

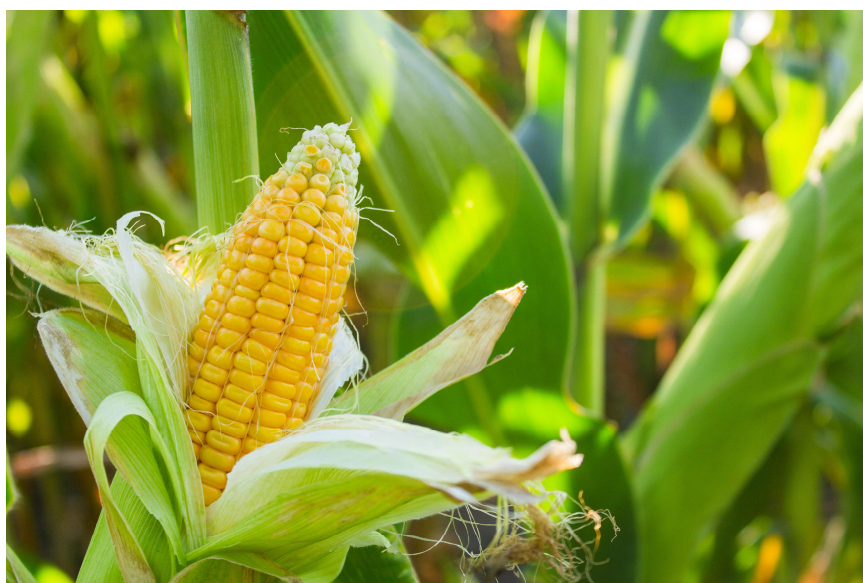


ABN: 89 064 755 237

# **SECOS GROUP LIMITED AND ITS CONTROLLED ENTITIES**

## **(ASX: SES)**

### **Half-Yearly Report and Appendix 4D 31 December 2019**



Lodged with the ASX under Listing Rule 4.2A.  
This information should be read in conjunction with the 30 June 2019 Annual Report and  
public announcements made for the period ended 31 December 2019

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## SECOS GROUP LIMITED

ABN 89 064 755 237

### APPENDIX 4D

#### HALF-YEAR PERIOD

Half-year ended ("current reporting period")	31 December 2019
Half-year ended ("previous corresponding period")	31 December 2018

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from ordinary activities	Up	3.1%	to	\$10,619,747
<b>Loss</b> from ordinary activities after tax attributable to members	Down	63.2%	to	\$(1,100,765)
<b>Net loss</b> after tax for the half year attributable to members	Down	63.2%	to	\$(1,100,765)

#### DIVIDENDS

Current reporting period	Nil
Previous corresponding period	Nil

#### NTA BACKING

	Current reporting period	Previous corresponding period ("PCP")
Net tangible assets per ordinary share	1.7 cents	1.4 cents

#### BRIEF EXPLANATION OF THE ABOVE FIGURES

This Half-year report should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019 and any public announcements made by SECOS Group Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

#### REVENUE

Sales revenue for the current reporting period was up 3.1% to \$10,619,747 as compared to the revenue of the previous corresponding period. Noting Stellar Australia Plant was closed in January 2019, SECOS Group sales revenue grew by 9.8% for the PCP on a like for like comparison.

SECOS Group strategy has been to grow higher margin sales with plant capacity allocated to these businesses to optimize working capital.

## OPERATING RESULT

Net loss for the current reporting period was \$1,100,765 down from \$2,993,627 loss for the comparative period.

Key financial highlights	1HFY20 Actual (\$)	1HFY19 Actual (\$)	YoY Change
Revenue	10,619,747	10,299,856	+ 3.1%
<b>Gross profit</b>	<b>1,507,459</b>	<b>783,414</b>	+ 92.4%
<i>Gross profit margin (%)</i>	<i>14.2%</i>	<i>7.6%</i>	+ 86.8%
<b>Net loss after tax (NPAT)</b>	<b>(1,100,765)</b>	<b>(2,993,627)</b>	(63.2%)

1HFY 2019 included Stellar Film Australian sales.

