



annual report 2015



Your Smile. Our Vision.



Founded in 1972, SDI is fast becoming a world leader in specialist dental materials



Your Smile. Our Vision.

SDI Limited

ABN 27 008 075 581

Annual Report - 30 June 2015

Contents

Executive chairman's report	2
Directors' report	4
Auditor's independence declaration	16
Statement of profit or loss and other comprehensive income	17
Statement of financial position	18
Statement of changes in equity	19
Statement of cash flows	20
Notes to the financial statements	21
Directors' declaration	54
Independent auditor's report to the members of SDI Limited	55
Corporate directory	57
Shareholder information	58

Executive Chairman's Report

The 2015 financial year has demonstrated that the strategic decisions implemented by the Board and management in recent years have placed SDI in a strong financial position to enhance future growth.

The external environment is now starting to favour exporters and this along with the continued investment in infrastructure and R & D will ensure that SDI will be well placed in the future to further expand its global sales presence with market leading new products.

One of the most important recent events is that SDI's fully owned Brazilian subsidiary has been issued a licence by the Brazilian regulator, ANVISA, to manufacture in Brazil. This licence will allow SDI to further develop its Latin American markets by becoming more competitive with local manufacturers and importers. Initially SDI will use the manufacturing facility for packaging of bulk product which is made in Australia. By packing its bulk product in the Company's Brazilian facility, SDI will benefit from reduced labour costs and savings on freight and duty costs. It is also expected that the Brazilian operations will reduce its inventory levels as it can now implement a 'just in time' inventory management system. The Company expects to commence packing in early 2016.

Brazil is part of the Mercosur group, a trade group that consists of Argentina, Bolivia, Brazil, Paraguay, Uruguay, and Venezuela, including associate members, Peru, Chile, Ecuador and Columbia. SDI's products are becoming more competitive with local manufacturers and other importers in these markets. The manufacturing licence complements the other improvements that we have made to the Brazilian company where we have invested in additional experienced managers and a new national sales team. Whilst the licence has taken over 4 years to obtain, we will now be able to grow the business by becoming more price competitive. It is exciting to see that this will also be beneficial to our large customer base throughout Latin America. SDI sees this market as strategically vital to SDI in the future.

SDI's global manufacturing is centralised at its Bayswater facility in Victoria. The Company's products are highly technical and sophisticated which involve complex manufacturing processes. The facility is vertically integrated and consists of chemical and material manufacturing, injection moulding, filling and packing departments as well as inwards goods and despatch warehouses. The ongoing challenge for SDI is to fully automate the manufacturing processes. There is sufficient manufacturing space available to increase sales to approximately \$120m per annum. However, to achieve this there needs to be additional investment in machinery to continue to automate processes and introduce machinery for new products.

R & D in the past 15 years have been fully focused on non-Amalgam products. The Company's strategy of moving away from being an Amalgam branded company is beginning to take traction in the market place. The Company is starting to become less reliant on these products with the majority of the increase in sales coming from Glass Ionomer, Composite and Whitening products. SDI's new Composite product, Aura, is continuing to gain positive market acceptance with good evaluations from Key Opinion Leaders. Aura restorations are very natural in appearance utilising an innovative shade system. The introduction of Aura into the Company's product range will assist the Company increase its market share in a very large and competitive global composite market. Aura was developed in SDI's Bayswater R&D laboratories using new technology from the development of unique glass powder fillers and co-polymer reaction liquids which have produced a very low contraction material with extraordinary tooth colour matching abilities.

Another exciting new product is Riva Star, an innovative desensitising agent that supports the practise of minimal intervention dentistry. Minimal intervention dentistry is the new frontier in clinical dentistry that adopts the philosophy of integrating prevention, remineralisation and minimal intervention. This is a growing market and researchers around the world will continue to expand knowledge in this area.

In Latin America, Riva Star is also indicated as an anti-caries agent, critical in the prevention and management of tooth decay. Riva Star, when placed in a tooth cavity, has antimicrobial and re-mineralising properties to assist the preservation of the tooth structure. This product gives the dentists an opportunity to desensitise the tooth and at the same time control decay.

Riva Star is getting considerable academic and key opinion leader interest worldwide and we are continuing to work with regulatory authorities around the world to expand its usage. Riva Star has recently gained regulatory approval in Brazil.

At the 2014 AGM, I foreshadowed my retirement from the position of CEO/MD on June 30, 2016 with Ms Samantha Cheetham, currently Director of Sales and marketing, assuming those positions on July 1, 2016. The Board has decided that to ensure a smooth transition, Ms Cheetham will assume the roles of Joint CEO/MD together with me. On July 1, 2016, I will assume the role of Executive Chairman and will continue to provide the Company with the benefit of my experience as Founder of the Company and my 55 years in the dental industry.

The Board wants to ensure that a sustainable management structure is in place for the future to reflect the global nature of the Company's operations which will support its future strategic international growth. Ms Cheetham continues to have global responsibility for all sales and marketing activities and now assumes the additional responsibility of having the Australian headquarters reporting to her. Mr. Slaviero, who currently holds the position of Director of Finance, now assumes the position of Chief Operating Officer (COO) for the Australian operations and consequently, all cost centres in Australia and all global financial personnel report to him. Mr Slaviero will report to Ms Cheetham.

Strong cash flow has enabled the Company to continue to reduce debt while at the same time increase its investment in the business. In addition the Board of Directors have doubled the Company's fully franked dividend for the current financial year.

I wish to acknowledge the contribution of the Board of Directors who have advised, encouraged and assisted the management of the Company throughout the year. Additionally, I wish to express my appreciation to the Management and all staff for their efforts. I am confident that the Company is strategically structured and positioned to continue to improve in the foreseeable future.



Jeffery James Cheetham
Executive Chairman

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 2015.

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 - 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	
	2015	2014
	\$'000	\$'000
Final dividend for the year ended 30 June 2014 of 0.5 cents (2013: 0.5 cents) per ordinary share	595	595
Interim dividend for the year ended 30 June 2015 of 0.4 cents (2014: 0.2 cents) per ordinary share	475	237
	<u>1,070</u>	<u>832</u>

On the 27 August 2015 the Board of Director declared a final fully franked dividend of 1.0 cents per share which will be paid on 25 September 2015. As this final dividend was declared after 30 June 2015 the amounts are not recognised as a liability in the financial statements as at 30 June 2015. Total dividends for the financial year have increased by 0.7 cents to 1.4 cents compared to 0.7 cents for the previous year. The Directors have decided that the Company's dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for this dividend payment.

As at 30 June 2015 the company has \$5,807,612 franking credits available.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$6,200,000 (30 June 2014: \$6,467,000).

Profit before tax increased by 16.5% to \$8,700,000 (2014: \$7,469,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 15.3% to \$12,338,000 (2014: \$10,704,000).

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

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Profit after tax	6,200	6,467
Add: taxation	2,500	1,002
Add: interest expense	422	499
Less: interest income	(10)	(11)
Add: depreciation and amortisation	<u>3,226</u>	<u>2,747</u>
EBITDA	<u><u>12,338</u></u>	<u><u>10,704</u></u>

Earnings per share for the financial year decreased by 0.22 cents to 5.22 cents (2014: 5.44 cents).

Sales reported in Australian dollars for the financial year increased by 5.1% to \$68,655,000 (2014: \$65,330,000). The consolidated entity exports approximately 90% of its products and when adjusted for currency movements, sales increased by 1.8%.

