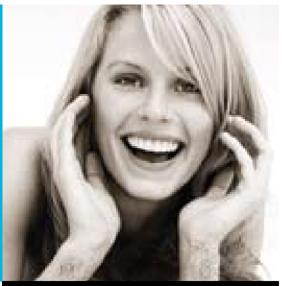


SDI

Annual Report 2007

SDI at a glance

Markets

Area	Description	Revenue
Australasia & Australian Exports	Australian and New Zealand markets, plus exports to Eastern Europe, Latin America, Middle East and Asia	$15.5m
North America	USA Subsidiary, sales representatives and dealer network in USA and Canada	$11.9m
Brazil	Brazil subsidiary, sales representatives and dealer network	$4.6m
Europe	Subsidiaries (Ireland and Germany), Tele-sales, representatives and distributors (excludes direct exports to Eastern Europe from Australia)	$16.1m
Japan	Japan subsidiary, distributors and dealers	$0.5m

527+ Distributors & Dealers

5 SDI Subsidiary Companies

SDI Brasil Industria e Comercio Ltda - São Paulo, Brazil

SDI Co. Ltd. - Tokyo, Japan

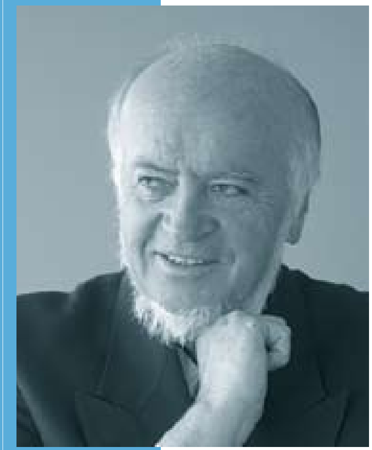
SDI Dental Limited - Dublin, Ireland

SDI (North America), Inc. - Chicago, USA

Southern Dental Industries GmbH - Cologne, Germany

95% of our products are exported to over 100 countries worldwide. SDI is represented in all key markets by either distributors and/or dealers, with SDI offices positioned to support existing networks as well as future growth opportunities.

SDI Limited - ABN 27 008 075 581



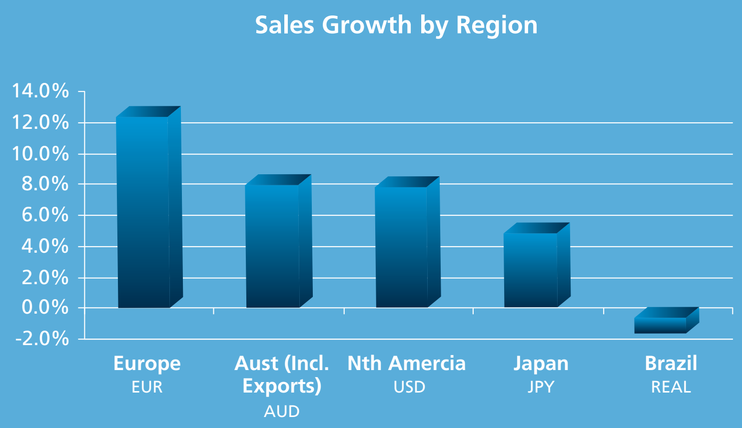
Chairman and Managing Director's Report

Whilst the Board of Directors and Management of SDI were disappointed with the after tax profit result of $4.1m, it should be seen in light of the effects of the USD currency movement, particularly during the second half of the year. The combined effects of unrealised currency losses, the slower rollout of Riva and the sales smoothing strategy have collectively reduced NPAT by approximately $1.9m.

This disappointing financial result however does not reflect the substantial operational improvements achieved throughout the year. The Company has strengthened its platform for future growth in both sales and profit across all departments. SDI is confident that its internal 'health' indicators are now high, ensuring that it is capable of providing a solid base for long term growth. The Management is committed to continual improvements in the following areas:

- Product improvement/quality
- Global sales and marketing structure
- Production automation and process improvement
- Strategic planning
- R&D product development
- Working capital efficiency

Management considered that 2007's overall sales growth of 7.5% was at the lower end of expectations. However, individual regional sales, expressed in local currencies (see graph below), shows Europe's results were within SDI's expectations. The other regions will be targeted for improvement in the coming year. Brazil's sales were particularly disappointing due to the impact of supply problems. However improvements in logistics as well as the appointment of a local Finance and Administration Manager will ensure that similar problems do not re-occur.



Management's strategy of improving working capital in 2007 by reducing inventories and accounts receivable has resulted in increasing cash by $2.0m and reducing debt by $2.6m. Management will continue to concentrate on improving working capital to ensure that the Company's assets are being utilised to their best effect.

Manufacturing

SDI has strongly focussed its attention this year on product quality improvements, prior to launching products into its global distribution network. The Company has concentrated its efforts into product and process improvements across all product ranges, especially Riva, the glass ionomer cement range. Manufacturing lead times have shortened and quality has improved.

Manufacturing capacity upgrades have continued in most departments ensuring the Company can consistently meet sales requirements. The continued automation of production lines, such as new filling lines, introduces a large number of efficiencies, including flow-on production cost reductions as well as enabling the maintenance of lower inventories. The purchase of an additional adjacent site in FY 2007 has guaranteed the availability of satisfactory manufacturing space for future needs. In the next calendar year the Company expects to complete the work on a new 1200 sq metre Aesthetics factory for the manufacture of Composite and related products. This will allow for the introduction of new equipment and processes to give greater capacity and the opportunity of establishing better production flows, both of which will lead to lower inventory holdings and unit cost reduction.

Sales and Marketing

SDI's strategy of building its existing distribution network is continuing, with the focus on increasing SDI sales executives in North America and Europe, as well as venturing into relatively new markets such as India.

The recent appointment of a new Marketing Manager will assist in strengthening global customer relationships, increase global brand awareness and lift the overall Company image across all markets.

Europe

Europe is SDI's largest sales area and has significant growth potential as evidenced by this year's results.

The recent appointment of a new Eastern European Regional Manager, based in Prague, will enhance SDI's distribution network in this important growth area.

Germany is one of the largest dental product markets in Europe. SDI has recently increased its sales force in this country to increase its share of a very highly profitable market. In addition, SDI will soon appoint a sales executive in Austria where the Company now sells directly to dealers.

A new European Zone Distributor Manager will be appointed in 2007. The role of this executive will be to further develop sales to EU distributors. Priority is to build on the sales presence in existing strong markets and having more SDI people 'on the ground' will help distributors to grow their sales.

Asia

The Company recently appointed a new country manager for India, based in Mumbai, who has strong dental industry experience and whose role will be to work with the existing distributor to assist the growth of SDI sales in that country.

North America

The Company's sales force in North America, SDI's second largest region for sales, has been expanded by the addition of more territory sales executives both in the USA and in Canada.

Brazil

SDI has employed a number of qualified people to assist the sales force by demonstrating the use of products to dentists and actively facilitating trials of SDI products. The Company is now well represented nationally in Brazil with over 30 employees, mainly sales related, and selling to over 50 dealer companies.

Japan

While it is a slow process, the Company is gradually achieving greater penetration into this market. The appointment of an additional employee to assist with regulatory issues in Japan has resulted in SDI products being registered in a much shorter time frame. With the majority of current products, including Riva, now registered, additional sales executives will be employed nationally to increase SDI's market share in this country.

Research and Development

New products continue to be a major part of the Company's strategy. SDI's research and development programs ensure that existing products are further refined to improve quality and gain market acceptance.

Following extensive stability testing, **Go!**, a new seventh generation adhesive material (www.sdi.com.au/go), was successfully released in the last quarter of FY 2007 and is being well accepted by the market to date. This adhesive is supplied in a novel, single-use delivery system and a bottle system, which allows the dental practitioner to skip the traditional acid etching of the tooth surface prior to bonding. Ongoing R&D into newer improved adhesives continues and SDI's knowledge of adhesive materials, packaging and stability will enable the Company to continue to successfully compete in this market. The development of SDI's single-use system can also be utilised for the delivery of other materials and its production is now fully automated.

Extensive stability testing of **seT**, a new self-etching adhesive resin, has recently been completed and will be released into the global markets later this year. Manufacturing infrastructure for **seT** is already established to meet any level of sales demand.

Development of the new **Riva** capsule system, together with the introduction of improved high speed manufacturing processes for all parts of this complex product, have been completed. These products are reactive and are often very sensitive to environmental conditions. Considerable research and development was done in the last year to increase the stability of materials in the new capsule system. This has resulted in a Riva range of products which have excellent stability that is equal to or better than SDI's competitors. Programs for the constant improvement of the current Riva product range continue and this will ensure delivery of future products. Other accessory products for Riva are due for release in FY 2008.

Ongoing investigation into glass materials and glass manufacturing has strengthened this emerging part of the Company's business of suppling high purity, ultra fine, speciality glass powders for internal use and to a growing external market. This investment has ensured that the Company can meet current and future requirements for quality glass fillers and other associated products.

The very successful Pola tooth whitening range of products will be further strengthened later this year with the release of a new addition to this product group.

The R&D team continues to develop and assess a pipeline of new materials, based on existing technology, which will be released globally over the next 1-3 years. Significant investment into the R&D pilot plant and characterisation equipment has allowed SDI's chemists to explore new types and classes of materials and associated components. This equipment will enable new technologies for the development of new products and hence new markets through the creation of a variety of existing and future reactive products to be stored in non-refrigerated conditions.

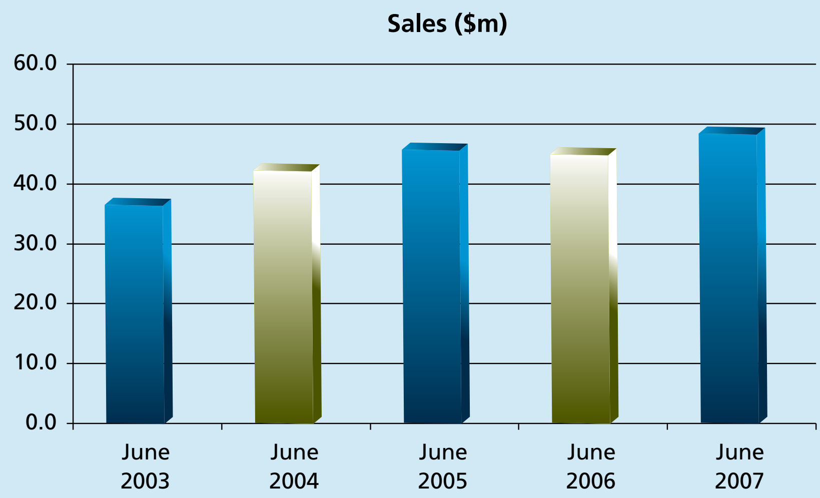
The Future

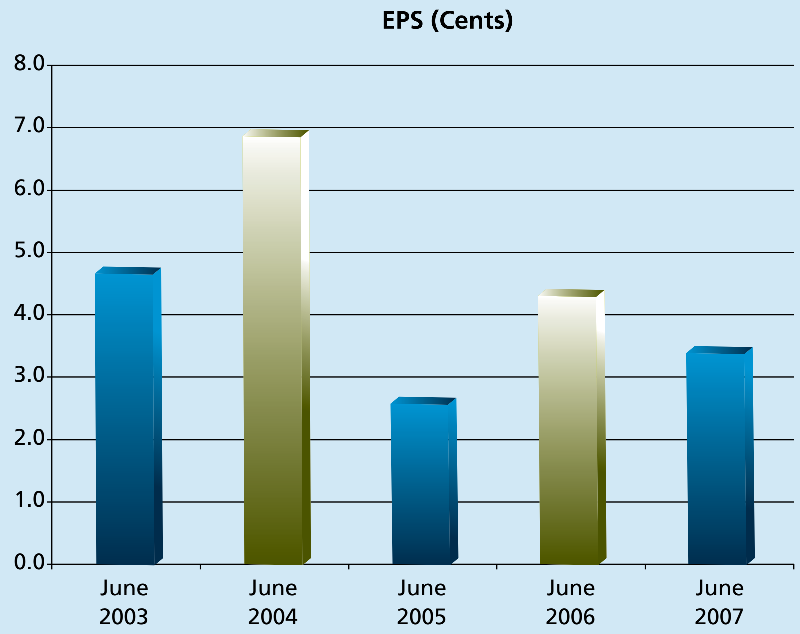
2007 was very much a year where SDI fine-tuned its business processes and set in train plans for growth via a number of marketing initiatives. It is anticipated that results from these processes and initiatives will materialise within a 12/18-month time frame and there are some early positive signs in this regard. Accordingly, the Company is targeting future sales growth of 10-15% per year. The challenge in the coming year is to use the improved internal platform to give both top and bottom line growth.

