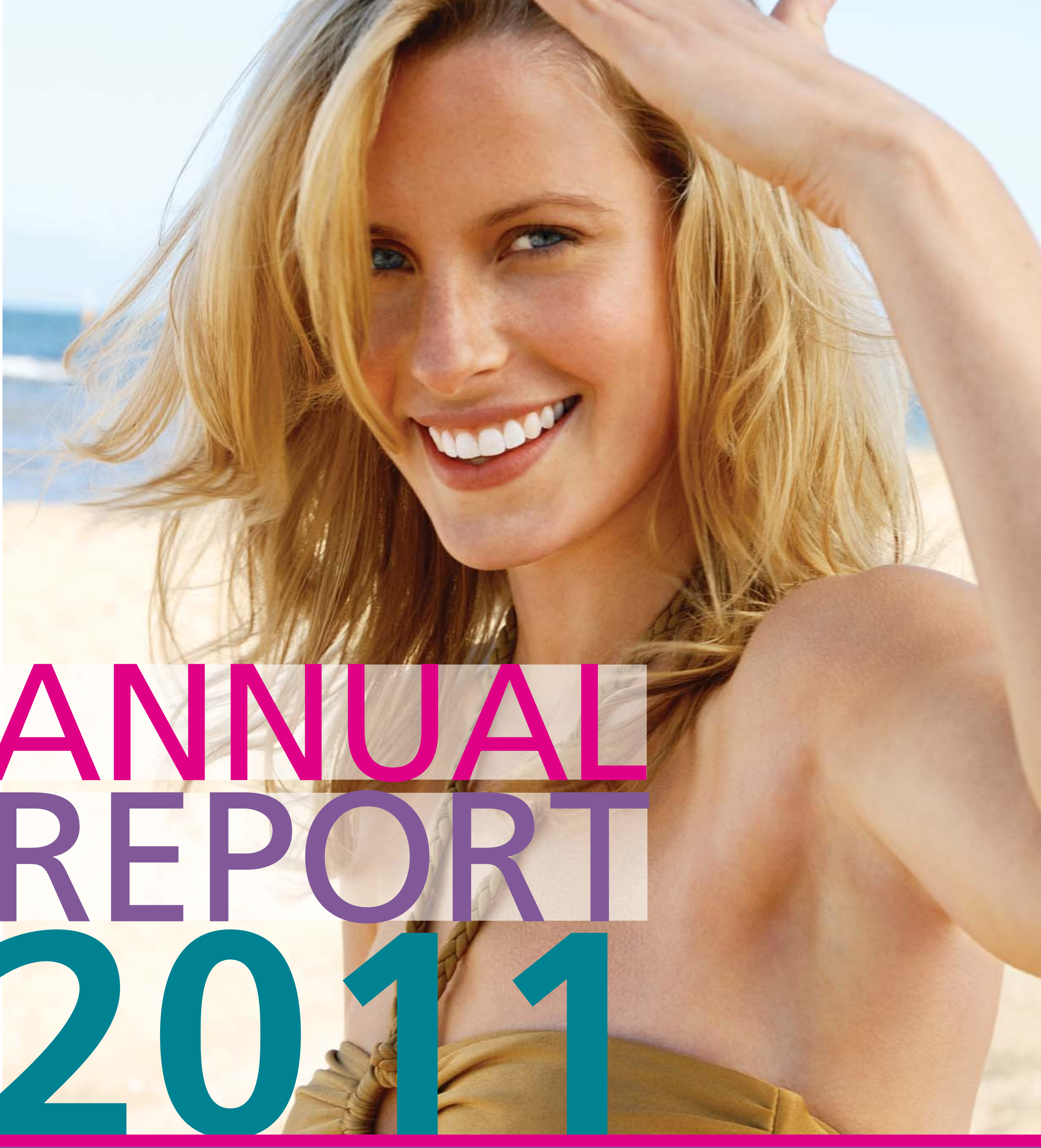

ANNUAL REPORT 2011

SDI

Your Smile. Our Vision.

www.sdi.com.au
www.polawhite.com.au

over 90% of
our products are
exported to over
100 countries.
we strive for
excellence in
quality and
service.

SDI LIMITED
AND CONTROLLED ENTITIES

ABN: 27008075581

Financial Report For The Year Ended
30 June 2011

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SDI LIMITED
AND CONTROLLED ENTITIES

ABN: 27008075581

Financial Report For The Year Ended 30 June 2011

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Chairman and Managing Director's Report

The 2011 financial year has been a challenging year with the continued strengthening of the Australian dollar and the increase in the silver price. In addition, the North American and European economies have remained weak. These factors have had a significant impact on the profitability of the Company with a reduction in after tax profit of $2.3m to $1.2m.

SDI exports over 90% of its products and silver is used in its alloy products that represent 46% of the Company's total sales. Profitability was negatively impacted by the appreciation of the Australian dollar and the significant increase in the silver price. The price of silver increased by over 100% in the 2011 financial year (on top of a 57% increase in the previous year), and whilst the markets have absorbed some of this increase, it will take time to pass on the full increase. The Company has historically been able to 'catch up' on such sharp increases and expects to do so again in the 2012 financial year.

Earnings per share for the 12 months ending 30 June 2011 were 1.0 cent compared to 2.9 cents for the corresponding period last year.

Sales in Australian Dollars were $54.9m, an increase of 3.4% on the prior year's sales of $53.1m. When adjusted for the unfavorable currency movement in export sales, sales increased by 13.2% over the previous year.

Australian sales (including Australian direct export sales) increased by 14% (a 21% increase on a constant currency basis) compared to the prior year. In local currencies, North American sales increased by 10%, Brazilian sales increased by 13%, and European sales increased by 7%.

Operating expenses in Australian Dollars were constant in comparison to the previous year. However, approximately 56% of SDI's total operating expenses relate to its offshore subsidiaries and are subject to currency movements when reporting in Australian Dollars. On a constant currency basis, operating expenses increased by 6.1%, predominately due to the increase in sales.

The Company's total cash holdings decreased by $2.3m in the period under review due to the dilution of customer payments as a result of the appreciating Australian dollar, and the increase in supplier payments because of the escalating silver prices. $3.7m was spent on the purchase of property plant & equipment for the year. This included the purchase and refurbishment of an adjacent building at a cost of $0.9m, and the additional cost of $0.6m relating to the enhancement of the SAP ERP computer system, which is now fully operational.

The Company has continued with its on-going plan to reduce its manufacturing cost base by investing in automation, leading to further cost rationalization in production. This along with increased involvement by the R & D department in improving the manufactured quality of existing products should ensure that further productivity improvements will be made in the future.

SDI recognized a number of years ago that it must invest in products in the Esthetics restorative market and move away from its reliance on Amalgam products. Earnings from Amalgam products will continue to be good and little investment is needed to maintain these markets. However this product line is dependent on the silver price which has increased significantly in the past 2 years. Investment in R & D for Esthetic products is critical to the future product development of the Company to ensure that it has the right product mix to take full advantage of the different socio economic global markets.

SDI's Glass Ionomer products are continuing to gain market acceptance and sales have doubled from the previous year. The Company expects that this group of products will continue to gain traction.

SDI's Tooth Whitening range of products have recently become the market leader in whitening systems in the U.K. and Spain, and is number two in France. The Company is also continuing to improve this product range to ensure future growth and increase global market share.

The Company expects to release a number of new products within the next 12 months, including a new Composite restorative and several additional new Glass Ionomer products. These products are currently undergoing clinical evaluation and medical device registration. When released, they will enhance the existing product range and assist SDI to become more competitive in a very large global market.

Chairman and Managing Director's Report (continued)

The Latin American region of South America has become a very important market for SDI. Over the years the Company has focused on this market and has made reasonable in roads. This was assisted by having a Brazilian subsidiary in the large Brazilian market, one which influences the rest of South America. The Company has reviewed its Latin market and has rationalized its direct selling costs and enhanced its Distributor presence. The Company has also reviewed the Brazilian market over the last 18 months and has restructured its sales and marketing operations with a view to gaining greater market share and improved profitability.

The European and North American markets have shown reasonable growth in very difficult economic environments. The overall assessment of these markets has shown that the performance is segmented. The Company has identified the under performing segments and a restructured sales and marketing plan is being implemented, which should start to show returns in the next 12 months.

With total 'real' sales growth of 13.2%, the growing acceptance of its Glass Ionomer products, and the strong growth of the Whitening products, together with the expected introduction of new products, the Board considers that the core fundamentals of SDI are strong. The Company has weathered the sharp strengthening of the Australian dollar, the substantial increase in its manufacturing costs due to increased silver prices, and the weak economies of two of its main markets, Europe and North America. These influences have obviously affected the profit this year. Accordingly, the Company is well placed to show improved returns assisted by the acquisition of more efficient manufacturing space and equipment to further reduce the manufacturing costs, and an improved management information system.

The Board of Directors has declared a final fully franked dividend of 0.2 cents per share which will be paid on 27th October 2011. The Directors have decided that the Company's Dividend Reinvestment Plan (DRP) will not be offered to Shareholders for this dividend payment.

John Norman Isaac
Chairman

Jeffery Cheetham
Managing Director

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 30 June 2011.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group 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.

Operating Results and Review of Operations for the year

Review of Operations

Revenue from operating activities of $54,981,051 for the Group was 1.7 % 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 group amounted to $1,206,300 after providing for income tax (2010: $3,472,765).

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.

Dividends Paid or Recommended

Dividends paid or declared for payment during the financial year are as follows:

• Ordinary dividend of 0.4 cents per share paid on 29 October 2010 as recommended in last year's report	$475,462
• Final ordinary dividend of 0.2 cents per share recommended by the Directors to be paid on 27 October 2011 out of retained profits at 30 June 2011	$237,731

Events after the Reporting Period

The Company has breached two of its Banking covenants as at 30 June 2011 and as a result, was required to reclassify $4.0 million of its long term debt as short term debt. Subsequently, it has received an unconditional Letter of Waiver from its Bank post reporting date in relation to the two covenant breaches. There has not been any other matter or circumstance occurring subsequent to the end of 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 years.