Australian Domestic sales increased by 12.9%. This market is high quality and sophisticated with dentists showing a willingness to embrace innovation and technology. Sales of Glass Ionomer, Whitening and Composite products have increased with Amalgam products showing little to no growth.

In Australian dollars, Australian direct exports showed a 3.4% growth, however when adjusted for currency movements it declined by 5.9%. These export markets include Latin America, Africa, Asia and the Middle East. A wide discrepancy exists between the socio-economic groupings in a vast range of countries. In these markets there is a growing demand for quality dental care and products compared to lower quality locally manufactured products. Amalgam products represent a large proportion of sales in these markets and there is a growing trend showing a move to Composite and Glass Ionomer products. The decrease in sales was primarily the result of the reduction from Government tenders in the Middle Eastern and Latin American markets together with the loss of the Venezuelan market due to the country's political and economic situation.

North American sales in local currency increased 2.1%. USA and Canada are highly advanced and well developed markets. They continue to show demand for new and innovative products. This large market consists of a high dentate population which demands advanced dental care. This market is becoming more price-competitive with the growth of dental group practices and corporates. With the continuing training and restructuring of the sales force, the consolidated entity is becoming more competitive in this market.

Sales in Europe increased by 1.7% in local currency. This market consists of many different geographic dynamics. Sales were materially affected by the poor result of the UK operations. This was primarily the result of large corporate customer mergers which in turn resulted in their stock requirements reducing. It is expected that sales will increase in this market once UK customers get back to normalised ordering patterns. The recent restructure of the European operations is expected to show positive results in the next 12 months. Management is continuing to place greater emphasis on the expanding dental care program of the Eastern European market.

Brazilian sales increased by 10.9% in local currency. This is a low socio-economic market with a large dental population. The market consists of low priced local manufacturers and high barriers to entry for importers. The majority of this year's growth was driven by the increase in sales of Composite and Glass Ionomer products. Good Manufacturing Practice ('GMP') approval to manufacture and pack goods in Brazil is now finalised and the consolidated entity has now received official approval from the Brazilian Government authority ('ANVISA'). The devaluation of the Brazilian Real has continued to have adverse effects on the consolidated results. Now that the packing licence has been granted, SDI is confident it can counteract this to some extent with lower labour cost and savings on freight and duty. Brazil is a difficult country to operate in but it is vital for SDI's growth strategy for selling into other South American markets.

The consolidated entity's global manufacturing is centralised at its Bayswater facility in Victoria, Australia. SDI's products are highly technical and sophisticated which involve complex manufacturing processes. The facility is vertically integrated and consists of chemical and material manufacturing, injection moulding, filling and packing departments as well as inwards goods and despatch warehouses. The ongoing challenge for SDI is to fully automate the manufacturing processes. There is sufficient manufacturing space available to increase sales to approximately \$120,000,000 per annum however, to achieve this there needs to be additional investment in machinery to continue to automate processes and facilitate machinery for new products.

Operating expenses in Australian dollars increased by 1.8% compared to the previous year. Approximately 58% of the total operating expenses relate to its offshore subsidiaries and are subject to currency movements when reporting in Australian dollars. When adjusted for currency movements expenses increased by 0.9%.

SDI employs chemists who have specific expertise in various product groups. The R&D facility is equipped with state of the art equipment which assists the team to develop new high technology products as well as continue to improve the existing product range. Currently, the R&D team is actively working on projects to further develop superior Glass Ionomer and Composite restoratives improving the adhesive cement range and tooth whitening systems. Projects typically take around one to three years to commercialise and involve stability, efficacy and extensive clinical testing. All products are classified as Class 2 devices and are subject to strict medical device control by the Therapeutic Goods Administration ('TGA'), The Food and Drug Administration ('FDA' or 'USFDA') etc. SDI has an in house regulatory affairs department which is responsible for ensuring that worldwide registrations are approved. Regulatory approvals can take, in some countries, up to two years to achieve.

SDI is globally well known for its high quality Amalgam products. The consolidated entity's strategy of moving away from being an Amalgam branded company is starting to take traction in the market place. R&D in the past 15 years has been fully focused on non-Amalgam products. The consolidated entity is starting to become less reliant on these products with the majority of the increase in sales coming from Glass Ionomer, Composite and Whitening products.

The consolidated entity's total cash holdings as at the reporting date increased by \$1,043,000 after decreasing debt by \$1,461,000 and increasing inventories by \$2,199,000. The increase in inventories was predominately due to the bulk purchase of materials from overseas suppliers which have long lead times. Expenditure on plant and equipment was \$2,889,000 and intangibles were \$1,808,000 which included expenditure on R&D, patents and trademarks. The consolidated entity has completed the refurbishment of its composite manufacturing facility at a cost of \$500,000. This manufacturing facility is now world class and will cater for new composite products and will increase productivity of its existing composite products. The long overdue upgrading of SDI's North American and European sales and distribution centres to bring them up to medical device and competitor standard was also completed at a cost of \$400,000. SDI will continue to invest approximately \$2,000,000 in the plant and equipment to continue the automation of its production facility and to cater for additional machinery required for new products.

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

The groups Brazilian operation received Good Manufacturing Practices ('GMP') license to manufacture and pack goods in Brazil in August 2015.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2015 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 financial year or since 30 June 2015.

Information on Directors

Name: Jeffery James Cheetham O.A.M
Title: Executive Chairman and Managing Director
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: Executive Director
Qualifications: B.Bus (Banking and Finance), M.B.A
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 and Company Secretary
Qualifications: B.Bus (Acct), CPA, F.T.M.A.
Experience and expertise: John has been the Chief Financial Officer and Company Secretary of SDI Limited for over 10 years and has over 30 years of 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, M.B.A, Master of Science (London University), PhD (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 IPO listings including Australian Hospital Care, Sigma Pharmaceuticals 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: 212,716 ordinary shares held indirectly

Name: Cameron Neil Allen
Title: Non-Executive Director
Qualifications: Master of Taxation degree (University of Melbourne), B. Bus (Acct) (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, 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: 20,000 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 2015, 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	9	9	2	2	-	-
Samantha Jane Cheetham	9	9	-	-	-	-
John Joseph Slaviero	9	9	-	-	-	-
Dr Geoffrey Macdonald Knight	9	9	2	2	2	2
Gerald Allan Bullon	8	9	2	2	2	2
Cameron Neil Allen	9	9	2	2	2	2
Gerard Desmond Kennedy	7	9	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 key management personnel

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 conforms 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.

From the information supplied by the external remuneration consultant (refer to the section 'Use of remuneration consultants' below), the Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. The framework reflects:

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses 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
- attracts and retains high calibre executives.

Alignment to program participants' interests:

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

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

Non-Executive Directors remuneration

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

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 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 with a level and mix of remuneration based on their position and responsibility, 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.

Use of remuneration consultants

During the financial year ended 30 June 2015, the consolidated entity engaged a remuneration consultant to review its existing remuneration policies and provide comparative analysis on the KMP of the consolidated entity.

The independent remuneration consultant conducted:

- comparative analysis and review of comparable remuneration practices across a sample of the specific industry companies; and
- a high level, comparative analysis and review of market performance across a sample of specific industry companies.

The analysis included:

- 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.

The remuneration consultant provided a report to the Remuneration Committee for it to determine whether the executive remuneration was both fair and sufficient. The report did not provide any specific recommendations. The Non-Executive members of the Remuneration Committee are satisfied that protocols were sufficiently in place to ensure that the services provided were free from influence from KMP.