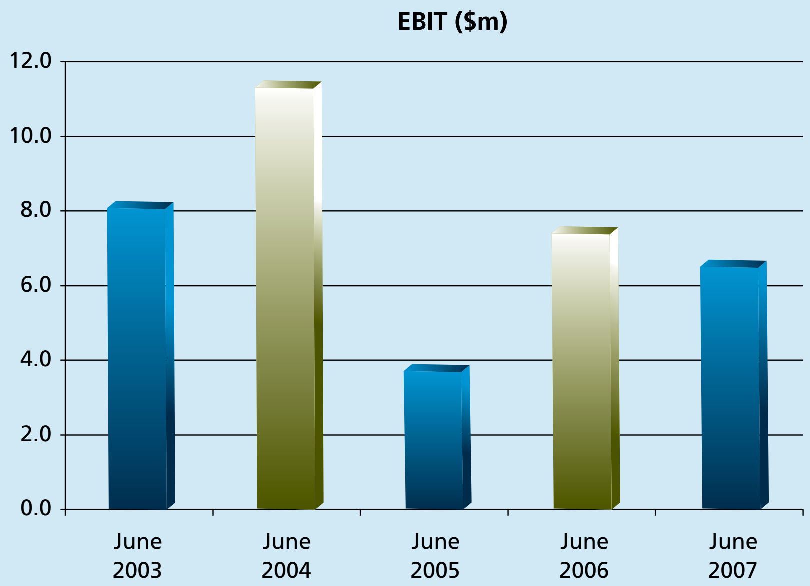
In conclusion, the Board of Directors would like to take this opportunity of thanking the senior management team and all staff for their efforts through this period.

Anthony J Bardsley
Chairman

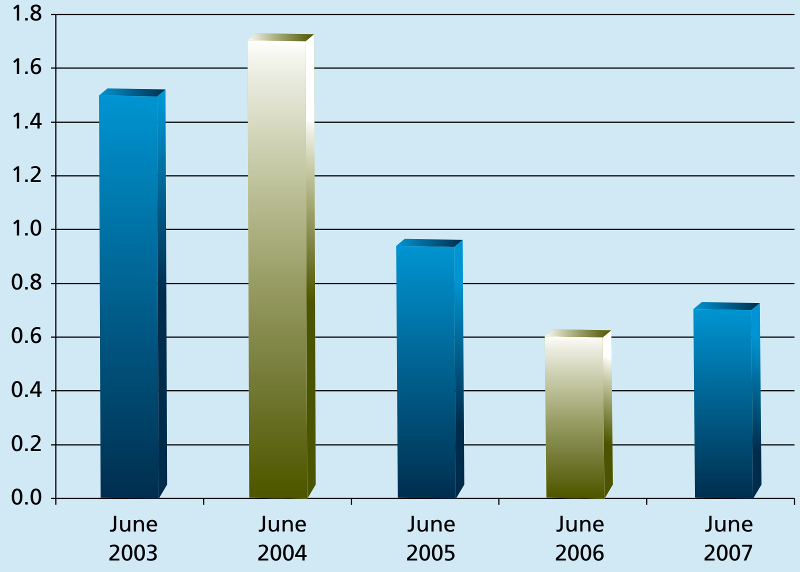
Jeffery Cheetham
Managing Director


Sales ($m)
60.0
50.0
40.0
30.0
20.0
10.0
0.0
June 2003
June 2004
June 2005
June 2006
June 2007


EPS (Cents)
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
June 2003
June 2004
June 2005
June 2006
June 2007


EBIT ($m)
12.0
10.0
8.0
6.0
4.0
2.0
0.0
June 2003
June 2004
June 2005
June 2006
June 2007

DPS (Cents)



SDI - KPIs

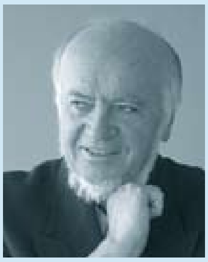
	2003 June	2004 June	2005 June	2006 June	2007 June
Depr & Amort	1.5	1.6	1.5	1.5	1.8
Interest	0.3	0.5	0.8	1.0	0.9
Tax	2.4	2.8	-0.1	1.3	1.6
NPBT ($m)	7.8	10.9	2.9	6.4	5.6
NPAT($m)	5.5	8.0	3.0	5.1	4.1
EBITDA ($m)	9.6	12.9	5.2	8.9	8.3
EBITDA %	26.2%	30.4%	11.3%	19.7%	17.1%
Equity	22.0	28.1	25.7	30.4	34.1
ROE %	25.0%	28.5%	11.7%	16.8%	12.0%

NOTE:
2003 to 2004 = AGAAP
2005 to 2007 = AIFRS

Board of Directors

A.J. Bardsley B.Sc., F.A.I.F.S.T., F.A.I.M.
Chairman

Mr. Bardsley was the former Managing Director of Bonlac Foods Ltd. and H. J. Heinz (Australia) Ltd.



J.J. Cheetham O.A.M.
Managing Director

Mr. Cheetham is the founder of SDI Ltd.

G.M.McCorkell LL.B
Non-Executive Director

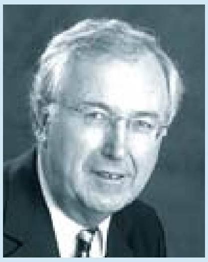
Mrs McCorkell is a graduate in Law from Melbourne University and was an Associate at Williams Winter & Higgs until 1968 when she established her own legal practice. She ceased practice in June 2006. She has extensive experience as a consultant, specialising in the export of Australian food products worldwide.

J A. Roseman CP.A.
Non-Executive Director, Chairman, Audit Committee

Mr. Roseman is a CPA and a registered company auditor. His experience as the principal of Roseman & Co, Certified Practising Accountants, for over 35 years is in the areas of accounting, taxation, management consulting and computer systems for small to medium size businesses. He acts as an adviser to several non-profit organisations.

S.J. Cheetham B.Bus., (Banking and Finance), M.B.A.
Director, Sales & Marketing

Ms. Cheetham is responsible for the marketing and sales activities of SDI's Group of Companies. She has extensive experience in sales and marketing in Australia and overseas.



J. Isaac LL.B., F.A.I.C.D.,
Non-Executive Director

Mr. Isaac is a consultant (formerly partner) of the legal firm Middleton Lawyers. he has extensive experience in Commercial law and has practised in the areas of health, intelectual property, banking and finance, property and development. He is Deputy Chairman of Royal Automobile Club of Victoria (RACV Ltd.), and is a member of the Board of Governors of St. Vincent's Hospital Foundation, Victoria.

Directors' Report

Your Directors present their report on the Company and its Controlled Entities for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows:

The names of Directors in office at any time during or since the end of the year are:
Anthony John Bardsley
John Norman Isaac
Gabrielle Mary McCorkell
Jack Arthur Roseman
Jeffery James Cheetham
Samantha Jane Cheetham
Pamela Joy Cheetham (alternate director for Jeffery James Cheetham)
Nicholas Alexander Cheetham (alternate director for Samantha Jane Cheetham) – appointed 19 February 2007

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary
The following person held the position of company secretary at the end of the financial year:
Mr John J. Slaviero, B.Bus (Acct.), C.P.A., F.T.M.A.

Mr Slaviero has over 20 years of finance and accounting experience in both the commercial and professional fields. Much of this experience was gained from working in large multi-national and medium size manufacturing companies.

Principal Activities
The principal activities of the Consolidated Entity during the financial year were:

- the manufacture and distribution of amalgam and composite restorative materials, other dental materials and product research and development.

There were no significant changes in the nature of the Consolidated Entity's principal activities during the financial year.

Dividends Paid or Recommended
Fully franked dividends paid or declared for payment are as follows:

Ordinary dividend of 0.4 cents paid on 20 October 2006, as recommended in last year's report	$470,723
Interim ordinary dividend of 0.3 cents per share paid on 4 May 2007	$354,202
Final ordinary dividend of 0.4 cents per share recommended by the Directors	$472,913

Review of Operations
Revenue from operating activities of $48,759,000 for the Group was 7% above that of the previous period. A review of the operations of the Consolidated Entity during the financial year, and of the results of the operations, is contained in the Chairman and Managing Director's report.

The consolidated profit of the Consolidated Entity after providing for income tax amounted to $4,059,897 (2006: $5,118,317).

Significant Changes in State of Affairs
In the opinion of the Directors, no significant changes occurred in the state of affairs of the Consolidated Entity during the financial year other than those disclosed in this report on the consolidated accounts.

Subsequent events
There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Future Developments
Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed in this report.

Environmental Issues
The Company holds licences issued by the Environmental Protection Authority, which specify limits for discharges to the environment arising from the Company's operations. These licences regulate the management of discharges to the air and storm water run-off associated with the manufacturing operations as well as the storage of hazardous materials. The Directors are not aware of any breaches of the licence conditions during the year or since 30 June 2007

INFORMATION ON DIRECTORS

Anthony John Bardsley	—	**(Chairman) (Non-executive)**
Date Joined the Board	—	17 September 1985
Age	—	73 years
Qualifications	—	B.Sc., F.A.I.F.S.T., F.A.I.M.
Experience	—	Former Managing Director of Bonlac Foods Ltd and H J Heinz (Australia) Ltd.
Interest in Shares and Options	—	500,000 Ordinary Shares in SDI Limited
Special Responsibilities	—	Mr Bardsley is a member of the Audit Committee.
John Norman Isaac	—	**Non-executive director**
Date Joined the Board	—	1 July 2004
Age	—	63 years
Qualifications	—	LL.B, F.A.I.C.D.
Experience	—	Consultant (formerly partner) with Middleton Lawyers. He has extensive experience in commercial law and has practised in the areas of health, intellectual property, banking and finance, and property development. He is Deputy Chairman of RACV Ltd and a member of the Board of Governors of St. Vincent's Hospital Foundation, Victoria.
Interest in Shares and Options	—	50,000 Ordinary Shares in SDI Limited
Special Responsibilities	—	Mr Isaac is a member of the Audit Committee.
Gabrielle Mary McCorkell	—	**Non-executive director**
Date Joined the Board	—	27 June 1985
Age	—	66 years
Qualifications	—	LL.B
Experience	—	She was an associate at Williams Winter Higgs from 1962 until 1968 when she established her own practice, which ceased practice in June 2006. She has extensive experience as a consultant, specialising in the export of Australian food products worldwide.
Interest in Shares and Options	—	555,448 Ordinary Shares in SDI Limited
Special Responsibilities	—	Mrs McCorkell is a member of the Audit Committee.
Jack Arthur Roseman	—	**Non-executive director**
Date Joined the Board	—	20 June 1987
Age	—	65 years
Qualifications	—	C.P.A.
Experience	—	His experience as the principal of Roseman & Co, Certified Practicing Accountants, for over 35 years is in the areas of accounting, taxation, management consulting and computer systems for small to medium size businesses. He acts as an adviser to several non-profit organisations.
Interest in Shares and Options	—	60,000 Ordinary Shares in SDI Limited
Special Responsibilities	—	Mr Roseman is Chairman of the Audit Committee.
Jeffery James Cheetham O.A.M.	—	**Executive Director**
Date Joined the Board	—	27 June 1985
Age	—	64 years
Experience	—	Founder of SDI Limited.
Interest in Shares and Options	—	50,767,893 Ordinary shares beneficially owned via Currango Pastoral Company Pty Ltd and 3,009,133 Ordinary Shares beneficially owned via Silverglades Pty Ltd
Special Responsibilities	—	Founder and Managing Director of SDI Limited.
Samantha Jane Cheetham	—	**Executive Director**
Date Joined the Board	—	17 December 1999
Age	—	38 years
Qualifications	—	B.Bus. (Banking and Finance), M.B.A.
Experience	—	Extensive experience in sales and marketing in Australia and overseas.
Interest in Shares and Options	—	352,646 Ordinary Shares in SDI Limited.
Special Responsibilities	—	She is responsible for the marketing and sales activities of SDI's group of companies.
Pamela Joy Cheetham	—	**Alternate director for Jeffery James Cheetham.**
Date Joined the Board	—	16 August 1994
Age	—	61 years
Qualifications	—	Co-founder of SDI Limited.
Interest in Shares and Options	—	Co-holder of shares shown for J.J. Cheetham
Nicholas Alexander Cheetham	—	**Alternate director for Samantha Jane Cheetham.**
Date Joined the Board	—	19 February 2007
Age	—	34 years
Experience	—	11 years experience in the IT industry and 3 years Logistics experience.
Interest in Shares and Options	—	10,000 Ordinary Shares in SDI Limited
Special Responsibilities		He is responsible for the logistics and I.T. functions of SDI’s group of companies

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of SDI Limited, and for the executives receiving the highest remuneration.

