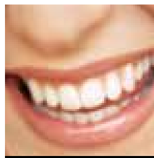
A smile

Understood in any language

Annual Report 2006



SDI

Reasons to smile

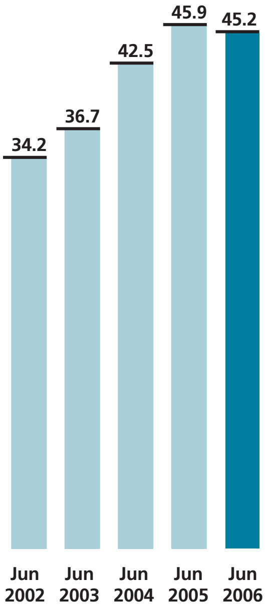
Back on track: While the sales increase, excluding tenders, was a modest 8%, it is the quality of those sales and the source of them; North America and Europe have clearly returned the Company back on its growth trajectory.

Margins up: With the Company's focus on sales in its higher margin trading zones, minimisation of discounting and policy of passing on the increased input costs associated with silver, other metals, and plastics, SDI has returned to its historically high margins.

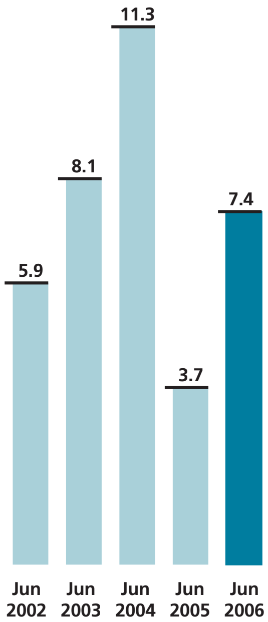
Pipeline of new products: By ongoing investment in R&D, the Company has been able to continue to roll out new products as well as new refinements of existing products and increase its market share. New generation light curing devices and new adhesives are just some of the products launched during the year.

Riva – SDI's Glass Ionomer Cement: Riva has begun to achieve market acceptance with positive reactions from users and academic institutions. The use of glass ionomer cements worldwide is increasing and Riva is well placed to share in the growth of this market.

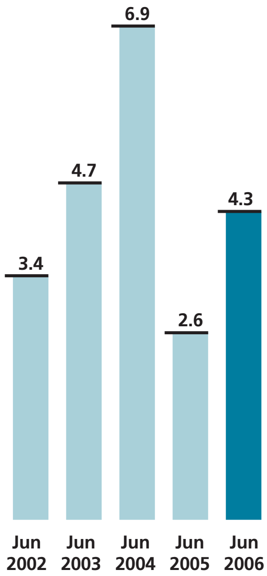
Focus on risk management: The Company has focussed strongly on the key areas of risk to its business and has put in place systems to micro-manage these risks. In particular, it has concentrated on the protection of raw material price movements and improvements in Q.C. and Q.A. procedures.



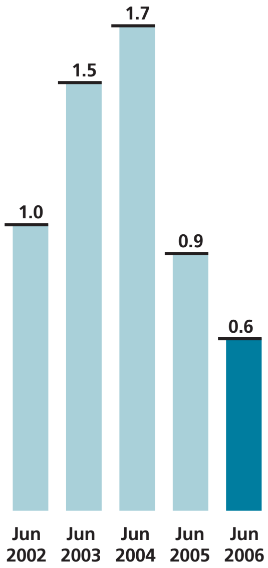
Sales ($m)



EBIT ($m)



EPS (cents)



DPS (cents)

Financial summary

	2002	2003	2004	2005	2006
Depr & Amort	1.3	1.5	1.6	1.5	**1.5**
Interest	0.3	0.3	0.5	0.8	**1.0**
Tax	1.6	2.4	2.8	-0.1	**1.3**
NPBT ($m)	5.6	7.8	10.9	2.9	**6.4**
NPAT($m)	4.0	5.5	8.0	3.0	**5.1**
EBITDA ($m)	7.2	9.6	12.9	5.2	**8.9**
EBITDA %	21.1%	26.2%	30.4%	11.3%	**19.7%**
Equity	17.7	22.0	28.1	25.7	**30.4**
ROE %	22.6%	25.0%	28.5%	11.7%	**16.8%**

AGAAP: 2002, 2003, 2004
AIFRS: 2005, 2006

SDI Limited
ABN 27 008 075 581

Opportunity for global growth

The international dental equipment and products market for products similar to SDI's is a $3bn industry. SDI has less than 2% of this market and wonderful growth opportunities to exploit.

SDI has a solid base from which to grow. The product offerings focus on stronger, whiter teeth, key drivers of today's beauty image. The quality products are making statements on all continents.

Central & South America

Estimated market size $400m

Asia/Middle East

Estimated market size $500m

Key sales drivers:

Central and South America, Eastern Europe, Asia and Middle East – The rising living standards of these developing regions ensure growing demand for top quality products. In all regions, poor quality locally manufactured products are replaced by high quality SDI products. The rising income levels are creating stronger demand for dental care and aesthetically beautiful products.

is something to smile about

Australia & New Zealand

Estimated market size $50m

North America

Estimated market size $950m

Europe

Estimated market size $1.1bn

Key sales drivers:

Australia & New Zealand, Europe and North America –
High quality, sophisticated markets with ageing populations. The dental populations want leading edge dental technologies that focus on prevention and aesthetics. Their patients retain their natural teeth for a long time and demand top quality, long lasting restorations to improve their smile.

We also make our distributors

527
DISTRIBUTORS & DEALERS

Central & South America
127 distributors and dealers

Asia & Middle East
25 distributors and dealers

Miltiadis Vitsaropoulos
Distributor, Greece
"My company, Miltiadis Vitsaropoulos S.A., has exclusively represented SDI Limited throughout Greece since 1975. My company distributes to many selected dealers who find the SDI product range to be excellent, of highest quality and competitive to other products. In Greece, SDI has a major share of the amalgam and tooth whitening markets and a growing share of the composite and glass ionomer cement markets. The Radii unit has been extremely successful throughout Greece."
Athens, July 2006

Dr Mario Herrera
Distributor, Chile
"SDI has become a most recognised brand throughout Chile, in both private and government sectors. The feature of the SDI products is their unique delivery systems and high material quality."
Zavala & Herrera Ltda.
Santiago, August 2006

SUPPORTED BY 5 SDI SUBSIDIARIES

SDI LTDA – São Paulo, Brazil

SDI KK. – Tokyo, Japan

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

smile

Australia & New Zealand
51 distributors and dealers

North America
75 distributors and dealers

Europe
249 distributors and dealers

SDI Ltd. – Dublin, Ireland

SDI Inc. – Chicago, USA

SDI Gmbh. – Cologne, Germany

SDI worldwide network

SDI has strategic partners in every corner of the world distributing all of the products. Whether they are an SDI subsidiary, a distributor who exclusively represents SDI or a dental dealer distributing a range of products, SDI products are available in approximately 100 countries. SDI releases a product and within weeks, it is available to the dental industry through the worldwide network.

Competitive advantages

In addition to SDI's global network, top quality products that ensure premium dental care for patients are offered. Our Pola tooth whitening brand is continuing to gain market share because of the range of options available and ease of use. The Riva glass ionomer system is only one of three high quality brands available on the world market.

Expanding the network

Generally, SDI chooses to maintain its current distribution network. Occasionally, SDI may choose to change the distributor or the way the products are distributed in some countries when the time is right. SDI only supports distributors and dealers who support SDI and its high quality products.

Chairman's Report

Last year, SDI went to great lengths to explain the issues that resulted in the 'blip' which was the poor 2005 result following seven consecutive record profit years.

I am happy to confirm to shareholders in this year's Annual Report that all the well articulated strategies we announced to address these issues have been implemented and have resulted in the Company getting 'back on track'.

While, on the face of it, SDI's sales of $45.2m appear to be a flat result on the 2005 sales of $45.9m, it is important to delve a little deeper into the composition of those sales. Last year, $3.5m of the sales were contributed by extremely low margin international tenders, whereas this year's result has no tender sales included and therefore represents an 8% increase on the 'normal' sales of SDI products. These have generally come from the Company's higher margin trading areas of North America and the Euro-zone and are considered high quality sales. This is most clearly demonstrated by the Company's return to the more recent historic high levels of profit margin enabling the achievement of a $5.1m net profit after tax, up from the 2005 result of $3.0m NPAT.

One area of focus for SDI this year has been a review of the Company's sales and marketing penetration, particularly in its high quality established markets. This has resulted in an increase in the Company's human resources in both North America and Europe and has further bolstered our existing customer relationships. The Company is looking to continue this drive to consolidate and strengthen its presence in its strongest high margin markets. The Latin American market is also developing well and focus will continue in this area.

The Company has also instituted a wide range of risk management strategies across its business to ensure early detection and elimination of problem issues and to further underpin business continuity and minimisation of any adverse effects.

SDI has successfully adapted to the new International Accounting Standards (AIFRS) and reports this year's result for the full 12 months to 30 June, 2006 to those new standards.

In conclusion, I would like to take this opportunity to thank my fellow directors for their commitment and support of our management team, which has enabled us all to get our 'ship' back on course. I would also like to thank our staff for their positive approach and for ensuring that SDI moves forward optimistically on its future profitable growth trajectory.

Anthony J Bardsley
Chairman

Managing Director's Report

There are times in the history of every company when an opportunity is presented to revisit the business model and to make adjustments for the future benefits of everyone concerned in that business.

SDI has had that opportunity during the last twelve months and I believe that the changes we have made and the risk management strategies that we have put in place now mean that the fundamentals of our business have never been in better shape.

I am encouraged by this year's results but not complacent about them. We can achieve much more, particularly since I believe that the foundations of our Company are more robust and that the focus of our board, management and staff is completely aligned.

The decision to focus on the markets where we achieve higher sales margins, namely North America and Europe, has resulted in better market penetration in these regions and of course, as a result, a return to historically high sales margins.

The Company has introduced a range of new internal measures to ensure that we manage our exposure to fluctuations in silver pricing and currency. We have always had systems in place, however, we are now micro-managing these issues in order to maximise our response time to changes and minimise any potential negative effects.

Radii Plus, the second generation light curing device, has been well received by our customers and we have continued to develop additional options for use of this device such as, tooth whitening, diagnostic and orthodontics. These additional modifications extend both the usage and lifecycle of these devices.

The Riva Glass Ionomer System, which we have talked about extensively in the past, has begun to achieve real traction. SDI remains committed to ensuring that this product range will be a substantial contributor to future sales and profit growth.

The continued growth of the tooth-whitening category globally has translated into extremely positive gains for SDI's Pola Tooth Whitening Systems. Pola continues to grow in popularity in our target markets and is also growing as a significant sales and profit contributor to the Company.

Our decision two years ago to increase our 'footprint' at Bayswater by the acquisition of additional factory space has been vindicated with all of this space now being utilised. Improved workflow and productivity have resulted in a better working environment for our staff.

In summary, I feel that the Company has all its mechanisms running smoothly and that we are again well positioned to resume a growth trajectory that will not only justify all the investment made in plant, systems and people but will also restore shareholder returns and share price performance to more acceptable levels.

On the following page we answer some commonly asked questions from investors.

Q. The Company's R&D spend appears to have stabilised at around $3-3.5m. Do you expect this to continue?

A. As we have always said, R&D is a fundamental part of our business and an integral part of our risk management strategy for the business. We would expect the dollar expenditure to broadly remain the same. However, as a percentage of our growing sales, it will decrease.

Q. It appears that the level of capitalisation of the Company's R&D is high compared to the amount expensed against Profit.

A. In adopting the new AIFRS accounting standards all research expenditure is expensed against profit when incurred and all development expenditure is capitalised if certain criteria is met. The nature of SDI's expenditure in this area meets the criteria of development expenditure as per AIFRS. It should be noted that SDI does not venture into high-risk research on products, whereas the majority of its expenditure is incurred in further developing and improving existing products to produce new bi-products. An example of this is the further development of the original Riva technology which resulted in developing five new products.