Voting and comments made at the Company's 2014 Annual General Meeting ('AGM')

At the 2014 AGM, 23% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2014 resulting in a '1st strike'. The Company continues to engage the services of a remuneration consultant but 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	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Employee benefits	Equity-settled	
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
	<u>1,340,744</u>	<u>123,311</u>	<u>161,329</u>	<u>133,623</u>	<u>19,218</u>	<u>-</u>	<u>1,778,225</u>

2014	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Incentive plans	Non-monetary	Super-annuation	Employee benefits	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Dr G M Knight *	27,460	-	-	2,540	-	-	30,000
G A Bullon *	33,468	-	-	3,096	-	-	36,564
C N Allen *	33,333	-	-	-	-	-	33,333
G D Kennedy *	27,460	-	-	2,540	-	-	30,000
J N Isaac **	17,043	-	-	1,576	-	-	18,619
S J Molver **	2,924	-	-	7,715	-	-	10,639
I F Scholes **	3,340	-	-	309	-	-	3,649
J R Paterson **	3,058	-	-	283	-	-	3,341
<i>Executive Directors:</i>							
J J Cheetham	439,775	103,958	82,017	45,487	7,329	-	678,566
S J Cheetham	359,167	71,833	30,016	36,545	5,986	-	503,547
J J Slaviero ***	318,253	63,651	40,977	35,997	5,304	-	464,182
	1,265,281	239,442	153,010	136,088	18,619	-	1,812,440

* Remuneration is for the period from the date of appointment as a Director

** Remuneration is for the period up to the date of resignation as a Director

*** Remuneration is for the whole year and includes remuneration as other KMP before appointment as a Director

During the financial year ending 30 June 2014 the following persons ceased being a director:

J N Isaac - 4 October 2013, S J Molver - 4 October 2013, I F Scholes - 2 August 2013 & J R Paterson - 30 July 2013.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2015	2014	2015	2014	2015	2014
<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%	-%	-%	-%	-%
J N Isaac	-%	100%	-%	-%	-%	-%
S J Molver	-%	100%	-%	-%	-%	-%
I F Scholes	-%	100%	-%	-%	-%	-%
J R Paterson	-%	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 2015.

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 2015.

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 2015.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2015 are summarised below:

	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000
Sales revenue and other income	68,881	65,444	57,357	56,681	54,981
Profit before income tax	8,700	7,469	5,840	2,201	1,362
Profit after income tax	6,200	6,467	4,690	1,967	1,206

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

	2015	2014	2013	2012	2011
Share price at financial year end (\$)	0.50	0.43	0.51	0.11	0.17
Total dividends declared (cents per share)	1.40	0.70	0.50	0.30	0.20
Basic earnings per share (cents per share)	5.22	5.44	3.95	1.70	1.00
Diluted earnings per share (cents per share)	5.22	5.44	3.95	1.70	1.00

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'KMP equity instrument disclosures', the following disclosure relates only to equity instruments in the Company or its subsidiaries.

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	1,029,306	-	252,000	-	1,281,306
G A Bullon	160,716	-	52,000	-	212,716
G D Kennedy	20,000	-	-	-	20,000
	<u>56,042,231</u>	<u>-</u>	<u>304,000</u>	<u>-</u>	<u>56,346,231</u>

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 2015 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 25 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 25 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 Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

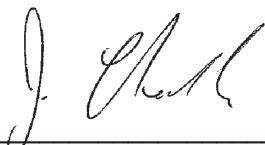
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

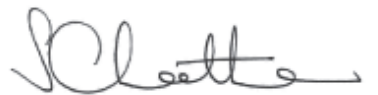
Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

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



Jeffery James Cheetham
Executive Chairman and Joint Managing Director



Samantha Jane Cheetham
Joint Managing Director

30 September 2015
Melbourne

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

30 September 2015

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 2015, 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.

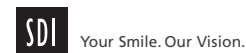
Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU


Craig Bryson
Partner
Chartered Accountants

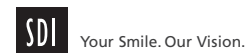
SDI Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2015



	Note	Consolidated 2015 \$'000	2014 \$'000
Revenue			
Sales revenue		68,655	65,330
Cost of goods sold		<u>(29,182)</u>	<u>(27,052)</u>
Gross profit		<u>39,473</u>	<u>38,278</u>
Other income	5	226	114
Expenses			
Selling and administration expenses		(29,000)	(28,545)
Research and development costs		(550)	(415)
Other expenses		(1,027)	(1,464)
Finance costs	6	<u>(422)</u>	<u>(499)</u>
Profit before income tax expense		8,700	7,469
Income tax expense	7	<u>(2,500)</u>	<u>(1,002)</u>
Profit after income tax expense for the year attributable to the owners of SDI Limited		6,200	6,467
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		1	497
Exchange differences arising on translation of foreign controlled entities		<u>885</u>	<u>(39)</u>
Other comprehensive income for the year, net of tax		<u>886</u>	<u>458</u>
Total comprehensive income for the year attributable to the owners of SDI Limited		<u><u>7,086</u></u>	<u><u>6,925</u></u>
		Cents	Cents
Basic earnings per share	33	5.22	5.44
Diluted earnings per share	33	5.22	5.44

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

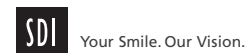
SDI Limited
Statement of financial position
As at 30 June 2015



	Note	Consolidated 2015 \$'000	2014 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	5,037	3,994
Trade and other receivables	9	12,866	11,897
Inventories	10	16,568	14,369
Derivative financial instruments	11	54	51
Prepayments		1,822	2,116
Total current assets		<u>36,347</u>	<u>32,427</u>
Non-current assets			
Property, plant and equipment	12	18,555	17,867
Intangibles	13	21,030	20,303
Deferred tax asset	14	3,233	3,359
Total non-current assets		<u>42,818</u>	<u>41,529</u>
Total assets		<u>79,165</u>	<u>73,956</u>
Liabilities			
Current liabilities			
Trade and other payables	15	5,415	4,669
Borrowings	16	3,676	4,627
Provision for income tax		322	893
Employee benefits		3,202	3,025
Warranty provision		-	50
Total current liabilities		<u>12,615</u>	<u>13,264</u>
Non-current liabilities			
Borrowings	17	3,438	3,890
Deferred tax liability	18	4,893	4,582
Employee benefits		128	145
Total non-current liabilities		<u>8,459</u>	<u>8,617</u>
Total liabilities		<u>21,074</u>	<u>21,881</u>
Net assets		<u>58,091</u>	<u>52,075</u>
Equity			
Issued capital	19	12,890	12,890
Reserves	20	1,170	284
Retained profits		44,031	38,901
Total equity		<u>58,091</u>	<u>52,075</u>

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

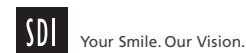
SDI Limited
Statement of changes in equity
For the year ended 30 June 2015



Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2013	12,890	(174)	33,266	45,982
Profit after income tax expense for the year	-	-	6,467	6,467
Other comprehensive income for the year, net of tax	-	458	-	458
Total comprehensive income for the year	-	458	6,467	6,925
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 21)	-	-	(832)	(832)
Balance at 30 June 2014	<u>12,890</u>	<u>284</u>	<u>38,901</u>	<u>52,075</u>
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 21)	-	-	(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>