Future Developments, Prospects and Business Strategies

Disclosure of information regarding likely developments, prospects and business strategies 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 2011.

Information on Directors

John Norman Isaac	—	Chairman Non-executive
Age	—	67 years
Qualifications	—	LL.B, F.A.I.C.D.
Experience	—	Non-executive Director of Royal Automobile Club of Victoria (Immediate Past Prsident and Chairman, Non-executive Director of RACV group companies, RACV Finance Limited and Intelematics Australia Pty Ltd. Barrister and solicitor of the Supreme Court of Victoria and High Court of Australia. Former partner and now consultant to Middletons Lawyers. Chair 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
Age	—	70 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	—	562,016 Ordinary Shares in SDI Limited
Special Responsibilities	—	Mrs McCorkell is a member of the Audit Committee.

Jack Arthur Roseman	—	Non-executive director
Age	—	69 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	—	Executive Director
Age	—	68 years
Experience	—	Founder of SDI Limited.
Interest in Shares and Options	—	5 Ordinary Shares in SDI Limited as well as 50,648,328 Ordinary shares beneficially owned via Currango Pastoral Company Pty Ltd, 2,357,829 Ordinary Shares beneficially owned via Silverglades Pty Ltd, and 1,421,085 Ordinary Shares beneficially owned via JEFFNPAM Superannuation Fund Pty Ltd.
Special Responsibilities	—	Founder and Managing Director of SDI Limited.
Samantha Jane Cheetham	—	Executive Director
Age	—	42 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	—	359,273 Ordinary Shares in SDI Limited
Special Responsibilities	—	Responsible for the marketing and sales activities of SDI's group of companies.
Steven James Molver	—	Non-executive director
Age	—	50 years
Qualifications	—	B.Soc.Sc, B.Com (Hon).
Experience	—	Over 20 years experience as owner of a small manufacturing and investment company.
Interest in Shares and Options	—	8,000,000 Ordinary Shares in SDI Limited beneficially owned via Molvest Pty. Ltd.
Special Responsibilities	—	Mr Molver is a member of the Audit Committee.
Pamela Joy Cheetham	—	Alternate director for Jeffery James Cheetham
Age	—	65 years
Experience	—	Co-founder of SDI Limited.
Interest in Shares and Options	—	Co-holder of shares shown for J.J. Cheetham
Nicholas A. Cheetham	—	Alternate director for Samantha Jane Cheetham
Age	—	38 years
Experience	—	Extensive experience in IT and Manufacturing.
Interest in Shares and Options	—	10,000 Ordinary Shares in SDI Limited
Special Responsibilities	—	Responsible for the Manufacturing, Logistics, Engineering, and I.T. functions of SDI’s group of companies.

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 25 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.

Meetings of Directors

During the financial year, 9 meetings of directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
John Norman Isaac	7	7	2	2
Gabrielle Mary McCorkell	7	5	2	1
Jack Arthur Roseman	7	7	2	2
Jeffery James Cheetham	7	7	-	-
Samantha Jane Cheetham	7	6	-	-
Steven James Molver	7	7	2	2
Pamela Joy Cheetham	-	-	-	-
Nicholas A. Cheetham	1	1	-	-

Indemnifying Officers or Auditor

The Company has not, during or since the end of 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:

- 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
- 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; the exception of the following matters:

During the financial year, SDI Limited paid a premium to insure Directors and certain Executive Officers of the Company. Our Policy does not allow us to disclose the premium paid. 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 related bodies corporate. The Directors and Officers of the Company covered by the insurance policy are John Norman Isaac, Gabrielle Mary McCorkell, Jack Arthur Roseman, Steven James Molver, Jeffery James Cheetham, Samantha Jane Cheetham, Pamela Joy Cheetham, John J. Slaviero, Nicholas A. Cheetham, Joshua Cheetham and 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, there no unissued ordinary shares of SDI Limited under option.

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 does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable by SDI Limited for non-audit services provided during the year ended 30 June 2011:

	$
Taxation services	82,225
	82,225

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 9 of the Annual Report.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

REMUNERATION REPORT

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 Managing Director makes recommendations regarding the remuneration of the Company's Executives and these recommendations are approved by the Board.

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 Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

● The remuneration policy is required to be developed by the remuneration committee and approved by the Board after seeking professional advice from independent external consultants.

● 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 in place. 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 the tables below.

● 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. Bonus payments are made based on individual performance as evaluated by the Managing Director and ratified by the Board. There are no formal contracts in place.

● 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 approved 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. Details of executives' remuneration are disclosed within this remuneration report in the tables below.

● 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.

Performance-based Remuneration

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. There were no options issued or vested in the financial year ending 30 June 2011.

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 based on the company achieving its targets and at the absolute discretion of the Board. These shares have a three-year restriction period whereby they cannot be sold by the employee.

Bonus payments and other incentive payments are made at the discretion of the Managing Director and approved by the Board. Incentive payments are based on individual performances and the Company's overall performance as evaluated by the Managing Director.

Relationship between Remuneration Policy and Company Performance

The remuneration policy, by incorporating a share option plan and bonus payments, strives to align the goals of the shareholders and the executives. This aim is achieved by a performance bonus payment based on the overall performance of the company and the issue of share options to executives to encourage the alignment of executive and shareholder wealth.

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2011. This shows that earnings have varied significantly over the past five years. It has been the focus of the Board to retain management personnel essential to the operations of the Group and to strive to increase the Group's profitability.

	2007	2008	2009	2010	2011
	$'000	$'000	$'000	$'000	$'000
Revenue	48,759	50,512	59,516	54,043	54,981
Net Profit before tax	5,638	1,553	4,590	4,415	1,362
Net Profit after tax	4,060	1,129	3,120	3,473	1,206

	2007	2008	2009	2010	2011
Share price at start of year	$0.63	$0.48	$0.17	$0.23	$0.18
Share price at end of year	$0.48	$0.17	$0.23	$0.18	$0.17
Interim Dividend (1)	0.3 cps	Nil	Nil	Nil	Nil
Final Dividend (2)	0.4 cps	NIl	0.3 cps	0.4 cps	0.2 cps
Basic earnings per share	3.4 cps	1.0 cps	2.6 cps	2.9 cps	1.0 cps
Diluted earnings per share	3.4 cps	1.0 cps	2.6 cps	2.9 cps	1.0 cps

(1) Franked to 100% at 30% corporate
(2) Declared after reporting date and not reflected in the financial reports.

Employment Details of Members of Key Management Personnel and Other Executives

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 the date of retirement.

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

Remuneration Details for the Year Ended 30 June 2011

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:

Table of Benefits and Payments for the year ended 30 June 2011

	Short-term benefits				**Post Employment Benefits**	
	Salary, Fees and Leave	Profit Share and bonuses	Non-monetary	Other	Pension and superannuation	Other
2011	$	$	$	$	$	$
Group Key Management Personnel						
Company Directors						
John Norman Isaac	64,220	-	-	-	5,780	-
Gabrielle Mary McCorkell	8,333	-	-	-	31,666	-
Jack Arthur Roseman	11,483	-	-	-	38,516	-
Jeffery James Cheetham	380,978	-	71,377	-	49,332	-
Samantha Jane Cheetham	344,388	-	26,791	-	30,986	-
Steven James Molver	-	-	-	-	39,999	-
Pamela Joy Cheetham	-	-	-	-	-	-
Nicholas A. Cheetham	231,748	-	11,748	-	20,409	-
Executives						
John J. Slaviero	213,586	-	28,621	-	13,317	-
Joshua Cheetham	199,517	-	32,365	-	19,460	-
Ray M. Cahill	171,156	-	36,365	-	17,324	-
	1,625,409	-	207,267	-	266,789	-

	Long-term benefits		**Equity-settled share-based payments**				
	Incentive Plans	LSL	Shares/Units	Options/Rights	**Cash-settled share-based payments**	**Termination benefits**	**Total**
2011	$	$	$	$	**$**	**$**	**$**
Group Key Management Personnel							
Company Directors							
John Norman Isaac	-	-	-	-	-	-	70,000
Gabrielle Mary McCorkell	-	-	-	-	-	-	39,999
Jack Arthur Roseman	-	-	-	-	-	-	49,999
Jeffery James Cheetham	-	9,848	-	-	-	-	511,535
Samantha Jane Cheetham	-	6,216	-	-	-	-	408,381
Steven James Molver	-	-	-	-	-	-	39,999
Pamela Joy Cheetham	-	-	-	-	-	-	-
Nicholas A. Cheetham	-	4,775	-	-	-		268,680
Executives							
John J. Slaviero	-	3,493	-	-	-	-	259,017
Joshua Cheetham	-	4,714	-	-	-	-	256,056
Ray M. Cahill	-	4,566	-	-	-	-	229,411
	-	33,612	-	-	-	-	2,133,077

	Short-term benefits				**Post Employment Benefits**	
2010	Salary, Fees and Leave $	Profit Share and bonuses $	Non-monetary $	Other $	Pension and superannuation $	Other $
Group Key Management Personnel						
Company Directors						
John Norman Isaac	42,263	-	-	-	5,529	-
Gabrielle Mary McCorkell	20,833	-	-	-	6,417	-
Jack Arthur Roseman	15,000	-	-	-	17,700	-
Jeffery James Cheetham	376,046	-	41,176	-	52,665	-
Samantha Jane Cheetham	340,789	-	20,584	-	30,176	-
Steven James Molver	-	-	-	-	11,354	-
Pamela Joy Cheetham	-	-	-	-	-	-
Nicholas A. Cheetham	218,242	-	22,258	-	21,421	-
Anthony John Bardsley	30,000	-	-	-	2,700	-
Executives						
John J. Slaviero	231,337	-	-	-	12,774	-
Joshua Cheetham	204,507	-	6,000	-	17,578	-
Ray M. Cahill	196,561	-	5,480	-	16,871	-
	1,675,578	-	95,498	-	195,185	-

