SDI

YOUR SMILE. **OUR VISION.**

ANNUAL REPORT 2020

Innovating Dentistry for better health.

Pioneering and driving the science of Dentistry.

SDI's products are a combination of innovation and excellence to provide the ideal restorative materials for the dental profession.

SEPTEMBER 2020

ESTABLISHED 1972

SDI Limited

ABN 27 008 075 581

Annual Report - 30 June 2020

Dear Shareholders,

On behalf of the Board of Directors of SDI Limited ('SDI' or the 'Company'), it is my pleasure to present SDI Limited's Annual Report for the financial year ended 30 June 2020.

The Coronavirus ('COVID-19') pandemic has had a significant adverse impact on the Company's results particularly in the 4th quarter of the financial year ('Q4'), which is traditionally the Company's strongest quarter. In most countries dental procedures were restricted to emergency treatment only. We are now starting to see dental practises returning to 'normal' in many countries. Prior to the pandemic, the Company was on track to achieving a very strong result, as shown by a record first half year result.

As Chairman, I am pleased with the commitment shown by all employees to help the Company navigate through this very challenging period. It is evident that SDI has a very strong and experienced management team driven by the Company's values, which underpins the future success of the Company.

The pandemic has highlighted the strong fundamentals of SDI. The Company continued to generate good cash flow, has minimal debt, and continued to invest in product research and development.

SDI is an Australian manufacturer which has built a strong global distribution network embracing over 100 countries. It exports over 90% of its products and has approximately 300 employees globally. It continually invests in the development of contemporary dental products and is recognised in the industry as an innovative and quality manufacture.

The Board, with its continued confidence in the underlying strength of the business, has declared a final dividend of 0.5 cents, which is in addition to the interim dividend of 1.35 cents paid in April 2019.

In closing, I wish to acknowledge the contribution made by the Board of Directors who have served with distinction by advising, encouraging, and assisting management. Additionally, I wish to express my appreciation to the managers and all the staff for their tremendous efforts. SDI is a great Australian manufacturing and exporting company, and we are very confident of continued growth in the business and rewards for shareholders.

Thank you for your ongoing support.

Jeffery Cheetham, OAM
Chairman

30 September 2020
Melbourne

The 2020 financial year demonstrated the resilience and underlying strength of the business, achieving significant milestones even during a global pandemic. We achieved strong growth in many of our important global markets for the first three quarters of the financial year, underpinned by growth in our key focus categories of aesthetics and tooth whitening.

In Q4 2020, typically the Company's strongest quarter, the consequences of the Coronavirus ('COVID-19') pandemic immediately impacted the global dental industry. With SDI's products sold in over 100 countries, almost every market was immediately impacted with many governments directing dental offices to either close or limit treatment to emergency patient care only. This saw an immediate impact on demand for most of SDI's products.

Moving onto June 2020, we saw some countries showing improvements in sales as economies began to open. In July and August 2020, more economies were on track to business as usual, as many governments recognised the economic impact of the lockdowns. Dental healthcare is an essential service and cannot be deferred indefinitely. This has led to evidence of pent up demand in those markets for our products and we are experiencing higher than normal run rates and expect this to continue for a few months.

The COVID-19 effect

Our number one priority during Q4 was to ensure employee safety, to protect the financial strength of the business and help our customers worldwide. I would like to thank every SDI employee for their commitment and flexibility during the height of the pandemic. We all quickly marched to the new order and continued with advancing on our strategic priorities, in the new working conditions. Our customers, particularly our distributors in emerging countries, showed their commitment and long-term partnership to SDI, and I thank them for this.

Our Riva Star product, which stops decay, became a true star in this period. Our teams in South America, North America, Europe and Asia, organised webinars showing dentists how they can treat decay without requiring them to do an aerosol generating procedure. These webinars, sometimes with several thousand dentists, have drawn attention and awareness to the SDI brand worldwide.

Furthermore, as we looked to carefully manage costs in this uncertain period, our managers and directors took up to a 50% reduction in their salaries. All non-essential capital expenditure, sales and marketing costs were immediately reduced. We applied for government assistance programs in the regions we operate in, retaining all employees, albeit on limited working hours in some regions. Cash flow was strong, and we drew down $1.5 million on our bank facility for additional flexibility.

Research and development commitment

Throughout 2020, we remained committed to our research and development programs. Our product pipeline has continued and is heavily weighted towards tooth coloured aesthetic products in the glass ionomer and the composite category, and our tooth whitening category, Pola. Product development takes many years and we have made substantial progress during the year. We continued to rollout our new LED light, the Radii Xpert, a handheld light which hardens the tooth coloured fillings. We launched Zipbond, an adhesive which adheres the tooth coloured fillings to the tooth. Finally, we launched Aura Easy Flowable, a new tooth coloured filling. During Q4, we prepared the launch of Pola Light, a tooth whitening system whereby a dentist does not even have to see his patient to make tooth moulds, instead they can ship it or sell it in a tele-dental appointment, a perfect COVID-19 solution. This product was launched in the USA in September 2020 and will be launched in Australia in October 2020.

Product rationalisation

As part of other operational efficiencies, we have reduced the number of stock-keeping units ('SKUs') by 45%. This will now ensure all teams are more focused on long-term production efficiencies, enabling longer production runs thus reducing manufacturing costs.

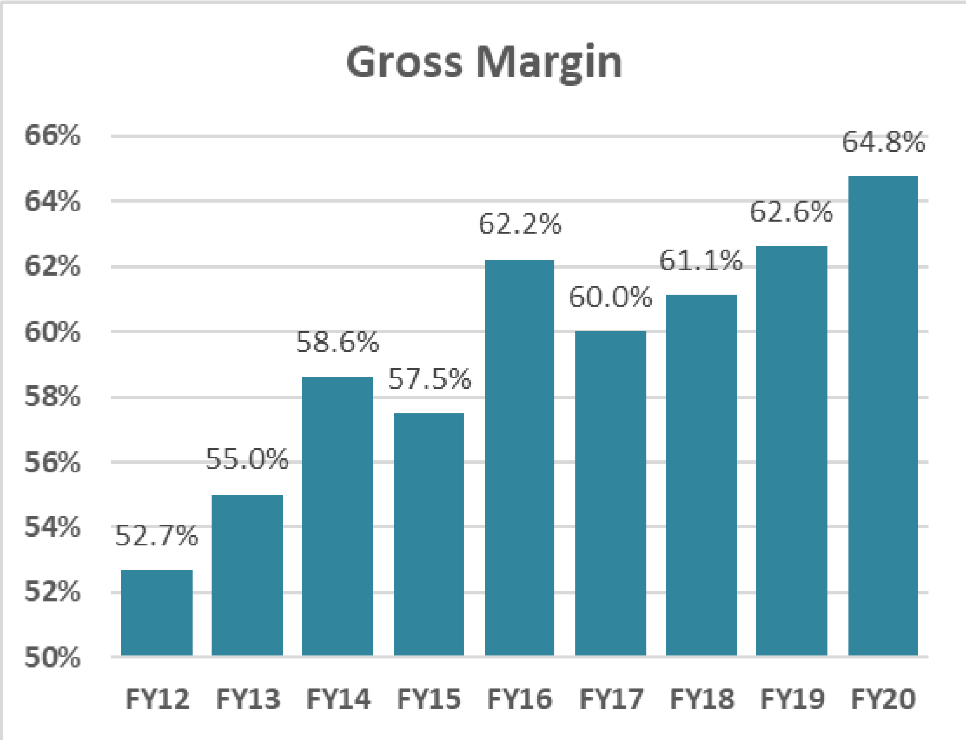
Amalgam replacement on track for 2023

With consumers demanding tooth coloured restorative "fillings", SDI's amalgam replacement product is showing very promising signs. The $3 million Commonwealth Government grant awarded in collaboration with the University of Sydney, the University of New South Wales and the University of Wollongong, will ensure SDI is a leader in this category. This new product is on track for market release in 2023

Financial results

2020 sales were down 15.4% to $67.4 million. Earnings before interest, taxation, depreciation and amortisation ('EBITDA') was down 30.9% to $9.8 million. Net profit after taxation ('NPAT') was down 42.2% to $4.2 million. As previously stated Q4, which is typically the strongest quarter for the Company, was impacted by the global restrictions on dental care.

Gross margin has continued to improve and in 2020 was 64.8%. This represents a continued gradual improvement from 2012 when it was 52.7%. This improvement is primarily due to product sales mix, but also regional sales mix, and some impact from exchange rates.



Our Brazilian operation, heavily impacted by the weakening Brazilian currency, will become a leaner operation in 2021. Brazil has one of the largest dental markets in the world, with world renowned clinicians. We will continue to remain committed to the region.

Outlook

Despite the uncertainties with the global economy due to COVID-19, we are optimistic about the future. The strong fundamentals of the business should ensure continued success and growth in our key product categories.

Already in Q1 2021, we are seeing recoveries in many of the key markets we operate in. However, the United Kingdom is the only market that is not operating close to full capacity and this will impact sales.

We will continue to invest to increase our efficiencies, our new product rollouts, and the strength of our financial results.

I would like to thank all our managers and their teams for their commitment to our Company during this incredibly difficult year. Their hard work and dedication to our values is how SDI shines.

