Appendix 4E
Preliminary Final Report

Secos Group Limited
ABN 89 064 755 237

Details of the reporting period and the previous corresponding period

Reporting Period:	30 June 2018
Previous Corresponding Period:	30 June 2017

Results for announcement to the market

Key information	2018 $	2017 $	% Change
Revenues from ordinary activities	23,638,055	22,364,976	+5.7%
Loss from ordinary activities after tax attributable to members	(3,107,886)	(2,949,170)	-5.4%
Net loss attributable to members	(3,107,886)	(2,949,170)	-5.4%

Dividends Paid and Proposed	Amount per security	Franked amount per security at 30% of Tax
Final dividend	Nil	Nil
Interim dividend	Nil	Nil
Previous corresponding period	Nil	Nil

Record date for determining entitlements to the dividend.	No dividend has been declared or paid
Dividend re-investment plan.	No dividend re-investment plan in operation

Net Tangible Assets Backing	2018	2017
Net tangible asset backing per ordinary security	1.6 cents	1.3 cents

Control gained or lost over entities in the year

There were no entities where control was gained or lost during the period.

Commentary on the Results for the period

Refer to the commentary on the results for the period contained in the “Review of Operations” included within the Directors’ report.

Status of Audit

The 30 June 2018 financial report and accompanying notes for Secos Group Limited have been audited and are not subject to any disputes or qualifications. Refer to the 30 June 2018 annual report for a copy of the auditor’s report.

SECOS GROUP LIMITED
AND ITS CONTROLLED ENTITIES

(ACN 064 755 237)

(ASX: SES)

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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CORPORATE DIRECTORY

DIRECTORS:	Mr Richard Tegoni (Chairman) Mr Stephen Walters (Managing Director) Mr Trevor Haines (Executive Director) Mr Donald Haller Jr. (Non-Executive Director) Mr David Wake (Non-Executive Director)
COMPANY SECRETARY:	Mr Edmond Tern
REGISTERED OFFICE:	Suite 6, Level 2, 205-211 Forster Road Mount Waverley, VIC 3149 Telephone: +61 3 8566 6800 Email: info@secosgroup.com.au
SHARE REGISTRY:	Advanced Share Registry Limited 110 Stirling Highway, NEDLANDS W.A.-6009 Telephone: +61 8 9389 8033 Facsimile: +61 8 9262 3723
BANKERS:	Bank of Melbourne Level 8, 530 Collins Street, MELBOURNE, VIC 3000
AUDITORS:	William Buck Level 20, 181 William Street, MELBOURNE, VIC 3000 Telephone: +61 3 9286 8000
LAWYERS:	CBW Partners Level 1, 159 Dorcas Street, South Melbourne, VIC 3205
SECURITIES EXCHANGE:	Australian Securities Exchange Level 45 South Tower, Rialto 525 Collins Street MELBOURNE, VIC 3000 ASX Code: SES
WEBSITE:	Corporate: www.secosgroup.com.au E-commerce: www.cardiabioproducts.com
CORPORATE GOVERNANCE STATEMENT:	The Corporate Governance statement can be found on Investors page at www.secosgroup.com.au

CHAIRMAN'S REPORT

Dear fellow Shareholders,

On behalf of the Board of SECOS Group Ltd ("ASX: SES), I am very pleased to present our Annual Report for the year ending 30 June 2018. Over the past 12 months, SECOS has continued to grow as a leading global producer of eco-friendly bioplastic materials from its proprietary bio-based resin technology.

During FY18, SECOS demonstrated growth in sales, improved its gross margin and reduced fixed costs. This has been our strategy for the past three consecutive years since the merger of Cardia Bioplastics and Stellar Films Group. Bioplastics represented most of the growth in the Group's overall sales, which grew by $1.3m compared to FY17. Traditional plastic sales remained steady during the period, while bioplastic sales grew by 30%.

The Board expects growth in top line sales to continue during FY19 as the divergence between traditional plastic sales and bioplastic sales becomes more prominent. We also expect SECOS to benefit from its significant improvement in resin capacity, with the Company's Malaysian resin plant entering production in July 2018.

SECOS management continues to implement cost reduction and efficiency improvement initiatives, and this has continued to yield improved gross margin rates and lower fixed operating costs. Over the past three years, our gross margin has improved from 6.7% in FY16 to 11.2% in FY17 and 12.9% in FY18, while operating expenses reduced from $6m in FY16 and $5.6m in FY17 to $5.2m in FY18.

Key Metrics	2016	2017	2018
Sales	$21,251,061	$22,364,976	$23,638,055
Gross Profit	$1,428,982	$2,509,404	$3,042,104
Gross Profit %	6.7%	11.2%	12.9%
Expenditure	$6,040,892	$5,565,745	$6,295,939 *
Net Loss	$4,610,488	$2,949,170	$3,107,886*

* Includes one-off costs of approximately $0.8m relating to upgrade and restructure of Nanjing plant and launch of new Malaysian bioplastic plant

Much of the improved performance was attributable to the implementation of key initiatives throughout the year, including the one-off major expenditure to upgrade our Nanjing resin and bag plant and the launch of our new resin plant in Malaysia. Improvements in the Company's net loss position also remain on track in light of one-off restructuring expenses which separately totaled more than $0.8m. We continue to review our cost base and see further scope to drive margin expansion by improving operational efficiency.

Significantly, SECOS had restructured the Balance Sheet with the sale and lease back of fixed assets lifting current ratio up from 0.9 times in FY2017 to 1.8 times in FY2018.

On behalf of the SECOS Board, I would like to thank our shareholders who continue to provide financial support and to believe in the Company's strategy to become a world leader in bioplastics.

I thank my fellow Board members for their support and leadership during the year, including new Director David Wake, who joined the Board in July 2018. I also thank our management team and staff for their efforts during such a busy but productive period.

SECOS' outlook for 2019 looks strong, with sales and net profit from continuing operations expected to improve throughout the year. Improving regulatory and market conditions continue to drive the ongoing demand for bioplastics. SECOS is well positioned to take advantage of these trends with its improved operations, increased resin manufacturing capacity and improved supply agreements. I look forward to sharing our successes in the year ahead with you.

Richard Tegoni
Chairman

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of SECOS Group Limited ("SECOS" or the "Company") and the entities it controlled ("the Group") at the end of, or during, the year ended 30 June 2018.

DIRECTORS

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

Richard Tegoni (Chairman)
Stephen Walters (Managing Director)
Trevor Haines (Executive Director, Corporate Development)
Donald Haller Jr. (Non-Executive Director)
David Wake (Non-Executive Director, Appointed 16 July 2018)

COMPANY SECRETARY

The Company Secretary is Edmond Tern. Mr Tern is also the Group Chief Financial Officer of SECOS.

PRINCIPAL ACTIVITIES

Leading developer and manufacturer of sustainable packaging materials. Based in Melbourne, Australia, SECOS supplies its proprietary biodegradable resins, packaging products and high-quality cast films to a blue-chip global customer base.

SECOS holds a strong patent portfolio and the global trend toward sustainable packaging is fueling the Company's growth, bringing FY18 revenue of $23.6 million.

The Company's headquarters and Global Application Development Centre are based in Melbourne, Australia. SECOS has manufacturing assets for biodegradable resins and finished products in China and Malaysia as well as cast films assets in Australia and Malaysia. SECOS' annual production capacity is 10,200 tonnes of bioplastic resins, 15,000 tonnes of cast film and 2,000 tonnes of blown film and finished products.

SECOS has sales offices in Australia, Malaysia, China and the US, with a network of leading distributors across the Americas, Asia and Europe.

OPERATING RESULTS

The consolidated loss for the year attributable to the members of the Group was:

	2018 $	2017 $
Loss for the year after income tax	(3,107,886)	(2,949,170)
Net Loss attributable to members of the Company	**(3,107,886)**	**(2,949,170)**

DIVIDENDS

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

REVIEW OF OPERATIONS

2018 Highlights:

- Significant re-organisation and upgrade of the Cardia Bioplastics business in Nanjing.
- Improved manufacturing efficiency and costs at the Cardia Bioplastics business in Nanjing.
- Continued cost reduction across all businesses.
- Expanded resin production capacity with new facility developed in Malaysia.
- Secured significant growth of compostable & Biohybrid™ resin sales of 211%
- Appointment of new distributors in UK, South Africa and India to support the growth in Bioplastics.
- Growth in sales to Australian councils of 340% in support of increased Organic Waste Diversion(OWD) Programs.
- Secured a $1.5 million Penrith City Council contract to provide compostable bags covering H2FY18 and FY19.
- Sales growth achieved through a more focussed approach to selling strategic products into strategic markets
- Signing of a long-term supply agreement with a global and essential raw material supplier.

SECOS experienced a sharp rise in demand for its proprietary compostable resins during FY18, which became the Company's focus during the period. In the first four months of FY18, SECOS secured orders valued at more than $0.3 million, which represented 164% of the resin sales made in the previous full 12 months. This strong demand continued into the December quarter, with resin sales for H1FY18 up more than 400% year-on-year. The Company's bioplastics business delivered year-on-year revenue growth of 66% in FY18.

A review of the Group's Nanjing operations led to a significant re-organisation and upgrade of the Nanjing bioplastic plant. This has since led to improvements in output, lower operating costs and has positioned the Company to better support the growing demand for its bioplastic resins.

Throughout 2017 and into 2018, the Group experienced growing levels of demand for its bioplastic products, particularly its proprietary Compostable resin as global brand managers move toward sustainable packaging solutions. To cater for the increasing demand, the business invested in a new resin manufacturing facility in Malaysia which it opened in July 2018. The new 30,000sq ft facility is 19km from Malaysia's largest port, Port Klang, and can now provide resin to the domestic Malaysia market as well as the many growing markets across the globe.

Improved resin capacity from the new and improved bioplastic plants, together with shorter product delivery times to market will allow SECOS to capitalise on the growing market demand for bioplastics and to grow bioplastic sales.

SALES REVIEW BY STRATEGIC BUSINESS UNIT

Films and Packaging

During 2018, SECOS secured new contracts with businesses including a medical products manufacturer in Malaysia (which has recently opened a new manufacturing facility in Thailand), an American Company that makes cleanroom static mats, supply of resin for the manufacture of laminated compostable coffee pouches and secured supply positions for resin at several major bag producers in Malaysia.