Q. Does the Company still believe that the Riva range of products is the 'company maker' that you talked about 2 years ago?

A. In a word, yes. However, we were probably a bit premature in calling it that 2 years ago, as it is only in the last 12 months that we have improved its manufacture and delivery systems and begun to fully market the range. It is now gaining some real traction and receiving positive reviews by the academics and universities. We look forward to this range of products being a significant profit contributor in the future.

Q. Other than capital expenditure on plant and equipment to further the Company's automation of its production, do you expect to have any other major expenditure?

A. Apart from maintaining our current plant and equipment we do not expect anything major in the foreseeable future. We are looking however to expand our senior management in the Northern Hemisphere. These appointments will help us to optimise our territory managers throughout that region as well as our distributors and dealers.

Q. How is SDI Japan going?

A. We did not breakeven in 2006 but a huge amount has been achieved to establish this subsidiary for the future in Japan. Product registration has been a major hurdle and we have overcome this with most of our products approved or about to be approved for registration and, therefore, importation. 2006-2007 is year 3 for SDI Japan and I expect Japan to make a positive contribution in this year.

Q. How does the Company see the North American and European Union markets?

A. We are very positive about these markets because they are high quality, high sales value, and high margin markets. We have invested and will continue to invest more into our sales and marketing in those regions. We had reasonable sales growth in both regions but we realise that we have to do a lot better and our aim is to do so.

Jeffery Cheetham
Managing Director

SDI at a glance

Products

Item	Key brands	Market opportunity
Alloys & Accessories	Permite, GS-80, Lojic Plus, F400, Ultracaps+	Continued penetration into countries with lower socio-economic regions
LED Lights	Radii Plus, Radii-cal, LED Radiometer	Significant replacement market of new generation curing and diagnostic devices
Tooth Whitening	Pola, Soothe	Huge demand for whiter, brighter teeth
Composites	Ice, Rok, Glacier, Freedom, Conseal, Wave	High worldwide demand for aesthetic filling materials
Glass Ionomers	Riva	Growing demand for high fluoride releasing, aesthetic filling materials
Adhesives	Stae, Frog, Alloybond, Bonding Resin	High worldwide demand for aesthetic filling materials: adhesives will always be required

Markets

Area	Description	Revenue
Australasia & Australian Exports	Australian and New Zealand markets, plus exports to Eastern Europe, Latin America, Middle East and Asia	$14.3m
North America	USA subsidiary, sales representatives and dealer network in USA and Canada	$11.6m
Brazil	Brazil subsidiary, sales representatives and dealer network	$4.6m
Europe	Subsidiaries (Ireland and Germany), Tele-sales, representatives and distributors (excludes direct exports to Eastern Europe from Australia)	$14.1m
Japan	Japan subsidiary, distributors and dealers	$0.6m

Our risk management strategy is working

While the Company has always had a number of policies in place to ensure business continuity and to optimise Company performance, these initiatives have now pulled together into a risk management strategy program.

As Information Systems have become ever more sophisticated and efficient, it is much more practical now to micro-manage issues that affect operations and profitability.

With Amalgam products representing a significant share of the Company's sales, SDI has focussed on protecting the margins in two ways. The Company has taken out hedging contracts on Silver thus protecting the input costs of manufacture. Secondly, in relation to Foreign Exchange currency management, SDI continues to put in place hedging contracts at protection levels to ensure the required margins are achieved via the Company's pricing policies.

The Company has also introduced measures to protect against the rising cost of other critical raw materials.

Though the Company enjoys relatively high margins, SDI continues to expend capital to further automate production. Lowering the cost of production as well as increasing capacity will not only protect margins but enable them to expand further.

Tightening of QA procedures has been continued along with a closer scrutiny of pricing policies and tender opportunities to ensure price optimisation.

The Company has moved to 'smooth' its sales more evenly over the trading period, to the extent that it has some control not seasonally related, which in turn produces better management of production flow and inventory.

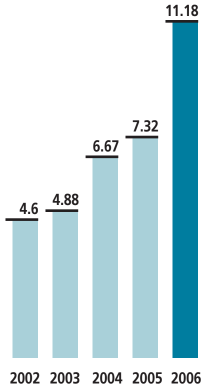
Finally, the Company has committed to its ongoing R&D spend to ensure a continued development of new products and ongoing refinement of existing products. In the absence of acquisitional opportunity, this investment enables a continuous growth of market share in the Company's targeted product and market areas.

Update:
Component failure in Radii

As announced last year, the Company replaced the supplier of the Lithium Ion batteries as well as completely re-engineering the device with new features in the form of Radii Plus. This product has been well accepted and sales targets have been achieved at growth levels at which the Company believes to be sustainable for the next few years.

Update:
Price of silver

As explained previously, it was not the fluctuating price of silver in isolation that caused problems in the 2005 financial year but the combination of increased silver prices coinciding with the winning of low price amalgam tenders. SDI has addressed this issue by hedging contracts on silver that protect the input costs, together with greater scrutiny of tendering opportunities with a rigorous internal rate of return



Price of silver (USD/troy oz)

Update:
Under performing customers

The Company constantly reviews its distribution network to ensure that customers are fully supporting SDI and meeting agreed minimum purchase targets in each specific marketplace. SDI has a large distributor market worldwide (in countries and regions where SDI is not represented by its own subsidiaries) and secures the performance of a majority of these distributors by exclusive distributor contracts. Contract performance guarantees SDI minimum purchases and they are reviewed annually. Last year some non-performers left the SDI group.

Our focus on quality sales is gaining traction

SDI made a decision at the commencement of the 2006 financial year to focus on 'quality sales'.

The Company's definition of 'quality sales' are sales of high margin products being sold into countries whose economies support higher prices in the dental market. The stronger economies of the European Union and North America are SDI's sales and marketing focus.

The new generation light curing device, Radii Plus, the Pola tooth whitening system and the expanding range of the Riva glass ionomer 'filling' system are all "top-end" products demanding premium pricing in sophisticated markets.

In order to support this strategy, our sales teams in these regions have been expanding. Furthermore, they have been investing a lot of their efforts into developing relationships with key opinion leaders. Dentists rely on independent researchers to give opinions on how products perform.

The Company's focus on the Northern Hemisphere certainly did not come at any cost to the rest of the Company's markets. In particular, in Central and South America, our sales team also expanded. These less developed countries are very image conscious, and the rising living standards are driving growth.

Historically, SDI sales have peaked at certain time periods due to tempting promotions offered to distributors and dealers. At times, this has caused large inventory holdings to occur by our distributors in order for them to maximise their profit margins. Now "smoother" month on month sales growth occurs.

In support of all the aforementioned initiatives, the Company has taken a more critical approach to tender opportunities by applying greater scrutiny. In future, SDI will only participate in tenders that meet the Company's IRR standards and deliver acceptable and minimally dilutive profit margins.

Radii Plus

Our flagship high intensity light curing device has incorporated all of our knowledge of LED technology into an extremely reliable and high quality hand held device. With an extensive choice of attachments now available (orthodontic, bleach, diagnostic) this product range has proven to be a market leader. Further accessories for this product are under development.

Pola Tooth Whitening System

Development into more effective and faster in-office and home tooth whitening products is continuing. Production process improvement is ensuring high capacity and high quality filling and assembly lines. New Pola products are undergoing stability trials and will be released in FY 06/07.

Riva Protect

Self cure glass ionomer surface protector and sealant. Using SDI glass technology the product combines extremely high levels of fluoride release with a range of excellent physical properties. This new generation glass ionomer is successfully restoring and protecting the teeth of caries challenged patients. Continual development of all of the glass ionomer restorative range is ongoing to ensure SDI's products possess superior physical properties to other glass ionomers on the market.

Our R&D will continue to produce growth opportunities

SDI has continued its commitment to an extensive R&D program designed to provide a high quality and competitive range of new products for the company. Development of existing products will continue to be ongoing to ensure that they remain competitive and high quality.

Further investment in specialised R&D equipment (including analytical and pilot scale process equipment) allow our team of material scientists to develop novel processes and materials that are to be introduced throughout our range of products and processes.

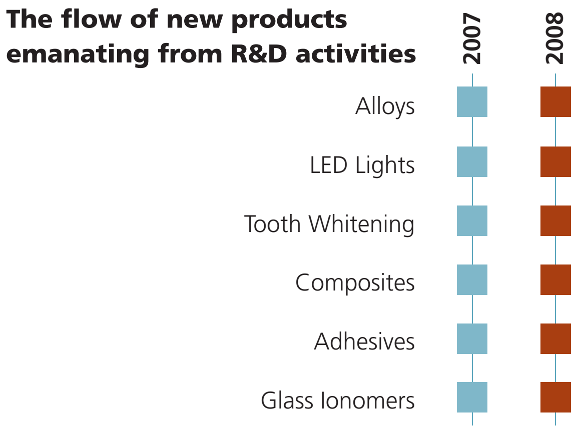
Manufacturing:

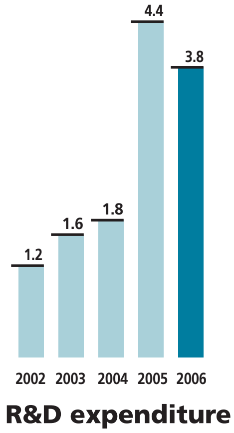
A focus on quality high-speed automation is ensuring that our finished products remain cost effective in all markets. High capacity equipment has been introduced throughout the manufacturing divisions with the aim to remove labour from many of our processes.

Infrastructure improvements are ongoing and ensure a safe and productive environment for our product manufacture. SDI has a dynamic and extensive safety program, which complies to the OHS Act and WorkSafe regulations and codes.

QA Update:

In April this year SDI's Quality Management System was audited and re-certified as compliant to ISO13485:2003 (CMDCAS) and ISO9001:2000. These systems are regularly audited by local and international inspectors representing TGA (Australia), NIOM (Europe), DQS (Health Canada), UL (USA) and CSA (Canada). SDI's Quality systems are considered to be of a high level for a Medical Device manufacture of dental products.





Frog Adhesive System

A self-etching adhesive system was developed to improve the reliability of bonding applications as well as to eliminate the possibility of post-operative sensitivity associated with bond application. SDI has a team continually developing new, faster and more reliable adhesive products as well as high capacity adhesive manufacturing and filling processes.

High Purity Glass Powder Development

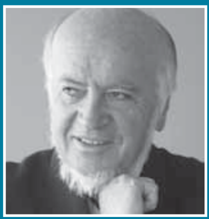
Continued development is being conducted into ultra high purity reactive and non reactive glass formulations and powder manufacturing processes. These products are being used in our range of glass ionomers and composite materials. SDI has extensive expertise in the manufacture of glass products for the dental industry.

Board of Directors

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

Chairman

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



J.J. Cheetham O.A.M.

Managing Director

Mr. Cheetham is the founder of SDI Limited.

G.M.McCorkell LL.B

Non-Executive Director

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

J.A. Roseman CP.A.

Non-Executive Director, Chairman, Audit Committee

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

S.J. Cheetham B.Bus. (Banking and Finance), M.B.A.

Director, Sales & Marketing

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

J. Isaac LL.B., F.A.I.C.D.

Non-Executive Director

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

SDI LIMITED
ABN: 27 008 075 581

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.

The names of directors in office at any time during or since the end of the year are:

Anthony John Bardsley
John Norman Isaac
Gabrielle Mary McCorkell
Jack Arthur Roseman
Jeffery James Cheetham
Samantha Jane Cheetham
Pamela Joy Cheetham

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

Company Secretary

The company secretary is Mr John J. Slaviero, B.Bus(Acct.), C.P.A., F.T.M.A.