Remuneration policy

The Company has a small Board of Directors and it is neither feasible nor efficient to have a formally constituted Remuneration Committee. The Board itself makes decisions, with recommendations from the Managing Director regarding remuneration of its executives.

Under Article 23.7 of the Articles of Association of the Company, non-executive directors are remunerated by fees determined in the aggregate by the Company at a general meeting of shareholders. The Board itself evaluates its own performance based on the performance of the Company and increased shareholder value. Non-executive directors do not receive options, shares, bonus payments or retirement benefits other than statutory superannuation payments. There are no formal contracts for non-executive directors. Under Article 25.2 of the Company's Articles of Association, each non-executive director retires by rotation every two years and may offer themselves for re-election at the Company's Annual General Meeting.

The remuneration of the Managing Director is fixed by the Board based on Company performance and relevant comparative market information. There is no formal contract apart from the arrangement that is disclosed in Note 5. The Managing Director is not eligible to participate in either the Executive Option Plan or the Employee Share Plan. Details of the Managing Director's remuneration are disclosed in Note 5.

The Managing Director having regard to performance, relevant comparative information, and independent advice reviews senior executives' remuneration and other terms of employment annually and any recommendations are ratified by the Board.

Remuneration packages are set at levels designed to attract and retain senior executives capable of contributing to the financial well-being of the Company. There are no formal contracts in place for senior executives. Bonus payments and other incentive payments are made at the discretion of the Managing Director and ratified by the Board. Incentive payments are based on individual performances as evaluated by the Managing Director. Details of executives' remunerations are disclosed in Note 5. There were no options issued or vested in the financial year ending 30 June 2007.

All executives and executive directors (excluding the Managing Director) are eligible to participate in an Executive Share Option Plan on invitation from the Board. The ability to exercise the options is conditional on the Consolidated Entity achieving a target of minimum earnings per share for each financial year set by the Board before the commencement of that financial year as detailed in Note 26.

All permanent employees other than Directors of the Company and their associates are eligible to participate in the Company's Employee Share Plan. Shares are offered from time to time at the absolute discretion of the Board and have a three-year restriction period whereby they cannot be sold by the employee. Details are disclosed in Note 26.

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board itself determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align director's interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Director and Executive Remuneration for year ended 30 June 2007

The remuneration for each director and each of the three executive officers of the Consolidated Entity receiving the highest remuneration during the year was as follows:

	Short-term benefits				Post employment benefits	Other long -term benefits	
	Salary, Fees and Commissions $	Cash Bonus $	Non-cash Benefits $	Other * $	Superannuation Contribution $	Long Service Leave $	Total $
Directors							
Anthony John Bardsley (Chairman)	60,000	-	-	-	5,400	-	65,400
John Norman Isaac	25,000	-	-	-	2,250	-	27,250
Gabrielle Mary McCorkell	25,000	-	-	-	2,250	-	27,250
Jack Arthur Roseman	30,000	-	-	-	2,700	-	32,700
Jeffery James Cheetham O.A.M. (Managing Director)	324,846	-	59,058	80,000	38,399	12,300	514,594
Samantha Jane Cheetham (Sales and Marketing Director)	297,990	-	28,120	-	27,254	9,702	363,066
Pamela Joy Cheetham	-	-	-	-	-	-	-
Nicholas Alexander Cheetham (Chief Information Officer) Appointed 19/02/2007.	177,467	-	34,957	-	17,753	3,285	233,462
	940,303	-	122,135	80,000	96,006	25,287	1,263,722
Executives							
John J. Slaviero (Chief Financial Officer)	193,570	-	18,872	-	10,683	1,977	225,102
Joshua Cheetham (Operations Director)	180,720	-	7,000	-	15,688	5,585	208,993
Ray M. Cahill (Technical Director)	159,026	-	17,340	-	16,377	2,727	195,470
	533,316	-	43,212	-	42,748	10,289	629,565

**Refer to Note 28*

Directors' and Executives Officers' Emoluments

Disclosure relating to directors' and executive officers' emoluments has been included in Note 5 of the financial report.

Bonus payments are made based on individual performance as evaluated by the Managing Director and ratified by the Board.

No shares or options were granted during the year. 180,000 options were exercised (of which 100,000 options were exercised by directors and executives) during the year.

Meetings of Directors

During the financial year, 10 meetings of directors (including committees of directors) were held.

Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Anthony John Bardsley	10	10	3	3
John Norman Isaac	10	10	3	3
Gabrielle Mary McCorkell	10	10	3	3
Jack Arthur Roseman	10	10	3	3
Jeffery James Cheetham	10	10	-	-
Samantha Jane Cheetham	10	10	-	-
Pamela Joy Cheetham	-	-	-	-
Nicholas Alexander Cheetham	-	-	-	-

Indemnifying Officers or Auditor

The Company has not, during or since the financial year, in respect of any person who is or has been an Officer or Auditor of the Company or a related body corporate:

(i) Indemnified or made any relevant agreement for indemnifying against a liability incurred as an Officer, including costs and expenses in successfully defending legal proceedings: or

(ii) Paid or agreed to apply a premium in respect of a contract insuring against a liability incurred as an Officer for costs or expenses to defend legal proceedings; with the exception of the following matters:-

During the financial year, SDI Limited paid a premium of $18,150 to insure Directors and certain Executive Officers of the Company. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of the Company or a related body corporate. The Directors and Officers of the Company covered by the insurance policy are:

Anthony John Bardsley
John Norman Isaac
Gabrielle Mary McCorkell
Jack Arthur Roseman
Jeffery James Cheetham
Samantha Jane Cheetham
Pamela Joy Cheetham
John J. Slaviero
Nicholas A. Cheetham
Joshua Cheetham
Ray Cahill

Other Officers covered by the contract are Directors or Secretaries of the Controlled Entities who are not also Directors or Secretaries of SDI Limited, and managers of the Company.

Options

At the date of this report, the unissued ordinary shares of SDI Limited under option are as follows:

Exercisable from	Date of expiry	Exercise price $	Number under option
16/09/03	24/11/2007	0.486	250,000
16/09/04	24/11/2007	0.486	250,000
			500,000

All options expire on the earlier of their expiry date or the termination of the employee's employment. In addition, the ability to exercise the options is conditional on the Consolidated Entity achieving certain performance hurdles.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Code of Professional Conduct 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.

The following fees for non-audit services were paid/payable to the external auditors, Deloitte Touche Tohmatsu, during the year ended 30 June 2007:

	$
Taxation services	19,692

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 49 of the Report.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/0100 applies. Accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

Jeffery James Cheetham

Dated this 28 day of September 2007

Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated Entity		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Revenue	2	48,613	45,153	32,906	31,429
Cost of Sales		(17,969)	(15,985)	(20,622)	(17,522)
Gross Profit		30,644	29,168	12,284	13,907
Other revenue	2	146	424	1,804	1,750
Selling & Administration Expenses		(21,880)	(21,136)	(7,974)	(7,699)
Research & Development Expenses		(403)	(272)	(403)	(272)
Finance costs	3	(895)	(964)	(884)	(946)
Other expenses		(1,974)	(807)	(1,774)	(321)
Profit before income tax expense		5,638	6,413	3,053	6,419
Income tax expense	4	(1,578)	(1,294)	(880)	(1,169)
Profit for the year from continuing operations		4,060	5,119	2,173	5,250
Profit attributable to equity holders of the Company		4,060	5,119	2,173	5,250

Continuing Operations					
Basic earnings per share (cents per share)	8	3.4	4.4		
Diluted earnings per share (cents per share)	8	3.4	4.3		

The accompanying notes form part of these financial statements

Balance Sheet

AS AT 30 JUNE 2007

		Consolidated Entity		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
ASSETS					
Current Assets					
Cash and cash equivalents	9	2,893	982	944	164
Trade and other receivables	10	9,617	11,195	8,967	10,666
Inventories	11	10,425	12,880	7,103	9,966
Current tax assets	19	451	775	-	775
Other current assets	16	585	375	233	251
Total Current Assets		23,971	26,207	17,247	21,822
Non-Current Assets					
Financial assets	12	-	-	312	312
Property, plant and equipment	14	14,408	12,781	13,765	12,151
Deferred tax assets	19	1,473	1,549	1,473	1,099
Intangible assets	15	14,569	11,469	14,455	11,355
Other non-current assets	16	8	45	7	45
Total Non-Current Assets		30,458	25,844	30,012	24,962
TOTAL ASSETS		54,429	52,051	47,259	46,784
LIABILITIES					
Current Liabilities					
Trade and other payables	17	3,314	3,360	2,246	2,340
Short-term borrowings	18	2,775	5,185	2,775	5,185
Current tax liabilities	19	644	154	142	-
Short-term provisions	20	1,542	1,194	1,497	1,163
Total Current Liabilities		8,275	9,893	6,660	8,688
Non-Current Liabilities					
Long-term borrowings	18	8,947	9,157	8,715	8,846
Deferred tax liabilities	19	2,876	2,289	2,876	2,289
Other long-term provisions	20	228	315	227	315
Total Non-Current Liabilities		12,051	11,761	11,818	11,450
TOTAL LIABILITIES		20,326	21,654	18,478	20,138
NET ASSETS		34,103	30,397	28,781	26,646
EQUITY					
Issued capital	21	12,644	12,277	12,644	12,277
Reserves		504	400	635	215
Retained earnings		20,955	17,720	15,502	14,154
Equity attributable to equity holders of the parent		34,103	30,397	28,781	26,646
TOTAL EQUITY		34,103	30,397	28,781	26,646

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

Consolidated Entity	Note	Share Capital Ordinary $000	Retained Earnings $000	Capital Profits Reserve $000	Asset Revaluation Reserve $000	Foreign Currency Translation Reserve $000	Hedge Reserve $000	Total $000
Balance at 1 July 2005		12,111	13,165	363	272	(199)	-	25,712
Adjustment for prior year's tax expense		-	24	-	-	-	-	24
Adjustments from translation of foreign controlled entities		-	-	-	-	384	-	384
Transfers to and from reserve - hedge reserve		-	-	-	-	-	(420)	(420)
Net income recognised directly in equity		-	24	-	-	384	(420)	(12)
Profit for the period		-	5,119	-	-	-	-	5,119
Total recognised income and expense		-	5,119	-	-	-	-	5,119
Shares issued during period		166	-	-	-	-	-	166
Dividends paid or provided for	7	-	(588)	-	-	-	-	(588)
Balance		166	(588)	-	-	-	-	(422)
Balance at 30 June 2006		12,277	17,720	363	272	185	(420)	30,397
Adjustments from translation of foreign controlled entities		-	-	-	-	(316)	-	(316)
Transfers to and from reserve - hedge reserve		-	-	-	-	-	420	420
Net income recognised directly in equity		-		-	-	(316)	420	104
Profit for the period		-	4,060	-	-	-	-	4,060
Total recognised income and expense		-	4,060	-	-	-	-	4,060
Shares issued during the year		367	-	-	-	-	-	367
Dividends paid or provided for	7	-	(825)	-	-	-	-	(825)
Balance		367	(825)	-	-	-	-	(458)
Balance at 30 June 2007		12,644	20,955	363	272	(131)	-	34,103

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

Company	Note	Share Capital Ordinary $000	Retained Earnings $000	Capital Profits Reserve $000	Asset Revaluation Reserve $000	Foreign Currency Translation Reserve $000	Hedge Reserve $000	Total $000
Balance at 1 July 2005		12,111	9,465	363	272	-	-	22,211
Adjustment for prior year's tax expense		-	27	-	-	-	-	27
Transfers to and from reserve - hedge reserve		-	-	-	-	-	(420)	(420)
Net income recognised directly in equity			27	-	-	-	(420)	(393)
Profit for the period		-	5,250	-	-	-	-	5,250
Total recognised income and expense		-	5,250	-	-	-	-	5,250
Shares issued during the year		166	-	-	-	-	-	166
Dividends paid or provided for	7	-	(588)	-	-	-	-	(588)
Balance		166	(588)	-	-	-	-	(422)
Balance at 30 June 2006		12,277	14,154	363	272	-	(420)	26,646
Transfers to and from reserve - hedge reserve		-	-	-	-	-	420	420
Net income recognised directly in equity		-		-	-	-	420	420
Profit for the period		-	2,173	-	-	-	-	2,173
Total recognised income and expense		-	2,173	-	-	-	-	2,173
Shares issued during the year		367	-	-	-	-	-	367
Dividends paid or provided for	7	-	(825)	-	-	-	-	(825)
Balance		367	(825)	-	-	-	-	(458)
Balance at 30 June 2007		12,644	15,502	363	272	-	-	28,781

The accompanying notes form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated Entity		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Cash Flows From Operating Activities					
Receipts from customers		49,580	47,227	33,706	31,935
Interest received		32	16	60	38
Payments to suppliers and employees		(36,950)	(40,733)	(22,978)	(25,873)
Interest and other costs of finance paid		(895)	(964)	(884)	(946)
Income tax (paid)/refund		(61)	43	251	535
Net cash provided by operating activities	25a	11,706	5,589	10,155	5,689
Cash Flows From Investing Activities					
Proceeds from sale of property, plant and equipment		51	25	30	4
Payments for property, plant and equipment		(3,032)	(1,740)	(2,819)	(1,486)
Payments for intangibles		(3,591)	(3,875)	(3,567)	(3,872)
Net cash used in investing activities		(6,572)	(5,590)	(6,356)	(5,354)
Cash Flows From Financing Activities					
Proceeds from options exercised		87	-	87	-
Proceeds from borrowings		1,719	756	1,705	669
Repayment of borrowings		(2,319)	(512)	(2,246)	(508)
Dividends paid to equity holders of the parent		(546)	(421)	(546)	(421)
Net cash used in financing activities		(1,059)	(177)	(1,000)	(260)
Net increase/(decrease) in cash and cash equivalents		4,075	(178)	2,799	75
Cash and cash equivalents at beginning of financial year		(1,260)	(1,162)	(2,078)	(2,153)
Effect of exchange rates on cash held in foreign currencies		(145)	80	-	-
Cash and cash equivalent at end of financial year	9	2,670	(1,260)	721	(2,078)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

Note 1 Statement of Significant Accounting Policies

The financial statements were authorised for issue by the Directors on the 28 September 2007.