First half of FY2020 has seen the Group's operating results improve on all key indicators. After excluding the now closed Stellar Film Australia business sales revenue was up 9.8%. SECOS Group strategy to grow higher margin sales has seen significant growth in the gross profit by 92.4% in 1HF20. This strategy to focus on higher margin business was complemented by further growth in biopolymer sales of 7.2% during the same period. Traditional plastic sales improved in line with expectations.

SECOS Group is experiencing a change in its product sales mix as a consequence of the introduction of new biopolymer resin grades. Customers are currently qualifying the new Home Composting and High Mechanical strength grades, a process that typically takes 2-3 months. Historically we see a pattern of 2H sales being higher than 1H sales and we expect that pattern to continue this year.

The Business Transformation Program embarked on by the Group in the second half of last financial year yielded a lower cost base and higher margins.

## CASH FLOWS

Group operating cash outflow was \$0.8 million for the period compared with \$2.0 million outflow in the comparative period, primarily due to the lower cost base and improved efficiencies.

For the period, the Group invested \$0.3 million of capital expenditure in the bioplastics business as planned. This included fund used for new equipment in both our China and Malaysia plants.

Borrowings reduced from \$1.4 million at June 2019 to \$0.9 million as at December 2019.

Closing cash on hand was \$2.4 million as at 31 December 2019.

## DETAILS OF ENTITIES OVER WHICH CONTROL HAD BEEN GAINED OR LOST DURING THE PERIOD

No change of entities during the period.

## FOREIGN ENTITIES

There has been no change in foreign entities controlled by SECOS Group Limited during the period.

## AUDIT DISPUTE OR QUALIFICATION

The accompanying half-year financial statements are not subject to any audit dispute or qualification.

## CORPORATE DIRECTORY

<b>DIRECTORS:</b>	Mr. Richard Tegoni (Chairman) Mr. Stephen Walters (Executive Director) Mr. Donald Haller Jr. (Non-Executive Director) Mr. David Wake (Non-Executive Director) Mr. Jim Walsh (Non-Executive Director)
<b>COMPANY SECRETARY:</b>	Mr. Edmond Tern
<b>REGISTERED OFFICE:</b>	Suite 6, Level 2, 205-211 Forster Road Mount Waverley, VIC 3149 Telephone: +61 3 8566 6800 Email: <a href="mailto:info@secosgroup.com.au">info@secosgroup.com.au</a>
<b>SHARE REGISTRY:</b>	Advanced Share Registry Limited 110 Stirling Highway NEDLANDS WA 6009 Telephone: +61 8 9389 8033 Facsimile: +61 8 9262 3723
<b>BANKERS:</b>	Bank of Melbourne Level 8, 530 Collins Street MELBOURNE, VIC 3000
<b>AUDITORS:</b>	William Buck Level 20, 181 William Street MELBOURNE, VIC 3000 Telephone: +61 3 9824 8555
<b>LAWYERS:</b>	CBW Partners Level 1, 159 Dorcas Street South Melbourne, VIC 3205
<b>SECURITIES EXCHANGE:</b>	Australian Securities Exchange Level 45 South Tower, Rialto 525 Collins Street MELBOURNE, VIC 3000  ASX Code: SES
<b>WEBSITE:</b>	Corporate: <a href="http://www.secosgroup.com.au">www.secosgroup.com.au</a> E-commerce: <a href="http://www.cardiabioproducts.com">www.cardiabioproducts.com</a>
<b>CORPORATE GOVERNANCE STATEMENT:</b>	The Corporate Governance statement can be found on Investors page at <a href="http://www.secosgroup.com.au">www.secosgroup.com.au</a>

## **DIRECTORS' REPORT**

The Directors present their report on SECOS Group Limited ("SECOS" or the "Company") and the entities it controlled (the "Group") at the end of, or during, the half-year ended 31 December 2019.