During the year, SECOS announced a collaboration with MiniFAB that should enable SECOS to produce and market breathable hygiene films that will be the first of its kind. Leveraging MiniFAB's cutting-edge technology, these products will empower hygiene and protective garment manufacturers to offer zoned areas of breathability, delivering new levels of innovation in their products.

SECOS' breathable film technology has passed all of its R&D milestones and has now progressed to the point where the first production unit is being manufactured in anticipation of commercial sales.

Early in the year, SECOS completed a $0.1 million investment in sustainable pet product online destination and sales platform, myecoPET. This represents a low-cost channel to market through which SECOS can capitalise on demand for its sustainable pet products, particularly in the US where pet owners shop for more than 89 million domestic dogs.

REVIEW OF OPERATIONS (continued)

The myecoPET online sales platform goes live in the December quarter and will soon be followed by the much-anticipated eco-friendly bag range of products to provide customers with earth-friendly alternatives to single-use plastic bags.

Production for pet sheet film to Japan remained flat as customers faced competitive pressure. Despite this the market remained buoyant and provides synergy with the myecoPET product range.

The Company notes the potential for the new US tariff regime on imports from China could provide SECOS with opportunities to supply resin, films and bags to the US market at highly competitive prices from its new Malaysian manufacturing facility.

Waste Management Solutions

Highlights in the Waste Management Solutions market segment include:

- SECOS continued to experience growth in the dog bag segment. The Company has increased sales to major brands across Europe and the US, including the market leader Pet Valu with whom the Company is gaining traction through Cardia Bioplastics co-branded products.
- The growing trend for councils in Australia, NZ, Europe, UK & the USA to introduce Organic Waste Diversion programs plays well to the Company's strength as a manufacturer and supplier of compostable bin liners. The Company expects this trend to accelerate and has aligned its sales & marketing strategy to support these organic waste diversion programs which will drive sales growth in FY19.
- The Malaysian Government has successfully adopted a ban on single use plastics bags which has seen a significant lift in resin sales to domestic bag convertors. The newly elected federal Government has reconfirmed its support of the legislation and is looking to apply stronger penalties for non-conformance.

CORPORATE

Capital Raising

In the March quarter, SECOS raised $2.6 million (before costs) via the issue of 24.00 million new shares in an oversubscribed share placement at an issue price of $0.11 per share.

The funds raised provided working capital to allow SECOS to accelerate the conversion of its strong pipeline of customer orders for resin into revenue and will support an expansion of SECOS' resin manufacturing capabilities and production capacity in Malaysia and China following a sustained period of strong growth demand for the Company's proprietary bioplastic resin products.

Convertible Notes

During the December quarter, SECOS raised $2.0 million through the issue and placement of unsecured convertible notes. A portion ($292,308) of the Notes were issued to directors Richard Tegoni and Don Haller Jr., which received shareholder approval at the Company's Annual General Meeting on 30 November 2017. Proceeds funded additional working capital as the Company experiences new demand from international markets.

In the March quarter, the Company issued $0.5 million in Convertible Notes to repay existing debt, strengthening the Company's balance sheet by extending the term of the existing debt and providing equity convertibility.

In June, SECOS raised $1,678,376 through the issue and placement of unsecured convertible notes. A portion ($320,000) of the Notes were issued to directors, subject to shareholder approval. Proceeds of the issue are to fund additional working capital as the Company addresses new demand for bioplastic resin in international markets.

REVIEW OF OPERATIONS (continued)

Sale and Leaseback Agreement

In May, SECOS entered a sale and leaseback agreement of freehold property belonging to its wholly-owned Malaysian subsidiary for $3.5 million, using proceeds to reduce net debt by approximately $1.3 million and release free cash of approximately $2.0 million. The Company collected the first parcel of freehold property proceeds ($0.2m) in late June 2018.

Funds from the sale and leaseback allowed SECOS to accelerate investment to additionally increase its resin manufacturing capacity to meet growing demand for its compostable bioplastic resins and other initiatives the Company has identified to improve operating margins.

Board Changes

Post year-end, in July 2018, the Board announced the appointment of internationally experienced plastics industry veteran David Wake as Non-Executive Director of the Company.

OUTLOOK

The bioplastics market is a diverse, US$15 billion global industry. Peak industry body, European Bioplastics, forecasts production to grow by more than 280% between 2016 and 2019 to nearly eight million tonnes per annum.

With this favourable industry backdrop, SECOS focuses on growing its business in three product areas:

1. Sustainable films, used in packaging products such as nappies and other hygiene products
2. Sustainable resins, which support the move to earth friendly packaging
3. Waste Management, where compostability of plastics forms a key role in the diversion of waste away from landfill. The rising cost and increasing scarcity of landfill is a primary driver of an industry shift toward bioplastics with environmental benefits providing an additional incentive.

All three product areas are growing rapidly and offer SECOS a strong commercial opportunity to build sales. Specific areas of focus are as follows:

- Benefit from an improved Nanjing plant – the plant will operate at lower cost and higher capacity
- Grow domestic sales in China – the newly appointed sales team will generate additional sales
- Leverage the increase of resin capacity at CBM's new Malaysia plant – supply additional resin to Malaysia's bag makers for domestic use & exports to the USA & Europe
- Launch myecoPET online platform – initial launch in the USA followed by Australia/NZ
- Grow sales into emerging markets via newly appointed distributors – specific opportunities arising in India, South Africa, Middle East, UK & Spain
- Compostable backsheets for hygiene markets – trial materials expected to be dispatched to several hygiene producers as interest in compostable hygiene products grows globally
- Concentrate on Organic Waste Diversion programs across Australia, NZ, Europe & USA
- USA FMCG packaging projects – strong sales expected from packaging converters across the USA

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

1. On 4 July 2017, the Company issued 5,087,500 fully paid ordinary shares under Share Purchase Plan to existing shareholders. The shares were issued at an issue price of $0.08/share.
2. On 17 July -2017, the Company issued 10,740,500 fully paid ordinary shares under Share Placement Plan to existing shareholders and sophistically investors. The shares were issued at an issue price of $0.08/share and were issued pursuant to the Company's 15% and 10% placement capacities.
3. In January 2018, SECOS issued 7,730,648 shares fully paid ordinary shares to various convertible noteholders pursuant to Convertible Note Deed. The shares are issued at an issue price of $0.09/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares 10 days prior to date of conversion notice discounted by 15%.
4. On 7 March 2018, the Company issued 23,984,937 fully paid ordinary shares under Share Placement Plan to existing shareholders and sophistically investors. The shares were issued at an issue price of $0.11/share and were issued pursuant to the Company's 15% and 10% placement capacities.
5. In June 2018, SECOS issued 17,521,263 shares fully paid ordinary shares to various convertible noteholders pursuant to Convertible Note Deed. The shares are issued at an issue price of $0.07/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares 10 days prior to date of conversion notice discounted by 15%.

EVENTS AFTER THE REPORTING DATE

On 16 July 2018, the Company appointed Mr David Wake as Non-Executive Director to the Board.

On 30 July 2018, Cardia Malaysia Sdn Bhd commissioned the new resin plant.

FUTURE DEVELOPMENTS

SECOS will continue to focus on its principal business activities with its sustainable packaging strategy and waste management solutions.

ENVIRONMENTAL REGULATIONS

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

INFORMATION ON DIRECTORS

Richard Tegoni	**Executive Chairman**
Experience and qualifications	Richard first joined the Board as Non-Executive Director on 21 December 2012. He was nominated as Non-Executive Chairman on 18 October 2013 before appointed as Executive Chairman effective 16 September 2014. Richard had held executive positions with various private large companies with strong background in Finance & Banking, Sales and Marketing. Richard has MBA (AGSM), Diploma in Financial Markets (SIA).
Special Responsibilities	Chairman of the Board of directors Corporate Strategy and Capital Raisings Member of Audit and Compliance committee
Interest in Shares & Options	7,408,377 Ordinary Shares
Directorships held in Other Listed Entities	Has not held a directorship in any other listed entity over the last 3 years

Stephen Walters	**Managing Director**
Experience and qualifications	Steve was appointed as Managing Director of the Group effective 21 April 2015. Steve has more than 20 years in the plastics and packaging industries in general management, commercial and sales roles with Borden Chemical, ICI Australia and Orica. He has a B. Bus (Marketing).
Special Responsibilities	Responsible for the general management of the Group. Member of Audit and Compliance committee
Interest in Shares & Options	28,826,268 Ordinary Shares
Directorships held in Other Listed Entities	Has not held a directorship in any other listed entity over the last 3 years

INFORMATION ON DIRECTORS

Trevor Haines	**Director of Corporate Development**
Experience	Trevor became an executive director on 21 April 2015 and had served as Group Chief Financial Officer until 31 July 2016. Trevor has more than 20 years of senior accounting and financial management roles in various divisions of ICI Australia, AVC and Orica.
Experience and qualifications	He is a qualified CPA with B. Com, FCPA. Assumed the role of Corporate Development Director effective 1 August 2016
Special Responsibilities	Member of Audit and Compliance committee
Interest in Shares & Options	29,364,347 Ordinary Shares
Directorships held in Other Listed Entities	Has not held a directorship in any other listed entity over the last 3 years
Donald Haller Jr.	**Non-Executive Director**
Experience and qualifications	Appointed 1 September 2016 Don has a distinguished background in accounting as a former partner of major international accounting firm in USA before venturing in management consulting as a leading professional consultant. Don is a qualified US Certified Practicing Accountant.
Special Responsibilities	Non-Executive Director Member of Audit and Compliance committee
Interest in Shares & Options	16,311,261 Ordinary Shares
Directorships held in other Listed Entities	Has not held a directorship in any other listed entity over the last 3 years.
David Wake	**Non-Executive Director**
Experience and qualifications	Appointed 16 July 2018 David has held a number of positions in the US at Imperial Chemical Industries' (ICI) multi-billion-dollar specialty chemical subsidiary, National Starch and Chemical Co, including Finance Director for the Specialty Synthetic Polymer division, Senior Director of Financial Planning & Reporting, and ultimately Vice President Finance in the Company's New Jersey head office. He also spent two years in London at ICI's global headquarters as Director of Strategy and Performance. Following ICI's acquisition by Akzo Nobel, Mr Wake joined polymer banknote Company Securency as Chief Financial Officer based in Melbourne. At Securency, he planned and executed a new strategic direction for the Company, culminating in its successful reorganisation into the Innovia Group and subsequent sale to CCL Industries of Toronto. He has a B. Ec. from Monash University
Special Responsibilities	Non-Executive Director Member of Audit and Compliance committee
Interest in Shares & Options	2,000,000 Ordinary Shares
Directorships held in other Listed Entities	Has not held a directorship in any other listed entity over the last 3 years.