The financial report is a general purpose financial report that has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

SDI Limited (the Company) is a listed public company, incorporated and domiciled in Australia.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The Company's financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 ' Financial Instruments: Disclosure and Presentation' as the Australian Equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the Company where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Boards (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies.

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Consolidated Entity's and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 7 'Financial Instruments: Disclosures and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
AASB 2007-7 "Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
AASB 8 'Operating Segments'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the Consolidated Entity and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008	30 June 2009
AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and other Amendments'	1 July 2007	30 June 2008
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
AASB 123 "Borrowing Costs' – revised standard	1 January 2009	30 June 2010
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity SDI Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where controlled entities have entered or left the Consolidated Entity during the year, their operating results have been included/ excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items that may be credited or debited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Costs are assigned to inventory on hand by the method most appropriate to each particular case of inventory, with the majority being valued on a first in first out basis. Overheads are applied on the basis of normal operating capacity.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Freehold land and buildings are stated at cost less accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis less accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets.

The cost of property, plant and equipment constructed within the Consolidated Entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
The depreciable amount of all property, plant and equipment including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	2%
Motor Vehicles	12.5% - 20%
Plant and equipment	7.5% - 10%
Office Equipment	20% - 33.3%
Leased Motor Vehicles	20% - 33.3%
Leased plant and equipment	20% - 33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

Leases of assets where substantially all the risks and benefits incidental to the ownership of the asset are transferred to entities in the Consolidated Entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period so as to achieve a constant rate of interest on the remaining balances of the liability.

Finance leased assets are amortised on a straight-line basis over the estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in economic benefits from the leased asset are consumed.

(f) Financial Instruments

Recognition
Financial instruments are initially measured at fair value, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below. Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Financial assets at fair value through profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method less impairment.

Held-to-maturity investments
These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method less impairment.

Available-for-sale financial assets
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments
Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

SDI Limited and Controlled Entities designates certain derivatives as either;

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(2) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items are also documented.

(I) FAIR VALUE HEDGE
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(II) CASH FLOW HEDGE
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(g) Financial Instruments Issued by the Company

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial Liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit

or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 29 (b) (iii).

(h) Impairment of Other Tangible and Intangible Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and call deposits. Bank overdrafts are shown as borrowings in current liabilities in the balance sheet but form an integral part of the Consolidated Entity's cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(j) Intangibles

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. Intellectual property with an indefinite useful life is tested annually for impairment and carried at cost less accumulated impairment losses.

Research and development
Expenditure during the research phase of a project is recognised as an expense when incurred.

An intangible asset arising from development is recognised if, and only if, all the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sales;
- the intention to complete or sell the intangible assets;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development costs that were previously designated as having an indefinite life have been reviewed and the Company has determined that they have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project of up to 30 years. As a result of this change, amortisation for the year increased by $208,582. It is impractical to disclose the effect of this change on future periods due to the timing of project completions. Development costs that have a finite life are amortised on a systematic basis matched to the future economic benefits over the useful life of the project of between 10 - 30 years.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transaction and balances
Foreign currency transactions during the year are converted to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit or loss as they arise.

Group Companies
The assets and liabilities of the overseas controlled entities are translated at year-end rates and operating results are translated at the average rates ruling during the year. Retained earnings are translated at exchange rates prevailing at the date of the transaction. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

(l) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and other current employee entitlements which will be settled within one year, have been measured at their undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay when liability is settled including related on-costs. Liabilities for employee benefits expected to be paid or settled later than one year are accrued in respect of all employees at amounts based on projected increases in wage and salary rates and on-costs discounted to present values of future amounts expected to be paid. Contributions are made by the Consolidated Entity to employee superannuation funds and are charged as expenses when incurred.

(m) Share based payments

All executives and executive directors (excluding the Managing Director) are eligible to participate in an Executive Share Option Plan on invitation from the Board. The ability to exercise the options is conditional on the Consolidated Entity achieving a target of minimum earnings per share for each financial year set by the Board before the commencement of that financial year as detailed in Note 26.

All permanent employees, other than Directors of the Company and their associates, are eligible to participate in the Company's Employee Share Plan. Shares are offered from time to time at the absolute discretion of the Board and have a three-year restriction period whereby they cannot be sold by the employee. Details of shares issued are provided in Note 21 to the accounts.

(n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(o) Provision for Warranties

Provision is made in respect of the Consolidated Entity's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation.

The future cash flows have been estimated by reference to the Consolidated Entity's history of warranty claims.

(p) Borrowing costs

All borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(q) Revenue

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue is recognised on a time basis taking into account the effective interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) Rounding of Amounts

The Company has applied the relief available to it under ASIC Class Order 98/0100 and accordingly, amounts in the financial report and Directors' Report have been rounded off to the nearest $1,000.

Critical accounting estimates and judgments
The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates — Impairment
The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of intellectual property and development costs for the year ended 30 June 2007

Note 2 Revenue

	Note	Consolidated Entity		Company	
		2007	2006	2007	2006
		$000	$000	$000	$000
Continuing operations					
- Revenue from the sale of goods		48,613	45,153	32,906	31,429
- interest revenue	2(b)	32	16	60	38
- other revenue		114	312	30	16
- Revenue from rendering of services		-	-	1,714	1,616
- Net gain on foreign exchange		-	96	-	80
Total Revenue		48,759	45,577	34,710	33,179
(b) Interest revenue from:					
- wholly-owned controlled entities		-	-	28	22
- other persons		32	16	32	16
Total interest revenue		32	16	60	38

Note 3 Profit for the Year

		Consolidated Entity		Company	
		2007	2006	2007	2006
		$000	$000	$000	$000
(a)	**Expenses**				
	Profit for the year includes the following expenses:				
	Cost of sales	17,969	15,985	20,622	17,522
	Finance costs:				
	- Other persons	895	964	884	946
	Total finance costs	895	964	884	946
	Bad and doubtful debts:				
	- trade receivables	27	149	-	17
	Total bad and doubtful debts	27	149	-	17
	Rental expense on operating leases				
	- minimum lease payments	415	381	76	21
	Depreciation of non-current assets	1,299	1,262	1,183	1,146
	Amortisation of non-current assets	468	207	466	207
	Research costs expensed	94	107	94	107
	Employee benefits expenses	15,241	14,562	11,396	11,257
	Superannuation expenses	1,079	978	1,079	978
(b)	**Gains and losses**				
	Profit/(loss) for the year has been arrived at after crediting/(charging) the following gains and losses:				
	Net gain (loss) on disposal of property plant and equipment	(4)	(24)	8	-
	Net Foreign exchange gain (loss)	(1,260)	96	(1,339)	80
	Net Gains (losses)	(1,264)	72	(1,331)	80

Note 4 Income Tax Expense

Income tax recognised in profit or loss	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
(a) The components of tax expense comprise:				
Current tax	505	473	257	19
Deferred tax	663	967	213	1,296
Under(Over) provision in respect of prior years	410	(146)	410	(146)
Total tax expense	1,578	1,294	880	1,169
(b) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: Prima facie tax payable on profit before income tax at 30% (2006: 30%)				
- consolidated entity	1,691	1,924		
- company			916	1,926
	1,691	1,924	916	1,926
Add:				
Tax effect of:				
- Other non-allowable items	35	37	35	37
- Tax rate differences in overseas entities	(77)	127	-	-
- Under provision of Income Tax in prior year	410	-	410	-
	2,059	2,088	1,361	1,963
Less:				
Tax effect of:				
- Research and Development concessional 125% & 175%	445	619	445	619
- Other deductible items	36	29	36	29
- Over provision of income tax in prior year	-	146	-	146
Income tax attributable to entity	1,578	1294	880	1,169
The applicable weighted average effective tax rates are as follows:	28%	20%	29%	18%

The increase in the weighted average effective consolidated tax rate for 2007 is a result of decreased R&D concessional deductible items and a larger under provision of income tax brought to account in respect of prior year.

Note 5 Key Management Personnel Compensation

(a) The directors and other members of key management personnel of the Group during the financial year were:

Anthony John Bardsley	Chairman and Non-executive Director
John Norman Isaac	Non-executive Director
Gabrielle Mary McCorkell	Non-executive Director
Jack Arthur Roseman	Non-executive Director and Chairman of Audit Committee
Jeffery James Cheetham	Executive Director and Managing Director
Samantha Jane Cheetham	Executive Director and Director of Sales and Marketing
Pamela Joy Cheetham	Alternate Director for Jeffery J. Cheetham
Nicholas Alexander Cheetham	Chief Information Officer during 2007 and 2006 and Alternate Director (appointed 19/2/2007) for Samantha Jane Cheetham
John J. Slaviero	CFO and Company Secretary
Joshua Cheetham	Operations Director
Ray M. Cahill	Technical Director

Note 5 Key Management Personnel Compensation

continued

(b) Compensation Practices

The Board's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Bonus payments are made based on individual performance as evaluated by the Managing Director and ratified by the Board.

c) Insurance

During the financial year SDI Limited paid a premium of $18,150 to insure directors and certain executive officers of the Company as well as directors and secretaries of the Controlled Entities who are not also directors or secretaries of the Company, and managers of SDI Limited. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as officers of the Company or a related body corporate. The above insurance premium has not been included in the directors' and executives' remuneration.

(d) Key Management Personnel Compensation

The aggregate compensation made to directors and other members of key management personnel of the Company and the Group is set out below:

	2007 $	2006 $
Short-term employee benefits	1,718,966	1,581,589
Post-employment benefits	138,745	117,480
Other long-term benefits	35,576	40,298
Share-based benefits	-	-
Total	1,893,287	1,739,367

Key management personnel compensation is the same for the Company and the Consolidated Entity.