	Long-term benefits		**Equity-settled share-based payments**				
2010	Incentive Plans $	LSL $	Shares/Units $	Options/Rights $	**Cash-settled share-based payments $**	**Termination benefits $**	**Total $**
Group Key Management Personnel							
Company Directors							
John Norman Isaac	-	-	-	-	-	-	47,792
Gabrielle Mary McCorkell	-	-	-	-	-	-	27,250
Jack Arthur Roseman	-	-	-	-	-	-	32,700
Jeffery James Cheetham	-	6,453	-	-	-	-	476,340
Samantha Jane Cheetham	-	5,855	-	-	-	-	397,404
Steven James Molver	-	-	-	-	-	-	11,354
Pamela Joy Cheetham	-	-	-	-	-	-	-
Nicholas A. Cheetham	-	4,502	-	-	-	-	266,423
Anthony John Bardsley	-	-	-	-	-	-	32,700
Executives							
John J. Slaviero	-	3,185	-	-	-	-	247,296
Joshua Cheetham	-	4,445	-	-	-	-	232,530
Ray M. Cahill	-	4,305	-	-	-	-	223,217
	-	28,745	-	-	-	-	1,995,006

Share-based Payments

The following share-based payment arrangements existed at 30 June 2011:

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.

Description of Options/Rights Issued as Remuneration

There were no options granted as remuneration to those key management personnel and executives listed in the previous table.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Jeffery James Cheetham

Dated: 30/09/2011

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

30 September 2011

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 2011, 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

Robert D D Collie
Partner
Chartered Accountants

SDI LIMITED ABN: 27008075581
AND CONTROLLED ENTITIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
Sales Revenue	2	54,849	53,093	40,559	36,503
Cost of Sales	3	(24,388)	(20,422)	(27,825)	(22,865)
Gross Profit		30,461	32,671	12,734	13,638
Other Revenue and Income	2	132	950	2,742	3,253
Selling and Administration Expenses		(24,500)	(24,144)	(9,885)	(8,692)
Research and Development Costs		(1,831)	(2,285)	(1,831)	(2,285)
Finance Costs		(671)	(513)	(648)	(514)
Other Expenses		(2,229)	(2,264)	(1,756)	(2,872)
Profit Before Income Tax	3	1,362	4,415	1,356	2,528
Income Tax (Expense)/Benefit	4	(156)	(942)	522	(190)
Profit from continuing operations		1,206	3,473	1,878	2,338
Other Comprehensive Loss:					
Loss on Hedging Instruments		(351)	-	(351)	-
Exchange differences on translating foreign controlled entities		(1,135)	(807)	-	-
Other comprehensive loss for the year, net of tax		(1,486)	(807)	(351)	-
Total comprehensive (loss)/income for the year		(280)	2,666	1,527	2,338
Earnings per share					
From continuing operations:					
Basic earnings per share (cents)	8	1.0	2.9	-	-
Diluted earnings per share (cents)	8	1.0	2.9	-	-

The accompanying notes form part of these financial statements.

SDI LIMITED ABN: 27008075581
AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	1,216	3,406	49	875
Trade and other receivables	10	8,439	9,674	11,453	10,806
Inventories	11	14,492	11,838	8,052	6,998
Current tax asset	19	1,155	16	681	-
Other assets	16	1,150	703	279	230
TOTAL CURRENT ASSETS		26,452	25,637	20,514	18,909
NON-CURRENT ASSETS					
Other financial assets	12	-	-	2,797	2,805
Property, plant and equipment	14	17,196	15,189	16,645	14,548
Deferred tax assets	19	2,205	2,324	2,205	1,879
Intangible assets	15	17,041	16,514	16,991	16,514
Other non-current assets	16	94	26	94	26
TOTAL NON-CURRENT ASSETS		36,536	34,053	38,732	35,772
TOTAL ASSETS		62,988	59,690	59,246	54,681
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	4,227	3,522	2,679	2,108
Borrowings	18	11,410	4,038	11,388	4,008
Current tax liabilities	19	575	434	-	250
Provisions	20	2,379	2,118	2,225	1,978
TOTAL CURRENT LIABILITIES		18,591	10,112	16,292	8,344
NON-CURRENT LIABILITIES					
Borrowings	18	698	5,205	698	5,205
Deferred tax liabilities	19	3,593	3,501	3,584	3,501
Other provisions	20	165	176	165	176
TOTAL NON-CURRENT LIABILITIES		4,456	8,882	4,447	8,882
TOTAL LIABILITIES		23,047	18,994	20,739	17,226
NET ASSETS		39,941	40,696	38,507	37,455
EQUITY					
Issued capital	21	12,890	12,890	12,890	12,890
Reserves	29	(1,527)	(41)	284	635
Retained earnings		28,578	27,847	25,333	23,930
TOTAL EQUITY		39,941	40,696	38,507	37,455

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

		Share Capital		Reserves				
	Note	Ordinary	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Hedge Reserve	Total
Consolidated Group		$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2009		12,804	24,730	363	272	131		38,300
Comprehensive income								
Profit for the year		-	3,473	-	-	-	-	3,473
Adjustments from translation of foreign controlled entities		-	-	-	-	(807)	-	(807)
Total comprehensive income for the year		-	3,473	-	-	(807)	-	2,666
Shares issued during the year		86	-	-	-	-	-	86
Dividends recognised for the year	7	-	(356)	-	-	-	-	(356)
		86	(356)	-	-	-	-	(270)
Balance at 30 June 2010		12,890	27,847	363	272	(676)	-	40,696
Balance at 1 July 2010		12,890	27,847	363	272	(676)	-	40,696
Comprehensive income/(loss)								
Profit for the year		-	1,206	-	-	-	-	1,206
Adjustments from translation of foreign controlled entities		-	-	-	-	(1,135)	-	(1,135)
Loss on hedging instrument		-	-	-	-	-	(351)	(351)
Total comprehensive loss for the year		-	1,206	-	-	(1,135)	(351)	(280)
Dividends recognised for the year	7	-	(475)	-	-	-	-	(475)
Total transactions with owners and other transfers		-	(475)	-	-	-	-	(475)
Balance at 30 June 2011		12,890	28,578	363	272	(1,811)	(351)	39,941

The accompanying notes form part of these financial statements.

	Note	Share Capital	Reserves					
		Ordinary	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Hedge Reserve	Total
Parent Entity		$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2009		12,804	21,948	363	272	-	-	35,387
Comprehensive income								
Profit for the year		-	2,338	-	-	-	-	2,338
Total comprehensive income for the year		-	2,338	-	-	-	-	2,338
Shares issued during the year		86	-	-	-	-	-	86
Dividends paid or provided for	7	-	(356)	-	-	-	-	(356)
		86	(356)	-	-	-	-	(270)
Balance at 30 June 2010		12,890	23,930	363	272	-	-	37,455
Balance at 1 July 2010		12,890	23,930	363	272	-	-	37,455
Comprehensive income								
Profit for the year		-	1,878	-	-	-	-	1,878
Loss on hedging instrument		-	-	-	-	-	(351)	(351)
Total comprehensive income for the year		-	1,878	-	-	-	(351)	1,527
Dividends paid or provided for	7	-	(475)	-	-	-	-	(475)
		-	(475)	-	-	-	-	(475)
Balance at 30 June 2011		12,890	25,333	363	272	-	(351)	38,507

The accompanying notes form part of these financial statements.

SDI LIMITED ABN: 27008075581
AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Group		Parent Entity	
		2011 $000	2010 $000	2011 $000	2010 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		51,781	53,293	38,825	36,357
Dividends received		-	-	1,578	1,322
Interest received		16	9	8	4
Payments to suppliers and employees		(49,954)	(45,709)	(38,371)	(31,871)
Finance costs		(671)	(513)	(648)	(514)
Income tax paid		(934)	(890)	(353)	(617)
Income tax refund		539	-	510	-
Net cash provided by operating activities	24a	777	6,190	1,549	4,681
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		65	13	17	12
Purchase of property, plant and equipment		(3,733)	(1,940)	(3,588)	(1,817)
Purchase of Intangibles		(1,252)	(544)	(1,203)	(544)
Net cash used in investing activities		(4,920)	(2,471)	(4,774)	(2,349)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	86	-	86
Proceeds from borrowings		6,157	894	6,157	893
Repayment of borrowings		(3,444)	(3,114)	(3,466)	(2,992)
Dividends paid by parent entity		(475)	(356)	(475)	(356)
Net cash provided by/(used in) financing activities		2,238	(2,490)	2,216	(2,369)
Net (decrease)/increase in cash held		(1,905)	1,229	(1,009)	(37)
Cash and cash equivalents at beginning of financial year	9	3,376	2,408	875	912
Effect of exchange rates on cash holdings in foreign currencies		(438)	(261)	-	-
Cash and cash equivalents at end of financial year	9	1,033	3,376	(134)	875

The accompanying notes form part of these financial statements.

These consolidated financial statements and notes represent those of SDI Limited and Controlled Entities (the "consolidated group" or "group").
The financial statements were authorised for issue on 30 September 2011 by the directors of the company.

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by SDI Limited at the end of the reporting period. A controlled entity is any entity over which SDI Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 13 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

(b) Income Tax

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(benefit) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(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 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 and therefore carried at cost less accumulated depreciation and any accumulated impairment losses.

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

The cost of fixed assets constructed within the Group 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 statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group 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 the end of each reporting period.

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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, 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 depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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 and Initial Measurement

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.

(i) Financial assets at fair value through profit or 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.

(ii) 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 subsequently measured at amortised cost using the effective interest rate method less impairment.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) 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.