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and the Audit and Compliance Committee held during the year ended 30 June 2018 and the number of meetings attended by each Director.

Director	Board Meetings		Audit & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R Tegoni	**12**	**12**	**2**	**2**
S Walters	**12**	**12**	**2**	**2**
T Haines	**12**	**12**	**2**	**2**
D Haller Jr	**12**	**12**	**2**	**2**

REMUNERATION REPORT (AUDITED)

Remuneration Policy
The Group's policy for determining the nature and amount of remuneration of board members and senior executives of the Group is as follows:

- The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service and particular experience of the individual concerned.
- All key management personnel receive a base salary and superannuation and/or equivalent.
- Remuneration consultants have not been used in assessing and calculating Director and Key Management personnel remuneration in the year.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Termination payments are generally not payable on resignation or dismissal for serious misconduct. Termination payments cannot exceed more than 1 year's base salary as required by *Corporations Act 2001*.

All remuneration paid to key management personnel is measured in accordance with accounting standards and expensed in the Statement of Profit or Loss and Other Comprehensive Income unless otherwise stated.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board collectively determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, and duties and accountability.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the General Meeting held on 7 July 2009, where the shareholders approved an aggregate remuneration of $220,000.

The resolution to adopt the remuneration report for the year ended 30 June 2017 was passed at the 2017 Annual General Meeting ("AGM"), which occurred on 30 November 2017.

REMUNERATION REPORT (continued)

The key management personnel of the Group consisted of the following persons:

Group Key Management Personnel	Position held as at 30 June 2018 and any change during the year	Contract Details (Duration & Termination)	Proportions of remuneration package not related to performance at 30 June 2018	Proportions of remuneration package not related to performance at 30 June 2017
Executive Directors				
Richard Tegoni	Executive Chairman	Letter of appointment	100%	100%
Stephen Walters	Managing Director	Executive Service Agreement 3 months' termination notice period	100%	100%
Trevor Haines	Corporate Development Director	Executive Service Agreement 3 months' termination notice period	100%	100%
Non-Executive Directors				
Donald Haller Jr	Non-Executive Director	Letter of appointment	100%	100%
Company Secretary and Chief Financial Officer				
Edmond Tern	Chief Financial Officer and Company Secretary	Executive Service Agreement 3 months' termination notice period	100%	100%

Terms of employment require that the relevant Group entity provide the contracted person with a minimum period of notice (one to three months) prior to termination of contract. Similarly, a contracted person has to provide minimum period notice (one to three months) prior to the termination of their contract. In the instance of serious misconduct, the Company can terminate employment at any time.

REMUNERATION REPORT (continued)

Name	Fin Year	Short Term Benefits	Post-employment Benefits	Long Term Benefits	Share-based Payments	Termination Benefits	Total
		Salary, fees and leave	Pension and Superannuation	LSL	Shares Issued		
		$	$	$	$	$	$
Non-Executive Director							
D Haller Jr	**2018**	**28,333**	**-**	**-**	**15,000**	**-**	**43,333**
D Haller Jr	2017	17,500	-	-	11,250	-	28,750
Executive Directors							
R Tegoni	**2018**	**63,331**	**-**	**-**	**50,000**	**-**	**113,331**
R Tegoni	2017	50,000	-	-	50,000	-	100,000
S Walters	**2018**	**204,517**	**18,574**	**-**	**-**	**-**	**223,091**
S Walters	2017	199,440	18,120	-	-	-	217,560
T Haines	**2018**	**158,565**	**14,209**	**-**	**-**	**-**	**172,774**
T Haines	2017	134,790	13,582	-	11,567	-	159,939
F Glatz	**2018**	**-**	**-**	**-**	**-**	**-**	**-**
F Glatz	2017	16,545	1,572	25,630	-	50,000	93,747
Key Management Personnel							
E Tern	**2018**	**176,000**	**16,720**	**-**	**-**	**-**	**192,720**
E Tern	2017	158,949	15,005	-	12,500	-	186,454
R Bhambhani	**2018**	**-**	**-**	**-**	**-**	**-**	**-**
R Bhambhani	2017	87,378	7,531	19,509	-	32,347	146,765
Total	**2018**	**630,746**	**49,503**	**-**	**65,000**	**-**	**745,249**
Total	2017	664,602	55,810	45,139	85,317	82,347	933,215

Share based payments are shares issued in lieu of cash remuneration and were not based on performance. Details of the share issues during the year are provided below:

- **On 5 July 2017**, the Company issued 174,169 fully paid ordinary shares to two of its directors - M/s Tegoni and Haller, in lieu of the part payment of their respective remuneration for the June 2017 quarter. The shares were issued at an issue price of $0.093/share, which was determined based on the volume weighted average sale price of SECOS shares for June 2017 Quarter.
- **On 5 October 2017,** the Company issued 203,718 fully paid ordinary share to two of its directors - M/s Tegoni and Haller, in lieu of the part payment of their respective remuneration for the September 2017 quarter. The shares were issued at an issue price of $0.08/share, which was determined based on the volume weighted average sale price of SECOS shares for September 2017 Quarter.
- **On 5 January 2018**, the Company issued 201,169 fully paid ordinary shares to two of its directors - M/s Tegoni and Haller, in lieu of the part payment of their respective remuneration for the December 2017 quarter. The shares were issued at an issue price of $0.08/share, which was determined based on the volume weighted average sale price of SECOS shares for December 2017 Quarter.
- **On 6 April 2018**, the Company issued 128,993 fully paid ordinary shares to two of its directors - M/s Tegoni and Donald Haller Jr, in lieu of the part payment of their respective remuneration for the March 2018 quarter. The shares were issued at an issue price of $0.126/share, which was determined based on the volume weighted average sale price of SECOS shares for March 2018 Quarter.

The issue of these shares to Directors was approved by shareholders at the Annual General Meeting held on 30 November 2017 (Resolutions 10 & 11).

REMUNERATION REPORT (continued)

Cash Bonuses, Performance-related Bonuses
There was no performance related remuneration paid during the year.

Options Issued as part of remuneration for the year ended 30 June 2018
No options were issued during the year as part of remuneration.

a. Option Holdings

Number of Options Held by Key Management Personnel (Direct and Indirect Interest)
There were no Options on issue during the current or prior year**.**

b. Share Holdings (Direct and Indirect)

	Opening Balance at 1 July 2017	Received as Compensation	On market transaction	Change as a result of resignation	Closing Balance at 30 June 2018
R Tegoni	6,863,725	544,652	-	-	7,408,377
D Haller Jr	11,448,723	163,397	4,699,141	-	16,311,261
S Walters	28,831,268	-	(5,000)	-	28,826,268
T Haines	29,369,225	-	(4,878)	-	29,364,347
E Tern	1,020,833	-	1,111,112	-	2,131,945

Other Transactions with Key Management Personnel

Stellar Directors related entities have advanced amounts to that Company for working capital purposes. As part of merger negotiations, on 31 March 2015, these entities have entered into respective loan agreements with Stellar for the amounts advanced. Pursuant to the loan agreements, loan amount advanced are on an unsecured basis and will be repayable after 2 years after the merger completion date i.e. 21 April 2017, with SECOS having further discretion to extend the loan term for a further 12 months period. Loans will attract interest at bank market rates for the term. These loans had been extended until further notice.

The following balances are outstanding at the reporting date in relation to above loans from the related parties:

	2018 $	2017 $
Stephen Walters	75,532	77,388
Trevor Haines	137,233	140,696
Robert Morgan	72,763	72,763
Peter Symons	76,117	76,117
TOTAL	**361,645**	**366,964**

This concludes the remuneration report, which has been audited.

REMUNERATION REPORT (continued)

OPTIONS

At the date of this report there were no unissued ordinary shares of the Company under option and no shares were issued on exercise of options or up to the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS & OFFICERS

The Company has agreed to indemnify all the current Directors and Officers of the Company and of its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company agrees to meet the full amount of any such liabilities, including costs and expenses.

The Company has paid an annual premium to insure the Directors and Officers against liabilities incurred in their respective capacities. Under the policy, details of the premium are confidential.

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 for leave of court 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

No non-audit services were undertaken by the auditors during the period.

AUDITOR’S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 30 June 2018 is attached to the Directors’ Report.

This report of the Directors incorporating the Remuneration Report is signed in accordance with a Resolution of the Board of Directors.