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

SDI Limited
Statement of cash flows
For the year ended 30 June 2015



	Note	Consolidated	
		2015 \$'000	2014 \$'000
Cash flows from operating activities			
Receipts from customers		67,686	64,284
Payments to suppliers and employees		(57,093)	(54,453)
		10,593	9,831
Interest received		-	11
Other revenue		161	92
Interest and other finance costs paid		(422)	(499)
Income taxes paid		(2,634)	(1,793)
Net cash from operating activities	32	7,698	7,642
Cash flows from investing activities			
Payments for property, plant and equipment	12	(2,889)	(3,138)
Payments for intangibles	13	(1,808)	(1,926)
Proceeds from disposal of property, plant and equipment		121	22
Net cash used in investing activities		(4,576)	(5,042)
Cash flows from financing activities			
Proceeds from borrowings		6,132	8,328
Dividends paid	21	(1,070)	(832)
Repayment of borrowings		(7,593)	(9,738)
Net cash used in financing activities		(2,531)	(2,242)
Net increase in cash and cash equivalents		591	358
Cash and cash equivalents at the beginning of the financial year		3,994	3,675
Effects of exchange rate changes on cash and cash equivalents		452	(39)
Cash and cash equivalents at the end of the financial year	8	5,037	3,994

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 and its subsidiaries. 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 30 September 2015. 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 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. These standards are as follows:

AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'

AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'

AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)

AASB 1031 'Materiality', AASB 2013-9 'Amendments to Australian Accounting Standards' – Conceptual Framework, Materiality and Financial Instruments' (Part B: Materiality), AASB 2014-1 'Amendments to Australian Accounting Standards' (Part C: Materiality)

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Note 2. Significant accounting policies (continued)

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SDI Limited ('Company' or 'parent entity') as at 30 June 2015 and the results of all subsidiaries for the year then ended. SDI Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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.

Operating segments

Operating segments are determined using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

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.

Note 2. Significant accounting policies (continued)

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.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

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 expensed to profit or loss when incurred, unless the criteria for capitalisation as an intangible asset has been satisfied (refer to Intangible Assets - 'Development'). Expensing of development costs occurs where it cannot be demonstrated that it is probable that the expenditure results in the control of future economic benefits.

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.

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.

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.

Note 2. Significant accounting policies (continued)

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 - 60 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 reorganisation and default or delinquency in payments (more than 60 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.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of 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.

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.

Property, plant and equipment

Land and buildings are shown at historical cost less accumulated depreciation.

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.

Note 2. Significant accounting policies (continued)

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.

Leases

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

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

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

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

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

Intangible assets

Intangible assets acquired are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. 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.

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. 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 to more than one accounting 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 useful life of up to 10 years.

Note 2. Significant accounting policies (continued)

Impairment of non-financial assets

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

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

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.

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.

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.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Note 2. Significant accounting policies (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

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.

Dividends

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

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.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Comparatives in the statement of profit or loss and other comprehensive income and statement of financial position have been realigned with the current period presentation. There has been no effect on the loss for the comparative year or net assets of the consolidated entity.

Note 2. Significant accounting policies (continued)

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace 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' ('ECL') model to recognise an allowance. The consolidated entity will adopt this standard from 1 July 2018 but 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 2017 (however Exposure Draft ED263 'Effective Date of AASB 15' proposes to defer the application date by one year to 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 standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. It is expected that the consolidated entity expects to adopt this standard from 1 July 2018 (presuming ED 263 is passed) and the impact on the consolidated entity has yet to be assessed by management.

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 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)

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position. In particular, the consolidated entity considers any change in the credit quality of the trade receivable from the date that credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customers being small and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

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 other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible 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.

Recovery of deferred tax assets

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

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 above are 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.

Note 4. Operating segments (continued)

Based on 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 the segment, inter-segment eliminations / unallocated 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 available and the cost to develop such information would be excessive.

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 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.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2015	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Inter-segment eliminations/ unallocated \$'000	Total \$'000
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	(33,888)	68,655
Total revenue	47,260	29,694	19,689	5,900	(33,888)	68,655
Segment results before tax	11,100	2,303	1,234	(188)	(2,111)	12,338
Depreciation and amortisation	(2,890)	(204)	(39)	(82)	(11)	(3,226)
Interest revenue	-	-	-	-	10	10
Finance costs	-	-	-	-	(422)	(422)
Profit/(loss) before income tax expense	8,210	2,099	1,195	(270)	(2,534)	8,700
Income tax expense						(2,500)
Profit after income tax expense						6,200
Assets						
Segment assets	70,427	7,924	8,878	5,494	(14,260)	78,463
<i>Unallocated assets:</i>						
Deferred tax asset						702
Total assets						79,165
Liabilities						
Segment liabilities	18,678	4,331	994	4,866	(7,795)	21,074
Total liabilities						21,074

Note 4. Operating segments (continued)

Consolidated - 2014	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Inter-segment eliminations/ unallocated \$'000	Total \$'000
Revenue						
Sales to external customers	22,418	19,510	17,643	5,650	109	65,330
Intersegment sales	21,336	10,939	-	-	(32,275)	-
Total sales revenue	43,754	30,449	17,643	5,650	(32,166)	65,330
Total revenue	43,754	30,449	17,643	5,650	(32,166)	65,330
Segment result before tax	9,697	1,870	923	(759)	(1,025)	10,706
Depreciation and amortisation	(2,604)	(61)	(16)	(65)	(3)	(2,749)
Interest revenue	-	-	-	-	11	11
Finance costs	-	-	-	-	(499)	(499)
Profit/(loss) before income tax expense	7,093	1,809	907	(824)	(1,516)	7,469
Income tax expense						(1,002)
Profit after income tax expense						6,467
Assets						
Segment assets	66,445	7,618	6,185	6,350	(13,310)	73,288
<i>Unallocated assets:</i>						
Deferred tax asset						668
Total assets						73,956
Liabilities						
Segment liabilities	19,695	3,535	358	5,325	(7,032)	21,881
Total liabilities						21,881

Note 5. Other income

	Consolidated	
	2015	2014
	\$'000	\$'000
Net foreign exchange gain	115	-
Net gain on disposal of property, plant and equipment	65	-
Interest revenue	10	11
Other income	36	103
Other income	226	114

Note 6. Expenses

	Consolidated	
	2015	2014
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Land and buildings	114	109
Plant and equipment	2,031	1,664
Total depreciation	<u>2,145</u>	<u>1,773</u>
<i>Amortisation</i>		
Development costs	863	749
Intellectual property	218	225
Total amortisation	<u>1,081</u>	<u>974</u>
Total depreciation and amortisation	<u>3,226</u>	<u>2,747</u>
<i>Employee benefit expense</i>		
Employee costs other than superannuation expense	23,585	21,116
Superannuation expenses	1,317	1,210
Total employee benefit expense	<u>24,902</u>	<u>22,326</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	422	499
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	1,317	1,210
<i>Other</i>		
Foreign exchange loss	-	368
Bad and doubtful debts	34	109
	<u>34</u>	<u>477</u>

Note 7. Income tax expense

	Consolidated	
	2015	2014
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	1,529	1,678
Deferred tax - origination and reversal of temporary differences	437	(487)
Adjustment recognised for prior periods	534	(189)
	<u>2,500</u>	<u>1,002</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 14)	126	(267)
Increase/(decrease) in deferred tax liabilities (note 18)	311	(220)
	<u>437</u>	<u>(487)</u>
Deferred tax - origination and reversal of temporary differences		
	<u>437</u>	<u>(487)</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	8,700	7,469
Tax at the statutory tax rate of 30%	2,610	2,241
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development concession	(491)	(1,086)
Other deductible items	(46)	(45)
Sundry items	68	38
	<u>2,141</u>	<u>1,148</u>
Adjustment recognised for prior periods	534	(189)
Difference in overseas tax rates	(175)	43
	<u>(175)</u>	<u>43</u>
Income tax expense	<u>2,500</u>	<u>1,002</u>

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2015	2014
	\$'000	\$'000
Cash at bank and on hand	<u>5,037</u>	<u>3,994</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	2015	2014
	\$'000	\$'000
Trade receivables	12,683	11,499
Less: Provision for impairment of receivables	(143)	(219)
	<u>12,540</u>	<u>11,280</u>
Other receivables	<u>326</u>	<u>617</u>
	<u>12,866</u>	<u>11,897</u>

Note 9. Current assets - trade and other receivables (continued)

Impairment of receivables

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Over 2 months past due	143	219

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Opening balance	219	103
Additional provisions recognised	-	116
Receivables written off during the year as uncollectable	(76)	-
Closing balance	143	219

As at 30 June 2015 there were no material balances in existence that are considered to be past due that have not already been provided for. The consolidated entity has provided for doubtful debts of \$143,000 to cover overdue payments ranging from 61 days to 2 years.

