# 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 2019** |
| Previous Corresponding Period: | 30 June 2018 |

## Results for announcement to the market

| Key information | 2019 $ | 2018 $ | % Change |
|---|---|---|---|
| Revenues from ordinary activities | **20,851,647** | 23,638,055 | -11.8% |
| Loss from ordinary activities after tax attributable to members | **(4,169,981)** | (3,107,886) | -34.2% |
| Net loss attributable to members | **(4,169,981)** | (3,107,886) | -34.2% |

| 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 | 2019 | 2018 |
|---|---|---|
| Net tangible asset backing per ordinary security | 1.7 cents | 1.6 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 2019 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 2019 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 2019

# TABLE OF CONTENTS

# CORPORATE DIRECTORY

| | |
|---|---|
| **DIRECTORS:** | Mr Richard Tegoni (Executive Chairman)<br>Mr Stephen Walters (Executive Director)<br>Mr Donald Haller Jr. (Non-Executive Director)<br>Mr David Wake (Non-Executive Director)<br>Mr Jim Walsh (Non-Executive Director) |
| **COMPANY SECRETARY:** | Mr Edmond Tern |
| **REGISTERED OFFICE:** | Suite 6, Level 2,<br>205-211 Forster Road<br>Mount Waverley, VIC 3149<br>Telephone: +61 3 8566 6800<br>Email: info@secosgroup.com.au |
| **SHARE REGISTRY:** | Advanced Share Registry Limited<br>110 Stirling Highway,<br>NEDLANDS, W.A. 6009<br>Telephone: +61 8 9389 8033<br>Email: admin@advancedshare.com.au |
| **BANKERS:** | Bank of Melbourne<br>Level 8, 530 Collins Street,<br>MELBOURNE, VIC 3000 |
| **AUDITORS:** | William Buck<br>Level 20, 181 William Street,<br>MELBOURNE, VIC 3000<br>Telephone: +61 3 9824 8555 |
| **LAWYERS:** | CBW Partners<br>Level 1, 159 Dorcas Street,<br>South Melbourne, VIC 3205 |
| **SECURITIES EXCHANGE:** | Australian Securities Exchange<br>Level 45<br>South Tower, Rialto<br>525 Collins Street<br>MELBOURNE, VIC 3000<br><br>ASX Code: SES |
| **WEBSITE:** | Corporate: www.secosgroup.com.au<br>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 pleased to present our Annual Report for the year ending 30 June 2019.

Over the last eighteen months the unprecedented shift in government and community attitudes to address the world's plastic waste crisis has led to growing demand for the use of compostable plastics. The SECOS Board has moved quickly to better define the Company's growth strategy to capitalise on the emerging role of biopolymers in the packaging and waste management space. During the year the SECOS board was bolstered with the appointment of two highly accomplished directors including Mr David Wake and Mr Jim Walsh, bringing with them significant experience from leading global polymer companies. The Board was also successful in securing Mr Ian Stacey, a highly experienced polymer and petrochemical executive as the Company's new CEO to lead SECOS through the next growth phase and to see the company reach profit.

During the year the company invested heavily in three main strategic initiatives which have resulted in significant improvements in profitability, margin and a reduction in cash outflows. These initiatives were focused on increasing the Company's biopolymer manufacturing capacity, improving manufacturing efficiencies and expanding our investment in research and development for new product applications, which has already resulted in the commercial launch of Cardia's new certified Home Compostable resin. Specific actions taken in support of these initiatives included the finalisation of the Company's Chinese subsidy restructure and implementation of the business process improvement program, the closure of the Australian low margin traditional plastics subsidiary, the launch of a new Biopolymer manufacturing plant in Malaysia and the successful implementation of a global cost reduction program.

These initiatives came at a cost which saw net losses increase from \$3.1m FY'18 to \$4.2m FY'19. SECOS Board feel confident that these investments were necessary and have positioned SECOS to grow effectively in the coming years. Early results already show them bearing fruit, with the cash outflows reducing significantly evidenced by the June 2019 quarterly operating cash outflow reducing by 50.1% versus the June 2018 quarter and 15.4% versus the March 2019 quarter, down to \$0.5 million. Early results also show that second half FY'19 sales increased 14.8% to \$10.4 million compared to H2 FY'18, with Biopolymer sales increasing 34.1% to \$4.3m over the same period. This was achieved despite the closure of the Australian traditional plastics subsidiary in January 2019.