Richard Tegoni
Director

27 August 2018
Mount Waverley, Victoria

AUDITOR'S INDEPENDENCE DECLARATION

William Buck

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SECOS GROUP LIMITED

I declare that, to the best of my knowledge and belief during the year ended 30 June 2018 there have been:

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

William Buck

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

N. S. Benbow
Director

Dated this 27th day of August, 2018

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	Group 2018 $	2017 $
Sales	**3**	23,638,055	22,364,976
Cost of sales		(20,595,951)	(19,855,572)
Gross profit		**3,042,104**	**2,509,404**
Other Income	**3**	62,665	107,171
Employment related expense		(2,891,802)	(2,959,443)
Marketing and distribution expenses		(681,148)	(436,131)
Administration expense		(637,068)	(458,844)
Legal and compliance		(898,554)	(476,551)
Occupancy costs		(435,558)	(418,554)
Depreciation expense		(168,788)	(388,240)
Finance costs		(583,020)	(384,772)
Other expenses		-	(285,462)
Loss before income tax		**(3,191,169)**	**(2,946,572)**
Income tax benefit / (expense)	**5**	83,283	(2,598)
Loss for the year after tax		**(3,107,886)**	**(2,949,170)**
Other comprehensive income			
Other comprehensive income that may be reclassified to the profit or loss in subsequent periods (net of tax)			
Foreign currency translation differences for foreign operations		(139,614)	(109,411)
Item that will not be reclassified in subsequent periods			
Revaluation of land and buildings		-	1,751,867
Derecognition of non-operating subsidiaries		(44,417)	-
Total comprehensive loss for the year		**(3,291,917)**	**(1,306,714)**
Loss per share			
-Basic / diluted loss per share	9	(1.6 cents)	(1.8 cents)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	Group 2018 $	2017 $
Current Assets			
Cash and cash equivalents		1,937,866	1,823,537
Trade and other receivables	11	4,029,259	3,830,377
Non-current asset held for sale	10	3,338,905	-
Inventories	12	3,012,581	1,661,584
Prepayments		1,052,323	579,100
Total Current Assets		**13,370,934**	**7,894,598**
Non-Current Assets			
Financial assets		19,015	13,681
Property, plant and equipment	13	869,019	4,243,754
Intangible assets	14	3,532,345	3,532,345
Total Non-Current Assets		**4,420,379**	**7,789,780**
Total Assets		**17,791,313**	**15,684,378**
Current Liabilities			
Trade and other payables	15	3,541,247	4,008,554
Borrowings	16	3,181,634	3,515,725
Short term provisions	17	769,582	900,694
Total Current Liabilities		**7,492,463**	**8,424,973**
Non-Current Liabilities			
Borrowings	16	2,998,908	1,441,826
Long term provisions	18	75,992	84,931
Deferred Tax Liabilities	6	-	78,591
Total Non-Current Liabilities		**3,074,900**	**1,605,348**
Total Liabilities		**10,567,363**	**10,030,321**
Net Assets		**7,223,950**	**5,654,057**
Equity			
Issued Capital	19	19,478,284	14,616,474
Reserves	20	1,453,950	1,593,564
Accumulated Losses		(13,708,284)	(10,600,398)
Parent Entity Interest		**7,223,950**	**5,609,640**
Non-Controlling Interest		-	44,417
Total Equity		**7,223,950**	**5,654,057**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Asset Revaluation reserve	Parent Entity Interest	Non-Controlling Interests	Total Equity
	$	$	$	$	$	$	$
Balance at 01 July.2017	**14,616,474**	**(10,600,398)**	**(158,303)**	**1,751,867**	**5,609,640**	**44,417**	**5,654,057**
Loss for the Year	-	(3,107,886)	-	-	(3,107,886)	-	(3,107,886)
Other Comprehensive income for the year	-	-	(139,614)	-	(139,614)	(44,417)	**(184,031)**
Total comprehensive income / (loss) for the year	**-**	**(3,107,886)**	**(139,614)**	**-**	**(3,247,500)**	**(44,417)**	**(3,291,917)**
Shares issued during the year net of costs	4,861,810	-	-	-	4,861,810	-	**4,861,810**
Balance at 30 June.2018	**19,478,284**	**(13,708,284)**	**(297,917)**	**1,751,867**	**7,223,940**	**-**	**7,223,950**
Balance at 01 July.2016	**12,479,444**	**(7,651,228)**	**(48,892)**	**-**	**4,779,324**	**44,417**	**4,823,741**
Loss for the Year	-	(2,949,170)	-	-	(2,949,170)	-	(2,949,170)
Other Comprehensive income for the year	-	-	(109,411)	1,751,867	1,642,456	-	1,642,456
Total comprehensive income / (loss) for the year	**12,479,444**	**(2,949,170)**	**(109,411)**	**1,751,867**	**(1,306,714)**	**-**	**(1,306,714)**
Shares issued during the year net of costs	2,137,030	-	-	-	2,137,030	-	2,137,030
Balance at 30 June.2017	**14,616,474**	**(10,600,398)**	**(158,303)**	**1,751,867**	**5,609,640**	**44,417**	**5,654,057**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Group 2018 $	2017 $
Cash Flows from Operating Activities			
Receipts from customers		25,734,047	21,336,739
Payments to suppliers and employees		(31,184,692)	(23,646,002)
Interest received		62,665	3,551
Finance Costs		(583,020)	(384,772)
Net Cash Outflow from Operating Activities	**26**	**(5,971,000)**	**(2,690,484)**
Cash Flows from Investing Activities			
Purchase of plant and equipment		(133,257)	(199,187)
Proceeds from sale of land and building		198,632	-
Investments in financial assets		-	(13,681)
Net Cash Outflow from Investing Activities		**65,375**	**(212,868)**
Cash Flows from Financing Activities			
Proceeds from issues of ordinary shares (net of costs)		2,850.063	2,027,713
Proceeds from borrowings		3,169,891	1,491,502
Net Cash Inflow from Financing Activities		**6,019,954**	**3,519,215**
Net decrease in cash and cash equivalents Held		**114,329**	**612,863**
Cash and cash equivalents at the beginning of the financial year		1,823,537	1,210,674
Cash and Cash Equivalents at the end of the financial year		**1,937,866**	**1,823,537**

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 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').

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SECOS Group Limited ('Company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. SECOS Group Limited and its subsidiaries together are referred to in these financial statements as the 'economic entity' or 'Group'.

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

The Financial statements were authorized for issue on **24 August 2018** by the Board of Directors.

REPORTING BASIS AND CONVENTIONS

The financial statements have been prepared on an accruals basis and are based on historical costs other tan land and buildings which are held at fair value.

The Directors are seeking to raise funds via capital raising and/or debt and in line with the above matters have prepared the financial report on a going concern basis. At this time the Directors are of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the Financial Report.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

a. Principles of Consolidation

Subsidiaries are all those entities over which the consolidated entity has control. The economic entity controls an entity when the economic 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 unrealized gains on transactions between entities in the economic entity are eliminated. Unrealized 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.

Where the economic entity loses control over a subsidiary, it derecognizes the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognized in equity. The consolidated entity recognizes 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. A list of controlled entities is contained in Note 22 to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortized. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to the Group's cash-generating units or Groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of. Changes in the ownership interests in a subsidiary that do not result in a change in control are accounted for as equity transactions and do not affect the carrying values of goodwill.

c. Income Tax
The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted at the end of the reporting period.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

d. Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

e. Property, Plant and Equipment

Land and buildings are measured at fair value being the amount which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Any gain recognized on an upward revaluation is taken to the revaluation reserve in equity. Impairment losses are recognized through the Statement of Profit or Loss and Other Comprehensive Income to the extent that they are in excess of any previous revaluations, which have been recorded in equity. This is a change in accounting policy applied prospectively under AASB 116 Property Plant and Equipment. In the prior period Land and Buildings were held at cost.

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation
The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Building	2.00%
Plant and Machinery	10% to 33%
Office Equipment and Motor Vehicles	7.5% to 40%
Leasehold Improvements	2.50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement profit or loss and other comprehensive income.

When a sale of an asset is expected to occur within the next 12 months or a contract of sale has been agreed between the Company and the respective purchaser, the asset is classified as available or held for sale as shown as a current asset on the Statement of Financial Position.

f. Fair Value Measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Land and building valuations are based on independent third-party valuations and classified as Level 3.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalized. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

h. Financial Instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset. (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs.

Classification and subsequent measurement
Financial instruments are subsequently measured at either of fair value, amortized cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortized cost is calculated as:
a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortization of the difference, if any, between the amount initially recognized and the maturity amount calculated using the effective interest method;
d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Financial Liabilities
Non-derivative financial liabilities compromising trade and other payables are recognized at amortized cost, comprising original debt less principal payments and amortization.

Impairment
At the end of each reporting period, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognized in the statement of profit or loss including the cumulative losses that had been recognized directly in equity.

Receivables are impaired after taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor’s financial position.

Derecognition
Financial assets are derecognized where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognized where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognized in profit or loss.

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

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

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

j. Foreign Currency Transactions and Balances

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transaction and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognized in the statement of profit or loss and other comprehensive income.

Exchange differences arising on the translation of non-monetary items are recognized directly in other comprehensive income to the extent that the gain or loss is directly recognized in other comprehensive income; otherwise the exchange difference is recognized in the statement of profit or loss and other comprehensive income.

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

- Assets and liabilities are translated at year-end exchange rates prevailing at the end of reporting period.
- Income and expenses are translated at average exchange rates for the period. The average rate is only used where the rate approximates the rate at the date of transaction.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognized in the statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

k. Borrowings
Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

l. Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

m. Employee Benefits
Short-term employee benefits
Liabilities for wages and salaries, including, annual leave and long service leave expected to be wholly settled within 12 months of the reporting date are recognized in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be wholly settled within 12 months of the reporting date are recognized in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Provisions

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

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

o. 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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

p. Revenue

Revenue from the sale of goods is recognized upon transfer of significant risks and rewards of ownership of goods to customers which normally occurs on the delivery of goods to customers.

Interest revenue is recognized on a proportional basis taking into account the interest rates applicable to the financial assets.

R&D Tax Credits in respect of qualified research and development expenditure are recognized as revenue in the year once where there is reasonable assurance that the R&D Tax Credits will be received, and all qualifying conditions are met.

q. Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case, it is recognized as part of the cost of the acquisition of the asset or as part of the expense.

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

r. Loss per share

Basic loss per share

Basic loss per share is calculated by dividing the profit attributable to the owners of SECOS Group 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

Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Critical Accounting Estimates, Judgements 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.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. No provision for impairment has been recorded during the year.

Estimation of useful lives of assets

The economic entity determines the estimated useful lives and related depreciation and amortization 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 some other event. The depreciation and amortization charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The economic entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Recoverability of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. At present the Company does not recognise a deferred tax asset in respect of tax losses carried forward.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. New Accounting Standards and interpretations issued for Application in Future Periods

i) Changes in accounting policy and disclosures

SECOS has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards (AASB) that are mandatory for the current reporting period. The adoption of these new standards has not had a material impact on the Group.

ii) Accounting standards and interpretations issued but not yet effective

Standard	**Mandatory date for annual reporting periods beginning on or after)**	**Reporting period standard adopted by the Company**
AASB 9 Financial Instruments	1 January 2018	1 July 2018
AASB 15 Revenue from Contracts with Customers	1 January 2018	1 July 2018
AASB 16 Leases	1 January 2019	1 July 2019
2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	1 July 2018
2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	1 July 2019
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	1 July 2018
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019
The revised Conceptual Framework for Financial Reporting	1 January 2020	1 July 2020

Management are currently assessing the impact of these new standards on the Group and have commenced an analysis on the impact of AASB 15 – Revenue from Contracts with Customers. At the date of writing management do not expect this standard, to have a material effect on the position of the Group. Management anticipate that over the course of the next 12 months, new supply agreements entered into with the customers will be evaluated by the Group on an individual basis. Management also confirms that there are no rebates arrangements with the customers. The Group plan to adopt the modified retrospective approach.