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

Principal Activities

The principal activities of the economic entity during the financial year were:

- 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 economic entity's principal activities during the financial year.

Operating Results

The consolidated profit of the economic entity after providing for income tax amounted to $5,118,317.

Dividends Paid or Recommended

Dividends paid or declared for payment are as follows:
Ordinary dividend paid on 21 October 2005, as recommended in last year's report $351,914
Interim ordinary dividend of 0.2 cents per share paid on 12 May 2006 $235,332
Final ordinary dividend of 0.4 cents per share recommended by the Directors $470,723

Review of Operations

Revenue from operating activities of $45,577,000 for the Group was 0.1% below that of the previous period. A review of the operations of the Economic Entity during the financial year, and of the results of the operations is contained in the Managing Director's report.

Significant Changes in State of Affairs

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

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

After Balance Date Events

There is, at the date of this report, no matter or circumstance, which has arisen since 30 June 2006 that has significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

In the opinion of the Directors, it would prejudice the interests of the Economic Entity to include additional information, except as represented in this Directors' Report, which relates to likely developments in the operations of the Economic Entity and the expected results of those operations in the financial periods subsequent to 30 June 2006.

Environmental Issues

The Parent Entity holds licences issued by the Environmental Protection Authority, which specify limits for discharges to the environment arising from the Parent Entity's operations. These licences regulate the management of discharges to the air and storm water run-off associated with the manufacturing operations as well as the storage of hazardous materials. The Directors are not aware of any breaches of the licence conditions during the year or since 30 June 2006.

Information on Directors

Anthony John Bardsley	— (Chairman) (Non-executive)
Qualifications	— **B.Sc., F.A.I.F.S.T., F.A.I.M.**
Experience	— **Former Managing Director of Bonlac Foods Ltd and H J Heinz (Australia) Ltd.**
Interest in Shares and Options	— **500,000 Ordinary Shares in SDI Limited**
Special Responsibilities	— **Mr Bardsley is a member of the Audit Committee.**
John Norman Isaac	— Non-executive director
Qualifications	— **LL.B, F.A.I.C.D.**
Experience	— **Consultant (formerly partner) with Middleton Lawyers. He has extensive experience in commercial law and has practised in the areas of health, intellectual property, banking and finance, and property development. He is Deputy Chairman of RACV Ltd and Deputy Chairman of Insurance Manufacturers of Australia Pty Ltd. He is a member of the Board of Governors of St. Vincent's Hospital Foundation, Victoria.**
Interest in Shares and Options	— **Nil**
Special Responsibilities	— **Mr Issac is a member of the Audit Committee**
Gabrielle Mary McCorkell	— Non-executive director
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	— **552,183 Ordinary Shares in SDI Limited.**
Special Responsibilities	— **Mrs McCorkell is a member of the Audit Committee.**
Jack Arthur Roseman	— Non-executive director
Qualifications	— **C.P.A.**
Experience	— **His experience as the principal of Roseman & Co, Certified Practising Accountants, for over 35 years is in the areas of accounting, taxation, management consulting and computer systems for small to medium size businesses. He acts an adviser to several non-profit organisations.**
Interest in Shares and Options	— **60,000 Ordinary Shares in SDI Limited.**
Special Responsibilities	— **Mr Roseman is Chairman of the Audit Committee.**
Jeffery James Cheetham O.A.M.	— Executive Director
Experience	— **Founder of SDI Limited**
Interest in Shares and Options	— **50,628,506 Ordinary shares owned by Currango Pastoral Company Pty Ltd and 2,999,840 Ordinary Shares owned by Silverglades Pty Ltd.**
Special Responsibilities	— **Founder and Managing Director of SDI Limited.**
Samantha Jane Cheetham	— Executive Director
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	— **349,390 Ordinary Shares in SDI Limited.**
Special Responsibilities	— **She is responsible for the marketing and sales activities of SDI's Group of Companies.**
Pamela Joy Cheetham	— Alternate director for Jeffery James Cheetham.
Qualifications	— **Co-founder of SDI Limited.**
Interest in Shares and Options	— **Co-holder of shares shown for J.J. Cheetham.**

REMUNERATION REPORT

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

Remuneration policy

The Company has a small Board (6 Directors) and it is neither feasible nor efficient to have a formally constituted Remuneration Committee. The Board itself makes decisions, with recommendations from the Managing Director regarding remuneration of its executives.

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

The remuneration of the Managing Director is fixed by the Board based on Company performance and relevant comparative market information. There is no formal contract apart from the arrangement that is disclosed in Note 6. The Managing Director is not eligible to participate in either the Executive Option Plan or the Employee Share Plan. Details of the Managing Director's remuneration are disclosed in Note 6.

The Managing Director having regard to performance, relevant comparative information, and independent advice reviews senior executives' remuneration and other terms of employment annually and any recommendations are ratified by the Board. Remuneration packages are set at levels designed to attract and retain senior executives capable of contributing to the financial well-being of the Company. There are no formal contracts in place for senior executives. Bonus payments and other incentive payments are made at the discretion of the Managing Director and ratified by the Board. Incentive payments are based on individual performances as evaluated by the Managing Director. Details of executives' remunerations are disclosed in Note 6. There were no options issued or vested in the financial year ending 30 June 2006. Options granted in this financial year were forfeited due to the earnings per share target not being achieved.

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 economic 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 27.

All permanent employees other than Directors of the Company and their associates are eligible to participate in the Company's Employee Share Plan. Shares are offered from time to time at the absolute discretion of the Board and have a three-year restriction period whereby they cannot be sold by the employee. Details are disclosed in Note 27.

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 Economic Entity. However, to align directors interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Details of Key Management Personnel Compensation for year ended 30 June 2006

The remuneration for each director and each of the four executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions $	Superannuation Contribution $	Cash Bonus $	Non-cash Benefits $	Other * $	Long Service Leave $	Total $
Directors							
Anthony John Bardsley	60,000	5,400	-	-	-	-	65,400
John Norman Isaac	25,000	2,250	-	-	-	-	27,250
Gabrielle Mary McCorkell	25,000	2,250	-	-	-	-	27,250
Jack Arthur Roseman	30,000	2,700	-	-	-	-	32,700
Jeffery James Cheetham O.A.M.	227,050	32,273	-	95,677	80,000	14,432	449,432
Samantha Jane Cheetham	268,338	24,775	10,000	28,120	-	11,464	342,697
Pamela Joy Cheetham	-	-	-	-	-	-	-
	635,388	69,648	10,000	123,797	80,000	25,896	944,729
Executives							
John J. Slaviero	170,598	9,428	-	22,000	-	1,167	203,193
Nicholas A. Cheetham	163,340	9,890	-	35,001	-	1,169	209,400
Joshua Cheetham	163,365	14,225	10,000	7,000	-	6,735	201,325
Ray M. Cahill	148,965	14,289	-	12,135	-	5,331	180,720
	646,268	47,832	10,000	76,136	-	14,402	794,638

* Refer to Note 29.

Directors' and Executives Officers' Emoluments

Disclosure relating to directors' and executive officers' emoluments has been included in Note 6 of the financial report.

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

Meetings of Directors

During the financial year, 12 meetings of directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

	Directors' Meetings		Committee Meetings	
			Audit	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Anthony John Bardsley	10	10	2	2
John Norman Isaac	10	9	2	2
Gabrielle Mary McCorkell	10	10	2	2
Jack Arthur Roseman	10	10	2	2
Jeffery James Cheetham	10	10	-	-
Samantha Jane Cheetham	10	10	-	-
Pamela Joy Cheetham	-	-	-	-

Indemnifying Officers or Auditor

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

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

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

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

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

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

Options

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

Exercisable from	Date of expiry	Exercise price	Number under option
16/09/03	24/11/2007	0.486	365,000
16/09/04	24/11/2007	0.486	315,000
16/09/07	24/11/2007	0.486	430,000
			1,110,000

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

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

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

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

Non-audit Services

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

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Code of Professional Conduct APES110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

The following fees for non-audit services were paid/payable to the external auditors, DTT Victoria, during the year ended 30 June 2006:

	$
Taxation services	13,050
Accounting Services	-
	13,050

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 60 of the Annual report.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars. Signed in accordance with a resolution of the Board of Directors.

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

Director	**Jeffery James Cheetham**			
Dated this	**29th**	day of	**September**	**2006**

SDI LIMITED
ABN: 27 008 075 581
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Sales Revenue	3	45,153	45,938	31,429	36,008
Cost of Sales		(15,985)	(19,703)	(17,522)	(24,232)
Gross Profit		29,168	26,235	13,907	11,776
Other income	3	424	45	1,750	1,165
Selling & Administration Expenses		(21,136)	(21,195)	(7,699)	(7,550)
Research & Development Expenses		(272)	(236)	(272)	(236)
Finance costs	4	(964)	(803)	(946)	(785)
Other expenses		(807)	(1,128)	(321)	(895)
Profit before income tax expense		6,413	2,918	6,419	3,475
Income tax expense	5	(1,294)	62	(1,169)	171
Profit for the year		5,119	2,980	5,250	3,646
Profit attributable to members of the parent entity		5,119	2,980	5,250	3,646
Overall Operations					
Basic earnings per share (cents per share)	9	4.4	2.5		
Diluted earnings per share (cents per share)	9	4.3	2.5		
Continuing Operations					
Basic earnings per share (cents per share)	9	4.4	2.5		
Diluted earnings per share (cents per share)	9	4.3	2.5		
Dividends per share (cents)		0.4	0.3		

The accompanying notes form part of these financial statements.

SDI LIMITED
ABN: 27 008 075 581
BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	982	1,250	164	41
Trade and other receivables	11	11,195	11,491	10,666	11,092
Inventories	12	12,880	10,182	9,966	7,627
Current tax assets	20	775	1,155	775	1,155
Other current assets	17	375	650	251	265
TOTAL CURRENT ASSETS		26,207	24,728	21,822	20,180
NON-CURRENT ASSETS					
Financial assets	13	-	-	312	312
Property, plant and equipment	15	12,781	12,327	12,151	11,815
Deferred tax assets	20	1,549	1,703	1,099	1,572
Intangible assets	16	11,469	7,800	11,355	7,690
Other non-current assets	17	45	12	45	12
TOTAL NON-CURRENT ASSETS		25,844	21,842	24,962	21,401
TOTAL ASSETS		52,051	46,570	46,784	41,581
CURRENT LIABILITIES					
Trade and other payables	18	3,360	3,634	2,340	2,789
Short-term borrowings	19	5,185	4,559	5,185	4,282
Current tax liabilities	20	154	177	-	-
Short-term provisions	21	1,194	1,173	1,163	1,142
TOTAL CURRENT LIABILITIES		9,893	9,543	8,688	8,213
NON-CURRENT LIABILITIES					
Long-term borrowings	19	9,157	9,687	8,846	9,539
Deferred tax liabilities	20	2,289	1,476	2,289	1,466
Other long-term provisions	21	315	152	315	152
TOTAL NON-CURRENT LIABILITIES		11,761	11,315	11,450	11,157
TOTAL LIABILITIES		21,654	20,858	20,138	19,370
NET ASSETS		30,397	25,712	26,646	22,211
EQUITY					
Contributed equity	22	12,277	12,111	12,277	12,111
Reserves		400	436	215	635
Retained earnings		17,720	13,165	14,154	9,465
Parent interest		30,397	25,712	26,646	22,211
TOTAL EQUITY		30,397	25,712	26,646	22,211

The accompanying notes form part of these financial statements.