### **DIRECTORS**

The following persons were Directors of SECOS during the period and up to the date of this report:

Richard Tegoni (Chairman)  
Stephen Walters (Executive Director)  
Donald Haller Jr. (Non-Executive Director)  
David Wake (Non-Executive Director)  
Jim Walsh (Non-Executive Director)

### **COMPANY SECRETARY**

Edmond Tern

### **REVIEW OF OPERATIONS:**

#### **Highlights:**

- Sales revenue increased by 3.1% compared with the previous corresponding period despite closure of Australia cast line business, Stellar Films Australia ("SFA"). Excluding SFA's sales revenue in previous corresponding period, sales growth was 9.8%.
- Gross profit margin was 14.2%, up on PCP with benefits flowing through from the investment in restructuring and efficiency measures.

#### **Biopolymer Sales**

Over 130 countries have implemented controls, bans or partial bans over plastic bag and single use plastic. This trend is continuing with more countries and states banning or considering banning traditional single-use plastics which has stimulated biopolymer resin demand in a number of countries including China, India, Mexico, Malaysia and the USA. Plastic bag bans are leading to more converters qualifying SECOS compostable resin in order to supply bags to branded retail outlets.

In Australia, in line with the increasing tender demand reported in our last quarterly cash flow report, SECOS has secured compostable bag sales with three more city councils. This, plus additional dog waste bag business with European based customers is anticipated to lift compostable bags sales going into the first half of 2020.

SECOS compostable film sales increased albeit from a low base. New sales have been generated in the hygiene and overwrap markets and are anticipated to grow further.

#### **Traditional Plastic Sales**

SECOS Group's traditional film business in Malaysia is seeing continued sales growth as a consequence of Asian demand for hygiene and medical applications along with new customer acquisitions within the Asian region.

**DIRECTORS' REPORT (continued)****SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

The following significant changes in the state of affairs of the Group occurred during the half-year.

On 5-Jul-2019, the Company issued 389,869 fully paid ordinary shares to its Directors in lieu of cash remuneration for the quarter ended June 2019.

On 16-Aug-2019, the Company issued 7,094,575 fully paid ordinary shares to unlisted convertible noteholders reducing borrowings by \$1.3 million.

On 28-Aug-2019, the Company launches new 'stiffer' grade bioresin for biodegradable bag makers.

On 02-Sep-2019, the Company issued 13,352,431 fully paid ordinary shares to unlisted convertible noteholders reducing borrowings by \$0.6 million.

On 10-Sep-2019, the Company issued 1,851,852 fully paid ordinary shares to unlisted convertible noteholders reducing borrowings by \$0.1 million.

On 11-Oct-2019, the Company issued 4,122,601 fully paid ordinary shares to its Directors in lieu of cash remuneration for the period December 2018 to September 2019.

On 28-Oct-2019, the Company issued 1,000,000 fully paid ordinary shares at \$0.06/share to unlisted option noteholders per terms of the options.

On 21-Nov-2019, the Company issued 833,334 fully paid ordinary shares at \$0.06/share to unlisted option noteholders per terms of the options.

On 27-Nov-2019, the Company issued 8,652,107 fully paid ordinary shares at \$0.045/share to related parties consequent to shareholders approval.

On 24-Dec-2019, the Company issued 5,410,750 fully paid ordinary shares at \$0.06/share to unlisted option noteholders per terms of the options.

**Change in accounting standard – AASB 16 Leases**

Total assets increased by 16.0% from 30 June 2019 to \$16.9 million. A non-current asset of \$2.1 million had been recognized relating to a Right of Use Asset per AASB 16 Leases. This asset represents the present value of future lease payments implicit in the lease associated with lease properties used by the Group.

Total liabilities for the Group increased by \$1.9 million or 41.9% from 30 June 2019 to \$6.5 million. The increase was largely due to recognition of \$2.2 million of current and non-current lease liability, which is the present value of future lease payments implicit with identified assets under the new AASB 16 standard.

**EVENTS AFTER THE REPORTING DATE**

On 7-Jan-2020, the Company issued 703,035 fully paid ordinary shares to its Directors in lieu of cash payment for director fees for the quarter ending 31 December 2019. The shares were issued at an issue price of \$0.089/share.