(iv) 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 recognised in other comprehensive income and accumulated in equity.

(v) Financial Liabilities

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

Derivative instruments

The Group designates certain derivatives as either:

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
ii. 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 the group's 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 profit or loss, together with any changes in the fair value of hedged assets or liabilities 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 recognised in other comprehensive income and accumulated in a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

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. If outcome of hedge results in recognition of a non-financial asset or liability, the gains or losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

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 the end of each reporting period, the Group assesses 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 profit or loss.

(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 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 28.

(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.

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.

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

(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 have a finite life and are amortised on a systematic basis based on 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 parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

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 financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

— assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
— income and expenses are translated at average exchange rates for the period; and
— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(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 25.

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.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Provision for Warranties

Provision is made in respect of the Group's estimated liability on all products and services under warranty at the end of the reporting period. 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 group'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 and Other Income

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 Taxation Office (ATO).

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(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 parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

(u) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best reasonably 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

(i) Impairment

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

No impairment has been recognised in respect of intellectual property and development costs for the year ended 30 June 2011.

(v) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 ‘Income Taxes’ and AASB 119 ‘Employee Benefits’ respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with AASB 2 ‘Share-based Payment’ at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 ‘Noncurrent Assets Held for Sale and Discontinued Operations’ are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

(w) Adoption of New and Revised Accounting Standards

(i) *Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)*

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section (w)(ii).

Standards affecting presentation and disclosure

Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
Amendments to AASB 107 'Statement of Cash Flows'	The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 'Intangible Assets' for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

(ii) *Standards and Interpretations adopted with no effect on financial statements*

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.
AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-Settled Share- based Payment Transactions'	The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
AASB 2009-10 'Amendments to Australian Accounting Standards - Classification of Rights Issues'	The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.
AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non- controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non- controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.
Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'	This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

(iii) ***Standards and Interpretations adopted in issue not yet adopted.***

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

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 124 'Related Party Disclosures' (2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2011	30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
AASB 1054 'Australian Additional Disclosures', AASB 2011-1 'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project'	1 July 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 July 2011	30 June 2013
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1/07/2012 with early adoption permitted	30 June 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement', AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011), AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119' (2011)	1 January 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014

* Entities early adopting this standard must also adopt the other standards included in the 'suite of six'

Note 2 Revenue and Other Income

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
(a) Revenue from continuing operations	$000	$000	$000	$000
Sales revenue				
— sale of goods	54,849	53,093	40,559	36,503
	54,849	53,093	40,559	36,503
Other revenue				
— dividends received - wholly owned subsidiaries	-	-	1,578	1,322
— interest received - other persons	16	9	8	4
— other revenue	15	58	23	48
— Revenue from rendering of services	-	-	1,116	1,127
	31	67	2,725	2,501
Other income				
— proceeds on disposal of property, plant & equipment	65	13	17	12
— Net gain on foreign exchange	36	870	-	740
Total other income	101	883	17	752
	132	950	2,742	3,253

Note 3 Profit for the Year

	Consolidated Group		Parent Entity	
Profit before income tax from continuing operations includes the following specific expenses:	2011	2010	2011	2010
(a) Expenses	$000	$000	$000	$000
Cost of sales	24,388	20,422	27,825	22,865
Interest expense on financial liabilities not at fair value through profit or loss:				
— Other persons	671	513	648	514
Total finance cost	671	513	648	514
Bad and doubtful debts:				
— trade receivables	43	107	345	316
Total bad and doubtful debts	43	107	345	316
Rental expense on operating leases				
— minimum lease payments	314	393	81	145
Research and development costs	1,831	2,285	1,831	2,285
Depreciation of non-current assets	1,598	1,480	1,458	1,330
Amortisation of non-current assets	725	739	725	739
Employee benefits expenses	19,399	17,779	13,920	12,104
Superannuation expenses	1,239	1,135	1,239	1,135
Diminuition of Investment in SDI Brasil Industria e Commercio Ltda	-	-	8	556
(b) Other Gains and Losses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Net (loss)/gain on disposal of property plant and equipment	(56)	(52)	(12)	1
Hedge ineffectiveness	(351)	-	(351)	-
Net foreign exchange loss	(1,162)	(421)	(741)	(611)
Net Losses	(1,569)	(473)	(1,104)	(610)

Note 4 Income Tax Expense

	Note	Consolidated Group 2011 $000	Consolidated Group 2010 $000	Parent Entity 2011 $000	Parent Entity 2010 $000
(a) The components of tax expense/(benefit) comprise:					
Current tax		130	1,251	9	(43)
Deferred tax	19	211	(196)	(243)	248
Over provision in respect of prior years		(185)	(113)	(288)	(15)
		156	942	(522)	190
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2010: 30%)					
— consolidated group		409	1,325		
— parent entity				407	758
Add:					
Tax effect of:					
— other non-allowable items		53	52	53	52
— under provision for income tax in prior year		103	-	-	-
— Tax rate differences in overseas entities		100	(113)	-	-
		665	1,264	460	810
Less:					
Tax effect of:					
— Research and development concession 125% & 175%		178	170	178	170
— Other deductible items		43	39	43	39
— Over provision of income tax in prior year		288	113	288	15
— Non Taxable Dividend		-	-	473	396
Income tax attributable to entity		156	942	(522)	190
The applicable weighted average effective tax rates are as follows:		11.4%	21.3%	(38.5)%	7.5%

The decrease in the weighted average effective consolidated tax rate for 2011 is a result of accelerated tax allowances on plant and equipment compared to 2010.

Note 5 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	2011 $	2010 $
Short-term employee benefits	1,832,676	1,771,076
Post-employment benefits	266,789	195,185
Other long term benefits	33,612	28,745
Termination benefits	-	-
Share-based payments	-	-
	2,133,077	1,995,006

KMP Shareholdings

The number of ordinary shares in SDI Limited held by each KMP of the Group during the financial year is as follows:

30 June 2011	**Balance at beginning of year**	**Granted as remuneration during the year**	**Issued on exercise of options during the year**	**Other changes during the year**	**Balance at end of year**
Company Directors					
John Norman Isaac	50,000	-	-	-	50,000
Gabrielle Mary McCorkell	562,016	-	-	-	562,016
Jack Arthur Roseman	60,000	-	-	-	60,000
Jeffery James Cheetham	53,926,162	-	-	501,085	54,427,247
Samantha Jane Cheetham	359,273	-	-	-	359,273
Steven James Molver	8,000,000	-	-	-	8,000,000
Pamela Joy Cheetham	-	-	-	-	-
Nicholas A. Cheetham	10,000	-	-	-	10,000
Executives					
John J. Slaviero	2,689	-	-	-	2,689
Joshua Cheetham	40,015	-	-	-	40,015
Ray M. Cahill	4,289	-	-	-	4,289
	63,014,444	-	-	501,085	63,515,529

30 June 2010	**Balance at beginning of year**	**Granted as remuneration during the year**	**Issued on exercise of options during the year**	**Other changes during the year**	**Balance at end of year**
Company Directors					
John Norman Isaac	50,000	-	-	-	50,000
Gabrielle Mary McCorkell	558,503	-	-	3,513	562,016
Jack Arthur Roseman	60,000	-	-	-	60,000
Jeffery James Cheetham	53,916,162	-	-	10,000	53,926,162
Samantha Jane Cheetham	355,714	-	-	3,559	359,273
Steven James Molver	8,000,000	-	-	-	8,000,000
Pamela Joy Cheetham	-	-	-	-	-
Nicholas A. Cheetham	10,000	-	-	-	10,000
Anthony John Bardsley	500,000	-	-	-	500,000
Executives					
John J. Slaviero	2,689	-	-	-	2,689
Joshua Cheetham	20,000	-	-	20,015	40,015
Ray M. Cahill	4,289	-	-	-	4,289
	63,477,357	-	-	37,087	63,514,444

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 27: Related Party Transactions.

For details of loans to KMP, refer to Note 27: Related Party Transactions.

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$	$	$	$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	170,050	133,293	170,050	133,293
— taxation services	82,225	89,425	82,225	89,425
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial statements of subsidiaries	37,389	63,754	-	-

The auditor of the parent entity and group is Deloitte

Other auditors of the subsidiaries are:

Tollefson & Clancy - USA
Fickus & Fickus - Germany
BDO - Ireland
Deloitte - Brazil

Note 7 Dividends

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
Distributions paid				
2010 final dividend (fully franked) of 0.4 cents per share paid in 2011	475	356	475	356
	475	356	475	356
Total dividends per share				
(a) Proposed final 2011 fully franked ordinary dividend of 0.2 cents (2010: 0.4 cents amount]) cents per share franked at the tax rate of 30% (2010: 30%)	238	475	238	475
(b) Balance of franking account at year end adjusted for franking credits arising from:				
— dividends recognised as receivables, and franking debits arising from payment of dividends, and franking credits that may be prevented from distribution in subsequent financial years.	4,966	4,668	4,966	4,668
— Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected as above.	(102)	(204)	(102)	(204)
	4,864	4,464	4,864	4,464

Note 8 Earnings per Share

	Consolidated Group	
	2011	2010
	$000	$000
(a) Reconciliation of earnings to profit or loss from continuing operations		
Net Profit from continuing operations	1,206	3,473
Earnings used to calculate basic EPS	1,206	3,473
Earnings used in the calculation of dilutive EPS	1,206	3,473
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	118,865,530	118,768,803
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	118,865,530	118,768,803

Note 9 Cash and Cash Equivalents

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
Cash at bank and in hand		1,216	3,406	49	875
Short-term bank deposits		-	-	-	-
		1,216	3,406	49	875

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as

	Note	Consolidated Group 2011	Consolidated Group 2010	Parent Entity 2011	Parent Entity 2010
Cash and cash equivalents		1,216	3,406	49	875
Bank overdrafts	18	(183)	(30)	(183)	-
		1,033	3,376	(134)	875

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 18 for further details.