The compensation of each member of the key management personnel of the Group is set out on the following page:

2007	Short-term benefits				Post employ-ment benefits	Other long term benefits	Share-based payment		
Key Management Person	Salary, Fees & commiss-ions $	Cash Bonus $	Non-cash Benefit $	Other* $	Super-annuation $	Long Service Leave $	Equity $	Options $	Total $
Company Directors									
Anthony John Bardsley	60,000	-	-	-	5,400	-	-	-	65,400
John Norman Isaac	25,000	-	-	-	2,250	-	-	-	27,250
Gabrielle Mary McCorkell	25,000	-	-	-	2,250	-	-	-	27,250
Jack Arthur Roseman	30,000	-	-	-	2,700	-	-	-	32,700
Jeffery James Cheetham	324,846	-	59,058	80,000	38,390	12,300	-	-	514,594
Samantha Jane Cheetham	297,990	-	28,120	-	27,254	9,702	-	-	363,066
Pamela Joy Cheetham	-	-	-	-	-	-	-	-	-
Nicholas Alexander Cheetham	177,467	-	34,957	-	17,753	3,285	-	-	233,462
Executives									
John J. Slaviero	193,570	-	18,872	-	10,683	1,977	-	-	225,102
Joshua Cheetham	180,720	-	7,000	-	15,688	5,585	-	-	208,993
Ray M. Cahill	159,026	-	17,340	-	16,377	2,727	-	-	195,470
	1,473,619	-	165,347	80,000	138,745	35,576	-	-	1,893,287

Note 5 Key Management Personnel Compensation

continued

(d)

2006	Short-term benefits				Post employment benefits	Other long term benefits	Share-based payment		
Key Management Person	Salary, Fees & commissions $	Cash Bonus $	Non-cash benefit $	Other* $	Superannuation $	Long Service Leave $	Equity $	Options $	Total $
Company Directors									
Anthony John Bardsley	60,000	-	-	-	5,400	-	-	-	65,400
John Norman Isaac	25,000	-	-	-	2,250	-	-	-	27,250
Gabrielle Mary McCorkell	25,000	-	-	-	2,250	-	-	-	27,250
Jack Arthur Roseman	30,000	-	-	-	2,700	-	-	-	32,700
Jeffery James Cheetham	227,050	-	95,677	80,000	32,273	14,432	-	-	449,432
Samantha Jane Cheetham	268,338	10,000	28,120	-	24,775	11,464	-	-	342,697
Pamela Joy Cheetham	-	-	-	-	-	-	-	-	-
Executives									
John J. Slaviero	170,598	-	22,000	-	9,428	1,167	-	-	203,193
Joshua Cheetham	163,365	10,000	7,000	-	14,225	6,735	-	-	201,325
Nicholas Alexander Cheetham	163,340	-	35,001	-	9,890	1,169	-	-	209,400
Ray M. Cahill	148,965	-	12,135	-	14,289	5,331	-	-	180,720
	1,281,656	20,000	199,933	80,000	117,480	40,298	-	-	1,739,367

* *Refer Note 28*

(e) Options and Rights Holdings

Number of Options Held by Key Management Personnel

2007	Balance 1.07.06	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.06.07	Total Vested 30.06.07	Total Vested & Exercisable 30.06.07	Total Vested & Un-exercisable 30.06.07
Directors								
Samantha Jane Cheetham	150,000	-	-	(50,000)	100,000	100,000	100,000	-
Nicholas Alexander Cheetham (Appointed 19/2/07)	150,000	-	-	(50,000)	100,000	100,000	100,000	-
Executives								
John J. Slaviero	50,000	-	-	(50,000)	-	-	-	-
Joshua Cheetham	150,000	-	-	(50,000)	100,000	100,000	100,000	-
Ray M. Cahill	150,000	-	(100,000)	(50,000)	-	-	-	-
	650,000	-	(100,000)	(250,000)	300,000	300,000	300,000	-

2006	Balance 1.07.05	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.06.06	Total Vested 30.06.06	Total Vested & Exercisable 30.06.06	Total Vested & Un-exercisable 30.06.06
Directors								
Samantha Jane Cheetham	200,000	-	-	(50,000)	150,000	100,000	100,000	-
Executives								
John J. Slaviero	100,000	-	-	(50,000)	50,000	-	-	-
Joshua Cheetham	200,000	-	-	(50,000)	150,000	100,000	100,000	-
Nicholas Alexander Cheetham	200,000	-	-	(50,000)	150,000	100,000	100,000	-
Ray M. Cahill	200,000	-	-	(50,000)	150,000	100,000	100,000	-
	900,000	-	-	(250,000)	650,000	400,000	400,000	-

*The net change other column above includes those options that have expired.

Note 5 Key Management Personnel Compensation

continued

(f) Shareholdings

Number of Shares held by Key Management Personnel

2007	Balance 1.07.06	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.06.07
Company Directors					
Anthony John Bardsley	500,000	-	-	-	500,000
Gabrielle Mary McCorkell	552,183	-	-	3,265	555,448
Jack Arthur Roseman	60,000	-	-	-	60,000
Jeffery James Cheetham Pamela Joy Cheetham (Co-holder of shares held by J.J. Cheetham)	53,628,346	-	-	148,680	53,777,026
Samantha Jane Cheetham	349,390	-	-	3,256	352,646
Nicholas Alexander Cheetham (Appointed 19/2/07)	10,000	-	-	-	10,000
Executives					
John J. Slaviero	2,689	-	-	-	2,689
Ray M. Cahill	4,289	-	100,000	-	104,289
	55,106,897	-	100,000	155,201	55,362,098

2006	Balance 1.07.05	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.06.06
Company Directors					
Anthony John Bardsley	500,000	-	-	-	500,000
Gabrielle Mary McCorkell	550,000	-	-	2,183	552,183
Jack Arthur Roseman	60,000	-	-	-	60,000
Jeffery James Cheetham Pamela Joy Cheetham (Co-holder of shares held by J.J. Cheetham)	53,532,145	-	-	96,201	53,628,346
Samantha Jane Cheetham	349,390	-	-	-	349,390
Executives					
John J. Slaviero	2,689	-	-	-	2,689
Nicholas Alexander Cheetham	10,000	-	-	-	10,000
Ray M. Cahill	4,289	-	-	-	4,289
	55,008,513	-	-	98,384	55,106,897

** Net change other refers to shares purchased or sold during the financial year.*

The Managing Director having regard to performance, relevant comparative information, and independent advice reviews senior executives' remuneration and other terms of employment annually and any recommendations are ratified by the Board. Remuneration packages are set at levels designed to attract and retain senior executives capable of contributing to the financial well-being of the Company. There are no formal contracts in place for senior executives

Note 6 Auditors' Remuneration

	Consolidated Entity		Company	
	2007 $	2006 $	2007 $	2006 $
Remuneration of the auditor of the Company for:				
- auditing or reviewing the financial report	118,000	118,000	118,000	118,000
- taxation services	19,692	13,050	19,692	13,050
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	53,000	87,000	-	-

Deloitte Touche Tohmatsu was appointed as the Company's auditors at the Annual General Meeting of Shareholders held on the 17 November 2006.

Note 7 Dividends

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Recognised Amounts				
Interim fully franked ordinary dividend of 0.3 (2006: 0.2) cents per share franked at the tax rate of 30% (2006: 30%)	354	235	354	235
Proposed final franked ordinary dividend of 0.4 (2006: 0.4) cents per share paid in subsequent year	471	353	471	353
	825	588	825	588
Unrecognised Amounts				
(a) Proposed final fully franked ordinary dividend of 0.4 (2006:0.4) cents per share franked at the tax rate of 30% (2006: 30%)	473	471	473	471
(b) Balance of franking account at year end adjusted for franking credits arising from:				
- payment of provision for income tax and dividends recognised as receivables and franking debits arising from payment of proposed dividends, and franking credits that may be prevented from distribution in subsequent financial years.	3,758	4,376	3,758	4,376
- subsequent to year-end, the franking account would be reduced by the proposed dividend reflected as above	203	202	203	202
	3,555	4,174	3,555	4,174

On 20 August 2007, the Directors declared a fully franked final dividend of 0.4 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2007, to be paid to shareholders on 19 October 2007. This dividend has not been included as a liability in these financial statements. The dividend will be paid to all shareholders on the Register of Members on 28 September 2007. The total estimated dividend to be paid is $473,000.

Note 8 Earnings per Share

	Consolidated Entity	
	2007 $000	2006 $000
(a) Reconciliation of earnings to profit or loss from continuing operations		
Net Profit from continuing operations	4,060	5,119
Earnings used to calculate basic EPS from continuing operations	4,060	5,119
Earnings used in the calculation of diluted EPS from continuing operations	4,060	5,119
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	117,910,015	117,560,560
Weighted average number of options outstanding	500,000	1,110,000
Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS	118,410,015	118,670,560

Note 9 Cash & Cash Equivalents

	Note	Consolidated Entity		Company	
		2007 $000	2006 $000	2007 $000	2006 $000
Cash at bank and in hand		2,884	977	944	164
Short-term bank deposits		9	5	-	-
		2,893	982	944	164
Reconciliation of cash Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		2,893	982	944	164
Bank overdrafts	18	(223)	(2,242)	(223)	(2,242)
		2,670	(1,260)	721	(2,078)

Note 10 Trade & Other Receivables

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Current				
Trade receivables	8,864	10,807	3,700	4,295
Allowance for doubtful debts	(166)	(148)	-	-
	8,698	10,659	3,700	4,295
Other receivables	919	536	408	210
Amounts receivable from:				
- wholly-owned subsidiaries	-	-	4,859	6,161
	9,617	11,195	8,967	10,666

Note 11 Inventories

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Current				
At cost				
Raw materials and stores	4,600	4,979	4,600	4,979
Work in progress	408	668	408	668
Finished goods	5,417	7,233	2,095	4,319
	10,425	12,880	7,103	9,966

Note 12 Other Financial Assets

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Non Current				
Unlisted investments, at cost - shares in controlled entities	-	-	312	312
	-	-	312	312

Note 13 Controlled Entities

	Country of Incorporation	Percentage Owned (%)*	
		2007	2006
Company:			
SDI Limited	Australia		
Subsidiaries of SDI Limited:			
SDI (North America), Inc	United States of America	100	100
SDI Holdings Pty Ltd	Australia	100	100
SDI Co Ltd	Japan	100	100
Southern Dental Industries GmbH	Germany	100	100
SDI Brasil Industria e Comercio Ltda	Brazil	100	100
SDI Dental Limited	Ireland	100	100

* Percentage of voting power is in proportion to ownership

Note 14 Property, Plant and Equipment

	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
Land and Building				
Land and Buildings at:				
- at cost	7,207	6,377	7,207	6,377
Less accumulated depreciation	(407)	(334)	(407)	(334)
Total Land and Buildings	6,800	6,043	6,800	6,043
Plant and Equipment				
Plant and equipment:				
- at cost	15,722	13,765	14,605	12,949
Accumulated amortisation	(8,114)	(7,027)	(7,640)	(6,841)
Total Plant and Equipment	7,608	6,738	6,965	6,108
Total Property, Plant and Equipment	14,408	12,781	13,765	12,151

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

2007	Land and Buildings $000	Plant and Equipment $000	Total $000
Consolidated Entity:			
Balance at the beginning of year	6,043	6,738	12,781
Additions	830	2,202	3,032
Disposals	-	(106)	(106)
Depreciation expense	(73)	(1,226)	(1,299)
Carrying amount at the end of year	6,800	7,608	14,408
Company:			
Balance at the beginning of year	6,043	6,108	12,151
Additions	830	1,989	2,819
Disposals	-	(22)	(22)
Depreciation expense	(73)	(1,110)	(1,183)
Carrying amount at the end of year	6,800	6,965	13,765

2006	Land and Buildings $000	Plant and Equipment $000	Total $000
Consolidated Entity:			
Balance at the beginning of year	5,871	6,456	12,327
Additions	242	1,498	1,740
Disposals	-	(24)	(24)
Depreciation expense	(70)	(1192)	(1,262)
Carrying amount at the end of year	6,043	6,738	12,781
Company:			
Balance at the beginning of year	5,871	5,944	11,815
Additions	242	1,244	1,486
Disposals	-	(4)	(4)
Depreciation expense	(70)	(1,076)	(1,146)
Carrying amount at the end of year	6,043	6,108	12,151

Note 15 Intangible Assets

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Patents, trademarks and licences				
Cost	4,434	4,404	4,315	4,286
Accumulated amortisation and impairment	(1,146)	(1,100)	(1,141)	(1,096)
Net carrying value	3,288	3,304	3,174	3,190
Development costs				
Cost	12,248	8,613	12,248	8,613
Accumulated amortisation and impairment	(967)	(448)	(967)	(448)
Net carrying value	11,281	8,165	11,281	8,165
Total intangibles	14,569	11,469	14,455	11,355

	Trademarks & Licences $000	Development Costs $000	Total $000
Consolidated Entity:			
Year ended 30 June 2006			
Balance at the beginning of year	3,247	4,554	7,801
Additions	98	3,777	3,875
Amortisation charge	(41)	(166)	(207)
Closing carrying value at 30 June 2006	3,304	8,165	11,469
Year ended 30 June 2007			
Balance at the beginning of year	3,304	8,165	11,469
Additions	143	3,425	3,568
Amortisation charge	(159)	(309)	(468)
Closing carrying value at 30 June 2007	3,288	11,281	14,569

Amortisation expense is included in the line item 'selling & administration expenses' in the Income statement.

The following useful lives are used in the calculation of amortisation:

Capitalised development costs	10 – 30 years
Patents	10 years
Trademarks	10 years

Impairment Disclosures
Impairment tests were applied for cash generating units containing development costs and intellectual property.

The recoverable amount of each cash-generating unit 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 with the period extending beyond five years extrapolated using an estimated growth rate of 20%. The cash flows are discounted using the weighted average cost of capital of 12.2% at the beginning of the budget period.

These budgets use historical weighted average growth rates to project 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 unit.