Samantha Cheetham
Managing Director and Chief Executive Officer

30 September 2020
Melbourne

The Directors present their report, together with the financial statements, on the consolidated entity consisting of SDI Limited (referred to hereafter as the 'Company', 'SDI' or 'parent entity') and the entities it controlled at the end of, or during, the financial year ended 30 June 2020 (referred to hereafter as the 'consolidated entity').

Directors

The following persons were Directors of SDI Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jeffery James Cheetham OAM - Chairman
Samantha Jane Cheetham
John Joseph Slaviero
Dr Geoffrey Macdonald Knight
Gerald Allan Bullon
Cameron Neil Allen
Gerard Desmond Kennedy

Alternate Director

Pamela Joy Cheetham (alternate for Jeffery James Cheetham)

Principal activities

During the financial year the principal activities of the consolidated entity consisted of the manufacture and distribution of dental restorative materials, whitening systems, other dental materials and product research and development.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.4 cents) per ordinary share	1,783	-
Interim dividend for the year ended 30 June 2020 of 1.35 cents (2019: 1.2 cents) per ordinary share	1,605	-
Final dividend for the year ended 30 June 2018 of 1.4 cents (2017: 1.3 cents) per ordinary share	-	1,664
Interim dividend for the year ended 30 June 2019 of 1.2 cents (2018: 1.1 cents) per ordinary share	-	1,426
Special dividend for the year ended 30 June 2019 of 1.0 cents (2018: nil) per ordinary share	-	1,189
	3,388	4,279

On 21 August 2020, the Directors declared a final franked dividend of 0.5 cents per share to be paid on 21 September 2020. This equates to a total estimated distribution of $594,000, based on the number of ordinary shares on issue as at 30 June 2020. The financial effect of dividends declared after the reporting date is not reflected in the 30 June 2020 financial statements and will be recognised in subsequent financial reports.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to $4,237,000 (30 June 2019: $7,329,000).

Highlights of the results from operations for the financial year ended 30 June 2020 are provided below:

Net profit after tax decreased by 42.2% to $4,237,000 compared to $7,329,000 for the previous year. Profit before tax decreased by 51.2% to $5,115,000 compared to $10,484,000 for the previous year.

Earnings per share for the year ended 30 June 2020 decreased by 2.61 cents to 3.56 cents compared to 6.17 cents for the same period last year.

Earnings before interest, taxation, depreciation and amortisation ('EBITDA') is a financial measure which is not prescribed by Australian Accounting Standards (‘AAS’) and represents the profit under AAS adjusted for specific items.

EBITDA decreased by 30.9% to $9,791,000 (30 June 2019: $14,177,000).

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

	Consolidated	
	2020 $'000	2019 $'000
Profit after tax	4,237	7,329
Add: taxation	878	3,155
Add: interest expense	19	37
Less: interest income	(10)	(13)
Add: depreciation and amortisation	4,667	3,669
EBITDA	9,791	14,177

SDI Limited adopted AASB 16 ‘Leases’ from 1 July 2019. The adoption resulted in the recognition of a right of use asset and a lease liability of $1,699,000 as at 1 July, 2020 and had the following impact on the current period. Current profit before income tax expense was increased by $15,000. This included an increased depreciation and amortisation expense of $754,000, increased finance costs of $12,000 and increased foreign exchange cost on translation of $14,000, offset by a reduction in other expenses (reclassification of lease expenses) of $795,000. As at 30 June 2020, net current assets declined by $441,000 (attributable to current lease liabilities) and net assets were increased by $15,000 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

In the second six months of the financial year, Governments in many countries restricted dental procedures to emergency cases only, due to the COVID-19 pandemic. This had a material impact on the consolidated entity’s financial results. All of SDI’s product categories were adversely affected by these decisions. The major impact was felt in the 4th quarter of the financial year, which is traditionally the strongest quarter in both sales and profitability. In April 2020, the consolidated entity implemented several steps to not only reduce expenditure and minimize the financial impact, but to also ensure the health and safety of its employees.

Sales reported in Australian dollars decreased by 15.4% to $67,374,000 for the current year compared to $79,598,000 for the corresponding period last year. SDI exports approximately 90% of its products and when adjusted for currency movements, sales deceased by 18.1%. The pandemic had a significant impact on all product groups with Aesthetics showing the smallest decline of 9.1%, Whitening 15.4%, Equipment 14.9%, and Amalgam 27.2%. The demand for the key product categories of restoratives and whitening products significantly decreased in the fourth quarter, which traditionally is the consolidated entity’s strongest quarter. However, products used for non-aerosol procedures showed good results. The overall sales mix as a percentage of total sales was in line with previous years.

Sales by business unit
Sales across all markets were significantly impacted by the pandemic. In local currencies, Australian sales including direct exports (excluding inter-company sales) decreased by 16.1%. SDI North America’s sales decreased 28.6%, and Europe decreased by 19.1%

Brazilian sales grew by 16.0% in local currency, however, when adjusted for export sales, previously exported from Australia, sales in local currencies increased by 6.1% and when translated to Australian Dollars local sales decreased by 2.6%. Further, the devaluation of the Brazilian Real has significantly reduced product margins, putting pressure on selling prices to stay competitive with local competitors. SDI has made a substantial investment in this market and with the effect of the Coronavirus pandemic on the country’s present and future economy, future investment has been suspended pending a full review of the Brazilian operations.

Gross profit margins
Gross product margins in Australian Dollars increased by 2.2% to 64.8% compared to 62.6% for the corresponding period last year. When adjusted for currency movements, gross margin increased by 1.0% to 63.6% compared to the previous corresponding period. The improved margin is reflective of the ongoing shift in product mix, but also the changes experienced in the overall regional performance.

Operating expenses
Total operating expenses in Australian dollars decreased by 8.2% when compared to the previous corresponding period. Approximately 55% of the consolidated entity's total operating expenses relate to its offshore subsidiaries and after adjusting for currency movements, total operating expenses decreased by 9.8%. In response to the pandemic the consolidated entity reduced its expenditure in all areas, apart from research expenditure with a further increase of $0.6 million for the year.

The consolidated entity's net cash position decreased by $1.8 million after increasing inventories by $3.4 million, planned investment in plant and equipment of $2.5 million and product development expenditure of $1.9 million. Inventories increased due to the build-up of stock for the expected fourth quarter sales, which was impacted by the pandemic.

The consolidated entity has sufficient headroom in its $10.45 million bank facility, with only $1.5 million drawn as at 30 June 2020.

SDI has a risk management framework ('Framework') that is reviewed annually by the Audit Committee. The risk management process that underlies this Framework sets a process for identifying, assessing, evaluating and monitoring SDI's key risks, primarily achieved via internal six-monthly risk workshops. Material business risks that could have an adverse impact on SDI's future financial prospects include the following:

Sales of Amalgam products	Amalgam sales currently represent approximately 19.6% of total sales and continues to show a decreasing sales trend as markets are moving to Aesthetic products. SDI has existing strategies and controls in place to increase its focus on replacement products, but also to continue to promote its Amalgam products to lower socio-economic markets; and
Foreign exchange risk	SDI exports approximately 90% of its products which are invoiced in various foreign currencies. The foreign currency exchange exposure is partially offset as SDI incurs approximately 55% of its operating expenses in foreign currencies. In addition to this, where possible the consolidated entity purchases raw materials in foreign currencies to further increase its natural hedge. Hedging instruments are considered when net foreign currency cash flows are in surplus.

Significant changes in the state of affairs
The impact of COVID-19 had a financially negative impact on the second half's result. Sales decreased by $15.1 million and profit after tax by $3.5 million in the second six months of the financial year, when compared to the previous same period. The Company introduced several cost cutting measures in the last quarter of the year which included:

- Directors and management salary reductions of up to 50%;
- Reducing other operational costs;
- Reviewing all capital and project expenditure; and
- Applying for all Government COVID-19 subsidy programs.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
The impact of the COVID-19 pandemic is ongoing and while it has had an adverse financial impact on the consolidated entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, restricted dental procedures, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend declared as disclosed in note 20 and the impact of the ongoing COVID-19 pandemic, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations has been included, where applicable, in the 'Review of operations' section above.

Environmental regulation

The consolidated entity holds licences issued by the Environmental Protection Authority, which specify limits for discharges to the environment arising from the consolidated entity's operations. These licences regulate the management of discharges to the air and stormwater 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 ended 30 June 2020 and up to the date of this report.

Information on Directors

Name:	Jeffery James Cheetham OAM
Title:	Chairman
Experience and expertise:	Founder of SDI Limited.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the SDI Limited Board, member of the Audit Committee and member of the Remuneration Committee.
Interests in shares:	37,905 ordinary shares held directly and 54,470,242 ordinary shares held indirectly.

Name:	Samantha Jane Cheetham
Title:	Managing Director and Chief Executive Officer
Qualifications:	Bachelor of Business (Banking and Finance), Master of Business Administration
Experience and expertise:	Extensive experience in sales and marketing in Australia and overseas.
Other current directorships:	Australian Dental Industry Association ('ADIA') - Board member since January 2016.
Former directorships (last 3 years):	None
Interests in shares:	333,565 ordinary shares held directly and 25,708 ordinary shares held indirectly.