Management expects a material impact in respect of AASB 16 as a result of sale and leaseback of Land and Buildings in Malaysia. Management will be able to quantify this following completion of the sale.
It is expected that the operating and lease commitments identified in Note 24 to the financial report will be required to be included in the Consolidated Statement of Financial Position when the standard becomes effective. Following the implementation of the standard the rental expense currently recognised in administration related expenses will be replaced by an amortisation charge in the statement of profit or loss and other comprehensive income.

NOTE 2 PARENT ENTITY

	2018 $	2017 $

The following information has been extracted from the books and records of the parent ("SECOS Group Limited") and has been prepared in accordance with Australian Accounting Standards.

STATEMENT OF FINANCIAL POSITION

	2018 $	2017 $
ASSETS		
Current assets	173,245	522,515
Non-current assets	33,937,620	27,918,951
TOTAL ASSETS	**34,110,865**	**28,441,466**
LIABILITIES		
Current liabilities	1,424,922	1,012,826
Non-current liabilities	2,991,432	938,573
TOTAL LIABILITIES	**4,416,354**	**1,951,399**
EQUITY		
Issued capital	68,562,783	63,129,952
Accumulated losses	(40,845,177)	(35,433,854)
TOTAL EQUITY	**27,717,606**	**27,696,098**
STATEMENT OF COMPREHENSIVE INCOME		
Loss for the year after tax	(2,421,020)	(1,206,031)
Total comprehensive income	**(2,421,020)**	**(1,206,031)**

Guarantees

SECOS Group Limited has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to banking & finance facilities and credit facilities. The guarantees are for the terms of the facilities. The period covered by guarantees range from 3 to 5 years are up to amounts of $2,024,982 (2017: $2,017,000).

Contingent liabilities

SECOS Group Limited had no contingent liabilities as at 30 June 2018. (2017: NIL).

Contractual commitments

At 30 June 2018, SECOS Group Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2017: NIL).

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for investments in subsidiaries that are accounted for at cost, less any impairment, in the parent entity.

NOTE 3 REVENUE

	Group 2018 $	2017 $
Revenue		
Sales revenue	23,638,055	22,364,976
Total sales revenue	**23,638,055**	**22,364,976**
Other Income		
Interest	62,665	2,896
Recovery from insurance	-	104,275
Total other income	**62,665**	**107,171**

NOTE 4 LOSS FOR THE YEAR

	Group 2018 $	2017 $
The Loss before income tax includes the following items of expenses		
Expenses		
Rental expenses relating to operating leases	435,558	418,554
Research, development, and patent costs	154,619	482,096
Depreciation	168,788	388,240
Restructuring	767,372	197,825
Superannuation expense	95,726	54,172

NOTE 5 INCOME TAX

The directors estimate the potential deferred income tax assets in respect of tax losses not brought to account is:

	Group 2018 $	2017 $
Tax losses carried forward	8,989,582	8,101,477

Deferred tax assets have not been brought to amount as it is not currently considered probable that future taxable profit will be available against which such assets could be utilized.

The amount of the franking credits available for subsequent reporting periods are:	Parent (Stellar) 2018	2017
Opening Balance	460,155	460,155
Closing Balance	**460,155**	**460,155**

The above amounts represent the balance of the franking account as at the end of the financial year available to Stellar Films (Group) Pty Ltd.

NOTE 6 DEFFERED TAX LIABILITIES

	2018 $	2017 $
Deferred Tax Liabilities	-	78,591
	-	**78,591**

NOTE 7 KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are included in the “REMUNERATION REPORT”.

Key management personnel remuneration details have been included in the Remuneration Report section of the Directors Report.

	2018 $	2017 $
Short-term employee benefits	630,746	664,602
Post-employment benefits	49,503	55,810
Long-term benefits	-	45,139
Share based payment	65,000	85,317
Termination payments	-	82,347
	745,249	**933,215**

NOTE 8 REMUNERATION OF AUDITORS

	2018 $	2017 $
Remuneration of the auditor of the parent entity for		
- auditing or reviewing the financial statements	67,800	66,000
- other services	-	11,800
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	7,540	7,031
	87,340	**84,831**

NOTE 9 LOSS PER SHARE

	2018 $	2017 $
Loss used to calculate basic/diluted EPS	**(3,107,886)**	**(2,949,170)**
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	**189,950,610**	**161,624,176**

NOTE 10 NON-CURRENT ASSET HELD FOR SALE

	2018 $	2017 $
Non-current asset held for sale	3,338,905	-
	3,338,905	**-**

In May 2018, SECOS entered a sale and leaseback agreement of freehold property belonging to its wholly-owned Malaysian subsidiary for $3.5 million (fair value), using proceeds to reduce net debt by approximately $1.3 million and release free cash of approximately $2.0 million. The Company collected the first parcel of freehold property proceeds ($0.2m) in late June 2018.

Funds from the sale and leaseback allowed SECOS to accelerate investment to additionally increase its resin manufacturing capacity to meet growing demand for its compostable bioplastic resins and other initiatives the Company has identified to improve operating margins.

NOTE 11 TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
Current		
Trade Receivables	3,975,261	3,717,130
Less: provision for impairment	(75,261)	(308,817)
	3,900,000	**3,408,313**
Other receivables	129,259	422,064
Trade and other receivables	**4,029,259**	**3,830,377**

Provision for Impairment of Receivables

Current trade receivables are non-interest bearing and are generally on 30-day terms. A provision for impairment is recognized when there is objective evidence that an individual trade receivable is impaired. These amounts have been disclosed as a separate line item in the statement of profit or loss and other comprehensive income. Receivables are impaired if aged more than 365 days.
On the above basis, the Directors have deemed necessary to impair trade receivables by **$75,261** (2017: $308,817) at the reporting date.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance
	$	$	$	$
2018	**308,817**	**-**	**(233,556)**	**75,261**
2017	**178,447**	**130,370**	**-**	**308,817**

	Trade Receivables	Impaired	<30	31-60	61-90	>90
2018	**3,900,000**	**(75,261)**	**1,569,447**	**1,436,226**	**479,755**	**489,833**
2017	3,408,313	(308,817)	3,196,775	347,510	84,380	88,465

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Collateral Pledged

A security over trade receivables has been provided for certain debt. Refer to Note 16 for further details.

NOTE 12 INVENTORIES

	Note	2018 $	2017 $
Current			
Raw materials including work in progress		1,880,649	1,173,125
Finished goods		1,131,932	488,459
TOTAL		**3,012,581**	**1,661,584**

Inventories are held at the lower of cost or net realizable value

NOTE 13 PLANT AND EQUIPMENT

	2018 $	2017 $
Land		
At fair value	-	1,718,912
Accumulated depreciation	-	-
Total Land	**-**	**1,718,912**
Buildings		
At fair value	-	1,573,856
Accumulated depreciation	-	(6,003)
Total Buildings	**-**	**1,567,853**
Leasehold Improvements		
At cost	182,680	182,680
Accumulated depreciation	(16,691)	(12,435)
	165,989	**170,245**
Plant & Machinery		
At cost	10,555,708	10,595,037
Accumulated depreciation	(10,055,325)	(9,928,868)
	500,383	**666,169**
Office & Other Equipment		
At cost	1,015,950	895,803
Accumulated depreciation	(813,303)	(775,228)
	202,647	**120,575**
Total Cost of Assets	11,754,338	14,966,288
Total Accumulated Depreciation	(10,885,319)	(10,722,534)
Written down value of assets	**869,019**	**4,243,754**

NOTE 13 PLANT AND EQUIPMENT (continued)

Movement in Carrying Amounts

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below.

2018	Land	Building	Leasehold Improve ments	Plant & Machinery	Office & other Equip-ment	Total
	$	$	$	$	$	$
Balance at 1 July 2017	**1,718,912**	**1,567,853**	**170,245**	**666,169**	**120,575**	**4,243,754**
Additions/(Disposals)	-	(229,704)	-	-	133,257	(96,447)
Reclassification	(1,876,757)	(1,462,148)	-	-	-	(3,338,905)
Depreciation Expenses	-	-	(4,256)	(126,457)	(38,075)	(168,788)
Exchange Rate Variations	157,845	123,999	-	(39,329)	(13,110)	229,405
Balance at 30 June 2018	**-**	**-**	**165,989**	**500,383**	**202,647**	**869,019**

2017	Land	Building	Leasehold Improve ments	Plant & Machinery	Office & other Equip-ment	Total
	$	$	$	$	$	$
Balance at 1 July 2016	**252,105**	**1,410,810**	**174,610**	**839,335**	**121,876**	**2,798,736**
Additions during the year	-	-	-	170,226	28,961	199,187
Depreciation Expenses	-	(6,003)	(4,365)	(340,863)	(37,009)	(388,240)
Revaluation gain	1,487,737	342,719	-	-	-	1,830,456
Exchange Rate Variations	(20,930)	(179,673)	-	(2,529)	6,747	(196,385)
Balance at 30 June 2017*	**1,718,912**	**1,567,853**	**170,245**	**666,169**	**120,575**	**4,243,754**

NOTE 14 INTANGIBLE ASSETS

	Group 2018 $	2017 $
Goodwill	3,532,345	3,532,345
Net carrying value	**3,532,345**	**3,532,345**

Impairment Disclosures

The Group operates a single cash generating unit bbeing the manufacture and distribution of polyethylene films, and the renewable resource-based resins and finished products.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections for the next three years. The cash flows are discounted using an estimated discount rate based on Capital Asset Pricing Model.