Note 16 Other Assets

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Current				
Prepayments	585	375	233	251
	585	375	233	251
Non-Current				
Prepayments	8	45	7	45
	8	45	7	45

Note 17 Trade & Other Payables

	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
Current				
Unsecured liabilities				
Trade payables	1,847	1,692	1,490	1,329
Sundry payables and accrued expenses	1,467	1,668	756	1,011
	3,314	3,360	2,246	2,340

Note 18 Borrowings

	Note	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
Current					
Secured – at amortised cost:					
Bank overdrafts	18(a),(c)	223	2,242	223	2,242
Bank loans	18(a),(d)	2,204	2,355	2,204	2,355
Hire Purchase	23	348	588	348	588
		2,775	5,185	2,775	5,185
Non-Current					
Secured - at amortised cost:					
Bank loans	18(a),(d)	8,835	8,762	8,603	8,451
Hire Purchase	23	112	395	112	395
		8,947	9,157	8,715	8,846
(a) Total current and non-current secured liabilities:					
Bank overdraft		223	2,242	223	2,242
Bank Loans		11,039	11,117	10,807	10,806
Hire Purchase		460	983	460	983
		11,722	14,342	11,490	14,031
(b) The carrying amounts of non-current assets pledged as security are:					
First mortgage					
Freehold land and buildings		6,606	6,043	6,606	6,043
Floating charge over assets		21,933	17,820	21,933	17,820
		28,539	23,863	28,539	23,863

(c) The bank overdrafts of the Company are secured by a registered first mortgage debenture over the assets of the Company and by a registered first mortgage over the freehold properties of the Company. Bank Overdraft facilities are arranged with the National Australia Bank Limited with the general terms and conditions being set and agreed to annually. Interest rates are variable and subject to adjustment.

(d) The bank loans are secured by registered first mortgage debenture over the assets of the Company and by a registered first mortgage over freehold properties of the Company. The Company operates a loan facility of AUD 1,751,000 that expires in 2009, with an option to extend for a further five years. An AUD 10,200,000 loan facility is also in place and is reviewed annually. The facilities allow for both fixed and variable rate loans. Finance will be provided under all facilities provided the Parent and the Consolidated Entity are within the terms and conditions of the agreement.

Note 19 Tax

		Consolidated Entity		Company	
		2007 $000	2006 $000	2007 $000	2006 $000
(a)	**Current Tax Liabilities**				
	Current tax liabilities	644	154	142	-
	Total	644	154	142	-
(b)	**Current Tax Assets**				
	Current Tax Asset	451	775	-	775
	Total	451	775	-	775
(c)	**Deferred Tax Assets and Liabilities**				
	Deferred tax assets	1,473	1,549	1,473	1,099
	Deferred tax liabilities	(2,876)	(2,289)	(2,876)	(2,289)
	Net	(1,403)	(740)	(1,403)	(1,190)
(d)	**Deferred tax balances comprise temporary differences attributable to:**				
	Amounts recognised in the income statement:				
	Trade and other receivables	316	(357)	316	(357)
	Inventories	(23)	(23)	(23)	(23)
	Property, Plant and equipment	513	109	513	109
	Intangible assets	(3,448)	(2,105)	(3,448)	(2,105)
	Other assets	655	1,136	655	686
	Trade and other payables	(8)	10	(8)	10
	Interest bearing liabilities	(3)	1	(3)	1
	Other liabilities and provisions	595	489	595	489
		(1,403)	(740)	(1,403)	(1,190)
	Net Deferred tax asset (liability)	(1,403)	(740)	(1,403)	(1,190)
(e)	**Movement Reconciled:**				
	Opening balance	(740)	227	(1,190)	106
	Credited/(charged) to income statement	(663)	(967)	(213)	(1,296)
		(1,403)	(740)	(1,403)	(1,190)

Note 20 Provisions

	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
Current				
Warranties:				
Opening balance at beginning of year	50	50	50	50
Additional provisions raised during year	-	-	-	-
Balance at end of the year	50	50	50	50
Employee Entitlements:				
Opening balance at beginning of year	1,144	1,123	1,113	1,092
Additional provisions raised during year	1,128	1,450	1,065	1,450
Amounts used	(780)	(1,429)	(731)	(1,429)
Balance at end of the year	1,492	1,144	1,447	1,113
Non-Current				
Employee Entitlements				
Opening balance at beginning of year	315	152	315	152
Additional provisions raised during year	(87)	173	(88)	173
Amounts used	-	(10)	-	(10)
Balance at end of the year	228	315	227	315
Analysis of Total Provisions				
Current	1,542	1,194	1,497	1,163
Non-current	228	315	227	315
	1,770	1,509	1,724	1,478

Provision for Warranties
A provision of $50,000 at 30 June 2007 has been recognised for estimated warranty claims in respect of products and services sold which are still under warranty at balance date.

Provision for Employee Entitlements
A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Note 21 Issued Capital

	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
118,228,391 (2006:117,680,782) fully paid ordinary shares	12,644	12,277	12,644	12,277
	12,644	12,277	12,644	12,277

	Consolidated Entity 2007 No.	Consolidated Entity 2006 No.	Company 2007 No.	Company 2006 No.
(a) Fully Paid Ordinary Shares				
At the beginning of reporting period	117,680,782	117,473,606	117,680,782	117,473,606
Shares issued during year				
- Dividend Reinvestment Plan Issue on 21 October 2005		107,314		107,314
- Dividend Reinvestment Plan Issue on 12 May 2006		93,862		93,862
- Employee Share Plan on 14 June 2006		6,000		6,000
- Dividend Reinvestment Plan Issue on 20 October 2006	206,410		206,410	
- Options Converted to Shares on 29 January 2007	80,000		80,000	
- Options Converted to Shares on 21 March 2007	100,000		100,000	
- Dividend Reinvestment Plan Issue on 4 May 2007	161,199		161,199	
At reporting Date	118,228,391	117,680,782	118,228,391	117,680,782

Note 21 Issued Capital

continued

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

Changes to the then Corporations Law has abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

For information relating to the SDI Limited Executive Share Option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 26: Share-based Payments.

For information relating to share options issued to key management personnel during the financial year, refer to Note 5: Key Management Personnel Compensation and Note 26: Share-based Payments.

(c) Employee share plan

For information relating to the SDI Employee Share plan, refer to Note 26: Share-based Payments.

(d) Dividend Reinvestment Plan (DRP)

Under the DRP, participating shareholders elect to apply dividends in whole or in part to the purchase of ordinary shares at the issue price.

In general and unless the SDI Board decides otherwise, shares will be allocated at the "Average Market Price" (which is the arithmetic average of the daily weighted average market price as the directors may determine) of SDI's shares on the ASX over a period of 5 business days prior to and including the Dividend Record date.

367,609 ($278,734) ordinary shares were issued under the DRP during the financial year 2007.

The Board may determine in relation to all or any dividends paid, that shares will be allocated under the DRP subject to a discount below the average market price. At this time, the Board has determined that a 5% discount will apply for the recommended final dividend for the year ended 30 June 2007.

Last date for receipts of election notice for participation in the DRP is 28 September 2007.

Note 22 Reserves

(a) Capital Profits Reserve

The capital profits reserve records non-taxable profits on sale of investments.

(b) Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

(c) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign subsidiaries.

(d) Hedge Reserve

The hedge reserve records revaluations of items designated as hedges.

Note 23 Capital & Leasing Commitments

	Note	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
(a) Finance Lease and Hire Purchase Commitments					
Payable — minimum lease payments					
- not later than 12 months		377	638	377	638
- between 12 months and 5 years		119	439	119	439
- greater than 5 years		-	-	-	-
Minimum future lease payments		496	1,077	496	1,077
Less future finance charges		36	94	36	94
Present value of minimum lease payments	18	460	983	460	983

The Company has entered into Hire Purchase contracts for both manufacturing equipment and motor vehicles. Hire Purchase contracts have been entered into over 3 to 5 years. Residual payments are determined as follows:

- Manufacturing equipment - 10% of purchase price.
- Motor vehicles - Estimated market value upon expiration of the lease.

All lease payments are paid monthly in advance for the term of the lease.

The aggregate amount contracted for in respect of finance leases and hire purchase contracts is capitalised in the financial report in accordance with the accounting policies set out in Note 1(e).

	Note	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
(b) Operating Lease Commitments					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
- not later than 12 months		216	268	15	17
- between 12 months and 5 years		26	220	5	27
- greater than 5 years		-	-	-	-
		242	488	20	44

Operating leases are generally entered into for a period of 3 to 5 years with rents payable in advance. The Company utilises operating leases for office premises, warehouses, office equipment, and motor vehicles

	Note	Consolidated Entity 2007 $000	Consolidated Entity 2006 $000	Company 2007 $000	Company 2006 $000
(c) Capital Expenditure Commitments					
Capital expenditure commitments contracted for:					
Land and Building purchases		500	-	500	-
		500	-	500	-
Payable:					
- not later than 12 months		500	-	500	-
- between 12 months and 5 years		-	-	-	-
- greater than 5 years		-	-	-	-
		500	-	500	-

Note 24 Segment Reporting

Primary Reporting

Geographic Segments (by location of assets)

	Australia 2007 $000	Europe 2007 $000	North America 2007 $000	South America 2007 $000	Asia/ Pacific 2007 $000	Middle East 2007 $000	Other 2007 $000	Eliminations 2007 $000	Consolid-ated Entity 2007 $000
Revenue									
External Sales	15,497	16,131	11,880	4,573	532	-	-	-	48,613
Other segments	17,409	7,573	-	-	-	-	-	(24,982)	-
Total sales revenue	32,906	23,704	11,880	4,573	532	-	-	(24,982)	48,613
Unallocated revenue	-	-	-	-	-	-	-	-	146
Total revenue									48,759
Result									
Segment result	3,937	2,412	738	(151)	(366)	-	-	(37)	6,533
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-	-	-	(895)
Profit before income tax	-	-	-	-	-	-	-	-	5,638
Income tax expense	-	-	-	-	-	-	-	-	(1,578)
Profit after income tax	-	-	-	-	-	-	-	-	4,060
Assets									
Segment assets	45,786	7,304	3,559	3,370	600	-	-	(7,663)	52,956
Unallocated assets	-	-	-	-	-	-	-	-	1,473
Total assets	-	-	-	-	-	-	-	-	54,429
Liabilities									
Segment liabilities	15,602	3,197	1,601	1,548	1,816	-	-	(6,314)	17,450
Unallocated liabilities	-	-	-	-	-	-	-	-	2,876
Total liabilities	-	-	-	-	-	-	-	-	20,326
Other									
Revenues from sales to external customers by location of customers	3,392	18,356	11,880	8,843	3,352	2,296	494	-	48,613
Acquisitions of non-current segment assets	6,414	131	3	68	7	-	-	-	6,623
Depreciation and amortisation of segment assets	1,649	78	14	16	10	-	-	-	1,767
Other non-cash segment expenses	-	(2)	-	29	-	-	-	-	27

Note 24 Segment Reporting

continued

Primary Reporting

Geographic Segments (by location of assets) *continued*

	Australia 2006 $000	Europe 2006 $000	North America 2006 $000	South America 2006 $000	Asia/ Pacific 2006 $000	Middle East 2006 $000	Other 2006 $000	Eliminations 2006 $000	Consolid-ated Entity 2006 $000
Revenue									
External Sales	14,360	14,075	11,616	4,551	551	-	-	-	45,153
Other segments	17,069	7,739	-	-	-	-	-	(24,808)	-
Total sales revenue	31,429	21,814	11,616	4,551	551	-	-	(24,808)	45,153
Unallocated revenue	-	-	-	-	-	-	-	-	424
Total revenue									45,577
Result									
Segment result	7,366	544	390	741	(604)	-	-	(1,060)	7,377
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-	-	-	(964)
Profit before income tax	-	-	-	-	-	-	-	-	6,413
Income tax expense	-	-	-	-	-	-	-	-	(1,294)
Profit after income tax	-	-	-	-	-	-	-	-	5,119
Assets									
Segment assets	45,685	7,115	2,172	3,401	651	-	-	(8,522)	50,502
Unallocated assets	-	-	-	-	-	-	-	-	1,549
Total assets	-	-	-	-	-	-	-	-	52,051
Liabilities									
Segment liabilities	17,849	4,823	775	1,376	1,718	-	-	(7,176)	19,365
Unallocated liabilities	-	-	-	-	-	-	-	-	2,289
Total liabilities	-	-	-	-	-	-	-	-	21,654
Other									
Revenues from sales to external customers by location of customers	3,074	15,963	11,616	8,804	3,529	1,850	317	-	45,153
Acquisitions of non-current segment assets	5,354	225	11	17	8	-	-	-	5,615
Depreciation and amortisation of segment assets	1,358	70	16	14	11	-	-	-	1,469
Other non-cash segment expenses	16	(47)	3	(31)	-	-	-	-	(59)

Secondary Reporting — Business Segments

The Consolidated Entity operates predominantly in one business segment being the manufacturing and distribution of dental restorative products.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Consolidated Entity at an arm's length. These transfers are eliminated on consolidation.