SDI LIMITED
ABN: 27 008 075 581
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Share Capital						
		Ordinary	Retained Earnings	Capital Profits	Asset Revaluation	Foreign Currency	Hedge Reserve	Total
		$000	$000	$000	$000	$000	$000	$000
Economic Entity								
Balance at 1 July 2004	2	11,732	11,943	363	272	18	-	24,328
Adjustments from translation of foreign controlled entities		-	-	-	-	(217)	-	(217)
Net income recognised directly in equity		-	-	-	-	(217)	-	(217)
Profit for the period		-	2,979	-	-	-	-	2,979
Total recognised income and expense		-	2,979	-	-	-	-	2,979
Shares issued during period		379	-	-	-	-	-	379
Dividends paid or provided for	8	-	(1,757)	-	-	-	-	(1,757)
Balance		379	(1,757)	-	-	-	-	(1,378)
Balance at 30 June 2005		12,111	13,165	363	272	(199)	-	25,712
Adjustment for prior year's tax expense		-	24	-	-	-	-	24
Adjustments from translation of foreign controlled entities		-	-	-	-	384	-	384
Transfers to and from reserve - hedge reserve		-	-	-	-	-	(420)	(420)
Net income recognised directly in equity		-	24	-	-	384	(420)	(12)
Profit for the period		-	5,119	-	-	-	-	5,119
Total recognised income and expense		-	5,119	-	-	-	-	5,119
Shares issued during the year		166	-	-	-	-	-	166
Dividends paid or provided for	8	-	(588)	-	-	-	-	(588)
Balance		166	(588)	-	-	-	-	(422)
Balance at 30 June 2006		12,277	17,720	363	272	185	(420)	30,397

	Note	Share Capital						
		Ordinary	Retained Earnings	Capital Profits	Asset Revaluation	Foreign Currency Translation	Hedge Reserve	Total
		$000	$000	$000	$000	$000		$000
Parent Entity								
Balance at 1 July 2004	2	11,732	7,576	363	272	-	-	19,943
Profit for the period		-	3,646	-	-	-	-	3,646
Total recognised income and expense		-	3,646	-	-	-	-	3,646
Shares issued during period		379	-	-	-	-	-	379
Dividends paid or provided for	8	-	(1,757)	-	-	-	-	(1,757)
Balance		379	(1,757)	-	-	-	-	(1,378)
Balance at 30 June 2005		12,111	9,465	363	272	-	-	22,211
Adjustment for prior year's tax expense		-	27	-	-	-	-	27
Adjustments from translation of foreign controlled entities		-	-	-	-	-	-	-
Transfers to and from reserve - hedge reserve		-	-	-	-	-	(420)	(420)
Net income recognised directly in equity		-	27	-	-	-	(420)	(393)
Profit for the period		-	5,250	-	-	-	-	5,250
Total recognised income and expense		-	5,250	-	-	-	-	5,250
Shares issued during the year		166	-	-	-	-	-	166
Dividends paid or provided for	8	-	(588)	-	-	-	-	(588)
Balance		166	(588)	-	-	-	-	(422)
Balance at 30 June 2006		12,277	14,154	363	272	-	(420)	26,646

SDI LIMITED
ABN: 27 008 075 581
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		47,227	42,917	31,935	33,598
Interest received		16	1	38	8
Government grants received		-	1	-	1
Payments to suppliers and employees		(40,733)	(35,812)	(25,873)	(27,760)
Finance costs paid		(964)	(803)	(946)	(785)
Income tax (paid)/refund		43	(2,190)	535	(1,458)
Net cash provided by operating activities	26a	5,589	4,114	5,689	3,604
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		25	22	4	8
Purchase of property, plant and equipment		(1,740)	(1,941)	(1,486)	(1,794)
Purchase of other non-current assets		(3,875)	(4,137)	(3,872)	(4,124)
Net cash used in investing activities		(5,590)	(6,056)	(5,354)	(5,910)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	182	-	182
Proceeds from borrowings		756	4,433	669	4,315
Repayment of borrowings		(512)	(1,821)	(508)	(1,722)
Dividends paid by parent entity		(421)	(1,584)	(421)	(1,584)
Net cash provided by/ (used in) financing activities		(177)	1,210	(260)	1,191
Net increase in cash held		(178)	(732)	75	(1,115)
Cash at beginning of financial year		(1,162)	(333)	(2,153)	(1,038)
Effect of exchange rates on cash holdings in foreign currencies		80	(97)	-	-
Cash at end of financial year	10	(1,260)	(1,162)	(2,078)	(2,153)

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

The financial report was authorised for issue by the directors on the 29 September 2006.

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

The financial report covers the economic entity of SDI Limited and controlled entities, and SDI Limited as an individual parent entity. SDI Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of SDI Limited and controlled entities, and SDI Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

Compliance with the AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except for the disclosures requirements in IAS32 ' Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

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

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

SDI Limited and controlled entities, and SDI Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first annual financial statements of SDI Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement and AASB121: The Effect of Changes in Foreign Exchange Rates.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a June financial year-end.

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

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

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

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

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

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

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

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

(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. Overheads are applied on the basis of normal operating capacity.

(d) Property, Plant and Equipment

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

Property

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

Plant and equipment

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

Depreciation

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

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

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

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

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

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Financial Instruments

Recognition

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

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.

Available-for-sale financial assets

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

Financial liabilities

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

Derivative instruments

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

SDI Limited and Controlled Entities designates certain derivatives as either;

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
(2) hedges of highly probably forecast transactions (cash flow hedges).

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

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

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.
Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

Fair value

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

Impairment

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

(g) Impairment of Assets

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

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

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

(h) 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.

(i) 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. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs that have a finite life are amortised on a systematic basis matched to the future economic benefits over the useful life of the project of up to 10 years. Development costs that have an indefinite life are reviewed against the recognition criteria and tested for impairment.

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

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

Group Companies

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

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rates change. Any material gain or loss arising at the time of entering into hedge transactions is deferred and brought to account in the profit from ordinary activities over the lives of the hedges.

(k) Employee Benefits

Provision is made for the company'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 after one year, have been measured at their undiscounted amounts based on remuneration wage and salary rates that the economic 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, using the rates attaching to national Government bonds at the reporting date. Contributions are made by the Economic Entity to employee superannuation funds and are charged as expenses when incurred.

The Company operates an employee share plan and executive option plan, details of which are provided in Note 27 to the financial statements. Details of shares issued are provided in Note 22 to the accounts. The employee share plan is available to all employees apart from directors, executive directors and their associated parties.

(l) 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.

(m) Provision for Warranties

Provision is made in respect of the economic entity's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the economic entity's history of warranty claims.

(n) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the 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).

(o) Goods and Services Tax (GST)

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

(p) Comparative Figures

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

(q) 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.

Critical accounting estimates and judgments

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

Key estimates — Impairment

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

No impairment has been recognised in respect of intellectual property and development costs for the year ended 30 June 2006.

Note 2 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

	Note	Previous GAAP at 1 July 2004 $000	Effect of Transition to Australian Equivalents to IFRS $000	Australian Equivalents to IFRS at 1 July 2004 $000
Economic Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,249	-	1,249
Trade and other receivables		13,433	-	13,433
Inventories		9,391	-	9,391
Other current assets		497	-	497
TOTAL CURRENT ASSETS		24,570	-	24,570
NON-CURRENT ASSETS				
Property, plant and equipment		11,675	-	11,675
Deferred tax assets	2(f)	516	305	821
Intangible assets	2(b)2(c)	8,871	(5,033)	3,838
Other non-current assets		40	-	40
TOTAL NON-CURRENT ASSETS		21,102	(4,728)	16,374
TOTAL ASSETS		45,672	(4,728)	40,944
CURRENT LIABILITIES				
Trade and other payables		2,620	-	2,620
Interest bearing borrowings		2,749	-	2,749
Tax Liabilities		1,239	-	1,239
Provisions		1,140	-	1,140
TOTAL CURRENT LIABILITIES		7,748	-	7,748
NON-CURRENT LIABILITIES				
Interest bearing Liabilities		8,077	-	8,077
Deferred tax liabilities	2(f)	1,583	(937)	646
Long-term provisions		145	-	145
TOTAL NON-CURRENT LIABILITIES		9,805	(937)	8,868
TOTAL LIABILITIES		17,553	(937)	16,616
NET ASSETS		28,119	(3,791)	24,328
EQUITY				
Contributed equity		11,732	-	11,732
Reserves	2(d)2(e)	1,177	(524)	653
Retained earnings	2(g)	15,210	(3,267)	11,943
TOTAL EQUITY		28,119	(3,791)	24,328

	Note	Previous GAAP at 30 June 2005 $000	Effect of Transition to Australian Equivalents to IFRS $000	Australian Equivalents to IFRS at 30 June 2005 $000
Economic Entity				
Reconciliation of Equity at 30 June 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,250	-	1,250
Trade and other receivables		11,491	-	11,491
Inventories		10,182	-	10,182
Current tax assets		1,155	-	1,155
Other current assets		650	-	650
TOTAL CURRENT ASSETS		24,728	-	24,728
NON-CURRENT ASSETS				
Property, plant and equipment		12,327	-	12,327
Deferred tax assets	2(f)	1,123	580	1,703
Intangible assets	2(b)2(c)	12,056	(4,256)	7,800
Other non-current assets		12	-	12
TOTAL NON-CURRENT ASSETS		25,518	(3,676)	21,842
TOTAL ASSETS		50,246	(3,676)	46,570
CURRENT LIABILITIES				
Trade and other payables		3,634	-	3,634
Short-term borrowings		4,559	-	4,559
Current tax liabilities		177	-	177
Short-term provisions		1,173	-	1,173
TOTAL CURRENT LIABILITIES		9,543	-	9,543
NON-CURRENT LIABILITIES				
Long-term borrowings		9,687	-	9,687
Deferred tax liabilities	2(f)	2,342	(866)	1,476
Long-term provisions		152	-	152
TOTAL NON-CURRENT LIABILITIES		12,181	(866)	11,315
TOTAL LIABILITIES		21,724	(866)	20,858
NET ASSETS		28,522	(2,810)	25,712
EQUITY				
Contributed equity	2(a)	11,961	150	12,111
Reserves	2(d)2(e)	960	(524)	436
Retained earnings	2(g)	15,601	(2,436)	13,165
TOTAL EQUITY		28,522	(2,810)	25,712

	Note	Previous GAAP at 1 July 2004 $000	Effect of Transition to Australian Equivalents to IFRS $000	Australian Equivalents to IFRS at 1 July 2004 $000
Parent Entity				
Reconciliation of Equity at 1 July 2004				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		460	-	460
Trade and other receivables		9,210	-	9,210
Inventories		8,956	-	8,956
Other current assets		227	-	227
TOTAL CURRENT ASSETS		18,853	-	18,853
NON-CURRENT ASSETS				
Other financial assets		312	-	312
Property, plant and equipment		11,124	-	11,124
Deferred tax assets	2(f)	483	305	788
Intangible assets	2(b)2(c)	8,760	(5,033)	3,727
Other non-current assets		40	-	40
TOTAL NON-CURRENT ASSETS		20,719	(4,728)	15,991
TOTAL ASSETS		39,572	(4,728)	34,844
CURRENT LIABILITIES				
Trade and other payables		1,953	-	1,953
Short-term borrowings		2,632	-	2,632
Current tax liabilities		509	-	509
Short-term provisions		1,115	-	1,115
TOTAL CURRENT LIABILITIES		6,209	-	6,209
NON-CURRENT LIABILITIES				
Long-term borrowings		7,901	-	7,901
Deferred tax liabilities	2(f)	1,583	(937)	646
Long-term provisions		145	-	145
TOTAL NON-CURRENT LIABILITIES		9,629	(937)	8,692
TOTAL LIABILITIES		15,838	(937)	14,901
NET ASSETS		23,734	(3,791)	19,943
EQUITY				
Contributed equity		11,732	-	11,732
Reserves	2(d)2(e)	1,653	(1,018)	635
Retained earnings	2(g)	10,349	(2,773)	7,576
TOTAL EQUITY		23,734	(3,791)	19,943