Note 10. Current assets - inventories

	Consolidated	
	2015	2014
	\$'000	\$'000
Raw materials - at cost	8,748	7,158
Finished goods - at cost	8,032	8,001
Less: Provision for inventory obsolescence	(212)	(790)
	16,568	14,369

The majority of FY 2014 Provision for inventory obsolescence was written off against inventory. No reversal of the inventory provision was made during the year.

Note 11. Current assets - derivative financial instruments

	Consolidated	
	2015	2014
	\$'000	\$'000
Forward foreign exchange contracts - Silver hedges	54	51

Refer to note 23 for further information on fair value measurement.

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Land and buildings - at cost	9,480	9,176
Less: Accumulated depreciation	(1,207)	(1,093)
	<u>8,273</u>	<u>8,083</u>
Plant and equipment - at cost	28,541	26,883
Less: Accumulated depreciation	(18,259)	(17,099)
	<u>10,282</u>	<u>9,784</u>
	<u><u>18,555</u></u>	<u><u>17,867</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	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2013	8,128	8,415	16,543
Additions	64	3,074	3,138
Disposals	-	(41)	(41)
Depreciation expense	(109)	(1,664)	(1,773)
	<u>8,083</u>	<u>9,784</u>	<u>17,867</u>
Balance at 30 June 2014	8,083	9,784	17,867
Additions	304	2,585	2,889
Disposals	-	(56)	(56)
Depreciation expense	(114)	(2,031)	(2,145)
	<u>8,273</u>	<u>10,282</u>	<u>18,555</u>
Balance at 30 June 2015	<u><u>8,273</u></u>	<u><u>10,282</u></u>	<u><u>18,555</u></u>

Property, plant and equipment secured under finance leases

Refer to note 27 for further information on property, plant and equipment secured under finance leases.

Also refer to note 17 for property, plant and equipment used as security for borrowings.

Note 13. Non-current assets - intangibles

	Consolidated	
	2015	2014
	\$'000	\$'000
Development costs - at cost *	23,311	21,725
Less: Accumulated amortisation	(6,532)	(5,669)
	<u>16,779</u>	<u>16,056</u>
Intellectual property - at cost	6,649	6,457
Less: Accumulated amortisation	(2,398)	(2,210)
	<u>4,251</u>	<u>4,247</u>
	<u><u>21,030</u></u>	<u><u>20,303</u></u>

Note 13. Non-current assets - intangibles (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	Development \$'000	Intellectual property \$'000	Total \$'000
Balance at 1 July 2013	15,273	4,078	19,351
Additions**	1,532	394	1,926
Amortisation expense	(749)	(225)	(974)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2014	16,056	4,247	20,303
Additions**	1,586	222	1,808
Amortisation expense	(863)	(218)	(1,081)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2015	<u>16,779</u>	<u>4,251</u>	<u>21,030</u>

* The above figures include Development costs in progress of \$3,709,000 (\$5,053,000 2014).

** The majority of additions are developed internally.

Impairment disclosures

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

The recoverable amount of each cash-generating unit 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 5 year period plus the terminal value. The cash flows are discounted using a discount rate of 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.

Note 14. Non-current assets - deferred tax asset

	Consolidated	
	2015	2014
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	771	767
Provisions	1,529	1,626
Elimination of profit held in stock sold to subsidiaries	702	668
Other	231	298
	<hr/>	<hr/>
Deferred tax asset	<u>3,233</u>	<u>3,359</u>
<i>Movements:</i>		
Opening balance	3,359	3,092
Credited/(charged) to profit or loss (note 7)	(126)	267
	<hr/>	<hr/>
Closing balance	<u>3,233</u>	<u>3,359</u>

Note 15. Current liabilities - trade and other payables

	Consolidated	
	2015	2014
	\$'000	\$'000
Trade payables	3,600	1,881
Other payables and accrued expenses	1,815	2,788
	<u>5,415</u>	<u>4,669</u>

Refer to note 22 for further information on financial instruments.

Note 16. Current liabilities - borrowings

	Consolidated	
	2015	2014
	\$'000	\$'000
Bank loans	3,177	4,157
Hire purchase liability	499	470
	<u>3,676</u>	<u>4,627</u>

Refer to note 17 for further information on assets pledged as security and financing arrangements.

Refer to note 22 for further information on financial instruments.

Note 17. Non-current liabilities - borrowings

	Consolidated	
	2015	2014
	\$'000	\$'000
Bank loans	3,000	3,000
Hire purchase liabilities	438	890
	<u>3,438</u>	<u>3,890</u>

Refer to note 22 for further information on financial instruments.

Total secured liabilities

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Bank loans	6,177	7,157
Hire purchase liabilities	937	1,360
	<u>7,114</u>	<u>8,517</u>

Note 17. Non-current liabilities - borrowings (continued)

Assets pledged as security

The bank loans are secured by a registered first mortgage debenture over the assets of the consolidated entity and a registered first mortgage over its freehold properties. The consolidated entity has a loan facility of \$8,000,000, an import line facility of \$2,000,000 and an export line facility of \$450,000 and an insurance premium funding facility of \$39,000. 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	
	2015	2014
	\$'000	\$'000
Freehold land and buildings	8,273	8,083
Other assets	43,749	39,425
	<u>52,022</u>	<u>47,508</u>

Financing arrangements

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

	Consolidated	
	2015	2014
	\$'000	\$'000
Total facilities		
Bank loans	<u>10,489</u>	<u>10,509</u>
Used at the reporting date		
Bank loans	<u>6,177</u>	<u>7,157</u>
Unused at the reporting date		
Bank loans	<u>4,312</u>	<u>3,352</u>

Note 18. Non-current liabilities - deferred tax liability

	Consolidated	
	2015	2014
	\$'000	\$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Prepayments	-	233
Intangible assets	4,772	4,223
Other	121	126
Deferred tax liability	<u>4,893</u>	<u>4,582</u>
<i>Movements:</i>		
Opening balance	4,582	4,802
Credited/(charged) to profit or loss (note 7)	311	(220)
Closing balance	<u>4,893</u>	<u>4,582</u>

Note 19. Equity - issued capital

	Consolidated			
	2015	2014	2015	2014
	Shares	Shares	\$'000	\$'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.

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.

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 remains unchanged from the 2014 Annual Report.