Management has based the value-in-use calculations on five-year budget forecasts of the Group. Revenue has been projected on the below mentioned assumptions. Costs are calculated having taken into account historical gross margins as well as estimated weighted inflation rates over the period which is consistent with inflation rates applicable to the locations in which the unit operates. Discount rates are pre-tax and reflect risks associated with the distribution division.

The following assumptions were used in the value-in-use-calculations:

a. Revenue is premised on a “zero based budget” approach whereby each customer, or potential customer, has been specifically assessed having regard to current indications of demand, customer contacts or as assessed by the relevant sales manager. Revenue Growth of 8.1% has been assumed for the year 1 forecast period with 10.0% growth year on year for next four years. Terminal growth post year 5 of the forecast period has been estimated at 2.5%.

   Long term contracts typically include expenditure “rise and fall” clauses. Accordingly, Revenue is forecast to alter in line with relevant changes to the Company’s direct manufacturing costs.

b. Projected cash flows have been discounted using discount rate of 16% (2017: 12%).

c. Gross profit margins are forecast to be in a range of 12%-17% dependent upon product and each geographic region. (2017: 14%-17%)

Based on the above assumptions, the recoverable amount of the cash generating unit has been determined to exceed its carrying amount as at 30 June 2018 and accordingly; no impairment loss has been recognized.

NOTE 15 TRADE AND OTHER PAYABLES

	2018 $	2018 $
Current		
Trade Payables	2,632,510	2,770,593
Sundry payables	908,737	1,237,961
	3,541,247	**4,008,554**

NOTE 16 BORROWINGS

	Note	2018 $	2017 $
Current			
Secured Liabilities			
Bank Loans		296,921	288,609
Multi-option Facility		1,255,770	1,128,983
Invoice Funding Facility		676,841	1,431,169
		2,229,532	**2,848,761**
Unsecured Liabilities			
Unsecured Loan (Shareholder)		300,000	300,000
Convertible Notes		290,456	-
Unsecured Loans (Related Parties)		361,646	366,964
		952,102	**666,964**
Total Current borrowings		**3,181,634**	**3,515,725**
Non-Current			
Secured Liabilities			
Multi-option Facility		-	159,400
Bank Loans		-	300,368
Total bank loans		**-**	**459,768**
Unsecured Liabilities			
Convertible Notes		2,998,908	982,058
Total Non-Current Borrowings		**2,998,908**	**1,441,826**
Total borrowings		**6,180,542**	**4,957,551**

NOTE 16 BORROWINGS (continued)

Details of financing arrangements are set out as below:

	Note	2018 $	2017 $
Total Facilities			
Bank Overdrafts		-	75,000
Multi-option Facility		1,255,770	1,288,383
Term Loan		296,921	767,000
Invoice Funding Facility		676,842	1,431,169
		2,229,533	**3,561,552**
Used at the reporting date			
Bank Overdrafts		-	-
Multi-option Facility		1,255,770	1,288,383
Term Loan		296,921	588,977
Invoice Funding Facility		676,842	1,431,169
		2,229,533	**3,308,529**
Unused at the reporting date			
Bank Overdrafts		-	75,000
Multi-option Facility		-	-
Term Loans		-	178,023
		-	**253,023**

NOTE 16 BORROWINGS (continued)

Bank Loans
Bank loans of $296,924 is for Stellar Films Group Pty Ltd secured by plant and machinery for working capital purchased with a term of 4 years.

Invoice Funding Facility
During the year, the Group has established an Invoice Financing Facility with Timelio Pty Ltd. The facility has an uncapped limit available to fund all eligible invoices of Stellar Films Group Pty Ltd and Cardia Bioplastics Pty Ltd secured against eligible trade receivables.

Multi-option Facility
Stellar Films (Malaysia) Sdn Bhd holds a multi-option facility to be utilized for banker acceptance and term loan for working capital purposes.

Collateral Provided
Security provided in support of banking facilities in respect of the consolidated entities are as follows:

Stellar Films (Malaysia) Sdn Bhd:

- General debenture creating fixed and floating charges over the assets and undertakings of the Company to the combined value of MYR 9,200,000 (AUD$3,176,300).
- Negative pledges dated 2 June 2005 and 31 May 2012.
- Letters of comfort/awareness to the combined value of MYR 7,300,000 (AUD$2,520,325) provided by Stellar Films Group Pty Ltd.

Stellar Films Group Pty Ltd:

- General security agreements over the assets and undertakings of Stellar Films Group Pty Ltd.
- Guarantees and indemnities provided by the directors of Stellar Films Group Pty Ltd.
- Guarantee and indemnity provided by ESM Developments Pty Ltd as trustee for the ESM Unit Trust supported by a general security agreement over the assets and undertakings of that entity.
- Guarantee and Indemnity for $1,342,000 given by SECOS Group Limited.

With respect to Invoice Financing Facility, the Company has provided Timelio security over the assets of Deed of priority to rank on debtors and second on all other assets in respect to Stellar Films Group Pty Ltd and Cardia Bioplastics (Australia) Pty Ltd.

NOTE 16 BORROWINGS (continued)

Convertible Notes

On 22 December 2016, SECOS raised $995,758 through issue of the two-year convertible notes to sophisticated investors. As at **30 June 2018**, $300,000 was outstanding.

On 1 December 2017, SECOS raised $2,140,900 through issue of the three-year convertible notes to sophisticated investors. The key terms of convertibles notes are:
1. Face Value per Note: $1
2. Term: 3 Years
3. Convertible Price: at the lower of a 15% discount to 10-Day VWAP and the price of any equity capital raising in the preceding two months capped at $0.12 per share with a floor price of $0.04 per share
4. Interest:10% pa payable quarterly in arrears
5. Company can repay the loan on three months' notice, but the holder has the option to convert on the above terms prior to redemption.
6. Conversion permitted after 6 months and before three years, or redeemable for cash at face value if not redeemed before the end of the three-year term

As at **30 June 2018**, $1,392,308,000 was outstanding.

On 8 March 2018 SECOS raised $500,000 through issue of the two-year convertible notes to sophisticated investors. As at **30 June 2018**, the full amount was converted into shares.

On 30 June 2018, SECOS raised $1,678,376 through issue of the three-year convertible notes to sophisticated investors. The key terms of convertibles notes are:
1. Face Value per Note: $1
2. Term: 3 Years
3. Convertible Price: at the lower of a 15% discount to 10-Day VWAP and the price of any equity capital raising in the preceding two months capped at $0.12 per share
4. Maximum and minimum conversion price of $0.12 and $0.04 per share respectively
5. Interest:10% pa payable quarterly in arrears
6. Company can repay the loan on three months' notice, but the holder has the option to convert on the above terms prior to redemption.
7. Conversion permitted after 6 months and before two years, or redeemable for cash at face value if not redeemed before the end of the three-year term

Directors' participation of the Convertible Note valued $320,270 is subject to shareholder approval in next general meeting to allow for conversion on the same terms as other Note holders.

Value of embedded derivative
The key assumptions used in valuing the embedded derivative were as follows;

Assumptions	Convertible Notes June 2018	Convertible Notes June Dec 2017	Rationale
Historic volatility	101.8%	110.85%	Based on 24 months' historical volatility data for the Company
Conversion/Exercise price	$0.12	$0.12	Due to uncertainty around any potential conversion price, it has been based on maximum capped price of $0.12
Share price	$0.08	$0.08	Closing share price on valuation date from external market source
Risk-free interest rate	2.1%	2.00%	Based on 2-year Australian Government Bond Benchmark Yield
Fair Value	$0.04	$0.06	Determined using Binominal pricing model with the inputs above

NOTE 16 BORROWINGS (continued)

An initial fair value of the embedded derivative liability (equity conversion feature) was determined based on the above inputs and assumptions has been separate from proceeds received from the issue of the convertible notes to determine the amount of initial value of host debt component of the convertible notes.

Initial values of both the embedded derivative liability and host debt component have been further adjusted for transaction costs that were incurred to raises funds via convertible notes.

After initial recognition, the host debt component of the convertible notes has been measured at amortized cost using the effective interest method as required by AASB 139. The effective interest rate applied is 14.1%. The embedded derivative liability component of the convertible notes has been measured at fair value as required by AASB 139 and fair value movements have been recorded directly in the statement of profit & loss and other comprehensive income.

	Host Debt-Liability $	Embedded Derivative Liability $
Balance as at 30 June 2018	**3,148,942**	**140,422**

NOTE 17 SHORT TERM PROVISIONS

	2018 $	2017 $
Employee benefits	699,582	830,694
Lease make good provision	70,000	70,000
	769,582	**900,694**

Make-good provision
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

NOTE 18 LONG TERM PROVISIONS

	2018 $	2017 $
Employee benefits	6,118	4,713
Other provisions	69,874	80,218
	75,992	**84,931**

NOTE 19 ISSUED CAPITAL

a) Share Capital

	2018	2017
Ordinary - fully paid shares	**$19,478,284**	**$14,616,474**

b) Movements in Ordinary Share Capital

Date		Number of Shares	Price ($)	Amount ($)
01-Jul-17	**Balance**	**163,774,986**		**$14,616,474**
04-Jul-17	Share Purchase Plan	5,087,500	0.08	-
07-Jul-17	Director shares in lieu of cash	174,169	0.09	$16,250
17-Jul-17	Placement shares	10,740,500	0.08	$359,840
17-Jul-17	Cost of capital	-	-	$(145,721)
05-Oct-17	Director shares in lieu of cash	203,718	0.08	$16,250
05-Jan-18	Director shares in lieu of cash	201,169	0.08	$16,250
19-Jan-18	Convertible notes converted	555,556	0.09	$50,000
31-Jan-18	Convertible notes converted	7,175,092	0.09	$645,758
07-Mar-18	Placement shares	23,984,937	0.11	$2,638,340
05-Apr-18	Director shares in lieu of cash	128,993	0.13	$16,250
14-Jun-18	Convertible notes converted	11,317,533	0.07	$801,225
25-Jun-18	Convertible notes converted	6,203,730	0.07	$447,367
30 June 2018		**229,547,883**		**$19,478,284**

c) Ordinary Shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary Shares have no par value, and the Company does not have a limited amount of authorised share capital.