Name:	John Joseph Slaviero
Title:	Executive Director, Chief Operating Officer, Chief Financial Officer and Company Secretary
Qualifications:	Bachelor of Business, Certified Practicing Accountant, Fellow of the Association of Taxation and Management Accountants
Experience and expertise:	John has been the Chief Financial Officer and Company Secretary of SDI Limited since 2002 and has extensive finance and accounting experience in both the commercial and professional fields. Much of this experience was gained from working in senior finance and accounting roles in large multinational and medium size manufacturing companies.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Company Secretary
Interests in shares:	2,689 ordinary shares held directly and 50,000 ordinary shares held indirectly.

Name:	Dr Geoffrey Macdonald Knight
Title:	Non-Executive Director
Qualifications:	Bachelor of Dental Science, Master of Business Administration, Master of Science (London University), Doctor of Philosophy (Adelaide University)
Experience and expertise:	Geoffrey is an experienced and world recognised dental scientist as well as a practicing dentist. He has published numerous technical dentistry papers both locally and internationally and has held senior positions with the Australian Dental Association (Victorian Branch), Australian Society of Periodontology (Victorian Branch), Australian Society of Dental Aesthetics, the Society of Occlusal Studies and other professional groups.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and member of the Remuneration Committee.
Interests in shares:	165,516 ordinary shares held directly and 1,215,790 ordinary shares held indirectly.

Name:	Gerald Allan Bullon
Title:	Non-Executive Director
Qualifications:	Fellow of the Australian Institute of Company Directors
Experience and expertise:	Gerald has managed his own Investor Relations consultancy firm, Insor Pty Ltd, since 1996. He has been involved with several ASX initial public offerings including Australian Hospital Care Limited, Sigma Pharmaceuticals Limited and Nick Scali Limited. He has also held senior executive roles in a number of public companies.
Other current directorships:	
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and Chairman of the Remuneration Committee.
Interests in shares:	360,000 ordinary shares held indirectly.

Name:	Cameron Neil Allen
Title:	Non-Executive Director
Qualifications:	Master of Taxation (University of Melbourne), Bachelor of Business (Accounting) (Deakin University), Chartered Tax Adviser and Member of The Tax Institute (Australia)
Experience and expertise:	Cameron is currently the Managing Partner of A&A Tax Legal Consulting, collaborating with Andersen Global in Australia. Prior to A&A, Cameron was a tax partner at Deloitte Touche Tohmatsu, as well as holding a senior role at Ernst & Young. He has over 25 years' experience in advising large and small corporate organisations on domestic and international taxation and 'best practice' processes.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit Committee and member of the Remuneration Committee.
Interests in shares:	10,000 ordinary shares held indirectly.

Name:	Gerard Desmond Kennedy
Title:	Non-Executive Director
Qualifications:	Law Institute of Victoria, Barrister and Solicitor of the Supreme Court of Victoria and the High Court of Australia, Postgraduate Diploma in Commercial Law (Monash University) majoring in International Trade Law and International Banking and Finance Law, Notary Public and a Member of the Victorian Lawyers RPA Ltd
Experience and expertise:	Gerard is a Special Council in the Law firm of Macpherson and Kelley Lawyers and has spent many years in advising clients on matters of mergers and acquisitions, contract, licensing, joint ventures, tenders, corporate governance and compliance, Corporation law and international trade.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and member of the Remuneration Committee.
Interests in shares:	114,000 ordinary shares held indirectly.

Name:	Pamela Joy Cheetham
Title:	Alternate Director for Jeffery James Cheetham
Experience and expertise:	Co-founder of SDI Limited
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	Co-holder of shares shown for Jeffery James Cheetham.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company Secretary
John Joseph Slaviero is an Executive Director and Company Secretary. Details of John's experience and expertise are detailed in the 'Information on Directors' section above.

Meetings of Directors
The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Jeffery James Cheetham	8	11	1	2	1	2
Dr Geoffrey Macdonald Knight	11	11	2	2	2	2
Gerald Allan Bullon	11	11	2	2	2	2
Cameron Neil Allen	11	11	2	2	2	2
Gerard Desmond Kennedy	11	11	2	2	2	2
Samantha Jane Cheetham	10	11	-	-	-	-
John Joseph Slaviero	11	11	-	-	-	-

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Remuneration report (audited)
The remuneration report, which has been audited, outlines the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration
The objective of the consolidated entity's executive reward framework is to ensure reward for performance is market competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for delivery of reward.

The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good governance practices:
- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the consolidated entity depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high-performance and high-quality personnel.

The Remuneration Committee has structured an executive remuneration framework based on external remuneration reports that is market competitive and complementary to the reward strategy of the consolidated entity. The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executives on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

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

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

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

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 17 November 2017, where the shareholders approved an aggregate maximum remuneration of $450,000 per annum.

Executive remuneration
The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long-term performance incentives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are reviewed annually by the Remuneration Committee based on individual responsibilities, the overall performance of the consolidated entity and comparable market remunerations. Executives may receive their fixed remuneration in the form of cash or other fringe benefits.

Consolidated entity performance and link to remuneration
The short-term incentives ('STI') program is designed to link the achievement of the consolidated entity's operational targets with the remuneration received by the executives responsible with meeting those targets. A summary of the plan is as follows:

- A maximum STI value of 10% of each executive's fixed remuneration is granted depending on the extent to which specific targets set at the beginning of the financial year are met;
- STI payments are proportionately made if the executive team achieve 95% or greater of budgeted net profit after tax ('NPAT') for the half year and / or the full year, and the executives meet their individual key performance indicators ('KPIs') for these periods;
- If the executive team exceeds 100% of budgeted NPAT they may receive an extraordinary payment at the discretion of the Board; and
- All STI payments are made in the form of cash.

The aggregate pool of potential STI payments is approved by the Remuneration Committee. The Board, at its discretion, determine whether events which are uncontrollable by management have impacted on the actual earnings and therefore should be excluded from the calculation of NPAT in the year's STI hurdles.

The long-term incentives ('LTI') is designed to align executives and shareholder interests by linking reward with key performance drivers that underpin long-term sustainable growth. A summary of the plan is as follows:

- A maximum yearly LTI value of 20% of each executive's fixed remuneration is granted depending on the extent to which specific targets set at the beginning of the financial year are met;
- Once the eligibility criteria has been met and the incentive has been approved, a three-year restriction period is enforceable before the employee can receive the payment in cash or shares as determined by the Board. The expectation is that these amounts will be settled in cash, which is in line with the group's historical practices;
- If an executive leaves the Company for any reason apart from retirement or death, all incentives that fall within the restriction period are forfeited.
- The Non-executive Directors of the Company have the absolute discretion to determine whether a bonus will be granted, and if so, to whom. The Board, at its discretion, may determine whether events which are uncontrollable by management have impacted on their performance, and therefore should be excluded from the pre-determined objectives for the year.

In determining the eligibility of the LTI, the following are also considered:

- The executives must have had at least six months employment prior to being eligible;
- The overall performance of the Company; and
- The executives achieving their individual objectives and have complied with the Company's values for the year. These objectives are agreed at the beginning of the financial year and include individual departmental objectives which are aligned to achieving the Company's strategic plan and financial objectives.
- Strategic plan: Rationalise product portfolio, focus on key product categories, drive amalgam replacement, and increase innovation and speed to market.
- Financial objectives: Increase after tax profit (NPAT), dividend payment of at least 30% of NPAT, release one to two new products per year, with an overall objective of increasing Shareholder value.

Once confirmation is received by the Board and the Audit Committee of the results for the relevant reporting period, any proposed executive STI and LTI payments are referred to the Remuneration Committee for final approval prior to any payments being made.

During the financial year the Company did not engage any remuneration consultants.

Voting and comments made at the Company's 2019 Annual General Meeting ('AGM')
At the 2019 AGM, 96.2% of the eligible votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The KMP of the consolidated entity consisted of the Directors of SDI Limited.

Details of the remuneration of the KMP of the consolidated entity are set out in this section:

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
2020	Cash salary and fees*** $	STI bonus* $	Non-monetary $	Super-annuation $	Long Service Leave $	LTI bonus** $	Equity-settled $	Total $
Non-Executive Directors:								
Dr G M Knight	58,685	-	-	5,575	-	-	-	64,260
G A Bullon	58,685	-	-	5,575	-	-	-	64,260
C N Allen	64,260	-	-	-	-	-	-	64,260
G D Kennedy	58,685	-	-	5,575	-	-	-	64,260
J J Cheetham	133,875	-	-	-	-	-	-	133,875
Executive Directors:								
S J Cheetham	425,268	21,951	-	42,486	8,012	12,018	-	509,735
J J Slaviero	400,422	20,186	-	39,958	7,368	11,052	-	478,986
	1,199,880	42,137	-	99,169	15,380	23,070	-	1,379,636

* Includes paid 5% STI for the six months ending 31 December 2019 which was approved and paid in February 2020 as per the terms and conditions of the STI plan.
** Includes a provision of 10% LTI relating to the year ended 30 June 2020 to be paid in the year ended 30 June 2024 on the basis that the conditions of the LTI plan are met.
*** Cash salary and fees included the accrual of annual leave.

As at 30 June 2020 the remaining unvested portion of LTI was $69,211.