Note 10 Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
CURRENT				
Trade receivables	7,748	9,420	3,350	4,606
Provision for Doubtful Debts	-	(40)	-	(40)
	7,748	9,380	3,350	4,566
Other receivables	691	294	-	216
Amounts receivable from:				
— wholly-owned subsidiaries	-	-	8,732	6,300
— Provision for impairment of receivables from wholly-owned subsidiaries	-	-	(629)	(276)
Total current trade and other receivables	8,439	9,674	11,453	10,806

Movement in the provision for doubtful debts is as follows:

		Opening Balance 01.07.09	Charge for the Year	Amounts Written Off	Closing Balance 30.06.10
	Consolidated Group	$000	$000	$000	$000
(i)	Current trade receivables	(103)	63		(40)
		(103)	63	-	(40)
	Parent Entity				
(i)	Current trade receivables	(40)		(276)	(316)
		(40)	-	(276)	(316)

		Opening Balance 01.07.10	Charge for the Year	Amounts Written Off	Closing Balance 30.06.11
	Consolidated Group	$000	$000	$000	$000
(i)	Current trade receivables	(40)		40	-
		(40)	-	40	-
	Parent Entity				
(i)	Current trade receivables	(316)	(313)		(629)
		(316)	(313)	-	(629)

Credit risk

Credit terms with domestic customers are 30 days from the end of the month in which sales were made. Credit terms for export customers vary depending on a number of factors. The average credit terms for export customers are 120 days from invoice date.

Amounts owed by wholly-owned subsidiaries are trade in nature and are settled on credit terms ranging from 30 days to 120 days from date of invoice.

As at 30 June 2011 there were no material balances in existence that are considered to be past due that have not already been provided for.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Note 11 Inventories

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
CURRENT				
At cost:				
Raw materials and stores	6,733	5,343	6,733	5,343
Work in progress	-	640	-	640
Finished goods	7,865	5,961	1,425	1,121
Writedown of inventory	(106)	(106)	(106)	(106)
	14,492	11,838	8,052	6,998

Note 12 Other Financial Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
NON-CURRENT				
Unlisted investments, at cost - shares in controlled entities	-	-	2,797	2,805
Total non-current assets	-	-	2,797	2,805

Note 13 Controlled Entities

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2011	2010
Subsidiaries of SDI Limited:			
SDI (North America), Inc	United States of America	100	100
SDI Holdings Pty Ltd	Australia	100	100
SDI Germany GmbH	Germany	100	100
SDI Brasil Industria e Comercio Ltda	Brazil	100	100
SDI Dental Limited	Ireland	100	100
SDI New Zealand Limited	New Zealand	100	100

* Percentage of voting power is in proportion to ownership

Note 14 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
LAND AND BUILDINGS				
Land and Buildings at:				
— at cost	8,693	8,002	8,693	8,002
Less accumulated depreciation	(775)	(675)	(775)	(675)
Total land and buildings	7,918	7,327	7,918	7,327
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	21,893	19,340	20,714	17,955
Accumulated depreciation	(12,615)	(11,478)	(11,987)	(10,734)
Total plant and equipment	9,278	7,862	8,727	7,221
Total property, plant and equipment	17,196	15,189	16,645	14,548

(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.

	Land and Buildings $000		Plant and Equipment $000	Total $000
Consolidated Group:				
Balance at 1 July 2009	7,025		7,754	14,779
Additions	396		1,544	1,940
Disposals	-		(50)	(50)
Depreciation expense	(94)		(1,386)	(1,480)
Balance at 30 June 2010	7,327		7,862	15,189
Additions	691		3,042	3,733
Disposals	-		(128)	(128)
Depreciation expense	(100)		(1,498)	(1,598)
Balance at 30 June 2011	7,918		9,278	17,196
Parent Entity:				
Balance at 1 July 2009	7,025		7,041	14,066
Additions	396		1,421	1,817
Disposals	-		(5)	(5)
Depreciation expense	(94)		(1,236)	(1,330)
Balance at 30 June 2010	7,327	-	7,221	14,548
Additions	691		2,897	3,588
Disposals			(33)	(33)
Depreciation expense	(100)		(1,358)	(1,458)
Balance at 30 June 2011	7,918	-	8,727	16,645

Note 15 Intangible Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
Patents, trademarks and licences				
Cost	5,557	5,281	5,504	5,281
Accumulated amortisation and impairment	(1,494)	(1,411)	(1,490)	(1,411)
Net carrying value	4,063	3,870	4,014	3,870
Development costs				
Cost	16,443	15,468	16,441	15,468
Accumulated amortisation and impairment	(3,465)	(2,824)	(3,464)	(2,824)
Net carrying value	12,978	12,644	12,977	12,644
Total intangibles	17,041	16,514	16,991	16,514

Consolidated Group:

	Trademarks & Licences	Development Costs
	$000	$000
Year ended 30 June 2010		
Balance at the beginning of year	3,782	12,933
Additions	190	354
Disposals	-	(6)
Amortisation charge	(102)	(637)
	3,870	12,644
Year ended 30 June 2011		
Balance at the beginning of year	3,870	12,644
Additions	278	974
Amortisation charge	(85)	(640)
Closing value at 30 June 2011	4,063	12,978

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 - indefinite
Trademarks 10 years – indefinite

The carrying value of the indefinite life intangibles is $2.9m and relates to core intellectual know-how for Alloy and Composite materials which is used in the design and production of the Group's alloy and composite products.

Impairment disclosures

Impairment testing was undertaken on the Group's capitalised 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 plus the terminal value. The cash flows are discounted using the weighted average cost of capital of 9.71% 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 post-tax and are adjusted to incorporate risks associated with a particular unit.

Note 16 Other Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
CURRENT				
Prepayments	1,150	703	279	230
	1,150	703	279	230
NON-CURRENT				
Prepayments	94	26	94	26
	94	26	94	26

Note 17 Trade and Other Payables

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
CURRENT					
Unsecured liabilities					
Trade payables		1,997	2,082	1,249	1,324
Sundry payables and accrued expenses		2,230	1,440	1,430	784
		4,227	3,522	2,679	2,108

The average credit period on the purchases of goods ranges from 7 – 60 days. No interest is charged on the trade payable. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Note 18 Borrowings

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
CURRENT					
Secured liabilities					
Bank overdrafts	18a,c	183	30	183	-
Bank loans	18a,c	10,940	3,811	10,940	3,811
Hire Purchase	22	287	197	265	197
		11,410	4,038	11,388	4,008
Total current borrowings		11,410	4,038	11,388	4,008
NON-CURRENT					
Secured liabilities					
Bank loans	18c	-	5,000	-	5,000
Hire Purchase	22	698	205	698	205
		698	5,205	698	5,205
Total non-current borrowings		698	5,205	698	5,205
Total borrowings	28	12,108	9,243	12,086	9,213

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
(a) Total current and non-current secured liabilities:				
Bank overdraft	183	30	183	-
Bank loan	10,940	8,811	10,940	8,811
Hire Purchase	985	402	963	402
	12,108	9,243	12,086	9,213
(b) The carrying amounts of non-current assets pledged as security are:				
Freehold land and buildings	7,918	7,327	7,918	7,327
Floating charge over assets, including listed investments at market value	28,610	26,566	28,610	26,566
	36,528	33,893	36,528	33,893

(c) **Collateral provided**

The bank loans are secured by registered first mortgage debenture over the assets of the Company and by a registered first mortgage over the freehold properties of the Company. The Company operates a loan facility of AUD 8,750,000 and a trade finance facility of AUD 3,000,000. The facilities allow for both fixed and variable rate loans. The loan period does not exceed 5 years. Finance will be provided under all facilities provided the Company and the Consolidated Entity is within the terms and conditions of the agreement.

Hire Purchase liabilities are secured by the underlying leased assets.

(d) **Breach of Bank Covenants**

The Company has breached two of its Banking covenants as at 30 June 2011 and a result was required to reclassify $4.0 million of its long term debt as short term debt. Subsequently, it has received an unconditional Letter of Waiver from its Bank post reporting in relation to the two covenant breaches.

Note 19 Tax

		Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$000	$000	$000	$000
(a)	**Current Tax Liabilities**				
	Income tax payable	575	434	-	250
	TOTAL	575	434	-	250
(b)	**Current Tax Assets**				
	Current tax asset	1,155	16	681	-
	TOTAL	1,155	16	681	-
(c)	**Deferred Tax Assets and Liabilities**				
	Deferred tax assets	2,205	2,324	2,205	1,879
	Deferred tax liabilities	(3,593)	(3,501)	(3,584)	(3,501)
	NET LIABILITY	(1,388)	(1,177)	(1,379)	(1,622)
(d)	**Deferred tax balances comprise temporary differences attributable to:**				
	Amounts recognised in the income statement:				
	Trade and other receivables	159	(10)	159	(10)
	Inventories	17	-	17	-
	Property, plant and equipment	477	474	486	474
	Intangible assets	(3,964)	(3,482)	(3,964)	(3,483)
	Other assets	1,117	1,063	1,117	619
	Trade and other payables	-	(1)	-	(1)
	Other liabilities and provisions	806	779	806	779
	NET DEFERRED TAX LIABILITY	(1,388)	(1,177)	(1,379)	(1,622)
(e)	**Movement Reconciled**				
	Opening balance	(1,177)	(1,373)	(1,622)	(1,373)
	Credited/(charged to income statement	(211)	196	243	(249)
		(1,388)	(1,177)	(1,379)	(1,622)

Note 20 Provisions

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
CURRENT	$000	$000	$000	$000
Warranties				
Opening balance at 1 July 2010	50	50	50	50
Additional provisions	-	-	-	-
Amounts used	-	-	-	-
Balance at 30 June 2011	50	50	50	50
Short-term Employee Benefits				
Opening balance at 1 July 2010	2,068	1,854	1,928	1,709
Additional provisions	1,167	1,166	950	1,023
Amounts used	(906)	(952)	(703)	(804)
Balance at 30 June 2011	2,329	2,068	2,175	1,928

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
NON CURRENT	$000	$000	$000	$000
Long-term Employee Benefits				
Opening balance at 1 July 2010	176	272	176	272
Additional provisions	-	-	-	-
Amounts used	-	(96)	-	(96)
Unused amounts reversed	(11)	-	(11)	-
Balance at 30 June 2011	165	176	165	176

Analysis of Total Provisions	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
Current	2,379	2,118	2,225	1,978
Non-current	165	176	165	176
	2,544	2,294	2,390	2,154

Provision for Warranties

A provision of $50,000 at 30 June 2011 has been recognised by the Group for estimated warranty claims in respect of products and services sold which are still under warranty at the end of the reporting period.