Significant improvements in the Company's cash position and balance sheet were also achieved with the successful sale and leaseback of the Malaysian property unlocking approximately \$2m in free cash, a reduction in debt from over \$6m to approximately \$1m as at August 2019 and a closing cash balance of \$2.9m as at 30 June 2019.

The work done and success during the year has positioned SECOS extremely well to capture the growing share of the biopolymer market in 2020. The Company now stands to benefit from its strong management team, strong cash position, low debt levels, increased resin manufacturing capacity and improved product development. The focus moving forward will be to exploit the Group's high performing assets and technology while continuing to invest into research and development so that future opportunities in the bioplastics market can be unlocked.

**Richard Tegoni**
**Executive 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 2019.

## 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 (Executive Chairman)
Stephen Walters (Executive Director)
Trevor Haines (Executive Director, Resigned 16 November 2018)
Donald Haller Jr. (Non-Executive Director)
David Wake (Non-Executive Director, Appointed 16 July 2018)
Jim Walsh (Non-Executive Director, Appointed 16 November 2018)

## COMPANY SECRETARY

The Company Secretary is Edmond Tern who is also the 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.

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 Malaysia. SECOS has sales offices in Australia, Malaysia, China and the USA, 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:

| | **2019**<br>**$** | **2018**<br>**$** |
|---|---|---|
| Loss for the year after income tax | (4,169,981) | (3,107,886) |
| **Net Loss attributable to members of the Company** | **(4,169,981)** | **(3,107,886)** |

## 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

SECOS' Business Transformation Program sees SECOS close off financial year 18/19 with strong cash on hand at $2.9 million; further reduction in company debt (76.8% annual reduction from $6.2 million in June 2018 to $1.4 million in June 2019); continuing reduction in cash burn through operations; driven by cost disciplines & continuing margin improvement.

The Business Transformation Program positively impacted the business in the following areas:

- A 76.8% reduction in debt over the last year
- Strategic review of Stellar Films Australia operations and subsequent closure of this marginal activity
- Successful completion of Malaysian land and buildings sale and leaseback

Sales growth continues in all parts of the Business with Compostable Resins, Films and Bags growing at the fastest rate as demand for Compostable resin with converters as well as compostable film and bag with brands and councils continued to strengthen. Sales growth in SECOS traditional film business was contributed to by the transfer of customers following closure of Stellar Australia and new sales.

Focus around new product development by R & D and subsequent new Home Compostable formulation plus the development of new Compostable Biopolymer applications has the Company well positioned to cater to increasing demand in the Biopolymer market.

SECOS remains committed to replacing single use plastics with more sustainable compostable solutions within the consumer and food packaging industry. Sales demand continues to be supported by film converter and brand owner enquiries.

SECOS also remains committed to the Australian Council initiatives to divert food waste from landfill to organic waste stations. SECOS promotes Compostable Kitchen Tidy Bags to Councils in order to facilitate Council food waste diversion programs, which have the benefit of reducing food waste going to land fill by 30% and consequent green gas emissions as well as land fill costs.

### 2019 HIGHLIGHTS

- Reduced the cost of operations and consequently lowered cash outflows and debt. This program was led by a review of all parts of the business, and resulted in a reduction in staff costs, corporate costs, finance costs and operational costs across the business including the closure of non-profitable Stellar Australia operation in January 2019
- Reduced key raw material costs as a result of economies gained from an increase in sales volume of both traditional polymer and biopolymer
- Developed new Compostable resin grades to cater for growing demand by retailers and brand owners for alternatives to traditional plastic
- Developed new end uses for Compostable Biopolymer for Courier Satchel, High Speed Composters, Shrink & Stretch film with further grades being developed to meet different mechanical strength requirements