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
2019	Cash salary and fees*** $	STI bonus* $	Non-monetary $	Super-annuation $	Long Service Leave $	LTI bonus** $	Equity-settled $	Total $
Non-Executive Directors:								
Dr G M Knight	54,795	-	-	5,205	-	-	-	60,000
G A Bullon	63,927	-	-	6,073	-	-	-	70,000
C N Allen	70,000	-	-	-	-	-	-	70,000
G D Kennedy	54,795	-	-	5,205	-	-	-	60,000
J J Cheetham	150,000	-	-	-	-	-	-	150,000
Executive Directors:								
S J Cheetham *	471,311	47,132	-	47,013	7,855	47,132	-	620,443
J J Slaviero *	433,411	43,342	-	43,233	7,223	43,342	-	570,551
	1,298,239	90,474	-	106,729	15,078	90,474	-	1,600,994

* Includes paid 5% STI and accrued 5% STI for year ended 30 June 2019 which was approved and paid in August 2019 as per the conditions of the STI plan.
** Includes a provision of 10% LTI relating to the year ended 30 June 2019 to be paid at a later date as per the terms and conditions of the LTI plan.
*** Cash salary and fees included the accrual of annual leave.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2020	2019	2020	2019	2020	2019
Non-Executive Directors:						
Dr G M Knight	100%	100%	-	-	-	-
G A Bullon	100%	100%	-	-	-	-
C N Allen	100%	100%	-	-	-	-
G D Kennedy	100%	100%	-	-	-	-
J J Cheetham	100%	100%	-	-	-	-
Executive Directors:						
S J Cheetham	70%	70%	10%	10%	20%	20%
J J Slaviero	70%	70%	10%	10%	20%	20%

Share-based compensation

Issue of shares
There were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2020.

Options
There were no options over ordinary shares issued to Directors and other KMP as part of compensation that were outstanding as at 30 June 2020.

There were no options over ordinary shares granted to or vested by Directors and other KMP as part of compensation during the year ended 30 June 2020.

Additional information
The earnings of the consolidated entity for the five years to 30 June 2020 are summarised below:

	2020 $'000	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Sales revenue and other income	67,430	80,499	74,571	74,166	74,335
Profit before income tax	5,115	10,484	8,145	8,191	11,098
Profit after income tax	4,237	7,329	5,661	5,576	7,566

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

	2020	2019	2018	2017	2016
Share price at financial year end ($)	0.71	0.89	0.50	0.58	0.52
Total dividends declared (cents per share)	1.85	3.70	2.50	2.30	2.00
Basic earnings per share (cents per share)	3.56	6.17	4.76	4.69	6.37
Diluted earnings per share (cents per share)	3.56	6.17	4.76	4.69	6.37

Additional disclosures relating to KMP

Shareholding
The number of shares in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
J J Cheetham	54,470,247	-	37,900	-	54,508,147
S J Cheetham	359,273	-	-	-	359,273
J J Slaviero	2,689	-	50,000	-	52,689
Dr G M Knight	1,381,306	-	-	-	1,381,306
G A Bullon	300,000	-	60,000	-	360,000
C N Allen	-	-	10,000	-	10,000
G D Kennedy	82,000	-	32,000	-	114,000
	56,595,515	-	189,900	-	56,785,415

Other transactions with KMP and their related parties
Provision of consulting services by:
- A&A Tax Legal Consulting formerly (WTS Australia Consulting Pty Ltd), a company controlled by Director, C N Allen amounted to $28,825 (30 June 2019: $22,273).
- Director, Dr G M Knight amounted to $12,193 (30 June 2019: $875).
- Director, G D Kennedy amounted to $2,195 (30 June 2019: $660).

Payments for the lease of property owned by Silver Glades Pty Ltd, a company controlled by Director, J J Cheetham amounted to $85,633 (30 June 2019: $90,000).

This concludes the remuneration report, which has been audited.

Shares under option
There were no unissued ordinary shares of SDI Limited under option outstanding at the date of this report.

Shares issued on the exercise of options
There were no ordinary shares of SDI Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

Indemnity and insurance of officers
The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Deloitte Touche Tohmatsu
There are no officers of the Company who were former audit partners of Deloitte Touche Tohmatsu. Cameron Neil Allen was a former tax partner of Deloitte Touche Tohmatsu. Refer to 'Information on Directors' for further details.

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

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

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Samantha Jane Cheetham
Managing Director and Chief Executive Officer

30 September 2020
Melbourne

Deloitte.

Deloitte Touche Tohmatsu
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30 September 2020

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

Dear Board Members

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 report of SDI Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke du Toit
Partner
Chartered Accountants

SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue			
Sales revenue	5	67,374	79,598
Cost of goods sold		(23,737)	(29,805)
Gross profit		43,637	49,793
Other income	6	46	888
Interest income		10	13
Expenses			
Selling and administration expenses		(33,381)	(37,883)
Research and development costs		(1,775)	(1,015)
Impairment of receivables	10	(63)	(143)
Other expenses		(3,340)	(1,132)
Finance costs	7	(19)	(37)
Profit before income tax expense		5,115	10,484
Income tax expense	8	(878)	(3,155)
Profit after income tax expense for the year attributable to the owners of SDI Limited		4,237	7,329
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign controlled entities		(144)	481
Other comprehensive income for the year, net of tax		(144)	481
Total comprehensive income for the year attributable to the owners of SDI Limited		4,093	7,810
		Cents	**Cents**
Basic earnings per share	9	3.56	6.17
Diluted earnings per share	9	3.56	6.17

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

SDI Limited
Consolidated statement of financial position
As at 30 June 2020

YOUR SMILE. OUR VISION.

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		6,153	6,481
Trade and other receivables	10	9,605	17,780
Inventories	11	20,656	17,242
Current tax asset	8	850	-
Prepayments		1,780	1,100
Total current assets		39,044	42,603
Non-current assets			
Trade and other receivables	10	642	713
Property, plant and equipment	12	19,225	18,680
Right-of-use assets	13	1,142	-
Intangibles	14	24,752	24,603
Total non-current assets		45,761	43,996
Total assets		84,805	86,599
Liabilities			
Current liabilities			
Trade and other payables	15	3,364	6,249
Borrowings	16	1,500	-
Lease liabilities	17	441	-
Provision for income tax	8	69	1,386
Employee benefits		2,408	3,344
Total current liabilities		7,782	10,979
Non-current liabilities			
Lease liabilities	17	686	-
Deferred tax liability	8	2,334	2,363
Employee benefits		213	172
Total non-current liabilities		3,233	2,535
Total liabilities		11,015	13,514
Net assets		73,790	73,085
Equity			
Issued capital	18	12,890	12,890
Reserves	19	1,503	1,647
Retained profits		59,397	58,548
Total equity		73,790	73,085

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

SDI Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	12,890	1,166	55,498	69,554
Profit after income tax expense for the year	-	-	7,329	7,329
Other comprehensive income for the year, net of tax	-	481	-	481
Total comprehensive income for the year	-	481	7,329	7,810
Transactions with owners in their capacity as owners:				
Dividends paid (note 20)	-	-	(4,279)	(4,279)
Balance at 30 June 2019	12,890	1,647	58,548	73,085

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	12,890	1,647	58,548	73,085
Adjustment for change in accounting policy (note 2)	-	-	-	-
Balance at 1 July 2019 - restated	12,890	1,647	58,548	73,085
Profit after income tax expense for the year	-	-	4,237	4,237
Other comprehensive income for the year, net of tax	-	(144)	-	(144)
Total comprehensive income for the year	-	(144)	4,237	4,093
Transactions with owners in their capacity as owners:				
Dividends paid (note 20)	-	-	(3,388)	(3,388)
Balance at 30 June 2020	12,890	1,503	59,397	73,790

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

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash flows from operating activities			
Receipts from customers		75,146	78,215
Payments to suppliers and employees		(66,154)	(65,722)
		8,992	12,493
Interest received		10	13
Other revenue		1,121	59
Interest and other finance costs paid		(19)	(37)
Income taxes paid		(3,074)	(2,025)
Net cash from operating activities	28	7,030	10,503
Cash flows from investing activities			
Payments for property, plant and equipment	12	(2,489)	(3,146)
Payments for intangibles	14	(2,222)	(2,706)
Proceeds from disposal of property, plant and equipment		87	158
Net cash used in investing activities		(4,624)	(5,694)
Cash flows from financing activities			
Proceeds from borrowings	28	1,500	-
Dividends paid	20	(3,388)	(4,279)
Repayment of borrowings	28	(769)	(2,214)
Net cash used in financing activities		(2,657)	(6,493)
Net decrease in cash and cash equivalents		(251)	(1,684)
Cash and cash equivalents at the beginning of the financial year		6,481	8,246
Effects of exchange rate changes on cash and cash equivalents		(77)	(81)
Cash and cash equivalents at the end of the financial year		6,153	6,481

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover SDI Limited as a consolidated entity comprising of SDI Limited ('Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'consolidated entity'). The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency.

SDI Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
5 - 9 Brunsdon Street Bayswater VIC 3153	3 - 15 Brunsdon Street Bayswater VIC 3153

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 September 2020. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New and amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the current reporting period.

New and amended Accounting Standards or Interpretations that are not yet mandatory and have not been early adopted by the consolidated entity are disclosed in note 29.