The consolidated entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the statement of financial position) less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

	Consolidated	
	2015	2014
	\$'000	\$'000
Current liabilities - borrowings (note 16)	3,676	4,627
Non-current liabilities - borrowings (note 17)	3,438	3,890
Total borrowings	<u>7,114</u>	<u>8,517</u>
Current assets - cash and cash equivalents (note 8)	(5,037)	(3,994)
Net debt	<u>2,077</u>	<u>4,523</u>
Total equity	58,091	52,075
Total capital	<u>60,168</u>	<u>56,598</u>
Gearing ratio	3%	8%

Note 20. Equity - reserves

	Consolidated	
	2015	2014
	\$'000	\$'000
Revaluation surplus reserve	272	272
Foreign currency reserve	498	(387)
Capital profits reserve	363	363
Hedging reserve - cash flow hedges	37	36
	<u>1,170</u>	<u>284</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 2013	272	(348)	363	(461)	(174)
Foreign currency translation	-	(39)	-	-	(39)
Hedging reserve - cash flow hedges	-	-	-	710	710
Deferred tax	-	-	-	(213)	(213)
	<u>272</u>	<u>(387)</u>	<u>363</u>	<u>36</u>	<u>284</u>
Balance at 30 June 2014	272	(387)	363	36	284
Foreign currency translation	-	885	-	-	885
Hedging reserve - cash flow hedges	-	-	-	1	1
	<u>272</u>	<u>498</u>	<u>363</u>	<u>37</u>	<u>1,170</u>

Note 21. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2015	2014
	\$'000	\$'000
Final dividend for the year ended 30 June 2014 of 0.5 cents (2013: 0.5 cents) per ordinary share	595	595
Interim dividend for the year ended 30 June 2015 of 0.4 cents (2014: 0.2 cents) per ordinary share	475	237
	<u>1,070</u>	<u>832</u>

On the 27 August 2015 the Board of Director declared a final fully franked dividend of 1.0 cents per share which will be paid on 25 September 2015. As this final dividend was declared after 30 June 2015 the amounts are not recognised as a liability in the financial statements as at 30 June 2015. Total dividends for the financial year have increased by 0.7 cents to 1.4 cents compared to 0.7 cents for the previous year. The Directors have decided that the Company's dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for this dividend payment.

As at 30 June 2015 the company has \$5,807,612 franking credits available.

Note 22. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate 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 22. Financial instruments (continued)

The reporting date exchange rates applied were as follows:

	Reporting date exchange rates	
	2015	2014
Australian dollars		
United States dollars	0.7703	0.9429
Euros	0.6908	0.6888
Brazilian Real	2.3975	2.0776
New Zealand dollars	1.1368	1.0770

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
US dollars	5,539	3,771	(697)	(409)
Euros	4,071	4,522	(1,150)	(1,437)
Brazilian Real	2,383	2,186	(178)	(254)
Other	16	21	(2)	(2)
	<u>12,009</u>	<u>10,500</u>	<u>(2,027)</u>	<u>(2,102)</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 - 2015	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
US dollars	10%	484	484	10%	(484)	(484)
Euros	10%	292	292	10%	(292)	(292)
Brazilian Real	10%	221	221	10%	(221)	(221)
Other	10%	1	1	10%	(1)	(1)
		<u>998</u>	<u>998</u>		<u>(998)</u>	<u>(998)</u>

Consolidated - 2014	% change	AUD strengthened Effect on		% change	AUD weakened Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
US dollars	10%	336	336	10%	(336)	(336)
Euros	10%	308	308	10%	(308)	(308)
Brazilian Real	10%	193	193	10%	(193)	(193)
Other	10%	2	2	10%	(2)	(2)
		<u>839</u>	<u>839</u>		<u>(839)</u>	<u>(839)</u>

Note 22. Financial instruments (continued)

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 through its manufacturing operations. Silver prices have fluctuated on the London Silver Exchange over recent years therefore the consolidated entity currently hedges the price it buys silver at. The consolidated entity's current practice is to use three month rolling hedges to protect its margins. Silver futures markets and economic forecasts are constantly monitored to determine whether to implement such hedges.

The fair value of forward silver contracts is disclosed in note 23.

During the financial year, the net gain/(loss) on fair value hedges recognised was \$54,000 (2014: \$51,000).

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.

Consolidated - 2015	% change	Average price increase		Average price decrease	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Silver	10%	-	5	5%	(5)
		=	=	=	=
Consolidated - 2014	% change	Average price increase		Average price decrease	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Silver	10%	-	8	10%	(8)
		=	=	=	=

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	2015		2014	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	3.91%	6,177	4.50%	7,157
Net exposure to cash flow interest rate risk		6,177		7,157

Sensitivity analysis

Note 22. Financial instruments (continued)

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 - 2015	Basis points change	Basis points increase Effect on		Basis points decrease Effect on		
		profit before tax \$'000	Effect on equity \$'000	profit before tax \$'000	Effect on equity \$'000	Effect on equity \$'000
Bank loans	50	<u>(31)</u>	<u>(31)</u>	(50)	<u>31</u>	<u>31</u>

Consolidated - 2014	Basis points change	Basis points increase Effect on		Basis points decrease Effect on		
		profit before tax \$'000	Effect on equity \$'000	profit before tax \$'000	Effect on equity \$'000	Effect on equity \$'000
Bank loans	50	<u>(36)</u>	<u>(36)</u>	(50)	<u>36</u>	<u>36</u>

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

Credit risk

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2015 \$'000	2014 \$'000
Bank loans	<u>4,312</u>	<u>3,352</u>

Note 22. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the 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 - 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	-%	-	1,382	-	-	1,382
<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		<u>3,384</u>	<u>3,996</u>	<u>1,522</u>	<u>3,595</u>	<u>12,497</u>
Consolidated - 2014						
Consolidated - 2014	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	-%	999	882	-	-	1,881
Other payables	-%	1,401	-	-	-	1,401
<i>Interest-bearing - variable</i>						
Bank loans	4.50%	669	1,548	2,277	3,270	7,764
<i>Interest-bearing - fixed rate</i>						
Hire purchase	7.60%	91	182	277	946	1,496
Total non-derivatives		<u>3,160</u>	<u>2,612</u>	<u>2,554</u>	<u>4,216</u>	<u>12,542</u>

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

Note 23. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Derivative financial asset	-	54	-	54
Total assets	-	54	-	54

Consolidated - 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Derivative financial asset	-	51	-	51
Total assets	-	51	-	51

There were no transfers between levels during the financial year.

Cash flow hedge is due to be settled within the next 3 months.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2.

Derivative contracts are marked to market using valuation techniques supported by observable market prices. The future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counterparties.

Note 24. 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	
	2015	2014
	\$	\$
Short-term employee benefits	1,625,384	1,657,733
Post-employment benefits	133,623	136,088
Long-term benefits	19,218	18,619
	<u>1,778,225</u>	<u>1,812,440</u>

Note 25. 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, its network firms and unrelated firms:

	Consolidated	
	2015	2014
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	190,245	184,200
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	25,568	68,900
Other Services	-	32,700
	<u>25,568</u>	<u>101,600</u>
	<u>215,813</u>	<u>285,800</u>
<i>Audit services of subsidiaries - network firms</i>		
Audit or review of the financial statements	-	17,921
<i>Audit services of subsidiaries - unrelated firms</i>		
Audit or review of the financial statements	<u>45,357</u>	<u>37,427</u>

Remuneration of auditors for network firms relate to the audit of subsidiaries by Deloitte Touche Tohmatsu, Brazil (2014).

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 26. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2015 and 30 June 2014.