### OPERATIONAL ASSETS

- During the financial year SECOS installed new resin manufacturing equipment in Malaysia to diversify reliance on China production and to cater for increased demand for Biopolymer as Kuala Lumpur legislated Compostable Bags as replacement for traditional oil-based plastic bags
- Review of SECOS production assets and options to produce new grades of resin, film and bags was launched by incoming CEO and has led to better discipline around capex expenditure, timing of investment, ROI considerations and new product development focus
- Review of stocks, warehouse and freight arrangements and better production planning has improved working capital usage as production adopts Just-In-Time principle
- Cost down program to reduce raw material cost and formulation costs continues to yield positive results
- Conducted testing around the use of Compostable film to further verify the application of MiniFab™ technology to create breathable compostable hygiene film

## REVIEW OF OPERATIONS (continued)

### SALES ACTIVITIES

**Double Digit Sales Growth**

- Sales revenue up 15.3% year-on-year excluding Stellar Australia
- Biopolymer Sales up 34.8% year-on-year

**Expansion in Sales Territories where SECOS is active**

- Added eight (8) city councils' business in Australia in June quarter
- The number of Australian city councils proposing to adopt Food Organics and Garden Organics waste treatment protocols tipped to expand by 50% from 80 to 120 within the next few years
- First orders of Home Compostable resin received
- Hygiene sector customer embraces compostable film
- First orders of Compostable resin received from the USA, South Africa and New Zealand

### OUTLOOK

- Further strong growth in biopolymer resin & film sales is expected in view of significant opportunities and the Company's available manufacturing capacity
- SECOS has progressed negotiations to enter into a toll manufacturing agreement with leading bag makers which will utilize SECOS Biopolymer resin to expand supply capacity for compostable bags
- SECOS has progressed negotiations for a strategic supply agreement which will enhance sales demand and plant capacity utilization for the production of compostable courier bags
- Research & Development activities have focused on improving formulation of our proprietary compostable resin & film to broaden applications and certifications under which SECOS Biopolymer and films can be sold
- SECOS has received initial orders for its recently announced home compostable resin formulation and anticipate more orders from existing and new customers
- SECOS is working on developing compostable film for hygiene and medical applications utilizing its Malaysian cast-line assets with early trial work showing promising results

### CORPORATE

***Capital Raising***

During the year, SECOS raised $3.6 million (before costs) via placement and rights issue pursuant to ASX Listing Rule 7.1 and 7.1A placement capacity.

The funds raised provided working capital to expand biopolymer capacity in Malaysia and China following a sustained period of strong growth demand for the Company's proprietary biopolymer resin.

***Convertible Notes***

No new notes were issued during the year. Instead, many existing noteholders opted to convert notes to shares effectively reducing $2.1 million of borrowings linked to convertible notes.

***Board Changes***

In July 2018 Mr David Wake joined as Non-Executive Director. In November 2018 Executive Director, Mr Trevor Haines resigned while Mr Jim Walsh was appointed as Non-Executive Director of the Company.

## REVIEW OF OPERATIONS (continued)

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

1. On 16-Jul-2018, the Board appointed Mr David Wake as Non-Executive Director of the Company
2. On 07-Aug-2018, Cardia Malaysia plant commenced production to service biopolymer demand in Malaysia
3. On 23-Oct-2018, the Company issued 15.179.599 new placement shares to institutional and sophisticated investors raising $1.0 million at $0.062/share for working capital and plant expansion.
4. On 16-Nov-2018, the Board appointed Mr Jim Walsh as Non-Executive Director of the Company
5. On 20-Nov-2018, the Company issued 13,881,703 new shares under rights issue raising $0.9 million at $0.062/share for working capital and plant expansion.
6. On 17-Dec-2018, the Company appointed Mr Ian Stacey as Chief Executive Office of the Company.
7. On 09-Jan-2019, the Company announced closure of Stellar Film Australia after independent review of the business.
8. On 27-Feb-2019, the Company announced completion of sale and leaseback arrangement in Malaysia.
9. On 20-Jun-2019, the Company issued 12,500,000 fully paid ordinary shares to strategic investors at $0.04/share raising $0.5 million.