Provision for Employee Benefits

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.

Note 21 Issued Capital

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$000	$000	$000	$000
118,865,530 (2010: 118,865,530) fully paid ordinary shares	12,890	12,890	12,890	12,890
	12,890	12,890	12,890	12,890

	Consolidated Group		Parent Entity	
(a) **Ordinary Shares**	2011	2010	2011	2010
	No.	No.	No.	No.
At the beginning of the reporting period	118,865,530	118,576,142	118,865,530	118,576,142
Shares issued during the year				
— Dividend Reinvestment Plan Issue on 30 October 2009	-	289,388	-	289,388
At the end of the reporting period	118,865,530	118,865,530	118,865,530	118,865,530

Note 22 Capital and Leasing Commitments

	Note	Consolidated Group 2011 $000	Consolidated Group 2010 $000	Parent Entity 2011 $000	Parent Entity 2010 $000
(a) **Hire Purchase Commitments**					
Payable — minimum lease payments					
— not later than 12 months		287	197	265	197
— between 12 months and 5 years		698	205	698	205
— greater than 5 years		-	-	-	-
Total Hire Purchase Commitments	18	985	402	963	402
Finance Charges included in Hire Purchase Commitments		173	53	173	53

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.

	Consolidated Group 2011 $000	Consolidated Group 2010 $000	Parent Entity 2011 $000	Parent Entity 2010 $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	164	130	-	-
— between 12 months and 5 years	17	19	-	-
— greater than 5 years		-		-
	181	149	-	-

(c) **Capital Expenditure Commitments**

There were no commitments for expenditure as at 30 June 2011(30 June 2010: $650,000).

Note 23 Operating Segments

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and in determining the allocation of resources.

The Group is managed primarily on the basis of the performance of the subsidiary companies in different markets.

The Group's reportable segments under AASB 8 are as follows:
- SDI Australia - SDI Limited
- SDI Europe - SDI Dental Limited (Ireland) and SDI GmbH (Germany)
- SDI USA - SDI (North America), Inc
- SDI Brazil - SDI Brasil Industria e Comercio Ltda
- SDI New Zealand - SDI New Zealand Limited

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions

The segment revenues, expenses and result include transfers between segments. The pricing of the inter-segment transactions is based on cost plus an appropriate mark-up, which reflects market conditions of the segment into which the sales are made. These transfers are eliminated on consolidation of the Group's financial statements.

(c) **Segment performance**

30 June 2011	SDI Australia $000	SDI Europe $000	SDI USA $000	SDI Brazil $000	SDI New Zealand $000	Eliminations $000	Total $000
Revenue							
External sales	20,893	14,896	13,409	5,561	90	-	54,849
Inter-segment sales	19,666	7,768	-	-	-	(27,434)	-
Total segment revenue	40,559	22,664	13,409	5,561	90	(27,434)	54,849
Unallocated revenue							132
Total group revenue							54,981
Segment net profit before tax	2,004	1,595	926	(1,169)	(8)	(1,315)	2,033
Unallocated expenses	-	-	-	-	-	-	(671)
Profit before income tax	-	-	-	-	-	-	1,362
Income tax expense	-	-	-	-	-	-	(156)
Profit after income tax	-	-	-	-	-	-	1,206
Assets							
Segment assets	55,886	6,126	4,864	4,825	40	(12,113)	59,628
Unallocated assets	-	-	-	-	-	-	3,360
Total Assets							62,988
Liabilities							
Segment liabilities	17,157	3,615	1,055	6,419	47	(8,840)	19,453
Unallocated liabilities	-	-	-	-	-	-	3,594
Total Liabilities							23,047
Other							
Acquisitions of non-current segment assets	4,791	163	16	15	-	-	4,985
Depreciation and amortisation of segment assets	2,183	84	12	44	-	-	2,323
Other non-cash segment expenses	345	1	-	51	-	(353)	44

30 June 2010	SDI Australia $000	SDI Europe $000	SDI USA $000	SDI Brazil $000	SDI Japan $000	Eliminations $000	Total $000
Revenue							
External sales	18,320	15,891	13,773	5,109	-	-	53,093
Inter-segment sales	18,183	7,495	-	-	-	(25,678)	-
Total segment revenue	36,503	23,386	13,773	5,109	-	(25,678)	53,093
Unallocated revenue							950
Total group revenue							54,043
Segment net profitbefore tax	3,043	1,835	805	(1,001)	125	120	4,927
Unallocated expenses	-	-	-	-	-	-	(512)
Profit before income tax	-	-	-	-	-	-	4,415
Income tax expense	-	-	-	-	-	-	(942)
Profit after income tax	-	-	-	-	-	-	3,473
Assets							
Segment assets	52,801	5,231	4,993	4,634	-	(10,309)	57,350
Unallocated assets	-	-	-	-	-	-	2,340
Total Assets							59,690
Liabilities							
Segment liabilities	13,727	2,461	485	5,119	-	(6,300)	15,492
Unallocated liabilities	-	-	-	-	-	-	3,502
Total Liabilities							18,994
Other							
Acquisitions of non-current segment assets	2,361	(43)	36	130	-	-	2,484
Depreciation and amortisation of segment assets	2,069	99	8	43	-	-	2,219
Other non-cash segment expenses	316	3	-	63	-	(276)	106

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

Group revenue is predominantly derived from these products.

(d) Major customers
The Group has a number of customers to whom it provides products. No single customer represents 10% or more of Group revenue.

Note 24 Cash Flow Information

	Consolidated Group 2011 $000	Consolidated Group 2010 $000	Parent Entity 2011 $000	Parent Entity 2010 $000
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Profit after income tax	1,206	3,473	1,878	2,338
Cash flows excluded from profit attributable to operating activities				
Non-cash flows in profit				
Amortisation	725	739	725	739
Depreciation	1,598	1,480	1,458	1,330
Write-off of obsolete stock	-	(234)	-	(234)
Net (gain)/loss on disposal of property, plant and equipment	56	52	12	(1)
Write-off Bad Debts	32	97	32	-
Doubtful Debts Adjustment	(40)	(53)	313	316
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and Intercompany balances	(1,522)	1,032	(1,005)	446
(Increase)/decrease in other debtors and prepayments	(986)	921	(105)	(16)
(Increase)/decrease in inventories	(3,509)	(1,631)	(1,054)	(451)
(Increase)/decrease in deferred taxes	(1,022)	(83)	(1,006)	(281)
(Increase)/decrease in investments	-	(50)	-	631
Increase/(decrease) in trade payables and accruals	3,693	348	232	(112)
Increase/(decrease) in income taxes payable	183	(550)	(250)	(675)
Increase/(decrease) in deferred taxes payable	93	529	83	529
Increase/(decrease) in provisions	270	120	236	122
Cash flow from operations	777	6,190	1,549	4,681
(b) Credit Standby Arrangements with Banks				
Credit facility	781	2,060	781	2,000
Amount utilised	(415)	-	(415)	-
	366	2,060	366	2,000
(c) Loan Facilities				
Loan facilities	11,840	9,950	11,840	9,950
Amount utilised	(10,940)	(8,750)	(10,940)	(8,750)
	900	1,200	900	1,200

The major facilities are summarised as follows:
The Company operates a loan facility of AUD 8,750,000 (2010: AUD 6,950,000). The facilities allow for both fixed and variable loans.

It also operates a trade finance facility of AUD 3,000,000 (2010: AUD 3,000,000).

It also operates an unsecured insurance premium funding facility of AUD 90,000 (2010: AUD 61,000).

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

Note 25 Share-based Payments

The following share-based payment arrangements existed at 30 June 2011:

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.

No options were granted for the year and no unexercised options remain.

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

Note 26 Events After the Reporting Period

The Company has breached two of its banking covenants as at the 30 June 2011 and as a result it had to reclassify $4 million of its long term debt as short term debt.

Subsequently, it has received an unconditional Letter of Waiver from its Bank post reporting date in relation to the two covenant breaches.

There has not been any other 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.

Note 27 Related Party Transactions

The following transactions occurred with related parties:

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	$	$	$	$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
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	-	-	19,666,247	18,182,909
(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.	-	-	1,116,640	1,126,900
(c) Amounts receivable from wholly owned subsidiaries by the Company are disclosed in Note 10.				

Note 28 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.

Derivative financial instruments are used by the Consolidated Entity and Company 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 Group 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.

Financial Risk Management Policies

A finance committee consisting of the Managing Director and senior finance executives of the Group meet on a regular basis to analyse currency,

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity price risk.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the payment and delivery terms and conditions are determined. Purchase limits are established for each customer who represents the maximum open amount without requiring the approval from corporate management.

The credit quality of all financial assets that are neither past due nor impaired is appropriate and is consistently monitored in order to identify any potential adverse changes in the credit quality.

b. Liquidity risk

Ultimate responsibility for interest rate and liquidity risk management rests with the Board of Directors, who has established an appropriate interest rate and liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages interest rate and liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables details the Group and Company's remaining contractual maturity for its non-derivative financial assets & liabilities.