	Note	Previous GAAP at 30 June 2005 $000	Effect of Transition to Australian Equivalents to IFRS $000	Australian Equivalents to IFRS at 30 June 2005 $000
Parent Entity				
Reconciliation of Equity at 30 June 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		41	-	41
Trade and other receivables		11,092	-	11,092
Inventories		7,627	-	7,627
Current tax assets		1,155	-	1,155
Other current assets		265	-	265
TOTAL CURRENT ASSETS		20,180	-	20,180
NON-CURRENT ASSETS				
Other financial assets		312		312
Property, plant and equipment		11,815		11,815
Deferred tax assets	2(f)	992	580	1,572
Intangible assets	2(b)2(c)	11,945	(4,255)	7,690
Other non-current assets		12		12
TOTAL NON-CURRENT ASSETS		25,076	(3,675)	21,401
TOTAL ASSETS		45,256	(3,675)	41,581
CURRENT LIABILITIES				
Trade and other payables		2,789	-	2,789
Short-term borrowings		4,282	-	4,282
Current tax liabilities		-	-	-
Short-term provisions		1,142		1,142
TOTAL CURRENT LIABILITIES		8,213	-	8,213
NON-CURRENT LIABILITIES				
Long-term borrowings		9,539	-	9,539
Deferred tax liabilities	2(f)	2,332	(866)	1,466
Long-term provisions		152	-	152
TOTAL NON-CURRENT LIABILITIES		12,023	(866)	11,157
TOTAL LIABILITIES		20,236	(866)	19,370
NET ASSETS		25,020	(2,809)	22,211
EQUITY				
Contributed equity	2(a)	11,961	150	12,111
Reserves	2(d)2(e)	1,653	(1,018)	635
Retained earnings	2(g)	11,406	(1,941)	9,465
TOTAL EQUITY		25,020	(2,809)	22,211

SDI LIMITED
ABN: 27 008 075 581
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Economic Entity

Reconciliation of Profit or Loss for 2005

	Note	Previous GAAP 2005 $000	Effect of Transition to Australian Equivalents to IFRS 2005 $000	Australian Equivalents to IFRS 2005 $000
Sales Revenue		45,938	-	45,938
Cost of Sales		(19,703)	-	(19,703)
Gross Profit		26,235	-	26,235
Other income		45	-	45
Selling & administration expenses		(21,261)	-	(21,261)
Research and development expenses	2(b)2(c)	(948)	778	(170)
Finance expenses		(803)	-	(803)
Other expenses from ordinary activities	2(a)	(978)	(150)	(1,128)
Profit before income tax expense		2,290	628	2,918
Income tax expense	2(f)	(142)	204	62
Profit from continuing operations		2,148	832	2,980
Profit for the year		2,148	832	2,980
Profit attributable to members of the parent entity		2,148	832	2,980

Parent Entity

Reconciliation of Profit or Loss for 2005

	Note	Previous GAAP 2005 $000	Effect of Transition to Australian Equivalents to IFRS 2005 $000	Australian Equivalents to IFRS 2005 $000
Sales Revenue		36,008	-	36,008
Cost of Sales		(24,232)	-	(24,232)
Gross Profit		11,776	-	11,776
Other income		1,165	-	1,165
Selling & administration expenses		(7,616)	-	(7,616)
Research and development expenses	2(b)2(c)	(948)	778	(170)
Finance expenses		(785)	-	(785)
Other expenses from ordinary activities	2(a)	(745)	(150)	(895)
Profit before income tax expense		2,847	628	3,475
Income tax expense relating to ordinary activities	2(f)	(33)	204	171
Profit from continuing operations		2,814	832	3,646
Profit for the year		2,814	832	3,646
Profit attributable to members of the parent entity		2,814	832	3,646

Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005

(a) Share-based payments

Under AASB 2, equity-based compensation to employees will be recognised as an expense in the income statement over the relevant vesting periods. For the financial year ended 30 June 2005, share based payment expense and retained earnings were, respectively, increased/decreased by $150,000 representing the equity-based compensation for the year, resulting from share issues under the Employee Share Plan. A corresponding increase in the issued capital of the company has been recognised.

(b) Research and development

On transition to AASB 138, this resulted in an initial decrease to the carrying value of research costs capitalised of $5,996,000. The amortisation charge applicable to these assets and research capitalised for the affected periods are as follows:

	30 June 2005	1 July 2004
	$000	$000
Amortisation of research Costs	688	-
Research costs capitalised	(102)	(5,996)

(c) Intangible Assets

Reversal of the amortisation on indefinite life intellectual property. The unlimited life intangibles will be carried at their written down value as at 1 July 2004 in each subsequent financial year, unless additions or impairment subsequently occur.

	30 June 2005	1 July 2004
	$000	$000
Amortisation of indefinite life intellectual property	192	963

(d) Plant and Equipment

An analysis of the asset revaluation reserve as at 1 July 2004 revealed that it contained $1,018,000 net increments on assets that had either been disposed of or could only be identified to a class of asset, not individual assets. As such the amounts have been transferred from the asset revaluation reserve to retained earnings.

(e) Foreign Currency Translation Reserve

SDI has used the exemption available under AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards to reset the balances on the foreign currency translation reserve at transition date (1 July 2004) to zero. This results in transitional adjustment at 1 July 2004 of $494,000 to reduce the opening balance of retained earnings and a corresponding increase in the foreign currency translation reserve.

(f) Income Taxes

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity. This change has had an initial impact on retained earnings and has altered the future carrying values of deferred tax assets and liabilities.

The impact of the change in basis and transition adjustments on the reported tax expense are as follows:

	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	30 June 2005	30 June 2005	1 July 2004	1 July 2004
	$000	$000	$000	$000
Tax expense	204	204	-	-

(g) Retrospective adjustments to retained earnings under AIFRS:

	30 June 2005	30 June 2005	1 July 2004	1 July 2004
	$000	$000	$000	$000
Recognition of share-based payment expense	(150)	(150)	-	-
Amortisation of research costs	688	688	-	-
WDV of research costs at 1 July 2004	(5,033)	(5,033)	(5,033)	(5,033)
Research costs capitalised	(102)	(102)	-	-
Amortisation of indefinite life intellectual property	192	192	-	-
Asset revaluation	1,018	1,018	1,018	1,018
Resetting foreign currency translation reserves to zero	(494)	0	(494)	0
Adjustments to tax based assets and tax expense	1,445	1,445	1,242	1,242
Total	(2,436)	(1,942)	(3,267)	(2,773)

Note 3 Revenue

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Operating activities					
— sale of goods		45,153	45,938	31,429	36,008
— interest received	3(b)	16	1	38	8
— government subsidies received		-	1	-	1
— other revenue		312	43	16	-
— services revenue		-	-	1,616	1,156
— Net gain on foreign exchange		96	-	80	-
Total Revenue		45,577	45,983	33,179	37,173
(b) Interest revenue from:					
— wholly-owned controlled entities		-	-	22	7
— other persons		16	1	16	1
Total interest revenue		16	1	38	8

Note 4 Profit for the Year

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) Expenses				
Cost of sales	15,985	19,703	17,522	24,232
Finance costs:				
— Other persons	964	803	946	785
Total finance costs	964	803	946	785
Bad and doubtful debts:				
— trade receivables	149	171	17	-
Total bad and doubtful debts	149	171	17	-
Rental expense on operating leases				
— minimum lease payments	381	392	21	10
Depreciation of non-current assets	1,262	1,209	1,146	1,091
Amortisation of non-current assets	207	162	207	162
Research and development costs (excluding amortisation)	107	170	107	170
Employee benefits expenses	16,518	14,369	13,212	11,406
Superannuation expenses	978	946	978	946
Equity settled share based payments expense	-	150	-	150
(b) Significant Revenue and Expenses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Net gain (loss) on disposal of property plant and equipment	(24)	(17)	-	(3)
Net Foreign exchange gain (loss)	96	(312)	80	(555)
Net Gains (losses)	72	(329)	80	(558)

Note 5 Income Tax Expense

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) The components of tax expense comprise:					
Current tax		473	701	19	608
Deferred tax		967	52	1,296	36
Over provision in respect of prior years		(146)	(815)	(146)	(815)
		1,294	(62)	1,169	(171)
(b) The prima facie tax on profit from ordinary activities before tax as follows					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)					
— economic entity		1,924	875		
— parent entity				1,926	1,042
		1,924	875	1,926	1,042
Add:					
Tax effect of:					
— other non-allowable items		37	27	37	27
— Tax rate differences in overseas entities		127	276	-	-
		2,088	1,178	1,963	1,069
Less:					
Tax effect of:					
— Research and Development concessional 125% & 175%		619	408	619	408
— Other deductible items		29	17	29	17
— Over provision of income tax in prior year		146	815	146	815
Income tax attributable to entity		1,294	(62)	1,169	(171)
The applicable weighted average effective tax rates are as follows:		20%	-2%	18%	-5%

The increase in the weighted average effective consolidated tax rate for 2006 is a result of increased R&D concessional deductible items and a larger overprovision of income tax brought to account in 2005.

Note 6 Key Management Personnel Compensation

(a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Parent Entity Directors	**Position**
Anthony John Bardsley	Chairman and Non-executive Director
John Norman Isaac	Non-executive Director
Gabrielle Mary McCorkell	Non-executive Director
Jack Arthur Roseman	Non-executive Director and Chairman of Audit Committee
Jeffery James Cheetham	Executive Director and Managing Director
Samantha Jane Cheetham	Executive Director and Director of Sales and Marketing
Pamela Joy Cheetham	Alternate Director for Jeffery J. Cheetham
Executives	
John J. Slaviero	CFO and Company Secretary
Nicholas A. Cheetham	Chief Information Officer and Logistics Manager
Joshua Cheetham	Operations Director
Ray M. Cahill	Technical Director

(b) **Compensation Practices**

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

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

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

(c) **Insurance**

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

(d) **Key Management Personnel Compensation**

	Short-term benefits				Post Employment Benefits
	Salary, Fees & commissions $	Cash Bonus $	Non-cash benefit $	Other* $	Super-annuation $
2006					
Key Management Person					
Parent Entity Directors					
Anthony John Bardsley	60,000	-	-	-	5,400
John Norman Isaac	25,000	-	-	-	2,250
Gabrielle Mary McCorkell	25,000	-	-	-	2,250
Jack Arthur Roseman	30,000	-	-	-	2,700
Jeffery James Cheetham	227,050	-	95,677	80,000	32,273
Samantha Jane Cheetham	268,338	10,000	28,120	-	24,775
Pamela Joy Cheetham					
Executives					
John J. Slaviero	170,598	-	22,000	-	9,428
Nicholas A. Cheetham	163,340	-	35,001	-	9,890
Joshua Cheetham	163,365	10,000	7,000	-	14,225
Ray M. Cahill	148,965	-	12,135	-	14,289
	1,281,656	20,000	199,933	80,000	117,480

	Other long term benefits	Share-based payment		Total
	Long Service Leave $	Equity $	Options $	$
2006 (cont.)				
Key Management Person				
Parent Entity Directors				
Anthony John Bardsley	-	-	-	65,400
John Norman Isaac	-	-	-	27,250
Gabrielle Mary McCorkell	-	-	-	27,250
Jack Arthur Roseman	-	-	-	32,700
Jeffery James Cheetham	14,432	-	-	449,432
Samantha Jane Cheetham	11,464	-	-	342,697
Pamela Joy Cheetham	-	-	-	-
Executives				
John J. Slaviero	1,167	-	-	203,193
Nicholas A. Cheetham	1,169	-	-	209,400
Joshua Cheetham	6,735	-	-	201,325
Ray M. Cahill	5,331	-	-	180,720
	40,298	-	-	1,739,367

* Refer Note 29.