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

AASB 16 Leases

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

(a) Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in AASB 117 and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

The consolidated entity applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or changed on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the consolidated entity has carried out an implementation project. The project has shown that the new definition in AASB 16 will not significantly change the scope of contracts that meet the definition of a lease for the consolidated entity.

Note 2. Significant accounting policies (continued)

(b) Impact on lessee accounting
AASB 16 changes how the consolidated entity accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

Applying AASB 16, for all leases (except as noted below), the consolidated entity:
(a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with AASB 16:C8(b)(ii);
(b) recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and
(c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 'Impairment of Assets'..

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the consolidated entity has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within ‘selling and administration expenses’ in profit or loss.

(c) Financial impact of initial application of AASB 16
The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the weighted average incremental borrowing rate of 2.24% at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

The consolidated entity applied AASB 16 using the modified retrospective approach and as such the comparatives have not been restated. There was no impact on the retained profits on 1 July 2019 as disclosed below:

	1 July 2019 $'000
Operating lease commitments at 30 June 2019	1,327
Short-term leases and leases of low-value assets	(218)
Effect of discounting the above amounts	(107)
Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating commitments	697
Lease liabilities recognised at 1 July 2019	1,699

The consolidated entity has recognised $1,699,000 of right-of-use-assets and $1,699,000 of lease liabilities upon transition to AASB 16. The difference of $nil is recognised in retained earnings.

When adopting AASB 16 from 1 July 2019, the consolidated entity has applied the following practical expedients:
- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- excluding any initial direct costs from the measurement of right-of-use assets;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- not apply AASB 16 to contracts that were not previously identified as containing a lease.

Note 2. Significant accounting policies (continued)

Interpretation 23 Uncertainty over Income Tax
The consolidated entity has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the consolidated entity to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the consolidated entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the consolidated entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2019.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SDI Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation
The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency. The functional currencies of foreign operations are the currencies where they operate, being Euro, United States dollar, Brazilian real, Pound Sterling and New Zealand dollar.

Note 2. Significant accounting policies (continued)

Foreign currency transactions
Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Government grants
Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the consolidated entity recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the consolidated entity should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. A capital grant of $400,000 for the construction of research and development was received during the financial year. Th asset will be amortised into the statement of profit or loss and other comprehensive income in accordance with the Groups accounting policy. Refer to note 14.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised in profit or loss in the period in which they become receivable. Refer to notes 7 and 11.

Benefits received by the consolidated entity includes JobKeeper subsidies (Australia) of $1,629,000, Payroll Protection Program (USA) of $690,000, Coronavirus Job Retention Scheme $48,000 (UK) and Short Time Working Scheme $64,000 (Germany).

Research and development expense
Expenditure during the research phase of a project is expensed to profit or loss when incurred. Expenditure incurred in the development phase of a project is capitalised as an intangible asset when the criteria for capitalisation has been satisfied (refer to note 14 for accounting policy for intangible assets). Development costs are expensed to profit or loss when it cannot be demonstrated that it is probable that the expenditure results in the control of future economic benefits.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading if it is expected to be realised within 12 months after the reporting period or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when it is expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

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

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date is measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows

Contributions superannuation expense
Company superannuation guarantee contributions to employ superannuation plans are expensed in the period in which they are incurred.

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

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic
The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to the business and economic activity. The Board and Management have considered the impact of COVID-19 on the consolidated entity's operations and financial performance and have recognised government subsidies of $2,431,000 which have been presented as a reduction in employee benefits and inventory.

In preparing the consolidated financial report, Management have considered the impact of COVID-19 on various balances in the financial report, including the carrying values of trade receivables (note 10), inventories (note 11) and non-current assets (note 14).

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or related dentistry techniques. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, whereas technically obsolete or non-strategic assets that have been abandoned or sold are impaired or written down. Refer notes 12,14.

Impairment of finite life non-financial assets
The consolidated entity assesses impairment of finite life non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. Refer to note 14.

Lease term
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances. Refer note 13.

Incremental borrowing rate
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment. Refer note 13.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Capitalisation of development costs
Expenditure incurred on the development phase of the consolidated entity's research projects are capitalised as intangible assets when the recognition criteria detailed in the accounting policy for intangible assets has been met. Significant judgement is involved in assessing whether the carrying value of such assets can be recovered through subsequent commercialisation and involves consideration as to the ability to patent or trademark the intellectual property and successfully market related products in a competitive market. The carrying values of such assets are continually reviewed for indicators of impairment which also requires judgement. Refer note 14.

Note 4. Operating segments

Identification of reportable operating segments
The consolidated entity's operations consist of the manufacture of dental restorative products, teeth whitening systems and small dental equipment for sale to dental distributors, dental dealers and dentists worldwide.

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

Reportable segments
The consolidated entity's reportable segments are as follows:

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

Intersegment transactions
The segment revenues, expenses and results include transfers between segments. The pricing of the intersegment transactions is based on cost plus an appropriate mark-up, which reflects market conditions of the segment into which the sales are made. These transfers are eliminated on consolidation.

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers
The consolidated entity has a number of customers to whom it sells products. No single customer represents 10% or more of the consolidated entity's revenue.

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2020	Australia $'000	Europe $'000	USA $'000	Brazil $'000	Other segments $'000	Total $'000
Revenue						
Sales to external customers	26,678	20,694	14,607	5,395	-	67,374
Intersegment sales	18,540	3,545	-	-	-	22,085
Total sales revenue	45,218	24,239	14,607	5,395	-	89,459
Total segment revenue	45,218	24,239	14,607	5,395	-	89,459
Intersegment eliminations						(22,085)
Total revenue						67,374
Segment results before tax and adjustments below	4,929	1,384	662	(591)	454	6,838
Intersegment adjustments	2,953	-	-	-	-	2,953
Depreciation and amortisation	(3,738)	(652)	(202)	(75)	-	(4,667)
Interest revenue	3	-	1	6	-	10
Finance costs	(8)	(3)	(8)	-	-	(19)
Profit/(loss) before income tax expense	4,139	729	453	(660)	454	5,115
Income tax expense						(878)
Profit after income tax expense						4,237
Assets						
Segment assets	76,789	8,428	6,399	5,423	-	97,039
Intersegment eliminations						(12,234)
Total assets						84,805
Liabilities						
Segment liabilities	9,095	4,983	456	6,057	-	20,591
Intersegment eliminations						(9,576)
Total liabilities						11,015

Note 4. Operating segments (continued)

Consolidated - 2019	Australia $'000	Europe $'000	USA $'000	Brazil $'000	Other segments $'000	Total $'000
Revenue						
Sales to external customers	30,514	24,737	19,195	5,065	87	79,598
Intersegment sales	25,695	4,156	-	-	-	29,851
Total sales revenue	56,209	28,893	19,195	5,065	87	109,449
Total segment revenue	56,209	28,893	19,195	5,065	87	109,449
Intersegment eliminations						(29,851)
Total revenue						79,598
Segment results before tax and adjustments below	14,030	906	660	282	62	15,940
Intersegment eliminations	(1,763)	-	-	-	-	(1,763)
Depreciation and amortisation	(3,456)	(36)	(83)	(88)	(6)	(3,669)
Interest revenue	2	-	2	-	9	13
Finance costs	(33)	-	(3)	(1)	-	(37)
Profit before income tax expense	8,780	870	576	193	65	10,484
Income tax expense						(3,155)
Profit after income tax expense						7,329
Assets						
Segment assets	82,004	14,355	8,876	5,496	41	110,772
Intersegment eliminations						(24,173)
Total assets						86,599
Liabilities						
Segment liabilities	12,008	11,427	2,075	5,640	499	31,649
Intersegment eliminations						(18,135)
Total liabilities						13,514

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

Note 5. Sales revenue

	Consolidated 2020 $'000	Consolidated 2019 $'000
Sales revenue	67,374	79,598

Note 5. Sales revenue (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Major product lines		
Aesthetics	30,915	33,767
Amalgam	13,213	18,296
Equipment	5,133	6,040
Whitening	18,113	21,495
	67,374	79,598
Timing of revenue recognition		
Goods transferred at a point in time	67,374	79,598

Refer to note 4 for disaggregation of revenue from contracts with customers based on geographical regions.

Accounting policy for revenue recognition
The consolidated entity recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Sales revenue
Sales revenue is recognised at the point of sale when the customer obtains control of the goods, which is generally at the time of delivery, and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

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

Note 6. Other income

	Consolidated 2020 $'000	Consolidated 2019 $'000
Net foreign exchange gain	-	798
Net gain on disposal of property, plant and equipment	45	31
Other	1	59
Other income	46	888

Note 7. Expenses

	Consolidated 2020 $'000	2019 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Land and buildings	137	126
Plant and equipment	1,765	1,783
Land and buildings right-of-use assets	754	-
Total depreciation	2,656	1,909
Amortisation		
Product development costs	1,424	1,239
Intellectual property	587	521
Total amortisation	2,011	1,760
Total depreciation and amortisation	4,667	3,669
Employee benefit expense		
Employee costs other than superannuation expense	24,468	28,942
Superannuation expenses	1,474	1,444
Total employee benefit expense	25,942	30,386
Finance costs		
Interest and finance charges paid/payable on borrowings	7	37
Interest and finance charges paid/payable on lease liabilities	12	-
Finance costs expensed	19	37
Net loss on disposal		
Net loss on disposal of property, plant and equipment	-	-
Leases		
Minimum lease payments	-	760
Other		
Impairment of receivables	63	143

Accounting policy for finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. No finance costs attributable to qualifying assets were incurred during the period. All other finance costs during the period were expensed in the period.