The Financial assets included in the table below are based on the undiscounted contractual maturities of the financial assets that will be earned on those assets except where the Group and Company anticipates that the cash flow will occur in a different period.

The Financial liabilities also included in the table below are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay. The table includes the principal cash flows and interest payments.

Liquidity and Interest Risk Tables

2011 Consolidated Group	Weighted Average Effective Interest Rate %	Less Than 1 Month $000	1-3 Months $000	3 months to 1 year $000	1-5 years $000	5+ years $000	2011 $000
Financial assets							
Cash	1.00	1,216	-	-	-	-	1,216
Trade Receivables	-	6,088	1,124	536	-	-	7,748
Other receivables	-	691	-	-	-	-	691
		7,995	1,124	536	-	-	9,655
Financial liabilities							
Trade & other payables	-	3,852	119	256	-	-	4,227
Secured bank loans - Variable	6.80	11,122	-	-	-	-	11,122
Financial lease liabilities	9.50	24	48	215	698	-	985
		14,998	167	471	698	-	16,334

2010 Consolidated Group	Weighted Average Effective Interest Rate %	Less Than 1 Month $000	1-3 Months $000	3 months to 1 year $000	1-5 years $000	5+ years $000	2010 $000
Financial assets							
Cash	1.00	3,406	-	-	-	-	3,406
Trade Receivables	-	2,479	6,941	-	-	-	9,420
Foreign Currency	-	87	352	236	-	-	675
Other receivables	-	-	294	-	-	-	294
		5,972	7,587	236	-	-	13,795
Financial liabilities							
Trade & other payables	-	2,017	1,505	-	-	-	3,522
Foreign Currency	-	87	352	236	-	-	675
Secured bank loans - Variable	5.71	61	31	3,911	-	-	4,003
Secured bank loans - Fixed	4.50	-	56	171	5,908	-	6,135
Financial lease liabilities	8.50	16	49	132	204	-	401
		2,181	1,993	4,450	6,112	-	14,736

2011 Company	Weighted Average Effective Interest Rate %	Less Than 1 Month $000	1-3 Months $000	3 months to 1 year $000	1-5 years $000	5+ years $000	2011 $000
Financial assets							
Cash	1.00	49	-	-	-	-	49
Trade Receivables	-	2,127	696	527	-	-	3,350
Other receivables	-	-	-	-	-	-	-
		2,176	696	527	-	-	3,399
Financial liabilities							
Trade & other payables	-	2,328	96	256	-	-	2,680
Secured bank loans - Variable	6.80	11,122	-	-	-	-	11,122
Financial lease liabilities	9.50	22	44	199	698	-	963
		13,472	140	455	698	-	14,765

2010 Company	Weighted Average Effective Interest Rate %	Less Than 1 Month $000	1-3 Months $000	3 months to 1 year $000	1-5 years $000	5+ years $000	2010 $000
Financial assets							
Cash	1.00	875	-	-	-	-	875
Trade Receivables	-	1,871	2,735	-	-	-	4,606
Foreign Currency	-	87	352	236	-	-	675
Other receivables	-	-	216	-	-	-	216
		2,833	3,303	236	-	-	6,372
Financial liabilities							
Trade & other payables	-	1,291	817	-	-	-	2,108
Foreign Currency	-	87	352	236	-	-	675
Secured bank loans - Variable	5.71	30	31	3,911	-	-	3,972
Secured bank loans - Fixed	4.50	-	56	171	5,908	-	6,135
Financial lease liabilities	8.50	16	49	132	204	-	401
		1,424	1,305	4,450	6,112	-	13,291

Derivative Financial Instuments Tables

The following table details the Group and Company's liquidity analysis for its derivative financial instruments. The table has been drawn based on the undiscounted net cash inflows/ (outflows) on the derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at reporting date.

	Less Than 1 Month $000	1-3 Months $000	3 months to 1 year $000	1-5 years $000	5+ years $000	2011 $000
2011						
Net settled:						
Forward Exchange	-	-	-	-	-	-
	-	-	-	-	-	-
2010						
Net settled:						
Forward Exchange	87	352	236	-	-	675
	87	352	236	-	-	675

c. Market Risk

i. *Interest rate risk*

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings as well as the use of interest rate swap contracts.

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

At the end of the reporting period, the interest rate profile of the Group's interest bearing financial instruments are as follows:

	Consolidated Group		**Parent Entity**	
Fixed rate instruments	**2011 $000**	**2010 $000**	**2011 $000**	**2010 $000**
Financial Assets	-	-	-	-
Financial Liabilities	985	5,401	985	5,401
Variable rate instruments				
Financial Assets	14	-	-	-
Financial Liabilities	11,122	3,811	11,122	3,811

Interest rate sensitivity analysis

The sensitivity analysis below has been based on the exposure to debt instruments as at the reporting date and that the change would take place from the beginning of the year and be held constant throughout the reporting period.

For the prior reporting period had interest rates been 50 basis points higher net profit would have been for the Group $49,000, Parent $49,000 lower. At reporting date if interest rates had been 50 basis points higher the reported net profit would have been for the Group $49,000 lower, Parent $49,000 lower.

No change from the prior year to the methods and assumptions used.

Interest rates swap transactions entered into by the Consolidated Entity and Company to exchange variable interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The Consolidated Entity and Company 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.

The Group and Company have chosen not to apply hedge accounting to these instruments

At balance date, there are no interest rate swap contracts in place.

ii. *Foreign exchange risk*

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities in Australian dollar equivalents at the reporting date are as follows:

2011	**Net financial assets/(liabilities) in AUD $000**				
Consolidated Group	USD	EUR	BRL	Other	Total AUD
Foreign Currency Exposure					
Financial Assets	2,042	2,706	1,679	38	6,465
Financial Liabilities	(397)	(878)	(292)	(3)	(1,570)
Net exposure	1,645	1,828	1,387	35	4,895

2010	**Net financial assets/(liabilities) in AUD $000**				
Consolidated Group	USD	EUR	BRL	Other	Total AUD
Foreign Currency Exposure					
Financial Assets	6,792	3,405	1,240	208	11,645
Financial Liabilities	(721)	(642)	(141)	(28)	(1,532)
Net exposure	6,071	2,763	1,099	180	10,113

2011	**Net financial assets/(liabilities) in AUD $000**				
Company	USD	EUR	BRL	Other	Total AUD
Foreign Currency Exposure					
Financial Assets	2,983	3,452	-	115	6,550
Financial Liabilities	-	-	-	(2)	(2)
Net exposure	2,983	3,452	-	113	6,548

2010	**Net financial assets/(liabilities) in AUD $000**				
Company	USD	EUR	BRL	Other	Total AUD
Foreign Currency Exposure					
Financial Assets	3,619	2,503	-	208	6,330
Financial Liabilities	(350)	-	-	(28)	(378)
Net exposure	3,269	2,503	-	180	5,952

The following significant exchange rates applied at balance date:

Currency	2011	2010
Foreign Currency Exposure	$	$
USD	1.0731	0.8479
JPY	N/A	75.0670
EUR	0.7389	0.6899
BRL	1.6742	1.5242
NZD	1.2956	N/A

Forward exchange currency option contracts

The Consolidated Entity and Company enters into foreign exchange currency option contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the foreign exchange currency option contracts is to protect the Group and Company 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).

The Group and Company have chosen not to apply effective hedge accounting to these instruments.

The following table summarises the notional amounts of the Group's commitments in relation to forward exchange contracts.

		Notional Amounts		Average Exchange Rate	
		2011	2010	2011	2010
Consolidated Group		$000	$000	$	$
Buy NZD / Sell AUD					
Settlement	- less than 6 mths	-	1	-	1.22
	- 6 mths to 1 year				
Buy CHF / Sell AUD					
Settlement	- less than 6 mths	-	26	-	0.91
	- 6 mths to 1 year				
Buy AUD / Sell USD					
Settlement	- less than 6 mths	-	588	-	0.85
	- 6 mths to 1 year				
Buy HKD / Sell AUD					
Settlement	- less than 6 mths	-	60	-	6.57

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 Group currently hedges the price it buys silver at. Silver Futures markets and economic forecasts are constantly monitored to determine whether to implement a hedge.

Sensitivity Analysis

At 30 June 2010, there was no hedge. For 2011, the effect on profit and equity as a result of changes in the price risk on the hedge, with all other variables remaining constant would be as follows:

	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Change in profit				
— Increase in silver price by 10%	51	-	51	-
— Decrease in silver price by 10%	(51)	-	(51)	-
Change in equity				
— Increase in silver price by 10%	51	-	51	-
— Decrease in silver price by 10%	(51)	-	(51)	-
	-	-	-	-

No change from the prior year to the methods and assumptions used.

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 Group has entered into silver hedge contracts (for terms not exceeding 3 months) to hedge the price risk arising from anticipated transactions, which are designated as cash flow hedges.

At 30 June 2011, the aggregate amount of losses under silver hedge contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to the exposure on these anticipated future transactions is $351,000 (2010: Nil). It is anticipated that purchases of silver will take place during the first three months of the next financial year, at which time the amount deferred in equity will be classified to profit or loss.

	Contract Value	
	2011	2010
	AUD'000	AUD'000
Settlement	514	-

d. Capital Risk

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manage the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 10% and 30%. The gearing ratios for the year ended 30 June 2011 and 30 June 2010 are as follows:

	Consolidated Group		**Parent Entity**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Debt (i)	11,925	9,211	11,903	9,211
Cash and Cash equivalents	(1,033)	(3,376)	134	(875)
Net Debt	10,892	5,835	12,037	8,336
Equity (ii)	39,941	40,696	38,507	37,455
Net Debt to Equity ratio	27.3%	14.3%	31.3%	22.3%

(i) Debt is defined as long and short-term borrowings, as detailed in note 18 (Borrowings).
(ii) Equity includes all capital and reserves.