	Short-term benefits				Post Employment Benefits
	Salary, Fees & commissions $	Cash Bonus $	Non-cash benefit $	Other* $	Super-annuation $
2005					
Key Management Person					
Parent Entity Directors					
Anthony John Bardsley	68,750	-	-	-	6,187
John Norman Isaac	25,000	-	-	-	2,250
Gabrielle Mary McCorkell	25,000	-	-	-	2,250
Jack Arthur Roseman	30,000	-	-	-	2,700
Jeffery James Cheetham	227,050	-	95,677	80,000	32,273
Samantha Jane Cheetham	260,850	-	28,120	-	24,171
Pamela Joy Cheetham					
Executives					
John J. Slaviero	176,814	9,000	22,000	-	10,008
Nicholas A. Cheetham	170,511	-	22,800	-	9,473
Joshua Cheetham	149,159	-	7,000	-	13,050
Ray M. Cahill	124,339	5,000	30,400	-	14,368
	1,257,473	14,000	205,997	80,000	116,730

	Other long term benefits	Share-based payment		Total
	Long Service Leave $	Equity $	Options $	$
2005 (cont.)				
Key Management Person				
Parent Entity Directors				
Anthony John Bardsley	-	-	-	74,937
John Norman Isaac	-	-	-	27,250
Gabrielle Mary McCorkell	-	-	-	27,250
Jack Arthur Roseman	-	-	-	32,700
Jeffery James Cheetham	5,167	-	-	440,167
Samantha Jane Cheetham	6,804	-	-	319,945
Pamela Joy Cheetham	-	-	-	-
Executives				
John J. Slaviero	417	-	-	218,239
Nicholas A. Cheetham	418	-	-	203,202
Joshua Cheetham	3,270	-	-	172,479
Ray M. Cahill	2,550	-	-	176,657
	18,626	-	-	1,692,826

* Refer Note 29.

Key management personnel compensation is the same for the Parent Entity and the Economic Entity.

(e) **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

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

2005	Balance 1.07.04	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.06.05	Total Vested 30.06.05	Total Exercisable 30.06.05	Total Unexercisable 30.06.05
Directors								
Samantha Jane Cheetham	250,000	-	-	(50,000)	200,000	100,000	100,000	100,000
Executives								
John J. Slaviero	200,000	-	(50,000)	(50,000)	100,000	100,000	-	100,000
Nicholas A. Cheetham	250,000	-	-	(50,000)	200,000	100,000	100,000	100,000
Joshua Cheetham	250,000	-	-	(50,000)	200,000	100,000	100,000	100,000
Ray M. Cahill	250,000	-	-	(50,000)	200,000	100,000	100,000	100,000
	1,200,000	-	(50,000)	(250,000)	900,000	500,000	400,000	500,000

*The net change other column above includes those options that have been forfeited by holders

(f) **Shareholdings**

Number of Shares held by Key Management Personnel

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

2005	Balance 1.07.04	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.05
Parent Entity Directors					
Anthony John Bardsley	500,000	-	-	-	500,000
John Norman Isaac	-	-	-	-	-
Gabrielle Mary McCorkell	675,000	-	-	(125,000)	550,000
Jack Arthur Roseman	60,000	-	-	-	60,000
Jeffery James Cheetham	53,438,940	-	-	93,205	53,532,145
Samantha Jane Cheetham	324,390	-	-	25,000	349,390
Pamela Joy Cheetham					
(Co-holder of shares held by J.J. Cheetham)					
Executives					
John J. Slaviero	51,820	-	50,000	(99,131)	2,689
Nicholas A. Cheetham	260,000	-	-	(250,000)	10,000
Joshua Cheetham	270,005	-	-	(270,005)	-
Ray M. Cahill	3,420	-	-	869	4,289
	55,583,575	-	50,000	(625,062)	55,008,513

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

Note 7 Auditors' Remuneration

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	118,000	108,100	118,000	108,100
— taxation services	13,050	11,900	13,050	11,900
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	87,000	69,100	-	-

Note 8 Dividends

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Distributions paid				
Interim fully franked ordinary dividend of 0.2 (2005: 0.6) cents per share franked at the tax rate of 30% (2005: 30%)	235	704	235	704
2005 proposed final franked ordinary dividend of 0.3 cents per share paid in 2006	353	1,053	353	1,053
	588	1,757	588	1,757
(a) Proposed final fully franked ordinary dividend of 0.4 (2005:0.3) cents per share franked at the tax rate of 30% (2005: 30%)	471	352	471	352
(b) Balance of franking account at year end adjusted for franking credits arising from:				
- payment of provision for income tax and dividends recognised as receivables, and franking debits arising from payment of proposed dividends, and franking credits that may be prevented from distribution in subsequent financial years	1,381	2,503	1,381	2,503
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	471	352	471	352
	910	2,151	910	2,151

Note 9 Earnings per Share

	Economic Entity 2006 $000	Economic Entity 2005 $000
(a) Reconciliation of earnings to profit or loss		
Profit	5,119	2,980
Earnings used to calculate basic EPS	5,119	2,980
Earnings used in the calculation of dilutive EPS	5,119	2,980
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations	5,119	2,980
Earnings used to calculate basic EPS from continuing operations	5,119	2,980
Earnings used in the calculation of dilutive EPS from continuing operations	5,119	2,980
	No.	No.
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	117,560,560	117,196,611
Weighted average number of options outstanding	1,110,000	1,327,616
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	118,670,560	118,524,227

Note 10 Cash and Cash Equivalents

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Cash at bank and in hand		977	1,250	164	41
Short-term bank deposits		5	-	-	-
		982	1,250	164	41

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Reconciliation of cash					
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		982	1,250	164	41
Bank overdrafts	19	(2,242)	(2,412)	(2,242)	(2,194)
		(1,260)	(1,162)	(2,078)	(2,153)

Note 11 Trade and Other Receivables

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
CURRENT					
Trade receivables		10,807	11,012	4,295	4,766
Provision for impairment of receivables		(148)	(68)	-	(16)
		10,659	10,944	4,295	4,750
Other receivables		536	547	210	227
Amounts receivable from:					
— wholly-owned subsidiaries		-	-	6,161	6,115
		11,195	11,491	10,666	11,092

Note 12 Inventories

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
CURRENT					
At cost					
Raw materials and stores		4,979	4,619	4,979	4,619
Work in progress		668	490	668	490
Finished goods		7,233	5,073	4,319	2,518
		12,880	10,182	9,966	7,627

Note 13 Other Financial Assets

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
NON CURRENT					
Unlisted investments, at cost - shares in controlled entities		-	-	312	312
		-	-	312	312

Note 14 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2006	Percentage Owned (%)* 2005
Parent Entity:			
SDI Limited	Australia		
Subsidiaries of SDI Limited:			
Southern Dental Industries, Inc	United States of America	100	100
SDI Holdings Pty Ltd	Australia	100	100
SDI Co Ltd	Japan	100	100
Southern Dental Industries GmbH	Germany	100	100
Southern Dental Industries Ltda	Brazil	100	100
Southern Dental Industries Limited	Ireland	100	100

* Percentage of voting power is in proportion to ownership

Note 15 Property, Plant and Equipment

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
LAND AND BUILDINGS				
Land and Buildings at:				
— at cost	6,377	6,135	6,377	6,135
Less accumulated depreciation	(334)	(264)	(334)	(264)
Total Land and Buildings	6,043	5,871	6,043	5,871
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	13,765	12,221	12,949	11,709
Accumulated amortisation	(7,027)	(5,765)	(6,841)	(5,765)
Accumulated impairment losses	-	-	-	-
	6,738	6,456	6,108	5,944
Total Property, Plant and Equipment	12,781	12,327	12,151	11,815

(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.

2006	Land and Buildings $000	Plant and Equipment $000	Total $000
Economic Entity:			
Balance at the beginning of year	5,871	6,456	12,327
Additions	242	1,498	1,740
Disposals	-	(24)	(24)
Depreciation expense	(70)	(1,192)	(1,262)
Carrying amount at the end of year	6,043	6,738	12,781
Parent Entity:			
Balance at the beginning of year	5,871	5,944	11,815
Additions	242	1,244	1,486
Disposals	-	(4)	(4)
Depreciation expense	(70)	(1,076)	(1,146)
Carrying amount at the end of year	6,043	6,108	12,151

2005	Land and Buildings $000	Plant and Equipment $000	Total $000
Economic Entity:			
Balance at the beginning of year	5,732	5,939	11,671
Additions	202	1,739	1,941
Disposals	-	(76)	(76)
Transfer to (from) plant & equipment	1	(1)	-
Depreciation expense	(64)	(1,145)	(1,209)
Carrying amount at the end of year	5,871	6,456	12,327
Parent Entity:			
Balance at the beginning of year	5,732	5,390	11,122
Additions	202	1,592	1,794
Disposals	-	(10)	(10)
Transfer to (from) plant & equipment	1	(1)	-
Depreciation expense	(64)	(1,027)	(1,091)
Carrying amount at the end of year	5,871	5,944	11,815

Note 16 Intangible Assets

	Economic Entity		Parent Entity	
	2006 $000	2005 $000	2006 $000	2005 $000
Patents, trademarks and licences				
Cost	4,404	4,306	4,286	4,194
Accumulated amortisation and impairment	(1,100)	(1,059)	(1,096)	(1,058)
Net carrying value	3,304	3,247	3,190	3,136
Development costs				
Cost	8,613	5,963	8,613	5,963
Accumulated amortisation and impairment	(448)	(1,410)	(448)	(1,409)
Net carrying value	8,165	4,553	8,165	4,554
Total intangibles	11,469	7,800	11,355	7,690

Economic Entity:

	Trademarks & Licences $000	Development Costs $000
Year ended 30 June 2005		
Balance at the beginning of year	3,131	707
Additions	143	3,981
Amortisation charge	(27)	(135)
Closing carrying value at 30 June 2005	3,247	4,553
Year ended 30 June 2006		
Balance at the beginning of year	3,247	4,554
Additions	98	3,777
Amortisation charge	(41)	(166)
Closing carrying value at 30 June 2006	3,304	8,165

Intangibles with a carrying value of $10,863,000 (2005: $7,086,000) are assessed as having an indefinite useful life. The indefinite useful life reflects management view that the intangibles are assets that provide ongoing market advantages for both new and existing sales in the markets that the company operates in. The current understanding of the markets that the company operates in indicates that demand will continue in a sustainable manner, that changes in technology are not seen as a major factor impacting the intangibles' future value and the products produced, based on these intangibles, have a proven long life in the markets in which they operate. All other intangibles have finite lives and are amortised using the straight-line method over their useful lives.

Impairment Disclosures

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

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period with the period extending beyond five years extrapolated using an estimated growth rate of 20%. The cash flows are discounted using the weighted average cost of capital of 15.4% at the beginning of the budget period.

These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular unit.

Note 17 Other Assets

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
CURRENT				
Prepayments	375	650	251	265
	375	650	251	265
NON-CURRENT				
Prepayments	45	12	45	12
	45	12	45	12

Note 18 Trade and Other Payables

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
CURRENT					
Unsecured liabilities					
Trade payables		1,692	2,215	1,329	2,052
Sundry payables and accrued expenses		1,668	1,419	1,011	737
— partly-owned subsidiaries		-	-	-	-
— associated companies		-	-	-	-
		3,360	3,634	2,340	2,789

Note 19 Borrowings

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
CURRENT					
Secured liabilities					
Bank overdrafts	19(a),(c)	2,242	2,412	2,242	2,194
Bank loans	19(a),(d)	2,355	1,488	2,355	1,433
Hire Purchase	Note 24	588	659	588	655
		5,185	4,559	5,185	4,282
NON-CURRENT					
Bank loans	19(a),(d)	8,762	9,295	8,451	9,147
Hire Purchase	Note 24	395	392	395	392
		9,157	9,687	8,846	9,539

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) Total current and non-current secured liabilities:				
Bank overdraft	2,242	2,412	2,242	2,194
Bank loan	11,117	10,783	10,806	10,580
	13,359	13,195	13,048	12,774
(b) The carrying amounts of non-current assets pledged as security are:				
First mortgage				
Freehold land and buildings	6,043	5,871	6,043	5,871
Floating charge over assets	17,820	13,958	17,820	13,958
	23,863	19,829	23,863	19,829

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

(d) The bank loans are secured by registered first mortgage debenture over the assets of the parent entity and by a registered first mortgage over freehold properties of the parent entity. The Company operates a loan facility of AUD 2,100,000 that expires in 2009, with an option to extend for a further five years. An AUD 8,700,000 loan facility is also in place and is reviewed annually. The facilities allow for both fixed and variable rate loans. Finance will be provided under all facilities provided the parent and the economic entity are within the terms and conditions of the agreement.