Government grants
As disclosed in note 2, the value of government grants has been recognised in the profit or loss on a systematic basis over the period that the expenses or related costs for which the grants are intended to compensate as an offset to the expense. Government grants of $1,504,000 have been included in employee benefits expense for the year ended 30 June 2020.

Note 8. Income tax

	Consolidated 2020 $'000	Consolidated 2019 $'000
Income tax expense		
Current tax	980	2,959
Deferred tax - origination and reversal of temporary differences	(29)	(74)
Adjustment recognised for prior periods	(73)	270
Aggregate income tax expense	878	3,155
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax liabilities	(29)	(74)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	5,115	10,484
Tax at the statutory tax rate of 30%	1,535	3,145
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development concession	(155)	(244)
Other deductible / non-deductible items	(385)	20
	995	2,921
Adjustment recognised for prior periods	(73)	270
Difference in overseas tax rates	(44)	(36)
Income tax expense	878	3,155

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax liability		
Net deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss for (deferred tax asset)/deferred tax liability		
Property, plant and equipment	(1,178)	(1,001)
Intangible assets	5,543	5,418
Accrued expenses	(921)	(1,214)
Elimination of profit held in stock sold to subsidiaries	(515)	(949)
Other	(595)	109
Deferred tax liability	2,334	2,363
Movements:		
Opening balance	2,363	2,437
Credited to profit or loss	(29)	(74)
Closing balance	2,334	2,363

Note 8. Income tax (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current tax asset		
Current tax asset	850	-

	Consolidated 2020 $'000	Consolidated 2019 $'000
Provision for income tax		
Provision for income tax	69	1,386

Accounting policy for income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 9. Earnings per share

	Consolidated 2020 $'000	Consolidated 2019 $'000
Profit after income tax attributable to the owners of SDI Limited	4,237	7,329
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	118,865,530	118,865,530
Weighted average number of ordinary shares used in calculating diluted earnings per share	118,865,530	118,865,530
	Cents	**Cents**
Basic earnings per share	3.56	6.17
Diluted earnings per share	3.56	6.17

Accounting policy for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of SDI Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Note 9. Earnings per share (continued)

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 10. Trade and other receivables

	Consolidated	
	2020 $'000	2019 $'000
Current assets		
Trade receivables	8,973	17,085
Less: Allowance for expected credit losses	(357)	(394)
	8,616	16,691
Other receivables	989	1,089
	9,605	17,780
Non-current assets		
Other receivables	642	713
	10,247	18,493

Allowance for expected credit losses
The consolidated entity has recognised $63,000 (2019: $143,000) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020.

Other receivables relate to prepaid taxes and government grant subsidies receivable and the expected credit loss has been determined to be immaterial at 30 June 2020.

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

Consolidated	Expected credit loss rate 2020 %	Expected credit loss rate 2019 %	Carrying amount 2020 $'000	Carrying amount 2019 $'000	Allowance for expected credit losses 2020 $'000	Allowance for expected credit losses 2019 $'000
Not overdue	0.24%	0.19%	5,921	13,521	14	26
1 to 4 months overdue	0.24%	0.19%	1,902	2,289	5	4
Over 4 months overdue	29.39%	28.53%	1,150	1,275	338	364
			8,973	17,085	357	394

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the COVID-19 pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category up to 6 months overdue.

Accounting policy for trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 - 90 days from invoice date.

Note 10. Trade and other receivables (continued)

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 11. Inventories

	Consolidated	
	2020 $'000	2019 $'000
Current assets		
Raw materials - at cost	10,525	8,598
Finished goods - at cost	10,319	8,887
Less: Provision for inventory obsolescence	(188)	(243)
	20,656	17,242

Accounting policy for inventories
Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedge reserve in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

As disclosed in note 2, the value of government grants has been recognised in the profit or loss on a systematic basis over the period that the expenses or related costs for which the grants are intended to compensate. Government grants received for the compensation of employee salaries and wages (Job Keeper), where appropriate, were capitalised into the cost of inventories. These costs will be recognised in cost of goods sold in future periods when the inventory is sold. Government grants of $927,000 have been included in the cost of inventories for the year ended 30 June 2020.

Note 12. Property, plant and equipment

	Consolidated	
	2020 $'000	2019 $'000
Non-current assets		
Land and buildings - at cost	11,216	10,781
Less: Accumulated depreciation	(1,821)	(1,684)
	9,395	9,097
Plant and equipment - at cost	36,066	34,591
Less: Accumulated depreciation	(26,236)	(25,008)
	9,830	9,583
	19,225	18,680

Note 12. Property, plant and equipment (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and buildings $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2018	8,852	8,717	17,569
Additions	371	2,775	3,146
Disposals	-	(126)	(126)
Depreciation expense	(126)	(1,783)	(1,909)
Balance at 30 June 2019	9,097	9,583	18,680
Additions	435	2,054	2,489
Disposals	-	(42)	(42)
Depreciation expense	(137)	(1,765)	(1,902)
Balance at 30 June 2020	9,395	9,830	19,225

Property, plant and equipment secured under finance leases
Also refer to note 16 for property, plant and equipment used as security for borrowings.

Accounting policy for property, plant and equipment
Land and buildings are shown at historical cost less accumulated depreciation.

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	50 years
Plant and equipment	2.5 - 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 13. Right-of-use assets

	Consolidated 2020 $'000	Consolidated 2019 $'000
Non-current assets		
Land and buildings - right-of-use	1,896	-
Less: Accumulated depreciation	(754)	-
	1,142	-

Additions to the right-of-use-assets during the year were $197,000.

Note 13. Right-of-use assets (continued)

The consolidated entity has applied AASB16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under AASB 117. The details of accounting policies under both AASB 117 and AASB 16 are presented separately below.

The consolidated entity leases land and buildings for offices and warehouses under agreements between 2.1 to 5 years. On renewal, the terms of the leases are renegotiated. The consolidated entity also leaves plant and equipment under agreements of between 1.52 to 3.97 years.

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

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

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

Note 14. Intangibles

	Consolidated	
	2020 $'000	2019 $'000
Non-current assets		
Product development costs - at cost	27,407	25,517
Less: Accumulated amortisation	(12,180)	(10,757)
	15,227	14,760
Intellectual property - at cost	7,881	7,634
Less: Accumulated amortisation	(5,061)	(4,558)
	2,820	3,076
Development work in progress - at cost	6,705	6,767
	24,752	24,603

Note 14. Intangibles (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Product development costs $'000	Intellectual property $'000	Development work in progress $'000	Total $'000
Balance at 1 July 2018	15,496	3,323	4,838	23,657
Additions	503	274	1,929	2,706
Amortisation expense	(1,239)	(521)	-	(1,760)
Balance at 30 June 2019	14,760	3,076	6,767	24,603
Additions	1,891	331	-	2,222
Transfers out	-	-	(62)	(62)
Amortisation expense	(1,424)	(587)	-	(2,011)
Balance at 30 June 2020	15,227	2,820	6,705	24,752

Impairment of intangibles
An assessment was performed as to whether any indicators of impairment existed as at the reporting date. Despite the impacts of COVID-19 on the financial performance during the current year, management have reviewed other indicators and noted the following considerations that demonstrated that overall there was no indicator of impairment:

- sales pipeline continues to build with the return of dentists to performing normal dental services after early closure due to COVID-19;
- in all regions where government restrictions have started to ease, the consolidated entity has been advised that dentists are experiencing a significant backlog of patients as clinics were previously closed. With patients unable to access care during restrictions, the reopening of clinics has seen patients accessing care. Managements view is that the drop in sales is temporary as a result of closures as a result of quarantine policies implemented. We expect that sales will increase as economies reopen.
- while the outlook remains uncertain and some sales may have been lost, management believe that most have been deferred to a time when restrictions allow ordinary operations in dentistry to continue. This factor is very evident in the markets where dentistry has opened up where the consolidated entity is seeing strong demand for its products.

Accounting policy for intangible assets
Intangible assets acquired are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Amortisation commences when the asset is available for use in the manner intended by management.

Government grants
As disclosed in note 2, the value of government grants has been recognised in the profit or loss on a systematic basis over the period that the expenses or related costs for which the grants are intended to compensate. Government grants of $400,000 have been included in development work in progress for the year ended 30 June 2020.

Product development costs
Development costs are capitalised when it is probable that the project will be a success, considering its commercial and technical feasibility, the consolidated entity will be able to use or sell the asset, the consolidated entity has sufficient resources and intent to complete the development and its costs can be measured reliably. The majority of additions to development work in progress are developed internally. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit being their finite useful lives of between 10 and 30 years. The useful life is determined based on past experience and an assessment of the projected life cycle of the product. Amortisation commences when the asset is available for use, ie. when it is in the location and condition necessary for it to be capable of operating in a manner intended by management.

Note 14. Intangibles (continued)

Intellectual property
Intellectual property consists of patents, trademarks, licences and other technical know-how which has a benefit to the consolidated entity of greater than one year. 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. It is amortised over its useful life of up to 10 years.