The Coronavirus situation in Wuhan, China (which is 600 km away from our Nanjing plant) had prompted the Company to take precautionary measures with a quarantine period of seventeen (17) days. This is in line with the advice from local authorities and the Company has since been given clearance to re-start on 19 February 2020. Except for some workers who were affected by the travel ban, the majority of workers had reported back to work and tested negative. The initial assessment on trading impact confirmed that the Company is able to satisfy existing orders with minimal delay.

**DIRECTORS' REPORT (continued)****FUTURE DEVELOPMENTS**

SECOS will continue to focus on its principal business activities with its sustainable packaging strategy and waste management solutions. The Group is working on optimizing its production assets and margin development in both traditional and biodegradable plastics.

**ENVIRONMENTAL REGULATIONS**

The Group's operations are not subject to any significant environmental regulations under the law of the Commonwealth or the States.

**AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration for the half-year ended 31 December 2019 has been received and can be found in the attached Auditor's Independence Declaration page.



**Richard Tegoni**  
**Chairman**  
**Mount Waverley**  
**26 February 2020**



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF SECOS GROUP LIMITED AND  
ITS CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2019 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

**William Buck Audit (Vic) Pty Ltd**  
ABN 59 116 151 136



**N. S. Benbow**  
Director

Dated this 26<sup>th</sup> day of February 2020

**ACCOUNTANTS & ADVISORS**

Level 20, 181 William Street  
Melbourne VIC 3000  
Telephone: +61 3 9824 8555  
**williambuck.com**

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	31-Dec-2019	31-Dec-2018
	\$	\$
Sales	10,619,747	10,299,856
Cost of sales	(9,112,288)	(9,516,442)
<b>Gross profit</b>	<b>1,507,459</b>	<b>783,414</b>
Employment expense	(1,253,735)	(1,581,568)
Marketing and distribution expenses	(313,969)	(378,904)
Administration expense	(212,471)	(669,594)
Legal and compliance expenses	(185,636)	(614,193)
Occupancy costs	(78,260)	(256,761)
Depreciation and amortization expense	(318,370)	(42,444)
Finance costs	(245,783)	(234,577)
<b>Loss before income tax</b>	<b>(1,100,765)</b>	<b>(2,993,627)</b>
Income tax expense	-	-
<b>Loss for the period after tax</b>	<b>(1,100,765)</b>	<b>(2,993,627)</b>
<b>Other comprehensive loss</b>		
<i>Item to be reclassified to the profit or loss in subsequent reporting periods (net of tax)</i>		
Foreign currency translation loss for foreign operations	(73,445)	(41,925)
<b>Total comprehensive loss for the period</b>	<b>(1,174,210)</b>	<b>(3,035,552)</b>
<b>Loss per share</b>		
Basic / diluted <u>loss</u> per share	<b>0.3 cents</b>	<b>1.1 cents</b>

*The accompanying notes form part of these financial statements.*

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31-Dec-2019 \$	30-Jun-2019 \$
<b>Current Assets</b>			
Cash and cash equivalents		2,390,128	2,874,945
Trade and other receivables		3,706,539	3,545,371
Inventories		2,837,033	2,439,596
Prepayments		386,825	383,765
<b>Total Current Assets</b>		<b>9,320,525</b>	<b>9,243,677</b>
<b>Non-Current Assets</b>			
Financial assets		15,665	19,587
Property, plant and Equipment		1,860,258	1,768,193
Intangible assets		3,586,539	3,532,345
Right-of-use assets	6	2,109,299	-
<b>Total Non-Current Assets</b>		<b>7,571,761</b>	<b>5,320,125</b>
<b>Total Assets</b>		<b>16,892,286</b>	<b>14,563,802</b>
<b>Current Liabilities</b>			
Trade and other payables		2,483,202	2,279,477
Borrowings		547,926	300,000
Short term provisions		806,615	778,899
Lease liability	7	461,043	-
<b>Total Current Liabilities</b>		<b>4,298,786</b>	<b>3,358,376</b>
<b>Non-Current Liabilities</b>			
Borrowings		350,000	1,132,065
Long term provisions		86,136	78,626
Lease liability	8	1,750,703	-
<b>Total Non-Current Liabilities</b>		<b>2,186,839</b>	<b>1,210,691</b>
<b>Total Liabilities</b>		<b>6,485,625</b>	<b>4,569,067</b>
<b>Net Assets</b>		<b>10,406,661</b>	<b>9,994,735</b>
<b>Equity</b>			
Issued Capital	2	27,798,477	26,159,423
Reserves		(121,188)	(47,743)
Accumulated Losses		(17,270,628)	(16,116,945)
<b>Total Equity</b>		<b>10,406,661</b>	<b>9,994,735</b>