Note 20 Tax

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) Tax Liabilities					
Income Tax		154	177	-	-
TOTAL		154	177	-	-
(b) Current Tax Assets					
Current Tax Asset		775	1,155	775	1,155
TOTAL		775	1,155	775	1,155
(c) Deferred Tax Assets and Liabilities					
Deferred tax assets		1,549	1,703	1,099	1,572
Deferred tax liabilities		(2,289)	(1,476)	(2,289)	(1,466)
Net		(740)	227	(1,190)	106
(d) Deferred tax balances comprise temporary differences Amounts recognised in the income statement:					
Trade and other receivables		(357)	492	(357)	492
Inventories		(23)	(93)	(23)	(93)
Property, Plant and equipment		109	88	109	88
Intangible assets		(2,105)	(1,256)	(2,105)	(1,256)
Other assets		1,136	526	686	405
Trade and other payables		10	(6)	10	(6)
Interest bearing liabilities		1	30	1	30
Other liabilities and provisions		489	446	489	446
		(740)	227	(1,190)	106
Net Deferred tax asset (liability)		(740)	227	(1,190)	106
(e) Movement Reconciled:					
Opening balance		227	175	106	142
Credited/(charged) to income statement		(967)	52	(1,296)	(36)
		(740)	227	(1,190)	106

Note 21 Provisions

CURRENT	Economic Entity 2006 $'000	Economic Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Warranties				
Opening balance at beginning of year	50	-	50	-
Additional provisions raised during year	-	50	-	50
Unused amounts reversed	-	-	-	-
Balance at end of the year	50	50	50	50
Employee Entitlements				
Opening balance at beginning of year	1,123	1,140	1,092	1,115
Additional provisions raised during year	1,450	876	1,450	876
Amounts used	(1,429)	(893)	(1,429)	(899)
Balance at end of the year	1,144	1,123	1,113	1,092

NON CURRENT	Economic Entity 2006 $'000	Economic Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Employee Entitlements				
Opening balance at beginning of year	152	145	152	145
Additional provisions raised during year	173	44	173	44
Amounts used	(10)	(37)	(10)	(37)
Balance at end of the year	315	152	315	152

Analysis of Total Provisions

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
Current	1,194	1,173	1,163	1,142
Non-current	315	152	315	152
	1,509	1,325	1,478	1,294

Provision for Warranties

A provision of $50,000 at 30 June 2006 has been recognised for estimated warranty claims in respect of products and services sold which are still under warranty at balance date.

Provision for Employee Entitlements

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

Note 22 Contributed Equity

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
117,680,782(2005: 117,473,606) fully paid ordinary shares	12,277	12,111	12,277	12,111
	12,277	12,111	12,277	12,111

(a) **Ordinary Shares**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	No.	No.	No.	No.
At the beginning of reporting period	117,473,606	117,059,810	117,473,606	117,059,810
Shares issued during year				
— Conversion of Options on 11 October 2004		115,000		115,000
— Employee Share Plan on 1 April 2005		130,000		130,000
— Dividend Reinvestment Plan Issue on 13 May 2005		168,796		168,796
— Dividend Reinvestment Plan Issue on 21 October 2005	107,314		107,314	
— Dividend Reinvestment Plan Issue on 12 May 2006	93,862		93,862	
— Employee Share Plan on 14 June 2006	6,000		6,000	
At reporting date	117,680,782	117,473,606	117,680,782	117,473,606

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

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

(b) **Options**

(i) For information relating to the SDI Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 27: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 27: Share-based Payments.

(c) **Employee share scheme**

For information relating to the SDI Executive Share option plan, including details of options issued, exercised and lapsed during the financial year, refer to Note 27: Share-based Payments.

(d) **Dividend Reinvestment Plan (DRP)**

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

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

201,176 ($166,228) ordinary shares were issued under the DRP during the financial year 2006.

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

Last date for receipts of election notice for participation in the DRP is 29 September 2006.

Note 23 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
Under certain circumstances dividends can be declared from this reserve.

(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 24 Capital and Leasing Commitments

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(a) **Finance Lease and Hire Purchase Commitments**					
Payable — minimum lease payments					
— not later than 12 months		638	705	638	701
— between 12 months and 5 years		439	404	439	404
— greater than 5 years		-	-	-	-
Minimum lease payments		1077	1109	1,077	1,105
Less future finance charges		94	58	94	58
Present value of minimum leave payments	19	983	1,051	983	1,047

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

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

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

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

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $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	268	173	17	20
— between 12 months and 5 years	220	282	27	39
— greater than 5 years	-	-	-	-
	488	455	44	59

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

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(c) **Capital Expenditure Commitments**				
Capital expenditure commitments contracted for:				
Plant and equipment purchases	-	281	-	281
	-	281	-	281
Payable:				
— not later than 12 months	-	281	-	281
— between 12 months and 5 years	-	-	-	-
— greater than 5 years	-	-	-	-
	-	281	-	281

Note 25 Segment Reporting

	Australia 2006 $000	Europe 2006 $000	North America 2006 $000	South America 2006 $000	Asia/Pacific 2006 $000	Middle East 2006 $000	Other 2006 $000	Eliminations 2006 $000	Economic Entity 2006 $000
Primary Reporting — Geographic Segments (by location of assets)									
REVENUE									
External Sales	14,360	14,075	11,616	4,551	551	-	-	-	45,153
Other segments	17,069	7,739	-	-				(24,808)	-
Total sales revenue	31,429	21,814	11,616	4,551	551	-	-	(24,808)	45,153
Unallocated revenue									424
Total revenue									45,577
RESULT									
Segment result	7,366	544	390	741	(604)	-	-	(1,060)	7,377
Unallocated expenses net of unallocated revenue									(964)
Profit before income tax Income tax expense									6,413
									(1,294)
Profit after income tax									5,119
ASSETS									
Segment assets	46,783	7,115	2,622	3,401	651	-	-	(8,522)	52,050
Unallocated assets									1
Total assets									52,051
LIABILITIES									
Segment liabilities	20,137	4,823	775	1,376	1,718	-	-	(7,177)	21,652
Unallocated liabilities									2
Total liabilities									21,654
OTHER									
Revenues from sales to external customers by location of customers	3,074	15,963	11,616	8,804	3,529	1,850	317	-	45,153
Acquisitions of non-current segment assets	5,354	225	11	17	8	-	-	-	5,615
Depreciation and amortisation of segment assets	1,358	70	16	14	11	-	-	-	1,469
Other non-cash segment expenses	16	(47)	3	(31)	-	-	-	-	(59)

Primary Reporting — Geographic Segments (by location of assets)	Australia 2005 $000	Europe 2005 $000	North America 2005 $000	South America 2005 $000	Asia/Pacific 2005 $000	Middle East 2005 $000	Other 2005 $000	Eliminations 2005 $000	Economic Entity 2005 $000
REVENUE									
External Sales	18,558	13,151	10,722	3,356	151	-	-	-	45,938
Other segments	17,450	7,526	-	-	-	-	-	(24,976)	-
Total sales revenue	36,008	20,677	10,722	3,356	151	-	-	(24,976)	45,938
Unallocated revenue									45
Total revenue									45,983
RESULT									
Segment result	4,259	(544)	210	757	(517)	-	-	(444)	3,721
Unallocated expenses net of unallocated revenue									(803)
Profit before income tax Income tax expense									2,918
									62
Profit after income tax									2,980
ASSETS									
Segment assets	41,581	6,819	3,209	2,509	516	-	-	(8,064)	46,570
Unallocated assets									1
Total assets									46,571
LIABILITIES									
Segment liabilities	20,235	5,167	1,610	1,204	953	-	-	(7,446)	21,723
Unallocated liabilities									1
Total liabilities									21,724
OTHER									
Revenues from sales to external customers by location of customers	4,108	16,410	10,722	8,948	2,821	2,670	259	-	45,938
Acquisitions of non-current segment assets	5,920	99	6	18	35	-	-	-	6,078
Depreciation and amortisation of segment assets	1,251	59	35	8	18	-	-	-	1,371
Other non-cash segment expenses	(27)	10	(3)	8	-	-	-	-	(12)

Secondary Reporting — Business Segments

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

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

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

Note 26 Cash Flow Information

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
(a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
Profit after income tax	5,119	2,980	5,250	3,646
Non-cash flows in profit				
Amortisation	207	162	207	160
Depreciation	1,262	1,209	1,146	1,091
Write-off of obsolete stock	-	40	-	40
Share based payments	-	150	-	150
(Net gain)/loss on disposal of property, plant and equipment	24	17	-	3
Write-off Bad Debts	73	183	14	26
Doubtful Debts adjustment	80	(12)	(16)	(27)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade debtors and intercompany	143	(3,255)	410	(1,992)
(Increase)/decrease in other debtors and prepayments	242	(16)	28	151
(Increase)/decrease in inventories	(2,794)	(805)	(2,340)	1,290
(Increase)/decrease in current tax asset	380	-	380	-
(Increase)/decrease in deferred tax assets/deferred tax	154	(2,059)	473	(2,088)
Increase/(decrease) in trade creditors and accruals	(274)	5,843	(870)	834
Increase/(decrease) in income taxes payable	(23)	(1,173)	-	(509)
Increase/(decrease) in deferred taxes payable	813	830	824	819
Increase/(decrease) in provisions	183	20	183	10
Cash flow from operations	5,589	4,114	5,689	3,604

(b) **Non-cash Financing and Investing Activities**

Refer to Note 22 Contributed equity for details of non-cash financing transactions relating to the Dividend Reinvestment Plan.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
(c) **Credit Standby Arrangements with Banks**				
Credit facility	2,550	3,144	2,550	2,545
Amount utilised	(2,242)	(2,412)	(2,242)	(2,193)
	308	732	308	352

The major facilities are summarised as follows:

Bank overdrafts

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

Interest rates are variable and subject to adjustment.

	Economic Entity 2006 $000	Economic Entity 2005 $000	Parent Entity 2006 $000	Parent Entity 2005 $000
(d) **Loan Facilities**				
Loan facilities	11,380	10,918	10,860	10,580
Amount utilised	(11,117)	(10,783)	(10,806)	(10,580)
	263	135	54	-

The major facilities are summarised as follows:

The Company operates a loan facility of AUD 2,100,000 that expires in 2009, with an option to extend for a further five years. An AUD 8,700,000 loan facility is also in place and is reviewed annually. The facilities allow for both fixed and variable loans.

Finance will be provided under all facilities provided the parent and the economic entity are within the terms and conditions of the agreement.

Note 27 Share-based Payments

The following share-based payment arrangements existed at 30 June 2006:

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

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

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

The options are not quoted on the ASX. No options were granted for the year as the minimum earnings per share target of 6.0 cents was not achieved.