## EVENTS AFTER THE REPORTING DATE

On 5 July 2019, the Company issued 389,689 fully paid ordinary shares to Mr Richard Tegoni and Mr Donald Haller Jr as part payment of director fee in lieu of cash for the quarter ending 30 June 2019. The share issue had been approved by shareholders in Annual General Meeting held on 30 November 2018. The shares were issued at an issue price of $0.042/share. The share issue price had been determined based on volume weighted average sale price of SECOS shares for the June 2019 Quarter.

On 16 August 2019, the Company issued 7,094,575 fully paid ordinary shares to convertible note holders pursuant to Convertible Notes Deed entered into on 30 June 2018. The shares were issued at an issue price of $0.040/share. Consequently, total outstanding convertible notes is now $1.0m.

## 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 | 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.<br>Richard had held executive positions with various private and public large companies with strong background in Finance & Banking, Sales and Marketing.<br>Richard has MBA (AGSM), Diploma in Financial Markets (SIA). |
| Special Responsibilities | Chairman of the Board of directors<br>Corporate Strategy and Capital Raisings |
| Interest in Shares & Options | 15,278,903 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** | **Executive Director** |
|---|---|
| Experience and qualifications | Joined the Group on 21 April 2015 as Managing Director. Steve has more than 30 years in the plastics and packaging industries in general management, commercial and sales roles with Borden Chemical, ICI Australia and Orica.<br>Steve has a B. Bus (Marketing). |
| Special Responsibilities | Responsible for the sales management of the Group. |
| Interest in Shares & Options | 30,054,639 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<br>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. |
| Special Responsibilities | Non-Executive Director |
| Interest in Shares & Options | 28,595,909 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 (continued)

| **David Wake** | **Non-Executive Director** |
|---|---|
| Experience and qualifications | Appointed 16 July 2018<br>David 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.<br>David was Chief Financial Officer of polymer banknote company Securency.<br>David has a B. Ec. from Monash University |
| Special Responsibilities | Non-Executive Director |
| Interest in Shares & Options | 2,666,666 Ordinary Shares |
| Directorships held in other Listed Entities | Has not held a directorship in any other listed entity over the last 3 years. |

| **Jim Walsh** | **Non-Executive Director** |
|---|---|
| Experience and qualifications | Appointed 16 November 2018<br>B.Com, MBA, FCA, GAICD<br>Previous executive roles include Finance Director at carpet manufacturer Godfrey Hirst Australia Pty Ltd for 10 years, and most recently five years in a similar role at specialist mechanical services company A.G. Coombs Group Pty Ltd. Current directors of:<br>Non-Executive Chairman of GMHBA Ltd<br>Non- Executive Director of A.G. Coombs Group Pty Ltd<br>Non-Executive Chairman of KM Property Funds Ltd (formerly Placer Property Ltd)<br>Jim is a Fellow of Chartered Accountants Australia and New Zealand. |
| Special Responsibilities | Non-Executive Director |
| Interest in Shares & Options | 470,902 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 2019 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 |
| D Haller Jr | 12 | 12 | 2 | 2 |
| D Wake | 12 | 12 | 2 | 2 |
| J Walsh | 7 | 7 | 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 valued at the cost to the Company and expensed.

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 2018 was passed at the 2018 Annual General Meeting ("AGM"), which occurred on 30 November 2018.

