortisation	(1,807)	(236)	(47)	(41)	-	(2,131)
Interest revenue	2	-	1	3	-	6
Finance costs	(1)	(40)	-	-	-	(41)
Profit/(loss) before income tax expense	4,482	446	265	(240)	-	4,953
Income tax expense						(1,456)
Profit after income tax expense						3,497
Assets						
Segment assets	83,266	10,277	7,798	5,805	5	107,151
Intersegment eliminations						(17,445)
Total assets						89,706
Liabilities						
Segment liabilities	12,767	7,062	819	6,178	465	27,291
Intersegment eliminations						(12,290)
Total liabilities						15,001

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2018	Australia \$'000	Europe \$'000	USA \$'000	Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	14,289	11,573	8,841	2,346	54	37,103
Intersegment sales	13,709	-	-	-	-	13,709
Total sales revenue	27,998	11,573	8,841	2,346	54	50,812
Total segment revenue	27,998	11,573	8,841	2,346	54	50,812
Intersegment eliminations						(13,709)
Total revenue						37,103
Segment results before tax	5,976	1,158	305	421	35	7,895
Intersegment eliminations	(1,503)	-	-	-	-	(1,503)
Depreciation and amortisation	(1,812)	(21)	(40)	(43)	(3)	(1,919)
Interest revenue	6	-	-	-	-	6
Finance costs	(33)	-	-	-	-	(33)
Profit before income tax expense	2,634	1,137	265	378	32	4,446
Income tax expense						(1,320)
Profit after income tax expense						3,126
Consolidated - 30 Jun 2019						
Assets						
Segment assets	82,004	14,355	8,876	5,496	41	110,772
Intersegment eliminations						(24,173)
Total assets						86,599
Liabilities						
Segment liabilities	12,008	11,427	2,075	5,640	499	31,649
Intersegment eliminations						(18,135)
Total liabilities						13,514

Note 4. Sales revenue

	Consolidated 31 Dec 2019 \$'000	Consolidated 31 Dec 2018 \$'000
Sales revenue	39,963	37,103
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	39,963	37,103

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

Note 5. Other (loss)/gain

	Consolidated 31 Dec 2019 \$'000	31 Dec 2018 \$'000
Foreign exchange (loss)/gain	(454)	669
Net gain on disposal of property, plant and equipment	41	-
Other (loss)/gain	(413)	669

Note 6. Expenses

	Consolidated 31 Dec 2019 \$'000	31 Dec 2018 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Land and buildings	56	50
Plant and equipment	845	934
Land and buildings right-of-use assets	223	-
Total depreciation	1,124	984
<i>Amortisation</i>		
Development costs	707	694
Trademarks and licences	300	241
Total amortisation	1,007	935
Total depreciation and amortisation	2,131	1,919
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	-	2

Note 7. Earnings per share

	Consolidated 31 Dec 2019 \$'000	31 Dec 2018 \$'000
Profit after income tax attributable to the owners of SDI Limited	3,497	3,126
	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	2.94	2.63
Diluted earnings per share	2.94	2.63

Note 8. Current assets - trade and other receivables

	Consolidated 31 Dec 2019 \$'000	30 Jun 2019 \$'000
Trade receivables	13,632	17,085
Less: Allowance for expected credit losses	(400)	(394)
	<u>13,232</u>	<u>16,691</u>
Other receivables	971	1,089
	<u>14,203</u>	<u>17,780</u>

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$22,000 (31 December 2018: \$84,000) in respect of the expected credit losses for the half-year ended 31 December 2019.

Consolidated	Expected credit loss rate 31 Dec 2019 %	Carrying amount 31 Dec 2019 \$'000	Allowance for expected credit losses 31 Dec 2019 \$'000
Not overdue	0.16%	9,392	15
1 to 4 months overdue	0.16%	2,909	5
Over 4 months overdue	28.58%	1,331	380
		<u>13,632</u>	<u>400</u>

Note 9. Non-current assets - other receivables

	Consolidated 31 Dec 2019 \$'000	30 Jun 2019 \$'000
Other receivables	<u>507</u>	<u>713</u>

Note 10. Equity - issued capital

	31 Dec 2019 Shares	30 Jun 2019 Shares	Consolidated 31 Dec 2019 \$'000	30 Jun 2019 \$'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 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.

Note 11. Equity - dividends

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

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Final dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.4 cents) per ordinary share	<u>1,783</u>	<u>1,664</u>

On 13th February 2020, the Directors declared an interim franked dividend of 1.35 cents per share to be paid on 17th April 2020. This equates to a total estimated distribution of \$1,604,685 based on the number of ordinary shares on issue as at 31 December 2019. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2019 financial statements and will be recognised in subsequent financial reports.

Note 12. Fair value measurement

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

Note 13. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2019 and 30 June 2019.

Note 14. Events after the reporting period

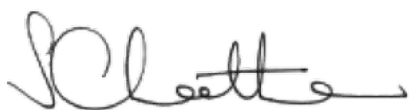
Apart from the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs 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 2019 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.

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

13 February 2020
Melbourne

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

We have reviewed the accompanying half-year financial report of SDI Limited, which comprises the consolidated statement of financial position as at 31 December 2019, 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 half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

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 gives a true and fair view and 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. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 consolidated entity's financial position as at 31 December 2019 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*. As the auditor of SDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

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 SDI Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 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*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Partner
Chartered Accountants
Melbourne, 13 February 2020