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

	Economic Entity				Parent Entity			
	2006		2005		2006		2005	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	1,540,000	0.486	2,085,000	0.486	1,540,000	0.486	2,085,000	0.486
Granted	-		-		-		-	
Forfeited	-		-		-		-	
Exercised	-		(115,000)	0.486	-		(115,000)	0.486
Expired	(430,000)	0.486	(430,000)	0.486	(430,000)	0.486	(430,000)	0.486
Outstanding at year-end	1,110,000	0.486	1,540,000	0.486	1,110,000	0.486	1,540,000	0.486
Exercisable at year-end	1,110,000		1,540,000		1,110,000		1,540,000	

No shares were issued under the SDI Limited Employee Share Plan as the Company did achieve its minimum earnings per share target.

Note 28 Events After the Balance Sheet Date

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

Note 29 Related Party Transactions

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
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 parent entity 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.

(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.

Note 30 Financial Instruments

(a) **Financial Risk Management**

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

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

(i) **Treasury Risk Management**

A finance committee consisting of the managing director and senior finance executives of the group meet on a regular basis to analyse currency, commodity and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) **Financial Risks**

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2006 approximately 78% of group debt is fixed. For further details on interest rate risk refer to Note 30(b)(i) & (ii).

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. Refer to Note 30(b)(i) for further details.

Liquidity risk

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

Credit risk

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

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward contracts is the net fair value of these contracts as disclosed in Note 30(b)(iii).

Price risk

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

(b) **Financial Instruments**

(i) Derivative Financial Instruments

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

Foreign Exchange Currency Option Contracts

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

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

Buy Australian Dollars Settlement	Sell United States Dollars		Average Protection Exchange Rate	
	2006	2005	2006	2005
	$000	$000	$000	$000
Less than 6 months	1,000	300	0.75	0.675
Buy Australian Dollars Settlement	Sell Euros			
Less than 6 months	600	-	0.60	-
6 to 12 months	200	-	0.60	-
Buy Australian Dollars Settlement	Sell Canadian Dollars			
Less than 6 months	500	-	0.87	-
6 to 12 months	400	-	0.85	-

Interest rate swaps

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

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

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

	Effective Average Interest Rate Payable		Notional Principal	
	2006	2005	2006	2005
	%	%	$000	$000
Settlement	6.03	-	5,000	-

Silver Hedge Contracts

The economic 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 economic entity against unfavourable silver price movements for purchase of silver which is a raw material used in the manufacture of amalgam products.

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

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

	Contract Value	
	2006	2005
	USD '000	USD '000
Settlement	3,734	-

(ii) **Interest Rate Risk**

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

	Weighted Average Effective		Floating Interest Rate $000		Fixed Interest Rate Maturing Within Year $000		Fixed Interest Rate Maturing 1 to 5 years $000		Over 5 Years $000		Non-interest Bearing $000		Total $000	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Financial Assets:														
Cash and cash equivalents	0.00	0.00	-	-	-	-	-	-	-	-	982	1,250	982	1,250
Trade Receivables	0.00	0.00	-	-	-	-	-	-	-	-	10,807	11,012	10,807	11,012
Interest Rate Swap	0.00	0.00	-	-	-	-	-	-	-	-	19	-	19	-
Total Financial Assets			-	-	-	-	-	-	-	-	11,808	12,262	11,808	12,262
Financial Liabilities:														
Bank overdrafts	10.70	10.20	2,242	2,412	-	-	-	-	-	-	-	-	2,242	2,412
Bank Loans	6.10	6.00	1,700	8,336	2,000	-	7,417	2,447	-	-	-	-	11,117	10,783
Foreign exchange options	0.00	0.00	-	-	-	-	-	-	-	-	32	-	32	-
Silver forward contracts	0.00	0.00	-	-	-	-	-	-	-	-	421	-	421	-
Trade and sundry payables	0.00	0.00	-	-	-	-	-	-	-	-	3,360	3,634	3,360	3,634
Lease liabilities	8.00	8.00	-	-	588	659	395	392	-	-	-	-	983	1,051
Total Financial Liabilities			3,942	10,748	2,588	659	7,812	2,839	-	-	3,813	3,634	18,155	17,880

(iii) **Net Fair Values**

The net fair values of:

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

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

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

	2006		2005	
	Carrying Amount $000	Net Fair Value $000	Carrying Amount $000	Net Fair Value $000
Financial Assets				
Cash and cash equivalents	982	982	1,250	1,250
Interest rate swap	19	19	-	-
Trade Receivables	10,807	10,807	11,012	11,012
	11,808	11,808	12,262	12,262

	2006		2005	
	Carrying Amount $000	Net Fair Value $000	Carrying Amount $000	Net Fair Value $000
Financial liabilities				
Bank overdraft	2,242	2,242	2,412	2,412
Bank loans	11,117	11,147	10,783	10,783
Trade and sundry payables	3,360	3,360	3,634	3,634
Lease liabilities	983	983	1,051	1,051
Foreign exchange options	32	32	-	-
Other liabilities	421	421	-	-
	18,155	18,185	17,880	17,880

Fair values are in line with carrying values.

Note 31 Company Details

The registered office of the company is:
SDI Limited
5-7 Brunsdon Street
Bayswater, Victoria, 3153
Australia
The principal places of SDI Limited are:
SDI Limited
5-9 Brunsdon Street
Bayswater, Victoria, 3153
Australia

Southern Dental Industries, Inc
729 N. Route 83
Suite 315, Bensenville
Chicago IL 60106, United States of America

SDI Holdings Pty Ltd
5-9 Brunsdon Street
Bayswater, Victoria, 3153
Australia

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

Southern Dental Industries Ltda
Rua Dr.Virgilio de Carvalho Pinto, 612
Sao Paulo -SP
CEP 05415-020, Brazil

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

Southern Dental Industries GmbH
Dieselstrasse 14
D-50859 KOLN
Germany

SDI LIMITED
ABN: 27 008 075 581

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 6 to 139, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and economic entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

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

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

Director ______________________ J. Cheetham
Jeffery James Cheetham

Dated this 29th day of September 2006

DTT Victoria

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29 September 2006

The Directors
SDI Limited
5 – 7 Brunsdon Street
BAYSWATER VICTORIA 3153

Dear Directors

AUDITOR'S INDEPENDENCE DECLARATION TO 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 year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully,

DTT Victoria
DTT VICTORIA

Eric W Passaris
E W Passaris
Partner
Chartered Accountants

DTT Victoria

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INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
SDI LIMITED
ABN 90 091 744 884

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both SDI Limited (the Company) and the consolidated entity, for the financial year ended 30 June 2006. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

DTT Victoria

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Audit Opinion

In our opinion, the financial report of SDI Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

DTT Victoria

DTT Victoria
Chartered Accountants

Eric W Passaris

E W Passaris
Partner

Melbourne
Date: 29 September 2006

ASX Additional Information

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows.
The information is current as at 31 August 2006

Substantial Shareholders

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

	Number of Ordinay Shares
Currango Pastoral Company	50,628,506
Souls Funds Management Limited*	8,711,111

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

Number of Shareholders

The number of shareholders is 2,181 and their voting rights are that on a show of hands, each person present as a member, proxy, attorney or representative has one vote, and upon a poll, each member present in person or by proxy, attorney or representative has one vote for each share held.

Distribution of Shareholders Number Category (size of holdings	Number of Holders	Number of Ordinay Shares	Percentage of Total
1 - 1,000	248	153,474	0.13%
1,001 - 5,000	745	2,364,137	2.01%
5,000 - 10,000	429	3,485,333	2.96%
10,001 - 100,000	687	21,036,039	17.88%
100,001 - OVER	72	90,641,799	77.02%
Total	2,181	117,680,782	100.00%

The percentage holding of the Company's 20 largest shareholders is 68.78%. There were 115 shareholders holding less than a marketable parcel.

20 Largest Shareholders	Number of Oridinary Shares	Percentage of Total
Currango Pastoral Company Pty Ltd	50,628,506	43.02%
ANZ Nominees Limited (Income Reinvest Plan a/c)	4,716,369	4.01%
Silverglades Pty Ltd	2,999,840	2.55%
Cogent Nominees Pty Ltd (SMP Accounts)	2,935,728	2.49%
ANZ Nominees Limited (Cash Income a/c)	2,800,729	2.38%
National Nominees Limited	2,788,677	2.37%
National Nominees Limited (Equipsuper a/c)	2,581,757	2.19%
Cogent Nominees Pty Limited	2,334,726	1.98%
Citicorp Nominees Pty Limited (CFSIL CWLTH SML COS 1 a/c)	1,321,758	1.12%
Molvest Pty Ltd (Molvest Family Trust)	1,245,720	1.06%
Branka Nominees Pty Ltd	1,050,220	0.89%
Mr. Brendan Francis Carroll	1,011,883	0.86%
Westpac Custodian Nominess Limited	675,119	0.57%
Citicorp Nominees Pty Limited (CFSIL CWLTH Small Co 7 a/c)	647,776	0.55%
Pentlane Pty Ltd (Superannuation Fund a/c)	600,000	0.51%
Gaywin Pty Ltd	552,183	0.47%
Molvest Pty Ltd (Molvest Family a/c)	532,415	0.45%
AMP Life Limited	517,549	0.44%
Trust Company Superannuation Services Ltd (BT-Tony Bardsley SF a/c)	500,000	0.42%
Mr. Peter George Wilson	500,000	0.42%

On-Market Buy-Back

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

SDI LIMITED
ABN 27 008 075 581

Corporate Governance Statement

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

Board Composition

The Board of Directors is comprised of four non-executive directors and two executive directors. It is Board policy that the majority of directors will be non-executive and that there is a segregation of the chairperson and managing director roles.

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

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

Board responsibilities

The Board is responsible for:

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

Directors' Appointment

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

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

Nomination Committee

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

The Board itself: -

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

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

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

Remuneration Committee

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

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

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

The objectives of the Board in designing remuneration policies are:

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

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

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

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

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

Audit Committee

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

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

The audit committee charter is included in the detail corporate governance statement.

In performing its duties, the committee will maintain effective working relationships with the Board of directors, management and the internal and external auditors

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

<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.
- Ensure the attendance of company officers at meetings as appropriate.

Risk assessment and Management

The Board, along with the audit committee is responsible for ensuring that adequate policies on risk oversight and management are in place. The implementation and management of these policies are the responsibility of SDI's senior management. The CEO and the CFO updates the Board on material risks, and where necessary makes recommendations to engage a consultant to establish a comprehensive framework to identify assess, monitor and manage risk across its operations.

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

Code of Conduct

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

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

- Financial results announcements - Directors and managers should not trade in any shares between the following dates:

  - Half year results: between December 1 and 24 hours after the results are announced to the market.

  - Full year results: between June 1 and 24 hours after the results are announced to the market

- Price sensitive general announcements - Directors and managers should not trade in any shares prior to knowledge of any price sensitive announcements and 24 hours after these announcements are released to the Market.

- Directors and managers must gain approval by the Board prior to any share trading within the restriction periods.

Communications to Shareholders

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

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

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

All shareholders have the option of receiving the annual report and they also have the opportunity of to participate in communicating with the company through its website. In addition to this the company has linked its website to that of the ASX which allows shareholders to view company announcements via its website.

CORPORATE DIRECTORY

The Annual General Meeting

Separate Notice of the Annual General Meeting and Proxy Form are enclosed with this report.

Auditors

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

Bankers

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

Solicitors

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

Share Registry

Link Market Services Limited
Level 4, 333 Collins Street, Melbourne
Victoria 3000, Australia
Telephone: (03) 9615 9800
Facsimile: (03) 9615 9900

Patent Attorneys

Lord & Company
2nd Floor, 4 Douro Place, West Perth
Western Australia 6005, Australia

Shares

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

Board of Directors

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

Company Secretary

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

Principal and Registered Office

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

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Email: info@sdi.com.au
Website: www.sdi.com.au

DESIGN: COLLIER & ASSOCIATES THE STRATEGIC DESIGN COMPANY #11473

SDI