Note 15. Trade and other payables

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current liabilities		
Trade payables	2,314	3,253
Other payables and accrued expenses	1,050	2,996
	3,364	6,249

Refer to note 21 for further information on financial instruments.

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The average credit period on the purchases of goods and services ranges from 7 to 60 days. No interest is charged on trade payables and the amounts are unsecured.

Note 16. Borrowings

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current liabilities		
Bank loans	1,500	-

Refer to note 21 for further information on financial instruments.

Assets pledged as security
The bank loans were secured by a registered first mortgage debenture over the assets of the parent entity, a registered first mortgage over its freehold properties and a cross guarantee between the Company's subsidiaries The consolidated entity has a loan facility of $10,000,000 and an export line facility of $450,000. The facilities allow for both fixed and variable rate loans. The loan period does not exceed 5 years. Finance is provided under all facilities, which are reviewed annually, provided the parent entity is within the terms and conditions of the Agreement.

The carrying amounts of assets pledged as security for borrowings are:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Land and buildings	9,395	9,097
Other assets	35,143	42,130
	44,538	51,227

Note 16. Borrowings (continued)

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Total facilities		
Bank loans	10,450	10,450
Used at the reporting date		
Bank loans	1,500	-
Unused at the reporting date		
Bank loans	8,950	10,450

Accounting policy for borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 17. Lease liabilities

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current liabilities		
Lease liability	441	-
Non-current liabilities		
Lease liability	686	-
	1,127	-

Refer to note 21 for information on the maturity analysis of lease liabilities.

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

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

Note 18. Issued capital

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares - fully paid	118,865,530	118,865,530	12,890	12,890

Ordinary shares
Ordinary shares entitle the holder to participate in any dividends and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short-term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy has not changed from the 2019 Annual Report.

Accounting policy for issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 19. Reserves

	Consolidated	
	2020 $'000	2019 $'000
Foreign currency reserve	1,140	1,284
Capital profits reserve	363	363
	1,503	1,647

Note 19. Reserves (continued)

Foreign currency reserve
The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Capital profits reserve
The reserve is used to recognise non-taxable capital profits arising from the disposal of investments.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Capital profits $'000	Total $'000
Balance at 1 July 2018	803	363	1,166
Foreign currency translation	481	-	481
Balance at 30 June 2019	1,284	363	1,647
Foreign currency translation	(144)	-	(144)
Balance at 30 June 2020	1,140	363	1,503

Note 20. Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.4 cents) per ordinary share	1,783	-
Interim dividend for the year ended 30 June 2020 of 1.35 cents (2019: 1.2 cents) per ordinary share	1,605	-
Final dividend for the year ended 30 June 2018 of 1.4 cents (2017: 1.3 cents) per ordinary share	-	1,664
Interim dividend for the year ended 30 June 2019 of 1.2 cents (2018: 1.1 cents) per ordinary share	-	1,426
Special dividend for the year ended 30 June 2019 of 1.0 cents (2018: nil) per ordinary share	-	1,189
	3,388	4,279

On 21 August 2020, the Directors declared a final franked dividend of 0.5 cents per share to be paid on 21 September 2020. This equates to a total estimated distribution of $594,000, based on the number of ordinary shares on issue as at 30 June 2020. The financial effect of dividends declared after the reporting date is not reflected in the 30 June 2020 financial statements and will be recognised in subsequent financial reports.

	Consolidated 2020 $'000	2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	9,131	9,170

Note 20. Dividends (continued)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

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

Note 21. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and if deemed appropriate at the time may hedge financial risks within the consolidated entity's operating units. Finance reports to the Board on a regular basis.

Market risk

Foreign currency risk
The consolidated entity invoices international customers in various currencies and is therefore exposed to foreign currency risk through foreign exchange rate fluctuations. Where considered appropriate, hedging against currency movements is undertaken to protect margins using forward foreign exchange contracts.

It is the consolidated entity's policy that net foreign exchange exposure, be hedged where deemed appropriate. At the reporting date, there were no unexpired foreign currency hedge contracts as at 30 June 2020 (2019: none).

The following table shows the foreign currency risk on the financial assets and liabilities of the consolidated entity's operations denominated in currencies other than the functional currency of the operations.

	Assets		Liabilities	
Consolidated	2020 $'000	2019 $'000	2020 $'000	2019 $'000
US dollars	2,982	5,590	305	920
Euros	1,777	4,273	1,488	844
Pound Sterling	980	1,886	464	820
Brazilian Real	3,584	3,703	138	181
Other	-	23	-	9
	9,323	15,475	2,395	2,774

Sensitivity analysis
The following table illustrates sensitivities to the consolidated entity’s exposure to changes in exchange rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Note 21. Financial instruments (continued)

	AUD strengthened			AUD weakened		
Consolidated - 2020	% change	Effect on profit before tax $'000	Effect on equity $'000	% change	Effect on profit before tax $'000	Effect on equity $'000
US dollars	10%	243	170	10%	(243)	(170)
Euros	10%	26	18	10%	(26)	(18)
Pound Sterling	10%	47	33	10%	(47)	(33)
Brazilian Real	10%	313	219	10%	(313)	(219)
Other	10%	-	-	10%	-	-
(Profit)/loss		629	440		(629)	(440)

	AUD strengthened			AUD weakened		
Consolidated - 2019	% change	Effect on profit before tax $'000	Effect on equity $'000	% change	Effect on profit before tax $'000	Effect on equity $'000
US dollars	10%	425	298	10%	(425)	(298)
Euros	10%	312	218	10%	(312)	(218)
Pound Sterling	10%	97	68	-	(97)	(68)
Brazilian Real	10%	320	224	10%	(320)	(224)
Other	10%	1	1	10%	(1)	(1)
(Profit)/loss		1,155	809		(1,155)	(809)

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

Price risk
The consolidated entity is exposed to commodity price risk due to the use of Silver in its Amalgam products. The consolidated entity has no hedges in place at the reporting date due to the requirement for silver reducing, making the benefit of hedging silver uneconomical.

Interest rate risk
The consolidated entity's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

	2020		2019	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	2.42%	1,500	-	-
Net exposure to cash flow interest rate risk		1,500		-

Note 21. Financial instruments (continued)

Sensitivity analysis
The following table illustrates sensitivities to the consolidated entity's exposure to changes in interest rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variables that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Basis points increase			Basis points decrease		
Consolidated - 2020	**Basis points change**	**Effect on profit before tax $'000**	**Effect on equity $'000**	**Basis points change**	**Effect on profit before tax $'000**	**Effect on equity $'000**
Bank loans (profit)/loss	50	8	5	(50)	(8)	(5)

	Basis points increase			Basis points decrease		
Consolidated - 2019	**Basis points change**	**Effect on profit before tax $'000**	**Effect on equity $'000**	**Basis points change**	**Effect on profit before tax $'000**	**Effect on equity $'000**
Bank loans (profit)/loss	-	-	-	-	-	-

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

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

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. As disclosed in note 10, due to the COVID-19 pandemic, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category up to 6 months overdue.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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

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

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Note 21. Financial instruments (continued)

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Bank loans	8,950	10,450

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2020	Weighted average interest rate %	Less than 1 month $'000	Between 1 and 3 months $'000	Between 3 months to 1 year $'000	Between 1 to 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	1,427	781	237	-	2,445
Other payables (excluding statutory payables)	-	378	-	-	-	378
Interest-bearing - variable						
Bank loans	2.42%	-	1,509	-	-	1,509
Lease liability	2.24%	43	86	362	855	1,346
Total non-derivatives		1,848	2,376	599	855	5,678

Consolidated - 2019	Weighted average interest rate %	Less than 1 month $'000	Between 1 and 3 months $'000	Between 3 months to 1 year $'000	Between 1 to 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,457	222	574	-	3,253
Other payables (excluding statutory payables)	-	2,454	-	-	-	2,454
Total non-derivatives		4,911	222	574	-	5,707

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

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

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and unrelated firms:

	Consolidated 2020 $	Consolidated 2019 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	239,700	239,500
Other services - Deloitte Touche Tohmatsu		
Transfer pricing review	17,000	-
Taxation services	56,490	26,500
	73,490	26,500
	313,190	266,000
Audit services of subsidiaries - unrelated firms		
Audit or review of the financial statements	44,429	52,436

Remuneration of auditors for unrelated firms relate to the audit of subsidiaries by:
- Crowe Horwath LLP. (USA)
- Fickus & Fickus, (Germany)
- Lewis Brownlee (UK)

Note 23. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Note 24. Commitments

	Consolidated 2020 $'000	Consolidated 2019 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	689
One to five years	-	638
	-	1,327

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. Current year leases are included on the face of the statement of financial position in accordance with AASB 16. Comparative year leases are disclosed above and not on the statement of financial position in accordance with AASB 117.

Note 25. Related party transactions

Parent entity
SDI Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 27.