## 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 2019 and any change during the year | Contract Details (Duration & Termination) | Proportions of remuneration package not related to performance at 30 June 2019 | Proportions of remuneration package not related to performance at 30 June 2018 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Richard Tegoni | Executive Chairman | Letter of appointment | 100% | 100% |
| Stephen Walters | Executive Director | Executive Service Agreement<br>3 months' termination notice period | 100% | 100% |
| **Non-Executive Directors** | | | | |
| Donald Haller Jr | Non-Executive Director | Letter of appointment | 100% | 100% |
| David Wake | Non-Executive Director | Letter of appointment | 100% | 100% |
| Jim Walsh | Non-Executive Director | Letter of appointment | 100% | 100% |
| **Executive Management** | | | | |
| Ian Stacey | Chief Executive Officer | Executive Service Agreement<br>3 months' termination notice period | 100% | 100% |
| Edmond Tern | Chief Financial Officer & Company Secretary | Executive Service Agreement<br>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 Issue | | |
| | | $ | $ | $ | $ | $ | $ |
| **Non-Executive Directors** | | | | | | | |
| **D Haller Jr** | **2019** | **35,000** | | | **15,000** | | **50,000** |
| D Haller Jr | 2018 | 28,333 | - | - | 15,000 | - | 43,333 |
| **D Wake[1]** | **2019** | **15,000** | | | **23,333** | | **38,333** |
| D Wake | 2018 | - | - | - | - | - | - |
| **J Walsh[2]** | **2019** | | | | **25,000** | | **25,000** |
| J Walsh | 2018 | - | - | - | - | - | - |
| **Executive Directors** | | | | | | | |
| **R Tegoni** | **2019** | **70,000** | | | **50,000** | | **120,000** |
| R Tegoni | 2018 | 63,331 | - | - | 50,000 | - | 113,331 |
| **S Walters** | **2019** | **148,874** | **13,427** | | | | **162,302** |
| S Walters | 2018 | 204,517 | 18,574 | - | - | - | 223,091 |
| **T Haines[3]** | **2019** | **119,972** | **5,655** | | | | **125,627** |
| T Haines | 2018 | 158,565 | 14,209 | - | - | - | 172,774 |
| **Key Management Personnel** | | | | | | | |
| **E Tern** | **2019** | **186,000** | **17,670** | | | | **203,670** |
| E Tern | 2018 | 176,000 | 16,720 | - | - | - | 192,720 |
| **I Stacey[4]** | **2019** | **120,000** | **5,700** | **-** | **-** | **-** | **125,700** |
| I Stacey | 2018 | - | - | - | - | - | - |
| **Total** | **2019** | **694,846** | **42,453** | | **113,333** | | **850,632** |
| Total | 2018 | 630,746 | 49,503 | | 65,000 | - | 745,249 |

Share based payments are shares issued in lieu of cash remuneration, not based on performance.

Effective December 2018, the Board of Directors resolved to accept shares in lieu of cash for directors' fee. Apart from Mr Tegoni and Mr Haller whose part remuneration were in the form of shares as previously approved by shareholders at Annual General Meeting held on 30 November 2018 (Resolutions 10 & 11), all unissued shares as reported above are subject to shareholders' approval in forthcoming Annual General Meeting.

[1] Appointed in July 2018
[2] Appointed in November 2018
[3] Resigned in November 2018
[4] Appointed in December 2018

## 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 2019**
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)**
On 17 May 2019, the following key management personnel participated in Placement Shares with Options subject to shareholders' approval. Terms of the Options are listed in Note 18.

| | Shares | Options |
|---|---|---|
| R Tegoni | 1,250,000 | 625,000 |
| D Haller Jr | 4,821,500 | 2,410,750 |
| D Wake | 750,000 | 375,000 |
| J Walsh | 1,250,000 | 625,000 |
| I Stacey | 750,000 | 375,000 |

### b. Share Holdings (Direct and Indirect)

| | Opening Balance 1 July 2018 | Received as Compensation | On market transaction | Change as a result of resignation | Closing Balance 30 June 2019 |
|---|---|---|---|---|---|
| R Tegoni | **7,408,377** | 715,100 | 7,155,426 | - | **15,278,903** |
| S Walters | **28,826,268** | | 1,228,371 | - | **30,054,639** |
| D Haller Jr | **16,311,261** | 214,528 | 12,070,120 | - | **28,595,909** |
| D Wake | **-** | | 2,666,666 | | **2,666,666** |
| J Walsh | **-** | | 470,902 | | **470,902** |
| I Stacey | **-** | | 1,556,452 | | **1,556,452** |
| E Tern | **2,131,945** | | - | - | **2,131,945** |
| T Haines | **29,364,347** | | - | (29,364,347) | - |