*The accompanying notes form part of these financial statements.*

**STATEMENT OF CHANGES IN EQUITY**

For the half-year ended 31 December 2019

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Asset Revaluation reserve	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 01-Jul-2019</b>	26,159,423	(16,116,945)	(47,743)	-	9,994,735
Adjustments due to change of accounting policy (refer to Note 1)	-	(52,918)	-		(52,918)
<b>Balance at 01-Jul-2019 restated</b>	26,159,423	(16,169,863)	(47,743)	-	9,941,817
Loss for the period	-	(1,100,765)		-	(1,100,765)
Other Comprehensive loss for the period			(73,445)		(73,445)
<b>Total comprehensive loss for the period</b>	-	(1,100,765)	(73,445)	-	(1,174,210)
Shares issued during the period net of costs	1,639,054	-	-	-	1,639,054
<b>Balance at 31-Dec-2019</b>	27,798,477	(17,270,628)	(121,188)	-	10,406,661

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Asset Revaluation reserve	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 01-Jul-2018</b>	19,478,284	(13,708,284)	(297,917)	1,751,867	7,223,950
Loss for the period	-	(2,993,627)	-	-	(2,993,627)
Other Comprehensive loss for the period	-	-	(41,925)	-	(41,925)
<b>Total comprehensive loss for the period</b>	-	(2,993,627)	(41,925)	-	(3,035,552)
Shares issued during the period net of costs	3,211,556	-	-	-	3,211,556
<b>Balance at 31-Dec-2018</b>	22,689,840	(16,701,911)	(339,842)	1,751,867	7,399,954

*The accompanying notes form part of these financial statements.*

**STATEMENT OF CASH FLOWS**

For the half-year ended 31 December 2019

	Notes	31-Dec-2019 \$	31-Dec-2018 \$
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		11,660,107	11,558,275
Payments to suppliers and employees		(12,397,176)	(13,340,210)
Finance Costs		(34,474)	(234,577)
<b>Net Cash Outflow from Operating Activities</b>		<b>(771,542)</b>	<b>(2,016,512)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of plant and equipment		(252,000)	(590,270)
<b>Net Cash Outflow from Investing Activities</b>		<b>(252,000)</b>	<b>(590,270)</b>
<b>Cash Flows from Financing Activities</b>			
Repayment of borrowings		-	(418,220)
Proceeds from issues of ordinary shares		834,289	1,951,800
Lease payments	1	(295,563)	-
<b>Net Cash Inflow from Financing Activities</b>		<b>538,726</b>	<b>1,533,580</b>
<b>Net decrease in cash and cash equivalents Held</b>		<b>(484,817)</b>	<b>(1,073,202)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>2,874,945</b>	<b>1,937,866</b>
<b>Cash and Cash Equivalents at the end of the period</b>		<b>2,390,128</b>	<b>864,664</b>

*The accompanying notes form part of these financial statements.*

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****BASIS OF PREPARATION**

These general purpose financial statements have been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. They do not include all the information required in annual financial statements in accordance with Australian Accounting Standards and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SECOS Group Limited ('Company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the half-year then ended. SECOS Group Limited and its subsidiaries together are referred to in these financial statements as the "Group".

SECOS Group Limited is a listed public Company, incorporated and domiciled in Australia. The Company is a for-profit entity for accounting purposes.