Note 25 Cash Flow Information

	Consolidated Entity		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
(a) Reconciliation of profit for the period to net cash flows from operating activities				
Profit after income tax	4,060	5,119	2,173	5,250
Cash flows excluded from profit attributable to operating activities				
Non-cash flows in profit				
Amortisation	468	207	466	207
Depreciation	1,299	1,262	1,183	1,146
(Net gain)/loss on disposal of property, plant and equipment	4	24	(8)	-
Write-off Bad Debts	-	73	-	14
Doubtful Debts adjustment	27	80	-	(16)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade debtors and intercompany balances	2,229	143	1,898	410
(Increase)/decrease in other debtors and prepayments	(174)	242	298	28
(Increase)/decrease in inventories	2,106	(2,794)	2,863	(2,340)
(Increase)/decrease in current tax asset	326	380	775	380
(Increase)/decrease in deferred tax assets/deferred tax liabilities	76	154	(374)	473
Increase/(decrease) in trade creditors and accruals	(98)	(274)	(94)	(870)
Increase/(decrease) in income taxes payable	530	(23)	142	-
Increase/(decrease) in deferred taxes payable	587	813	587	824
Increase/(decrease) in provisions	266	183	246	183
Net Cash from operating activities	11,706	5,589	10,155	5,689

(b) Non-cash Financing and Investing Activities
Refer to Note 22 Issue Capital for details of non-cash financing transactions relating to the Dividend Reinvestment Plan

(c) Credit Standby Arrangements with Banks

	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Credit facility	2,177	2,550	2,177	2,550
Amount utilised	(223)	(2,242)	(223)	(2,242)
Amount unused	1,954	308	1,954	308

The major facilities are summarised as follows:

Bank overdrafts:
Bank overdraft facilities are arranged with the National Australia Bank Limited with the general terms and conditions being set and agreed to annually.

Interest rates are variable and subject to adjustment.

(d) Loan Facilities

	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Loan facilities	12,484	11,380	11,951	10,860
Amount utilised	(11,039)	(11,117)	(10,807)	(10,806)
Amount unused	1,445	263	1,144	54

The major facilities are summarised as follows:

The Company operates a loan facility of AUD 1,751,000 that expires in 2009, with an option to extend for a further five years. An AUD 10,200,000 loan facility is also in place and is reviewed annually. The facilities allow for both fixed and variable loans.

Finance will be provided under all facilities provided the Company and the Consolidated Entity are within the terms and conditions of the agreement.

Note 26 Share-based Payments

The following share-based payment arrangements existed at 30 June 2007:

SDI Limited Executive Share Option Plan
The Company established the SDI Limited Executive Share Option Plan in the year ending 30 June 2003. All executives (excluding the Managing Director) are eligible to participate in the plan on invitation from the Board of Directors. Options will be offered from time to time at the absolute discretion of the Board.

The options issued under the plan are divided into 5 equal tranches. For options granted each year, each of these tranches is exercisable from the 16 September each year commencing 16 September 2003. The ability to exercise the options is conditional on the Consolidated Entity achieving minimum earnings per share for each financial year set by the Board before the commencement of that financial year.

There are no voting or dividend rights attached to the options or the unissued shares.

The options are not quoted on the ASX. No options were granted for the year as the minimum earnings per share target of 5.9 cents was not achieved.

All options granted to key management personnel are for ordinary shares in SDI Limited which confer a right of one ordinary share for every option held.

	Consolidated Entity				Company			
	2007		2006		2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	1,110,000	0.486	1,540,000	0.486	1,110,000	0.486	1,540,000	0.486
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	(180,000)	0.486	-	-	(180,000)	0.486	-	-
Expired	(430,000)	0.486	(430,000)	0.486	(430,000)	0.486	(430,000)	0.486
Outstanding at year-end	500,000	0.486	1,110,000	0.486	500,000	0.486	1,110,000	0.486
Exercisable at year-end	500,000		1,110,000		500,000		1,110,000	

(i) Exercised during the financial year

The following share options granted under the executive share option plan were exercised during the financial year:

2007 Options Series	Number exercised	Exercise Date	Share price at exercise date $
	80,000	29/01/07	0.91
	100,000	21/03/07	0.88

2006 Options Series	Number exercised	Exercise Date	Share price at exercise date $
	-	-	-

(ii) Balance at the end of the financial year

The share options outstanding at the end of the financial year had a weighted average exercise price of $0.486 (2006: $0.486), and a weighted average remaining contractual life of 146 days (2006: 339 days).

No shares were issued under the SDI Limited Employee Share Plan as the Company did not achieve its minimum earnings per share target.

Note 27 Events after the Balance Sheet Date

There has been no significant change to the financial position of the Consolidated Entity after the Balance date.

Note 28 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated Entity		Company	
	2007 $	2006 $	2007 $	2006 $
Transactions with related parties				
(a) Director-related Entities				
Provision of consulting services by Silverglades Pty Ltd, a company controlled by Mr J.J. Cheetham	80,000	80,000	80,000	80,000
The Company purchased a small number of RACV memberships during the financial year. Mr J.N. Isaac is a director of RACV Ltd.				
(b) (i) Sales are made by SDI Limited to controlled entities on normal commercial terms and conditions.			17,284,961	17,069,254
(ii) Intercompany charges are made between SDI Limited and controlled entities. These are made on normal commercial terms and conditions for the recoupment of costs and expenses incurred on their behalf.			1,745,959	1,637,910
(c) Amounts receivable from wholly owned subsidiaries by the Company are disclosed in Note 10.				

Note 29 Financial Instruments

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable, bills, leases, overdrafts, and derivatives.

The main purpose of non-derivative financial instruments is to raise finance for Group operations. Derivatives are used by the Group for hedging purposes. Such instruments include foreign exchange currency option contracts, interest rate swap agreements and silver price hedging contracts. The Group does not speculate in the trading of derivative instruments.

(i) Treasury Risk Management
A finance committee consisting of the Managing Director and senior finance executives of the Group meet on a regular basis to analyse currency, commodity and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) Financial Risks
The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

INTEREST RATE RISK
Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2007 approximately 78% of Group debt is fixed. For further details on interest rate risk refer to Note 29(b) (i) & (ii).

FOREIGN CURRENCY RISK
The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. Refer to Note 29(b) (i) for further details.

LIQUIDITY RISK
The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

CREDIT RISK
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward contracts is the net fair value of these contracts as disclosed in Note 29(b) (iii).

PRICE RISK
The Group is exposed to commodity price risk through its manufacturing operations. Silver prices have fluctuated on the London Silver Exchange over the past two years therefore the Company currently hedges the price it buys silver at. Silver Futures markets and economic forecasts are constantly monitored to determine whether to implement a hedge.

Note 29 Financial Instruments

continued

(b) Financial Instruments

(i) Derivative Financial Instruments

Derivative financial instruments are used by the Consolidated Entity to hedge exposure to silver price fluctuations associated with the purchasing of silver used in the manufacture of amalgam products. The derivative financial instruments used by the Entity are recognised in the financial statements. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

FOREIGN EXCHANGE CURRENCY OPTION CONTRACTS
The Consolidated Entity enters into foreign exchange currency option contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The contracts stipulate a trigger exchange rate. If the spot rate falls below the trigger rate, the Consolidated Entity must transact at an agreed adjusted exchange rate. The objective in entering the foreign exchange currency option contracts is to protect the Consolidated Entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies. The accounting policy in regard to foreign exchange currency option contracts is detailed in Note 1(f).

At balance date, the details of outstanding forward exchange contracts are:

			Average Protection Exchange Rate	
	2007 $000	2006 $000	2007	2006
Buy Australian Dollars Settlement	Sell USD			
Less than 6 months	-	1,000	-	0.75
Buy Australian Dollars Settlement	Sell Euros			
Less than 6 months	100	600	0.5855	0.60
6 to 12 months	-	200	-	0.60
Buy Australian Dollars Settlement	Sell Canadian Dollars			
Less than 6 months	-	500	-	0.87
6 to 12 months	-	400	-	0.85

Interest rate swaps

Interest rate swap transactions entered into by the Consolidated Entity to exchange variable interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The Consolidated Entity has both variable and fixed interest rate debt and enters into swap contracts to pay interest at fixed rates.

The settlement dates of the swap contracts correspond with interest payment dates of the borrowings. The swap contracts require settlement of the net interest receivable or payable and are brought to account as an adjustment to finance costs.

At balance date, the details of interest rate swap contracts are:

	Effective Average Interest Rate Payable		Notional Principal	
	2007 %	2006 %	2007 $000	2006 $000
Settlement	6.03	6.03	5,000	5,000

Silver Hedge Contracts

The Consolidated Entity enters into silver hedge contracts to fix the price of silver in the future at stipulated hedge rates. The objective in entering the hedging contracts is to protect the Consolidated Entity against unfavourable silver price movements for purchase of silver which is a raw material used in the manufacture of amalgam products.

The silver contracts have been designated at inception as a cash flow hedge.

At balance date, the details of silver hedge contracts are:

	Contract Value	
	2007 USD '000	2006 USD '000
Settlement	-	3,734

Note 29 Financial Instruments

continued

(ii) Interest Rate Risk

The Consolidated Entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate $000		Fixed Interest Rate Maturing: Within Year $000		Fixed Interest Rate Maturing: 1 to 5 years $000		Fixed Interest Rate Maturing: Over 5 Years $000		Non-interest Bearing $000		Total $000	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Financial Assets:														
Cash and cash equivalents	0.00	0.00	-	-	-	-	-	-	-	-	2,893	982	2,893	982
Trade Receivables	0.00	0.00	-	-	-	-	-	-	-	-	8,864	10,807	8,864	10,807
Foreign Exchange Options	0.00	0.00									19	-	19	-
Interest Rate Swap	0.00	0.00	-	-	-	-	-	-	-	-	60	19	60	19
Total Financial Assets			-	-	-	-	-	-	-	-	11,836	11,808	11,836	11,808
Financial Liabilities:														
Bank overdrafts	10.70	10.70	223	2,242	-	-	-	-	-	-	-	-	223	2,242
Bank Loans	6.10	6.10	2,438	1,700	3,850	2,000	4,751	7,417	-	-	-	-	11,039	11,117
Foreign exchange options	0.00	0.00	-	-	-	-	-	-	-	-	-	32	-	32
Silver forward contracts	0.00	0.00	-	-	-	-	-	-	-	-	-	421	-	421
Trade and sundry payables	0.00	0.00	-	-	-	-	-	-	-	-	3,314	3,360	3,314	3,360
Lease liabilities	8.00	8.00	-	-	348	588	112	395	-	-	-	-	460	983
Total Financial Liabilities			2,661	3,942	4,198	2,588	4,863	7,812	-	-	3,314	3,813	15,036	18,155

(iii) Fair Values

The fair values of:

- The carrying value of trade and other receivables/payables with a remaining life of less than one year is deemed to reflect its fair value. All other trade and other receivables/payables are discounted to determine their fair values.
- Silver Hedge contracts are marked to market using valuation techniques supported by observable market prices.
- Foreign exchange option contracts are marked to market using valuation techniques supported by observable market prices.
- Interest rate swaps are the present value of the future net interest cash flows.
- Fixed Interest Bearing liabilities and borrowings are calculated based on discounted expected future principle and interest cash flows.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than silver hedging contracts, foreign exchange option contracts and interest rate swaps.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date

	2007 Carrying Amount $000	2007 Fair Value $000	2006 Carrying Amount $000	2006 Fair Value $000
Financial Assets				
Cash and cash equivalents	2,893	2,893	982	982
Interest rate swap	60	60	19	19
Foreign Exchange Options	19	19	-	-
Trade Receivables	8,864	8,864	10,807	10,807
	11,836	11,836	11,808	11,808
Financial liabilities				
Bank overdraft	223	223	2,242	2,242
Bank loans	11,039	11,067	11,117	11,147
Trade and sundry payables	3,314	3,314	3,360	3,360
Lease liabilities	460	460	983	983
Foreign exchange options	-	-	32	32
Other liabilities	-	-	421	421
	15,036	15,064	18,155	18,185

Fair values are in line with carrying values.