Note 27. Commitments

	Consolidated	
	2015	2014
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	441	376
One to five years	1,111	1,054
More than five years	265	482
	1,817	1,912
	1,817	1,912
<i>Hire purchase lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	550	550
One to five years	465	946
	1,015	1,496
Total commitment	1,015	1,496
Less: Future finance charges	(78)	(137)
	937	1,359
Net commitment recognised as liabilities	937	1,359

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 \$907,000 (2014: \$975,000) 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 28. Related party transactions

Parent entity

SDI Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report in the Directors' report.

Note 28. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2015	2014
	\$	\$
Sale of goods and services:		
Sale of goods to Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	21,955	18,431
Payment for goods and services:		
Provision of consulting services by Silver Glades Pty Ltd, a company controlled by Director, Jeffery James Cheetham.	80,000	80,000
Provision of consulting services by Insor Pty Ltd, a company controlled by Director, Gerald Allan Bullon.	18,080	22,572
Provision of consulting services by WTS Australia Consulting Pty Ltd, a company controlled by Director, Cameron Neil Allen	19,250	26,976
Provision of consulting services by Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	2,538	2,214
Provision of consulting services by Director, Gerard D Kennedy.	12,500	-
Payment for other expenses:		
Payments for the lease of property owned by Silver Glades Pty Ltd, a company controlled by Director Jeffery James Cheetham.	87,188	80,000

The consolidated entity has entered into a lease with Silver Glades Pty Ltd, a company controlled by Director, Jeffery James Cheetham, for an adjoining building in Bayswater. The lease was renewed on 1 February 2015 for an additional period of three years at \$80,000 per annum plus any additional property expenses, rates etc. amounting to \$7,188.

Receivable from and payable to related parties

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

	Consolidated	
	2015	2014
	\$	\$
Current receivables:		
Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	1,600	2,197
Current payables:		
WTS Australia Consulting Pty Ltd, a company controlled by Director, Cameron Neil Allen	-	7,611
Gemko Pty Ltd, a company controlled by Director, Dr. Geoffrey Macdonald Knight.	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 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2015	2014
	\$'000	\$'000
Profit after income tax	6,067	6,103
Other comprehensive income for the year, net of tax	1	497
Total comprehensive income	6,068	6,600

Statement of financial position

	Parent	
	2015	2014
	\$'000	\$'000
Total current assets	25,602	22,569
Total non-current assets	44,823	43,876
Total assets	70,425	66,445
Total current liabilities	10,213	11,072
Total non-current liabilities	8,458	8,617
Total liabilities	18,671	19,689
Net assets	<u>51,754</u>	<u>46,756</u>
Equity		
Issued capital	12,890	12,890
Revaluation surplus reserve	272	272
Capital profits reserve	363	363
Hedging reserve - cash flow hedges	37	36
Retained profits	38,192	33,195
Total equity	<u>51,754</u>	<u>46,756</u>

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 2015 and 30 June 2014.

Contingent liabilities

The parent entity had no contingent liabilities as at as at 30 June 2015 and 30 June 2014.

Capital commitments - Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2015 and 30 June 2014.

Note 29. 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 30. 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	
		2015 %	2014 %
SDI (North America), Inc.	United States of America	100.00%	100.00%
SDI Holdings Pty Ltd	Australia	100.00%	100.00%
SDI Germany GmbH	Germany	100.00%	100.00%
SDI Brasil Industria e Comercio Ltda	Brazil	100.00%	100.00%
SDI Dental Limited	Ireland	100.00%	100.00%
SDI New Zealand Limited	New Zealand	100.00%	100.00%
SDI Italy S.r.l	Italy	100.00%	100.00%

Note 31. Events after the reporting period

The groups Brazilian operation received Good Manufacturing Practices ('GMP') license to manufacture and pack goods in Brazil in August 2015.

Apart from the dividend declared as disclosed in note 21, no other matter or circumstance has arisen since 30 June 2015 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.

Note 32. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2015	2014
	\$'000	\$'000
Profit after income tax expense for the year	6,200	6,467
Adjustments for:		
Depreciation and amortisation	3,226	2,747
Net loss/(gain) on disposal of non-current assets	(65)	19
Foreign currency differences	433	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(969)	(1,035)
Decrease/(increase) in inventories	(2,199)	866
Decrease/(increase) in deferred tax assets	126	(480)
Increase in derivative assets	(2)	-
Decrease/(increase) in prepayments	294	(847)
Increase/(decrease) in trade and other payables	804	(81)
Decrease in provision for income tax	(571)	(91)
Increase/(decrease) in deferred tax liabilities	311	(220)
Increase in employee benefits	160	-
Increase/(decrease) in other provisions	(50)	297
Net cash from operating activities	<u>7,698</u>	<u>7,642</u>

Note 33. Earnings per share

	Consolidated	
	2015	2014
	\$'000	\$'000
Profit after income tax attributable to the owners of SDI Limited	<u>6,200</u>	<u>6,467</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	5.22	5.44
Diluted earnings per share	5.22	5.44

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 2015 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.

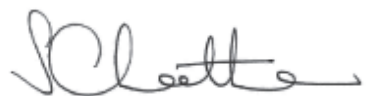
The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



Jeffrey James Cheetham
Executive Chairman and Joint Managing Director



Samantha Jane Cheetham
Joint Managing Director

30 September 2015
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 2015, 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 17 to 54.

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 2015 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 9 to 13 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants
Melbourne, 30 September 2015

Directors	Jeffery James Cheetham - Executive 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)
Company secretary	John Joseph Slaviero
Registered office	5-9 Brunsdon Street Bayswater VIC 3153 Toll free - 1800 337 003 P: (03) 8727 7111 F: (03) 8727 7222
Share register	Link Market Services Limited Level 1 333 Collins Street Melbourne VIC 3000 P: (03) 9615 9800 or 1300 554 474 F: (03) 9615 9900
Auditor	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne VIC 3000
Bankers	HSBC Bank Australia Limited Level 10 333 Collins Street Melbourne VIC 3000
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	<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 Corporate Governance Statement 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 Corporate Governance Statement and policies, that is 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 Corporate Governance Statement and an Appendix 4G will be lodged with the ASX at the same time that this Annual Report is lodged with the ASX. 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 2015.

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	198	-
1,001 to 5,000	392	-
5,001 to 10,000	175	-
10,001 to 100,000	347	-
100,001 and over	95	-
	<u>1,207</u>	<u>-</u>
Holding less than a marketable parcel	<u>163</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
CURRANGO PASTORAL COMPANY PTY LTD	50,691,328	42.65
MOLVEST PTY LTD (MOLVEST FAMILY TRUST A/C)	7,000,000	5.89
CITICORP NOMINEES PTY LIMITED (COLONIAL FIRST STATE INV A/C)	5,653,062	4.76
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,064,499	2.58
SILVERGLADES PTY LTD	2,357,829	1.98
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,215,562	1.86
GARRETT SMYTHE LTD	1,518,600	1.28
JEFFNPAM SUPERANNUATION FUND PTY LTD	1,421,085	1.20
INDCORP CONSULTING GROUP PTY LIMITED - SUPERANNUATION A/C	1,200,000	1.01
BFA SUPER PTY LTD (GDN SUPER FUND A/C)	1,194,996	1.01
DR GEOFFREY MACDONALD KNIGHT & MS ANNELI KAARINA KNIGHT (GEOFF KNIGHT S/F A/C)	1,115,790	0.94
MR GERARD JAMES VAN PAASSEN (THE VAN PAASSEN FAMILY A/C)	1,104,348	0.93
MR BRENDAN FRANCIS CARROLL	1,040,490	0.88
CHARLOTTE B PTY LTD (CHARLOTTE B SUPER FUND A/C)	1,000,000	0.84
MR DAVID WILLIAM KINGSLEY THOMAS	1,000,000	0.84
INDCORP CONSULTING GROUP PTY LTD (A & S ROBERTSON FAMILY A/C)	900,000	0.76
MR MICHAEL LAZZARIN	805,000	0.68
MR NEIL PETER GOOSEN	763,142	0.64
MDF SUPERANNUATION PTY LIMITED (MDF SUPER FUND A/C)	755,909	0.64
BRANKA NOMINEES PTY LTD	750,220	0.63
	<u>85,551,860</u>	<u>72.00</u>