The Financial statements were authorized for issue by the Board of Directors on the date of signing the attached Directors' Declaration.

**REPORTING BASIS AND CONVENTIONS**

These financial statements have been prepared on an accruals basis and are based on historical costs. Except for new accounting standards as stated below, the interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2019.

**a. New Accounting Standards and interpretations issued in the period.**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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 recognized 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 recognized 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 Amortization) 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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impact of adoption**

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	\$
Operating lease commitments as at 30 June 2019 (AASB 117)	2,892,319
Finance lease commitments as at 30 June 2019 (AASB 117)	37,064
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16)	(447,581)
Short-term leases not recognized as a Right-of-use asset (AASB 16)	(65,139)
Low-value assets leases not recognized as a right-of-use asset (AASB 16)	-
Accumulated depreciation as at 1 July 2019 (AASB 16)	(281,638)
<b>Right-of-use assets (AASB 16)</b>	<b>2,645,113</b>
Lease liabilities - current (AASB 16)	(433,470)
Lease liabilities - non-current (AASB 16)	(1,982,923)
Tax effect on the above adjustments	-
Increase in accumulated losses as at 1 July 2019	52,918

**Right-of-use assets**

A right-of-use asset is recognized 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 recognize 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.

**Lease liabilities**

A lease liability is recognized at the commencement date of a lease. The lease liability is initially recognized 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 amortized 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.

**Impact on Statement of Cash Flows**

Lease payments of \$295,563 for the Half-year ended 31 December 2019 allocated to the lease liability is recognized in cash flows from financing activities. These payments were previously recognized in cash flows from operating activities.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****b. Changes in accounting policies**

Other than the policies described above there have been no changes in accounting policies during the half-year ended 31 December 2019.

**Sale of goods**

Revenue from the sale of goods is recognized at the point in time when the customer obtains control of the goods, which is generally the time of delivery.

**Rendering of services**

Revenue from a contract to provide services is recognized over time as the services are rendered based on either a fixed price or an hourly rate.

**Other revenue**

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

**Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for the financial assets at fair value through the profit and loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification.

Financial assets are derecognized when the right to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset the carrying value is written off.

**Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognized is measured based on the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.



**NOTE 2 ISSUED CAPITAL****a) Share Capital**

	<b>31-Dec-2019</b>	<b>30-Jun-2019</b>
<b>Ordinary - fully paid shares</b>	<b>\$27,798,477</b>	<b>\$26,159,423</b>

**b) Movements in Ordinary Share Capital**

<b>Date</b>		<b>Number of Shares</b>	<b>Price (cents)</b>	<b>Amount (\$)</b>
<b>01-Jul-19</b>	<b>Balance</b>	<b>359,193,078</b>		<b>\$26,159,423</b>
05-Jul-19	Director shares in lieu of cash	389,689	4.2	\$16,250
16-Aug-19	Share placement	7,094,575	4.0	\$283,783
02-Sep-19	Conversion of Convertible Notes	13,352,431	4.1	\$550,000
10-Sep-19	Conversion of Convertible Notes	1,851,852	5.4	\$100,000
11-Oct-19	Director shares in lieu of cash	4,122,601	4.9	\$200,490
28-Oct-19	Share placement	1,000,000	6.0	\$60,000
21-Nov-19	Rights issue	833,334	6.0	\$50,000
27-Nov-19	Conversion of related party loans to equity	8,652,107	4.5	\$386,727
	Less amount recognized as treasury shares in prior period			(\$322,858)
24-Dec-19	Director share placement approved by shareholders	5,410,750	6.0	\$324,645
	Cost of capital			(\$9,983)
<b>At the end of the reporting period</b>		<b>401,900,416</b>		<b>\$27,798,477</b>

**NOTE 3 OPERATING SEGMENTS****Identification of reportable operating segment**

Operationally, the Group Chief Executive Officer and Group Chief Financial Officer oversee the previously separate Cardia and Stellar businesses. The Group shares common R&D resources and commercial team actively promoting the films and renewable part of the business. There is now one warehouse location in each region housing films, resins and biodegradable finished goods.