Note 25. Related party transactions (continued)

Key management personnel
Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the Directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 2020 $	Consolidated 2019 $
Payment for goods and services:		
Provision of consulting services by A&A Tax Legal Consulting formerly (WTS Australia Consulting Pty Ltd), a company controlled by Director, Cameron Neil Allen.	28,825	22,273
Provision of consulting services by Director, Dr. Geoffrey Macdonald Knight.	12,193	875
Provision of consulting services by Director, Gerard Desmond Kennedy.	2,195	660
Payment for other expenses:		
Payments for the lease of property to Silver Glades Pty. Ltd, a company controlled by Director Jeffery James Cheetham.	85,633	90,000

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 26. Key management personnel disclosures

Compensation
The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2020 $	Consolidated 2019 $
Short-term employee benefits	1,242,017	1,388,713
Post-employment benefits	99,169	106,729
Long-term benefits	38,450	105,552
	1,379,636	1,600,994

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	2019 %
SDI (North America), Inc.	United States of America	100%	100%
SDI Holdings Pty Ltd	Australia	100%	100%
SDI Germany GmbH	Germany	100%	100%
SDI Dental Innovations Limited	United Kingdom	100%	100%
SDI Brasil Industria e Comercio Ltda	Brazil	100%	100%
SDI New Zealand Limited	New Zealand	100%	100%
Dentech Innovations Pty Ltd*	Australia	100%	-

* Incorporated on 7 June 2019 and commenced trading on 1 July 2019.

Note 28. Cash flow information

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

	Consolidated 2020 $'000	2019 $'000
Profit after income tax expense for the year	4,237	7,329
Adjustments for:		
Depreciation and amortisation	4,667	3,669
Net gain on disposal of non-current assets	(45)	(31)
Other revenue - non-cash	-	(798)
Foreign currency differences	(67)	562
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	8,175	(1,383)
Increase in inventories	(3,414)	(2,684)
Increase in income tax refund due	(850)	-
Increase in prepayments	(680)	(350)
Increase in other operating assets	-	(370)
Increase/(decrease) in trade and other payables	(2,752)	3,459
Increase/(decrease) in provision for income tax	(1,317)	1,204
Decrease in deferred tax liabilities	(29)	(74)
Decrease in employee benefits	(895)	(30)
Net cash from operating activities	7,030	10,503

Note 28. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Bank loans $'000	Lease liability $'000	Total $'000
Balance at 1 July 2018	2,214	-	2,214
Repayment of bank loans	(2,214)	-	(2,214)
Balance at 30 June 2019	-	-	-
Net cash from/(used in) financing activities	1,500	(769)	731
Leases recognised on the adoption of AASB 16	-	1,699	1,699
Acquisition of leases	-	197	197
Balance at 30 June 2020	1,500	1,127	2,627

Note 29. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2020. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)
The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

Note 30. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent 2020 $'000	Parent 2019 $'000
Profit after income tax	1,088	7,335
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income	1,088	7,335

Note 30. Parent entity information (continued)

Statement of financial position

	Parent 2020 $'000	Parent 2019 $'000
Total current assets	30,370	35,553
Total non-current assets	46,219	46,451
Total assets	76,589	82,004
Total current liabilities	5,828	8,521
Total non-current liabilities	3,062	3,484
Total liabilities	8,890	12,005
Net assets	67,699	69,999
Equity		
Issued capital	12,890	12,890
Capital profits reserve	363	363
Retained profits	54,446	56,746
Total equity	67,699	69,999

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020 and 30 June 2019.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment
The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 31. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing and while it has had an adverse financial impact on the consolidated entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, restricted dental procedures, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend declared as disclosed in note 20 and the impact of the ongoing COVID-19 pandemic, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Samantha Jane Cheetham
Managing Director and Chief Executive Officer

30 September 2020
Melbourne

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Independent Auditor's Report to the members of SDI Limited

Opinion

We have audited the financial report of SDI Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Capitalisation of Development Costs As at 30 June 2020 the Group has capitalised development costs of $1.9M as disclosed in Note 14. Judgment is required by management in determining if the internal labour and external supplier costs incurred are directly attributable to develop the existing product development projects and the appropriateness of these costs to be capitalised.	Our procedures included, but were not limited to: • Holding discussions with the department heads involved in product development to understand the basis and rationale for capitalising internal labour and external supplier costs; • Assessing the status of the current ongoing projects and understanding the nature of the internal labour and external supplier costs capitalised during the period to ensure they are in accordance with the criteria for capitalisation under the relevant accounting standards; • Testing on a sample basis, capitalised costs by reviewing the supplier invoice, project budgets and/or employee timesheets; and • Challenging management's key assumptions in the internal labour cost capitalisation calculation. We also assessed the appropriateness of the disclosure in Note 14 to the financial statements.
Amortisation of Intangible Assets SDI has two major categories of finite life intangible assets being capitalised product development costs of $15.2M, along with patents and trademarks costs totalling $2.9M as disclosed in Note 14. The determination of the useful lives in relation to capitalised development costs and patents & trademarks is subject to management judgement including: • Estimations of the product lifecycle of general dental products based on historical experience; • Assessing the impact of changes in technological and market trends; and • Review of historical and forecasted sales of product ranges supporting the appropriateness of the useful life determined.	Our procedures included, but were not limited to: • Assessing the estimated useful lives of the patents, trademarks and capitalised development costs, ensuring the amortisation period applied and the assumptions used for patents and trademarks are appropriate; • Assessing amortisation rates used by comparing with industry benchmarks; • Assessing the product life cycle and market demand for the underlying products including assessing the possibility of product obsolescence or cannibalisation as a result of recently released products or products that are likely to be released in the near term; and • Evaluating the legal rights and useful lives of the patents and trademarks. We also assessed the appropriateness of the disclosure in Note 14 to the financial statements.

Deloitte.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of SDI Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke du Toit
Partner
Chartered Accountants
Melbourne, 30 September 2020

SDI Limited
Shareholder information
30 June 2020

The shareholder information set out below was applicable as at 31 August 2020.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	380	-
1,001 to 5,000	850	-
5,001 to 10,000	416	-
10,001 to 100,000	575	-
100,001 and over	93	-
	2,314	-
Holding less than a marketable parcel	166	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
Currango Pastoral Company Pty Ltd	50,691,328	42.65
Mr Nicholas Barry Debenham & Mrs Annette Cecilia Debenham	4,094,261	3.44
Garrett Smythe Ltd	3,294,100	2.77
National Nominees Limited	2,640,002	2.22
Silverglades Pty Ltd	2,357,829	1.98
Indcorp Consulting Group Pty Limited (Superannuation Fund A/C)	1,750,000	1.47
Mr Nicholas Barry Debenham	1,653,441	1.39
Jeffnpam Superannuation Fund Pty Ltd	1,421,085	1.20
Santos L Helper Pty Ltd (The Van Paassen Family A/C)	1,333,861	1.12
Mr Michael Lazzarin	1,220,000	1.03
Dr Geoffrey Macdonald Knight & Ms Anneli Kaarina Knight	1,215,790	1.02
Mr Brendan Francis Carroll	1,040,490	0.88
HSBC Custody Nominees (Australia) Limited	1,025,837	0.86
Charlotte B Pty Ltd	988,662	0.83
Dr Martin James Grehan & Dr Penelope Jane Spring	931,500	0.78
Neweconomy Com Au Nominees Pty Limited	794,324	0.67
Mr Neil Peter Goosen	763,142	0.64
Branka Nominees Pty Ltd	750,220	0.63
Elata Investment Co Pty Limited	635,276	0.53
Inari Investment Co Pty Limited	635,276	0.53
	79,236,424	66.64

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Currango Pastoral Company Pty Ltd*	50,691,328	42.65

* Registered holder of the relevant interest but may not be registered holder of the securities.

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Directors	Jeffery James Cheetham OAM - Chairman Samantha Jane Cheetham John Joseph Slaviero Dr Geoffrey Macdonald Knight Gerald Allan Bullon Cameron Neil Allen Gerard Desmond Kennedy
Alternate director	Pamela Joy Cheetham (alternate for Jeffery James Cheetham)
Company secretary	John Joseph Slaviero
Registered office	5 - 9 Brunsdon Street Bayswater VIC 3153 P: (03) 8727 7111 or 1800 337 003 F: (03) 8727 7222
Share register	Link Market Services Limited Tower 4 727 Collins Street Docklands VIC 3008 P: (03) 9615 9800 or 1300 554 474 F: (03) 9615 9900
Auditor	Deloitte Touche Tohmatsu 477 Collins Street Melbourne VIC 3000
Bankers	HSBC Bank Australia Limited Level 10 333 Collins Street Melbourne VIC 3000
Stock exchange listing	SDI Limited shares are listed on the Australian Securities Exchange (ASX code: SDI)
Website	www.sdi.com.au
Email	info@sdi.com.au
Corporate governance statement ('CGS')	SDI's Directors and management are committed to conducting its business in an ethical manner and in accordance with the highest standards of corporate governance. SDI has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of its business. In accordance with Listing Rule 4.10.3, the Company has prepared a CGS which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any recommendations that have not been followed, and provides reasons for not following such recommendations. The Company's CGS has been approved at the same time as the Annual Report, can be found on its website: http://www.sdi.com.au/en-au/corporate-governance.html In accordance with Listing Rules 4.7.4 and 4.7.3, the CGS and the Appendix 4G has be lodged with the ASX at the same time as this Annual Report. The Appendix 4G details the Recommendations that the Company needs to report against and provides shareholders with information regarding where the Company's disclosures in relation to the Recommendations can be found.

NOTES

YOUR SMILE. OUR VISION.

NOTES

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