As at 30 June 2017, an amount of $906,400 was received from various shareholders and investors as part of their application to participate in the Share Purchase Plan and Share Placements. These monies were included in cash with corresponding entries as paid-up capital.

d) Capital Management

Management controls the capital of the Group in order to maintain sufficient liquidity to cover the Group's working capital requirements, to meet any new investment opportunities as they arise and to safeguard the Group's ability to continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by regularly monitoring its current and expected liquidity requirements and by assessing the Group's financial risks, rather than using debt/equity ratio analyses. The Group's capital structure is adjusted in response to the changes in liquidity requirements and financial risks. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTE 20 RESERVES

Nature and Purpose of Reserves:

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary as described in Note 1(j).

Asset Revaluation Reserve

On 1 June 2017 the Group engaged independent valuers to revalue the Group's Land and Buildings situated in Port Klang, Selangor, Malaysia to assess the assets value. As a result, the Company's fixed assets value had increased by 5.0 million Malaysia Ringgits. Consequently, Land and Buildings were carried at fair value with corresponding credit entry booked as reserves in the Statement of Financial Position. Any future gains recognised in respect of an increased re-valuation will be credits to the Asset Revaluation Reserve.

Upon sale of the Malaysian land and buildings the asset revaluation reserve will be reclassified to accumulated losses.

NOTE 21 SHARE BASED PAYMENTS

On 4 July 2017, the Company issued 241,208 fully paid ordinary shares to two of its directors - M/s Tegoni and Haines, in lieu of the part payment of their respective remuneration for the quarter ending 30 June 2017. The shares were issued at an issue price of $0.106/share, which was determined based on the volume weighted average sale price of SECOS share for June 2017 Quarter.

On 6 October 2017, the Company issued 271,973 fully paid ordinary shares to two of its directors - M/s Tegoni and Haines, in lieu of the part payment of their respective remuneration for the quarter ending 30 September 2017. The shares are issued at an issue price of $0.088/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares for September 2017 Quarter.

On 4 January 2018, the Company issued 213,816 fully paid ordinary shares to two of its directors - M/s Richard Tegoni and Donald Haller Jr., in lieu of the part payment of their respective remuneration for the quarter ending 31 December 2017. The shares are issued at an issue price of $0.076/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares for the December 2017 Quarter.

On 10 April 2018, the Company issued 200,123 fully paid ordinary shares to two of its directors - M/s Richard Tegoni and Donald Haller Jr, in lieu of the part payment of their respective remuneration for the quarter ending 31 March 2018. The shares are issued at an issue price of $0.081/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares for the March 2018 Quarter.

The issue of these shares to Directors was approved by shareholders at the Annual General Meeting held on 30 November 2017 (Resolutions 10 & 11).

NOTE 22 CONTROLLED ENTITIES

Controlled Entities Consolidated

Name	Country of Incorporation	Principal activities	Equity Holding (%)	
			2018	2017
Stellar Films Group Pty Ltd	Australia	Manufacturing	100%	100%
Stellar Films (Malaysia) Sdn Bhd	Malaysia	Manufacturing	100%	100%
Cardia Bioplastics (Australia) Pty Ltd (100% owned by SECOS Group Limited)	Australia	Sales and marketing	100%	100%
Tristano Pty Ltd (100% owned by Cardia Bioplastics (Australia) Pty Ltd)	Australia	Research	100%	100%
Biograde (Nanjing) Pty Ltd (100% owned by Biograde (Hong Kong) Pty Ltd)	China	Manufacturing	100%	100%
Biograde (Hong Kong) Pty Ltd (100% owned by Cardia Bioplastics (Australia) Pty Ltd)	Hong Kong	Holding company	100%	100%
CO2Starch Pty Ltd	Australia	Research	100%	100%
Secos Americas LLC	USA	Sales and marketing	100%	-
Cardia Bioplastics LLC	USA	Deregistered 24-Aug-2017	-	100%
Mine Remediation Services Pty Ltd	Australia	Deregistered 18-Sep-2018	-	69.36%
Natural Pharmacy Pty Ltd	Australia	Deregistered 16-Feb-2018	-	66.00%
Herbworx International Pty Ltd (60% owned by Natural Pharmacy Pty Ltd)	Australia	Deregistered 18-Sep-2018	-	39.60%

NOTE 23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Estimates of the potential financial effect of contingent liabilities that may become payable:

	Group	
	2018 $	2017 $
Bank Guarantees	50,713	50,713
The parent entity has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to banking & finance facilities and credit facilities. The guarantees are for the terms of the facilities. The period covered by guarantees range from 3 to 5 years.	2,017,000	2,017,000
	2,067,713	**2,067,713**

There were no contingent assets as at 30 June 2018 (2017: NIL).

NOTE 24 LEASING COMMITMENTS

Commitments contracted for at the end of the reporting period but not recognized as liabilities, payable:

	2018 $	2017 $
a. Finance Lease Commitments		
Not later than 12 months	15,531	27,969
between 12 months and 5 years	34,748	50,267
	50,279	**78,236**
b. Operating Lease Commitments		
Not later than 12 months	427,199	476,638
between 12 months and 5 years	166,776	303,137
	593,975	**779,775**
c. Capital Expenditure Commitments		
Contracts for Plant and equipment purchases	-	-
	-	**-**

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal from nil years to five years.

NOTE 25 OPERATING SEGMENTS

Identification of reportable operating segment

The management view the business as a single operating segment being the manufacture and distribution of polyethylene films, and the renewable resource-based resins and finished products.

Operationally, Group Managing Director and Group Chief Financial Officer oversee the previously separate Cardia and Stellar business. The Group now share common R&D resources and has a Corporate Development Director actively promoting the films and renewable recourses 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 view 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 monthly.

Sales Revenue by geographical region (external customers)	**2018 $**	**2017 $**
Australia	3,099,485	304,283
Asia	18,134,878	19,398,867
Americas	2,100,245	703,577
Others	303,447	958,249
Total Revenue	**23,638,055**	**22,364,976**

Major customers
The Group has a number of customers to whom it provides products. The Group has supplied a single external customer in the manufacturing segment who accounted for 19.4% (2017: 25.2%) of external revenue.

NOTE 25 OPERATING SEGMENTS (continued)

Assets by geographical region	2018 $	2017 $
The location of segment assets (non-current) by geographical location of assets is disclosed below:		
Australia	142,721	148,044
Asia	726,298	4,109,391
Total Assets	**869,019**	**4,257,435**

NOTE 26 CASH FLOW INFORMATION

	2018 $	2017 $
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss for the year after tax	**(3,107,886)**	**(2,949,170)**
Depreciation & Amortization	168,788	388,240
Cash advances for Property, Plant and Equipment	-	76,536
Issue of shares in lieu of cash	64,487	109,317
Foreign Currency translation differences	(387,698)	86,976
Increase in trade and other receivables	(672,105)	(250,974)
Increase in inventories and trade and other payables	(2,036,946)	(151,409)
Net cash outflow from operating activities	**(5,971,000)**	**(2,690,484)**

NOTE 27 EVENTS AFTER THE REPORTING DATE

On 6 July 2018, the Company issued 174,169 fully paid ordinary shares to two of its directors - M/s Richard Tegoni and Donald Haller Jr, in lieu of the part payment of their respective remuneration for the quarter ending 30 June 2018. The shares are issued at an issue price of $0.093/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares for the June 2018 Quarter.

On 16 July 2018, the Company appointed Mr David Wake as Non-Executive Director joining the Board of Directors strengthening the Board.

On 30 July 2018, the Company successfully commissioned new resin plant in Malaysia with biodegradable resin produced certified by bag-maker in Malaysia suitable for commercial production.

NOTE 28 RELATED PARTIES

Parent Entity
SECOS Group Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 22.

Key management personnel
Disclosures relating to key management personnel are set out in Note **7** and the remuneration report in the directors' report.

Transactions with related parties
Stellar Directors related entities have advanced amounts to that Company for working capital purposes. As part of merger negotiations, on 31 March 2015, these entities have entered into respective loan agreements with Stellar for the amounts advanced. Pursuant to the loan agreements, loan amount advanced are on an unsecured basis and will be repayable after 2 years after the merger completion date i.e. 21 April 2017, with SECOS having further discretion to extend the loan term for a further 12 months' period. Loans will attract interest at bank market rates for the term. Repayment of these loans is deferred until further notice.

The following balances are outstanding at the reporting date in relation to above loans from the related parties:

	2018 **$**	**2017** **$**
Stephen Walters	75,532	77,388
Trevor Haines	137,233	140,696
Robert Morgan	72,763	72,763
Peter Symons	76,117	76,117
TOTAL	**361,645**	**366,964**

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

NOTE 29 FINANCIAL INSTRUMENTS

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses natural hedges and derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. 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, ageing analysis for credit risk.

Specific Financial Risk Exposures and Management
The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and foreign currency risk.

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

Credit risk is managed through the negotiation of payment terms with customers such as advance payment on order or payments through letter of credits, title retention clauses over goods, ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and monitoring the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment.

NOTE 29 FINANCIAL INSTRUMENTS (continued)

The maximum exposure to credit risk by class of recognized financial assets at the end of the reporting period is equivalent to the carrying amount of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or Group of counterparties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregate of such amounts are as detailed in Note 11.

Credit risk arising on cash balances is not material.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or meeting its obligations related to financial liabilities. The Group manages liquidity risk by maintaining a reputable credit profile, managing credit risk related to financial assets, monitoring forecasted cash flows and ensuring that new funding facilities are in place either in the form of the issuing of new securities or establishing borrowing facilities Unused borrowing facilities at the reporting date are disclosed under Note 16.

The bank loan facilities in respect of Stellar Films (Malaysia) are repayable on demand but until such demand and are on a rolling six monthly maturity.

Stellar Films Group Pty Ltd has a term loan facility of $767,000 with an outstanding balance of $296,921 as at 30 June 2018. This is expected to be fully paid off by June 2019.