The management team prepares internal reports with multi-dimensional views with emphasis on group consolidated results that are viewed and used by the Board of Directors in assessing the performance and in determining the allocation of resources. The information is reported on a monthly basis.

<b>Sales Revenue by geographical region</b>	<b>31-Dec-2019</b>	<b>31-Dec-2018</b>
	<b>\$</b>	<b>\$</b>
Australia	1,475,240	1,465,007
Asia	8,298,169	7,678,006
Americas	846,338	1,156,842
<b>Total Revenue</b>	<b>10,619,747</b>	<b>10,299,855</b>

<b>Assets by geographical region</b>	<b>31-Dec-2019</b>	<b>31-Dec-2018</b>
	<b>\$</b>	<b>\$</b>
Australia	118,228	133,471
Asia	1,742,030	1,283,374
Americas	-	-
<b>Total Revenue</b>	<b>1,860,258</b>	<b>1,416,845</b>

**NOTE 4 FAIR VALUE MEASUREMENT**

The carrying amounts of the Group's financial assets and financial liabilities approximate to their fair values.

**NOTE 5 EVENTS AFTER THE REPORTING DATE**

On 7-Jan-2020, the Company issued 703,035 fully paid ordinary shares to its Directors in lieu of cash payment for director fees for the quarter ending 31 December 2019. The shares were issued at an issue price of \$0.089/share.

The Coronavirus situation in Wuhan, China (which is 600 km away from our Nanjing plant) had prompted the Company to take precautionary measures with a quarantine period of seventeen (17) days. This is in line with the advice from local authorities and the Company has since been given clearance to re-start on 19 February 2020. Except for some workers who were affected by the travel ban, the majority of workers had reported back to work and tested negative. The initial assessment on trading impact confirmed that the Company is able to satisfy existing orders with minimal delay.

**Note 6 NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS**

	31-Dec-2019	30-Jun-2019
	\$	\$
Land and buildings - Right-of-use	2,645,113	
Less: Accumulated amortization	(535,814)	
<b>Total Land and buildings</b>	<b>2,109,299</b>	<b>-</b>
<b>Total right-of-use assets</b>	<b>2,109,299</b>	<b>-</b>

Additions to the right-of-use assets during the half-year were \$2,645,113 due to adoption of AASB 16 Leases. The consolidated entity leases land and buildings for its offices, factories and warehouses under agreements of between three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

**Note 7 CURRENT LIABILITIES - LEASE LIABILITIES**

	31-Dec-2019	30-Jun-2019
	\$	\$
<b>Lease liability</b>	<b>461,043</b>	<b>710,098</b>

**Note 8 NON-CURRENT LIABILITIES - LEASE LIABILITIES**

	31-Dec-2019	30-Jun-2019
	\$	\$
<b>Lease liability</b>	<b>1,750,703</b>	<b>458,182</b>

**NOTE 9 CONTINGENT LIABILITIES**

There has been no material change in the contingent liabilities and assets reported by the Group as at 30 June 2019.

**DIRECTORS' DECLARATION**

The Directors declare that the financial statements and notes are in accordance with the Corporations Act 2001, including

- a) complying with Accounting Standard, AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
- b) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that SECOS Group Ltd will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.



**Richard Tegoni**  
**Chairman**  
**Mount Waverley**  
**26 February 2020**

## SECOS Group Limited and its controlled entities

### Independent auditor's review report to members

## Report on the Review of the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of SECOS Group Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of SECOS Group Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

### Responsibilities of the Directors for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and

- complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

As the auditor of SECOS Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

#### ACCOUNTANTS & ADVISORS

Level 20, 181 William Street  
Melbourne VIC 3000

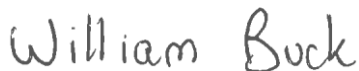
Telephone: +61 3 9824 8555

[williambuck.com](http://williambuck.com)

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**William Buck Audit (Vic) Pty Ltd**

ABN 59 116 151 136

**N.S Benbow**

Director

Dated this 26<sup>th</sup> day of February, 2020