NOTE 30 Company Details

The registered office of the company is:	SDI Limited 5-7 Brunsdon Street Bayswater, Victoria, 3153 Australia

The principal places of SDI are:

SDI Limited
3-13 Brunsdon Street
Bayswater, Victoria, 3153
Australia

SDI (North America), Inc
729 N. Route 83
Suite 315, Bensenville
Chicago IL 60106,
United States of America

SDI Holdings Pty Ltd
3-13 Brunsdon Street
Bayswater, Victoria, 3153
Australia

SDI Co Ltd
Mimaki Building 2F
1-12-4 Tomioka, Koto-Ku
Tokyo
Japan 135-0047

SDI Brasil Industria e Comercio Ltda
Rua Dr.Virgilio de Carvalho Pinto, 612
Sao Paulo –SP
CEP 05415-020,
Brazil

SDI Dental Limited
Block 8, St John's Court
Santry
Dublin 9
Ireland

Southern Dental Industries GmbH
Dieselstrasse 14
D-50859 KOLN
Germany.

Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 14 to 45, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company and Consolidated Entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Jeffery James Cheetham

Dated this 28 day of September 2007

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78B
Melbourne VIC 3001 Australia

DX 111
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Independent Auditor's Report
to the members of SDI Limited

We have audited the accompanying financial report of SDI Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 8 to 40.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the consolidated financial statements and notes, 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. These Auditing 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 and fair presentation of the financial report 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*.

Deloitte.

Auditor's 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 company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Eric W Passaris

E W Passaris
Partner
Chartered Accountants
Melbourne: 28 September 2007

Member of
Deloitte Touche Tohmatsu

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
SDI Limited
3 – 13 Brunsdon Street
BAYSWATER VIC 3153

Dear Board Members

SDI Limited

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

As lead audit partner for the audit of the financial statements of SDI Limited for the financial year ended 30 June 2007, 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

Eric W Passaris

E W Passaris
Partner
Chartered Accountants
Melbourne: 28 September 2007

Liability limited by a scheme approved under Professional Standards Legislation.

ASX Additional Information

Additional Information required by the Australian Stock Exchange and not shown in this report is as follows. The information is current as at 31 August 2007.

Substantial Shareholders

The following entities are shown in the Company's Register of Substantial Shareholders:

	Number of Ordinary Shares
Currango Pastoral Company	50,767,893
Souls Funds Management Limited*	8,711,111
Molvest Pty Ltd (Molvest Family Trust A/C)	7,445,000

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

Number of Shareholders

The number of shareholders is 1,720 and their voting rights are that on a show of hands, each person present as a member, proxy, attorney or representative has one vote, and upon a poll, each member present in person or by proxy, attorney or representative has one vote for each share held.

Distribution of Shareholders Number Category (size of holdings	Number of Holders	Number of Ordinary Shares	Percentage of Total
1 - 1,000	222	132,024	0.11%
1,001 - 5,000	569	1,787,880	1.51%
5,000 - 10,000	339	2,745,465	2.32%
10,001 - 100,000	518	15,920,843	13.47%
100,001 - OVER	72	97,642,179	82.59%
Total	1,720	118,228,391	100.00%

The percentage holding of the Company's 20 largest shareholders is 74.78%. There were 184 shareholders holding less than a marketable parcel.

20 Largest Shareholders	Number of Ordinary Shares	Percentage of Total
Currango Pastoral Company Pty Ltd	50,767,893	42.94%
Molvest Pty Ltd (Molvest Family Trust)	7,445,000	6.30%
ANZ Nominees Limited (Income Reinvest Plan a/c)	4,813,986	4.07%
HSBC Custody Nominees (Australia) Limited	3,240,162	2.74%
ANZ Nominees Limited (Cash Income a/c)	3,041,814	2.57%
Silverglades Pty Ltd	3,009,133	2.55%
Citicorp Nominees Pty Limited (CFSIL CWLTH SML COS 1 a/c)	2,706,433	2.29%
National Nominees Limited (Equipsuper a/c)	2,581,757	2.18%
National Nominees Limited	2,187,037	1.85%
Citicorp Nominees Pty Limited (CFSIL CWLTH SML COS 1 a/c)	2,104,577	1.78%
Branka Nominees Pty Ltd	1,050,220	0.89%
Mr. Brendan Francis Carroll	1,021,307	0.86%
Mr. David William Kingsley	900,000	0.76%
AMP Life Limited	635,088	0.54%
Gaywin Pty Ltd	555,448	0.47%
AA Lam Pty Ltd	550,000	0.47%
Trust Company Superannuation Services Ltd (BT-Tony Bardsley SF a/c)	500,000	0.42%
Mr. Peter George Wilson	500,000	0.42%
Mr. Michael Lazzarin	408,000	0.35%
Citicorp Nominees Pty Limited	398,396	0.34%

On-Market Buy-Back

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

Corporate Governance Statement

SDI Limited (SDI) has reviewed the Company's corporate governance framework during the financial year against the best practice recommendations released by the Australian Stock Exchange. A description of SDI's main corporate governance practices are set out below. These policies have not changed from those outlined in last year's annual report. SDI's detailed statement on corporate governance is available for inspection in SDI's Company section of its website, www.sdi.com.au.

Board Composition

The Board of Directors is comprised of four non-executive directors and two executive directors. It is Board policy that the majority of directors will be non-executive and that there is a segregation of the chairperson and managing director roles. In recognition of the importance of independence, the Chairperson must be an independent, non-executive director. Details of the Board composition, their experience and qualifications are set out in the Directors' Report.

An independent director is a non-executive director (i.e. is not a member of management) and:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided. The Board defines material in this point as not having invoiced the Company for fees in excess of $20,000 per annum;
- Is not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company or another group member other than as a director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company;
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Board responsibilities

The Board is responsible for:

- oversight of the Company, including its control and accountability systems;
- the appointment or removal of the auditors;
- appointing and removing the Chief Executive Officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Company Secretary;
- input into and final approval of management's development of corporate strategic direction (including approval and amendment of budget and business plans) and performance objectives;
- supporting both morally and with financial resources, reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's remuneration, performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, investment, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- oversight of foreign currency transactions;
- director succession planning;
- entering into, amending or terminating any long term contracts;
- entering into any arrangement to borrow money or give securities;
- dividend and distribution policies; and
- approval of reports, releases and statements released to the Australian Stock Exchange.

Directors' Appointment

Future incoming Directors will be issued with formal letters of appointment. These letters will include the following:

- Term of appointment;
- Remuneration and expenses;
- Superannuation arrangements;
- Requirement to disclose directors' interests and any matters which effect the director's independence;
- Fellow directors;
- Trading policy governing dealings in securities (including any share qualifications) and related financial instruments by directors, including notification requirements. Access to independent professional advice;
- Indemnity and insurance arrangements;
- Confidentiality and rights of access to corporate information; and
- A copy of the Constitution.

Nomination Committee

SDI has a small Board (6 directors) and it is neither practical nor efficient to have a nomination committee. The Board fulfils the role of the nomination committee.

The Board itself: -

- Assesses the necessary and desirable competencies of Board members;
- Reviews the Board succession plans;
- Evaluates its own performance and;
- Recommends for the appointment and removal of directors.

The Board evaluates skills, experience and expertise of a candidate, before a candidate is recommended for appointment.

Prospective non-executive, independent directors are required to acknowledge to the Company prior to appointment or being submitted for election that they will have sufficient time to meet what is expected of them.

Remuneration Committee

Due to the small size of SDI's Board, it is not practical for the Company to establish a remuneration committee.

The Board itself makes decisions, with recommendations from the Chief Executive Officer, as to:

- Executive Remuneration and Incentive Policies;
- The Remuneration packages of senior management;
- The Company's recruitment, attention and termination policies and procedures for senior management;
- Incentive Schemes;
- Superannuation arrangements; and
- The remuneration framework for directors.

The objectives of the Board in designing remuneration policies are:

- To motivate directors and management to pursue the long-term growth and success of the Company within an appropriate control framework; and
- To demonstrate a clear relationship between key executive performance and remuneration.

Non-executive directors do not receive options, bonus payments or retirement benefits, other than statutory superannuation. Information on directors' and executive remunerations is set out in the Directors' Report.

The Board reviews and makes recommendations on remuneration strategy, policies and practices applicable to the non-executive directors and the CEO with a particular focus on performance-based remuneration that reflects increased shareholder value through the achievement of agreed organisational goals.

The Company in remunerating its employees regularly assesses its market position in regard to the remuneration mix and the level of remuneration.

The Company's remuneration charter is included in the detail statement of corporate governance.

Audit Committee

SDI has a formally constituted audit committee comprised of independent directors. Details of the Audit Committee members and the number of meetings held are included in the Directors' Report.

The Chief Executive Officer and the Chief Financial Officer have declared to the Board that the Company's reports present a true and fair view in all material aspects of the financial condition of the SDI, and are in accordance with relevant accounting standards.

The Audit Committee is also responsible for reviewing the terms and conditions of the engagement of the external auditors and reviewing the adequacy, scope and quality of the annual statutory audit and half yearly statutory review.

The Audit Committee charter is included in the detail corporate governance statement.

In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management and the internal and external auditors.

To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Company's businesses.

Authority

The Board authorises the Audit Committee within the scope of its responsibility to:

- Seek any information it requires from:
  - Any employee (and all employees are directed to co-operate with any request made by the committee);
  - External parties.
- Obtain outside legal or other professional advice.
- Ensure the attendance of Company officers at meetings as appropriate.

Risk assessment and Management

The Board, along with the Audit Committee is responsible for ensuring that adequate policies on risk oversight and management are in place. The implementation and management of these policies are the responsibility of SDI's senior management.

The CEO and the CFO updates the Board on material risks, and where necessary makes recommendations to engage a consultant to establish a comprehensive framework to identify assess, monitor and manage risk across its operations.

The senior management's aim is to ensure that SDI's policies and procedures are appropriate and adequate to identify and assess risks.

Code of Conduct

SDI has developed a code of conduct, which is communicated to all employees via the Company's employer handbook. The employer handbook is included in the detail corporate governance statement.

In addition to this, SDI's share trading policy, which all directors and managers must adhere to, states the following:

- Financial results announcements - Directors and managers should not trade in any shares between the following dates:
  - Half year results: between December 1 and 24 hours after the results are announced to the market
  - Full year results: between June 1 and 24 hours after the results are announced to the market
- Price sensitive general announcements - Directors and managers should not trade in any shares prior to knowledge of any price sensitive announcements and 24 hours after these announcements are released to the market.
- Directors and managers must gain approval by the Board prior to any share trading within the restriction periods.

Communications to Shareholders

SDI is committed to ensuring that all shareholders and the market are provided with and have access to full and timely information about its activities.

The Company Secretary is responsible for monitoring information and ensuring compliance with the continuous disclosure rules of the ASX. Releases can only be made after approval by the Board of Directors.

Each senior manager is made aware of the continuous disclosure requirement and must advice the Company Secretary at the earliest possible time of any matter, which in their opinion may be required to be disclosed. If in doubt as to whether disclosure is required, managers are required to liaise with the Company Secretary.

All shareholders have the option of receiving the Annual Report and they also have the opportunity to participate in communicating with the Company through its website.

In addition to this the Company has linked its website to that of the ASX which allows shareholders to view Company announcements via its website.

Corporate Directory

SDI Limited
ABN 27 008 075 581

Auditors
Deloitte Touche Tohmatsu
180 Lonsdale Street, Melbourne
Victoria 3000, Australia

Bankers
National Australia Bank Limited
Lvel 3, 330 Collins Street, Melbourne
Victoria, 3000, Australia

Solicitors
Macpherson & Kelley Lawyers Pty Ltd
40-42 Scott Street, Dandenong
Victoria, 3175, Australia

Share Registry
Link Market Services Limited
Level 4, 333 Collins Street, Melbourne
Victoria, 3000, Australia
Ph: 03 9615 9800, Fax 03 9615 9900

Patent Attorneys
Lord & Company
2nd Floor, 4 Duro Place, West Perth
Western Australia, 6005, Australia

Shares
Shares in SDI Limited are listed on the
Australian Stock Exchange Limited
under the listing code SDI

Board of Directors
A.J. Bardsley, (Chairman) B.Sc., F.A.I.F.S.T., F.A.I.M.
J.J. Cheetham (Managing Director) O.A.M.
G.M. McCorkell, LL.B.
J.A. Roseman, C.P.A.
S.J. Cheetham, B.Bus. (Banking and Finance), M.B.A.
J.N. Isaac, LL.B., F.A.I.C.D.
alternate directors
P.J. Cheetham
N.A. Cheetham

Company Secretary
J.J. Slaviero, B.Bus. (Acct.), C.P.A., F.T.M.A.

Registered Office
5-7 Brunsdon Street, Bayswater
Victoria, 3153, Australia

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Facsimile (03) 8727 7222
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website: www.sdi.com.au

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