A summary of the entity's financial assets and liabilities is shown in the table below;

Year ended 30 June 2018	<6 months $	6-12 months $	1-5 years $	Total $
Financial assets				
Cash and cash equivalents	1,937,866	-	-	1,937,866
Trade and other receivables	4,029,259	-	-	4,029,259
Asset held for sale	3,338,905	-	-	3,338,905
	9,306,030	**-**	**-**	**9,306,030**
Financial liabilities				
Trade and other payables	3,298,373	-	-	3,298,373
Borrowings	3,181,634	-	2,998,908	6,180,542
	6,480,007	**-**	**2,998,908**	**9,478,915**
Net maturity	**2,826,023**	**-**	**(2,998,908)**	**(172,885)**

Year ended 30 June 2017	<6 months $	6-12 months $	1-5 years $	Total $
Financial assets				
Cash and cash equivalents	1,823,537	-	-	1,823,537
Trade and other receivables	3,830,377	-	-	3,830,377
	5,653,914	**-**	**-**	**5,653,914**
Financial liabilities				
Trade and other payables	3,957,699	-	-	3,957,699
Borrowings	1,929,899	144,000	1,441,826	3,515,725
	5,887,598	**144,000**	**1,441,826**	**7,473,424**
Net maturity	**(233,684)**	**(144,000)**	**(1,441,826)**	**(1,819,510)**

NOTE 29 FINANCIAL INSTRUMENTS (continued)

Fair Value of financial instruments

Unless otherwise stated, the carrying amount of financial instruments reflect their fair value.

Market risks

Interest Rate Risk

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

The variable interest rate borrowings expose the Group to interest rate risk which will impact future cash flows and interest charges are indicated by the following floating interest rate financial liabilities

	2018 $	2017 $
Variable rate instruments		
Bank Loans	296,921	588,977
Multi-option Facility	1,255,770	1,288,383
Invoice Funding Facility	676,842	1,431,169
	2,229,533	**2,848,761**

Interest rate risk sensitivity analysis
An official increase/decrease in interest rates of 2% can have an adverse/favorable effect on profit before tax of $45,000 (2017: $90,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts. The Group has total borrowings of $3.2 million as at 30 June 2018 (2017: $4.6 million).

Foreign Currency Risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

As the Group's significant purchase and sales transactions are in US Dollars, any fluctuations in US Dollars may impact on the Group's financial results unless this exposure is appropriately hedged. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements in US Dollar, the consolidated entity manages the risk through natural hedge and has taken forward foreign exchange contracts to mitigate exchange movements. These contracts are hedging highly probable forecasted cash flows for anticipated foreign currency transactions 3-4 months out.

For payments in all other foreign currencies, the Group has established that its exposure to foreign currency risk is not material at this stage.

The carrying amount of the Group's foreign currency (US Dollars) denominated financial assets and financial liabilities at the reporting date were as follows:

NOTE 29 FINANCIAL INSTRUMENTS (continued)

	2018 $	2017 $
Financial Assets	2,904,413	5,063,589
Financial Liabilities	227,110	7,688,423

The Group has performed a sensitivity analysis relating to its net exposure to foreign currency risk at the end of reporting period. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Foreign Currency Risk Sensitivity Analysis

At 30 June 2018, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar with all other variables remaining constant is as follows:

	2018 $	2017 $
Change in Profit and Equity		
- movement in AUD to USD by 7.4%	+/- 267,000	+/- 79,000

DIRECTORS' DECLARATION

1. The Directors declare that the financial statements and notes; and remuneration disclosures that are detailed within the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards, the *Corporations Regulations 2001*; and
    b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Company.
    c. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

2. The Managing Director and Chief Financial Officer have each declared that:

    a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view.

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

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

Richard Tegoni
Executive Chairman

Mount Waverley
Dated this 27th day of August 2018

William Buck

SECOS Group Limited
Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SECOS Group Limited. (the Company and its controlled entities (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of 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 Group, is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Group's financial position as at 30 June 2018 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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*, has been provided on the date of this report.

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

CHARTERED ACCOUNTANTS
& ADVISORS
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Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

William Buck

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 of 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

ASSESSMENT OF CARRYING VALUE OF GOODWILL	
Area of focus **Refer also to notes 1 and 14**	**How our audit addressed it**
During the financial year ended 30 June 2015 the group expanded its activities through the reverse acquisition of Cardia Bioplastics Limited by Stellar Films Group. As a result the acquisition created Goodwill on the Group's Consolidated Statement of Financial Position of $3.5 million. There is a risk that the Group may not trade in line with initial expectations and forecasts, resulting in the carrying amount of goodwill exceeding the recoverable amount and therefore requiring impairment. The Group continues to operate as a single CGU being the manufacture and distribution of polyethylene films, and renewable resources based resins. Management has assessed that they had been no significant change to the business which would require a change in the current year. The recoverable amount of the cash generating unit (CGU) has been calculated based on the value-in-use model. These recoverable amounts use discounted cash flow forecasts in which the Directors make judgements over certain key inputs, for example but not limited to revenue growth, gross margins, discount rates, long term growth rates and inflation rates. Overall due to the high level of judgement involved, and the significant carrying amounts involved, we have determined that this is a key judgemental area that our audit concentrated on.	Our audit procedures included: — a detailed analysis of any changes to the business to determine the continued appropriateness of a single segment and CGU; — a detailed evaluation of the group's budgeting procedures upon which the forecasts are based and testing the principles and integrity of the discounted future cash flow models; — testing the accuracy of the value-in-use model derived from the forecast model and assessing key inputs to the calculations such as revenue growth, gross margins, discount rates and working capital assumptions. This is done by reference to the Board approved forecasts, data external to the group and our own assessment; and — reviewing the historical accuracy by comparing actual results with the original forecasts. We also considered the adequacy of the Group's disclosures in relation to the impairment testing in the financial report.

William Buck

CONVERTIBLE NOTE	
Area of focus **Refer also to notes 1 and 16**	**How our audit addressed it**
SECOS Group Limited issued convertible notes to a range of investors during the current financial year. Accounting for these transactions is complex, as the Group's accounting policy requires the separation at initial recognition, where material, of an embedded derivative, representing the option to convert the note to a variable amount of shares, from the underlying host (principal) contract. Both the embedded derivative and host contract are reflected in the value of the convertible note in the financial statements. The accurate recording of the transactions associated with the convertible notes is dependent on the following: — The share price as at the date of the issue of the convertible notes; — Inputs associated with the features of the notes (interest rate, maturity, security); and — Share price volatility priced into the embedded derivative	Our audit procedures included: — understanding the terms of the convertible note agreements, including an assessment of classification between current and non-current for the underlying host contract and a determination that the conversion formula met the definition of an embedded derivative and hence a financial liability; — verifying the voracity of pricing applied to the value of the embedded derivative and the accrual of amortised interest applicable to the host contract; — Performed a cross check against our own findings with the independent valuation commissioned by management; and — verifying that the values attributed to the transactions were in line with the terms of the convertible note agreements We also assessed the adequacy of the Group's disclosures in respect of the convertible notes.

INVENTORY	
Area of focus **Refer also to notes 1 and 12**	**How our audit addressed it**
The Group's inventory of $3.0 million is significant to the financial statements, and has increased by $1.3 million from the prior year. The Group's inventory predominantly includes polyethylene films and renewable resource-based resins. Inventory is required to be carried at the lower of its cost and net realisable value applying the weighted average cost method. The valuation of inventory involves significant judgement by management as value depends on the age and types of polyethylene films and renewable resource based resins.	Our audit procedures included: — A physical verification of inventory at material locations within the Group; — Performance of cut-off testing for both inwards and outwards goods around the year end date; — a review of subsequent product sales to ensure inventory was valued at the lower of cost and net realisable value, the aging and condition of the inventory; — we evaluated management's judgement and assumptions in determining the valuation of the inventory at balance date; and — we assessed management's judgements in relation to the need for provisioning against the value of inventory. We also considered the adequacy of disclosures in relation to inventory in the notes to the financial statements.

William Buck

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we accordingly 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 Group 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 Group 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 statements as a whole are 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 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 these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

William Buck

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of SECOS Group Limited, for the year ended 30 June 2018, 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.

William Buck

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

N. S. Benbow
Melbourne, 27 August 2018

SHAREHOLDERS' INFORMATION

The shareholder information set out below was applicable as at **31 July 2018**

(A) DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Ordinary Shares	Number of Holders
1 - 1,000	308
1,001 - 5,000	339
5,001 - 10,000	173
10,001 - 100,000	374
100,001 and over	209
	1,403

There were 1,403 holders of less than a marketable parcel of ordinary shares.

(B) EQUITY SECURITY HOLDERS

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

Fully Paid Ordinary Shares	Number Held	Percentage of Issued Shares %
STELLAR DEVELOPMENTS PTY LTD	20,716,906	8.9
R&K EDWARDS INVESTMENTS LLC	18,916,075	8.2
MR DONALD HALLER JR	16,351,554	7.1
BELGRAVIA STRATEGIC EQUITIES	8,790,358	3.8
GOBBLE PTY LTD	7,795,891	3.4
HELPLESS PTY LTD	7,795,891	3.4
GANSPRUSE PTY LTD	7,795,891	3.4
G & N LORD SUPERANNUATION PTY	7,562,500	3.3
BRENDAN O'SULLIVAN	5,456,112	2.4
RETZOS FAMILY PTY LTD	4,250,000	1.8
MR RICHARD TEGONI	3,738,325	1.6
MR RICHARD ROGER TEGONI &	3,124,415	1.3
FEMALE PTY LTD	2,960,082	1.3
MRS JANET LOUISE COLMAN	2,820,000	1.2
HSBC CUSTODY NOMINEES	2,578,110	1.1
CHARLES DAVIES &	2,396,194	1.0
GARY T HEDRICK	2,370,831	1.0
KIRZY PTY LTD	2,250,740	1.0
HOWARD TRADING CO PTY LTD	2,144,869	0.9
EDMOND TERN	2,131,945	0.9
TOTAL	**131,946,689**	**56.9%**

(C) SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders listed in the holding company's register as at 31 July 2018 are:

	Number of Ordinary Shares Held	Percentage of Issued Shares %
STELLAR DEVELOPMENTS PTY LTD <THE STELLAR UNIT A/C>	20,716,906	8.9
R&K EDWARDS INVESTMENTS LLC	18,916,075	8.2
MR GEOFF LORD	16,352,858	7.1
MR DONALD HALLER JR	16,351,554	7.1

(D) VOTING RIGHTS

The voting rights attaching to each class of equity security 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.