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
MOLVEST PTY LTD (MOLVEST FAMILY TRUST A/C)	7,000,000	5.89

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

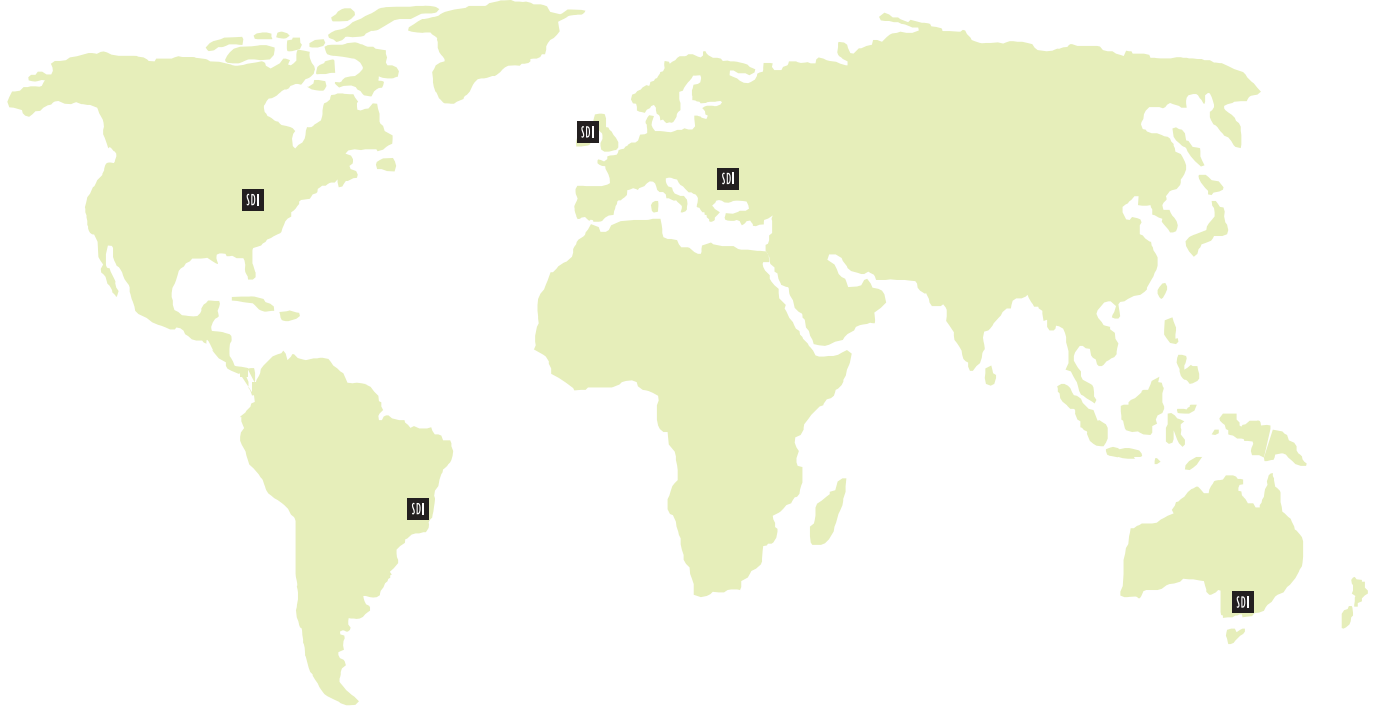
Voting rights

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

Subsidiaries

AUSTRALIA

SDI Limited
3-13 Brunsdon St
Bayswater, P.O. Box 314
Victoria, 3153, Australia
toll free 1 800 337 003
ph: +61 3 8727 7111
fax: +61 3 8727 7222
Info@sdi.com.au
www.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
D-51149, Cologne Germany
Phone +49 (0) 2203 9255 0
Fax +49 (0) 2203 9255 200
Free phone 0800 100 5759
Email: Germany@sdi.com.au

IRELAND

SDI Dental Limited
Block 8, St Johns Court
Swords Road
Santry, Dublin 9, Ireland
ph: +353 1 886 9577
fax: +353 1 886 9580
Ireland@sdi.com.au
www.sdi.com.au

NEW ZEALAND

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

USA

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

FRANCE

Free Phone: 080 002 255 734
Email: France@sdi.com.au

ITALY

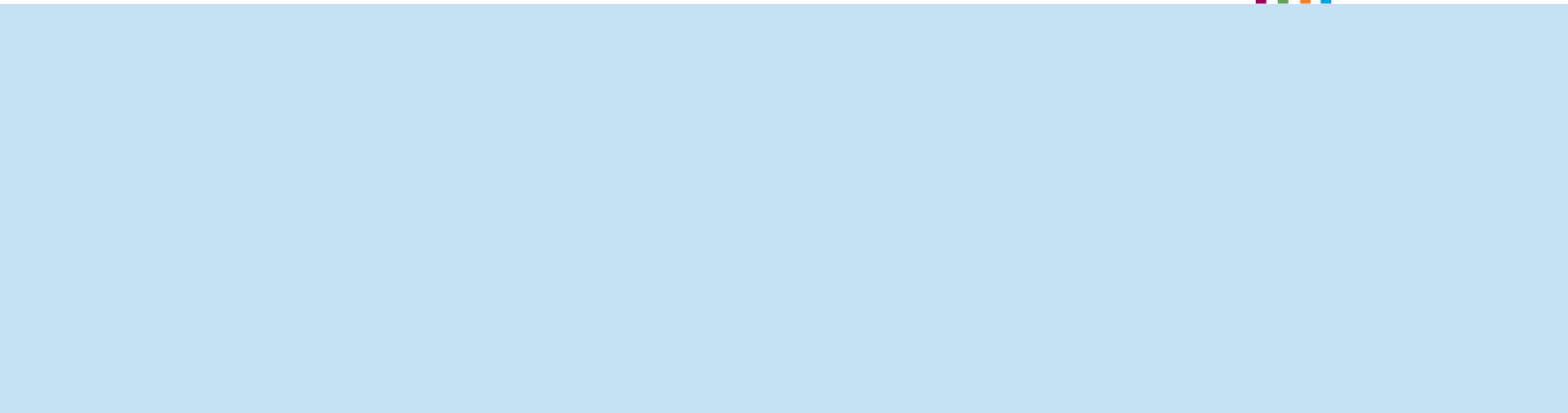
Free Phone: 800 780 625
Email: Italy@sdi.com.au

SPAIN

Free Phone: 00800 022 55 734
Email: Spain@sdi.com.au

UNITED KINGDOM

Free Phone: 00800 022 55 734
Email: UK@sdi.com.au



Your Smile. Our Vision.
www.sdi.com.au
www.polawhite.com.au

SDI Limited
AU Toll free: 1 800 337 003
Info@sdi.com.au
www.sdi.com.au