Net 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 fair values and carrying amounts of financial assets and financial liabilities at reporting date are as follows:

Fair value estimation

	2011		**2010**	
Consolidated Group	Net Carrying Value $000	Net Fair Value $000	Net Carrying Value $000	Net Fair Value $000
Financial assets				
Cash and cash equivalents	1,216	1,216	3,406	3,406
Trade and other receivables	8,439	8,439	9,674	9,674
Total financial assets	9,655	9,655	13,080	13,080
Financial liabilities				
Trade and other payables	4,227	4,227	3,522	3,522
Lease liability	985	985	401	401
Bank debt	11,123	11,123	8,841	8,841
Total financial liabilities	16,335	16,335	12,764	12,764

Fair values are in line with carrying values.

Note 29 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 a foreign controlled subsidiary.
d. *Hedge Reserve*
The hedge reserve records revaluations of items designated as hedges.

Note 30 Registered Office and Principal Places of Business

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

The principal places of business are:
SDI Limited
3-13 Brunsdon Street
Bayswater, Victoria, 3153
Australia

SDI Germany GmbH
Dieselstrasse 14
D-50859 KOLN
Germany

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

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

SDI New Zealand Limited
Suite 1, 12 Knox Street
Hamilton Central
Hamilton 3204
NewZealand

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

SDI LIMITED ABN: 27008075581
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

The directors declare that:

(a) 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.

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Director ______________________________
Jeffery James Cheetham

Dated this 30th day of September 2011

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Melbourne VIC 3000
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Melbourne VIC 3001 Australia

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Independent Auditor's Report to the members of SDI Limited

Report on the Financial Report

We have audited the accompanying financial report of SDI Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 42.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

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

Deloitte

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 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of SDI Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Robert D D Collie
Partner
Chartered Accountants
Melbourne, 30 September 2011

SDI LIMITED ABN: 27008075581
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 31 August 2011:

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of holding)	Number Ordinary	Number Redeemable
1 – 1,000	198	
1,001 – 5,000	402	
5,001 – 10,000	203	
10,001 – 100,000	343	
100,001 – and over	83	
	1,229	-

b. The number of shareholdings held in less than marketable parcels is 426.

c. The names of the substantial shareholders listed in the holding company's register are:

Shareholder	Number Ordinary
Currango Pastoral Company	50,648,328
Celeste Funds Management Limited*	8,711,111
Molvest Pty Ltd (Molvest Family Trust A/C)	8,000,000
Colonial First State Investments Limited*	5,947,963

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

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. **20 Largest Shareholders — Ordinary Shares**

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Currango Pastoral Company Pty Ltd	50,648,328	42.61
2. JP Morgan Nominees Australia Limited (Cash Income A/C)	8,252,771	6.94
3. Molvest Pty Ltd (Molvest Family A/C)	8,000,000	6.73
4. Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	6,273,062	5.28
5. Silverglades Pty Ltd	2,357,829	1.98
6. HSBC Custody Nominees (Australia) Limited	2,323,671	1.95
7. Citicorp Nominees Pty Limited	2,066,183	1.74
8. JP Morgan Nominees Australia Limited	1,503,520	1.26
9. JEFFNPAM Superannuation Fund Pty Ltd	1,421,085	1.20
10. Mr Gerard James Van Paasen (The Van Paassen fam A/C)	1,104,348	0.93
11. Mr Brendan Francis Carroll	1,040,490	0.88
12. Mr David William Kingsley Thomas	1,000,000	0.84
13. Ruminator Pty Ltd	988,566	0.83
14. National Nominees Limited	900,773	0.76
15. Branka Nominees Pty Ltd	750,220	0.63
16. Mr Neil Peter Goosen	618,524	0.52
17. Mr Michael Lazzarin	600,000	0.50
18. AA Lam Pty Ltd	550,000	0.46
19. Indcorp Consulting Group Pty Limited	546,714	0.46
20. BT Portfolio Services Limited	500,000	0.42
20. Mr Peter George Wilson	500,000	0.42
	91,946,084	77.34

2. The name of the company secretary is John J. Slaviero

3. The address of the principal registered office in Australia is 5-7 Brunsdon Street Bayswater Victoria 3153 Australia.

4. Registers of securities are held at the following addresses:
   Link Market Services Limited Level 4, 333 Collins Street , Melbourne, Victoria, 3000 Australia

5. **Stock Exchange Listing**

   Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

Corporate Governance Statement

SDI Limited (SDI or Company) has reviewed its corporate governance framework during the financial year against the Corporate Governance Principles and Recommendations 2nd Edition ("recommendations") released by the Australian Securities Exchange (ASX). A description of SDI's main corporate governance practices are set out below. SDI's detailed statement on corporate governance is available for inspection in SDI's Company section of its website, www.sdi.com.au.

The Company has followed the recommendations unless stated to the contrary in this Corporate Governance Statement.

Board Composition

The majority of the Board of Directors are independent directors. The Board of Directors comprises 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.

All of the non-executive directors of the Board are independent directors and comply with the Company's description of independent directors as described in the Corporate Governance Statement which appears on the Company's website and set out below.

The skills, experience and expertise relevant to the position of each director and held by each director are also described in the Company's Corporate Governance Statement appearing on its website.

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

- is not an officer 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; and
- 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.

The board considers that a person is capable of being an independent director despite being a substantial shareholder. Substantial shareholding does not automatically mean that a person cannot be independent. It remains one of the factors to take into account. A substantial shareholder may be in a position of experience, may be able to offer guidance and may be able to offer the company opportunities through networking contacts. Ultimately it is up to the shareholders to elect such a person as director having all the relevant information before them.

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 Managing Director (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;

Board responsibilities (continued)

- 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 ASX.

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 affect 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. It does not have one as such. 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 and it has not done so.

The Board itself makes decisions, with recommendations from the Managing Director, as to:

- executive remuneration and incentive policies;
- the remuneration packages of senior management;
- the Company's recruitment, retention 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.

Remuneration Committee (continued)

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 Managing Director 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 detailed Statement of Corporate Governance.

Audit Committee

SDI has a formally constituted audit committee and all of the members of which are independent directors. Details of the audit committee members and the number of meetings held are included in the annual report.

The Managing Director 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 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 detailed corporate governance statement.

In performing its duties, the committee maintains 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.

<u>Authority</u>

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; and

Authority (Continued)

- ensure the attendance of Company officers at meetings as appropriate.

Risk assessment and Management

The Company does not have an internal audit department as it is too small

The Board and the audit committee have established policies, comprising several procedures, on risk oversight and management in focusing on strategic risks and the monitoring of them. Strategic risks include environmental credit risks, liquidity risks, and currency exchange risks amongst others. In order to carry out this function, the audit committee undertakes the following reviews, oversights and procedures:

- reviews the financial reporting process of the Company on behalf of the Board and reports the results of it's activities to the Board;

- discusses with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the policies and procedures of the Company to assess, monitor and manage business risk, and any legal and ethical compliance programs;

- reviews with the external auditor any audit problems or difficulties and the response of management;

- receives reports from the external auditor on the critical policies and practices of the Company;

- makes recommendations to the Board on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of the effectiveness, and independence of the external auditors;

- reviews and assesses the independence of the external auditor;

- reviews and discusses with the Board any ASX press releases, the half-year financial report, Appendix 4E and other reports required to be lodged with the ASX, prior to the filing of these documents with the ASX; and

Risk assessment and Management (continued)

- establishes procedures for the receipt, retention and treatment of complaints received by the Company (if any) regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding accounting or auditing matters.

The Board assesses the effectiveness of the audit committee's management of risk.

The Managing Director and the Chief Financial Officer state to the Board in writing that:

- the accounts are true and fair and comply with accounting standards, are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

- the Company's risk management and internal compliance is operating efficiently in all material respects.

The systems of internal financial control have been determined by the senior management of the Company and are designed to provide reasonable, but not absolute protection against fraud, material misstatement or loss. These controls are intended to identify, in a timely manner, control issues that require attention of the Board or audit committee.

Encourage enhanced performance

There has been no formal performance evaluation of the Board, members of the Board, committees or individual non-executive directors undertaken in the reporting period. The Board informally evaluates its performance by the contribution and independent judgements it makes in the best interests of the Company during each Board meeting.

Evaluation of the performance of individual executives and executive directors are evaluated by the Managing Director. All executives and executive directors (excluding the Managing Director) are eligible to participate in an Executive Share Option Plan on invitation from the Board on the advice of the Managing Director.

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 based on the Company achieving its targets and at the absolute discretion of the Board.
Bonus payments and other incentive payments are made at the discretion of the Managing Director and approved by the Board. Incentive payments are based on individual performances and the Company's overall performance as evaluated by the Managing Director.

Encourage enhanced performance (Continued)

The remuneration policy by incorporating a share option plan and bonus payments strives to align the goals of the shareholders and the executives. This aim is achieved by a performance bonus payment based on the overall performance of the Company and the issue of share options to executives to encourage the alignment of executive and shareholder wealth.

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 detailed 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 must not trade in any shares prior to announcement to the market 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 and the Market

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 requirements and must advise 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.

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Corporate Directory

SDI Limited
ABN 27 008 075 581

Auditors
Deloitte Touche Tohmatsu
550 Bourke Street, Melbourne
Victoria 3000, Australia

Bankers
HSBC Bank Australia Limited
Level 10, 333 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
p (03) 9615 9800 f (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
J.N. Isaac, (Chairman) LL.B., F.A.I.C.D. 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.
S.J. Molver, B.Soc.Sc., B.Com. (Hon)
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

toll free 1 800 337 003
p (03) 8727 7111
f (03) 8727 7222
email: info@sdi.com.au
www.sdi.com.au

Your Smile. Our Vision.

www.sdi.com.au
www.polawhite.com.au

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