**Other Transactions with Key Management Personnel**

Loans from Stellar Directors had been settled on 19 December 2018 through issue of new shares consequent to shareholders' approval at AGM held on 30 November 2018.

| | 2019 $ | 2018 $ |
|---|---|---|
| Stephen Walters | - | 75,532 |
| Trevor Haines | - | 137,233 |
| Robert Morgan | - | 72,763 |
| Peter Symons | - | 76,117 |
| **TOTAL** | **-** | **361,645** |

***This concludes the remuneration report, which has been audited.***

## OPTIONS

On 17 May 2019, the following key management personnel participated in Placement Shares with Options subject to shareholders' approval.

| | Shares | Options |
|---|---|---|
| R Tegoni | 1,250,000 | 625,000 |
| D Haller Jr | 4,821,500 | 2,410,750 |
| D Wake | 750,000 | 375,000 |
| J Walsh | 1,250,000 | 625,000 |
| I Stacey | 750,000 | 375,000 |

## 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 2019 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**
**Executive Chairman**

29 August 2019
Mount Waverley, Victoria

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 2019 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 29th day of August, 2019

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

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the year ended 30 June 2019**

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| Sales | 3 | 20,851,647 | 23,638,055 |
| Cost of sales | | (18,918,844) | (20,595,951) |
| **Gross profit** | | **1,932,803** | **3,042,104** |
| Other Income | 3 | 126,491 | 62,665 |
| Employment related expense | | (2,987,460) | (2,891,802) |
| Marketing and distribution expenses | | (806,096) | (681,148) |
| Administration expense | | (632,617) | (637,068) |
| Legal and compliance | | (623,751) | (898,554) |
| Occupancy costs | | (655,730) | (435,558) |
| Depreciation expense | | (91,835) | (168,788) |
| Finance costs | | (358,635) | (583,020) |
| **Loss before income tax** | | **(4,096,831)** | **(3,191,169)** |
| Income tax expense | 5 | (73,150) | 83,283 |
| **Loss for the year after tax** | | **(4,169,981)** | **(3,107,886)** |
| **Other comprehensive income** | | | |
| **Item to be reclassified to the profit or loss in subsequent periods (net of tax)** | | | |
| Foreign currency translation differences for foreign operations | | 259,626 | (139,614) |
| **Item that will not be reclassified in subsequent period** | | | |
| Derecognition of non-operating subsidiaries | | - | (44,417) |
| **Total comprehensive loss for the year** | | **(3,910,354)** | **(3,291,917)** |
| **Loss per share** | | | |
| Basic / diluted loss per share | 9 | 1.5 cents | 1.4 cents |

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

# STATEMENT OF FINANCIAL POSITION

**As at 30 June 2019**

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash at bank | | 2,874,945 | 1,937,866 |
| Trade and other receivables | **10** | 3,545,371 | 4,029,259 |
| Asset held for sale | | - | 3,338,905 |
| Inventories | **11** | 2,439,596 | 3,012,581 |
| Prepayments | | 383,765 | 1,052,323 |
| **Total Current Assets** | | **9,243,677** | **13,370,934** |
| | | | |
| **Non-Current Assets** | | | |
| Financial assets | | 19,587 | 19,015 |
| Property, plant and Equipment | **12** | 1,768,193 | 869,019 |
| Intangible assets | **13** | 3,532,345 | 3,532,345 |
| **Total Non-Current Assets** | | **5,320,125** | **4,420,379** |
| | | | |
| **Total Assets** | | **14,563,802** | **17,791,313** |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | **14** | 2,279,477 | 3,541,247 |
| Borrowings | **15** | 300,000 | 3,181,634 |
| Short term provisions | **16** | 778,899 | 769,582 |
| **Total Current Liabilities** | | **3,358,376** | **7,492,463** |
| | | | |
| **Non-Current Liabilities** | | | |
| Borrowings | **15** | 1,132,065 | 2,998,908 |
| Long term provisions | **17** | 78,626 | 75,992 |
| **Total Non-Current Liabilities** | | **1,210,691** | **3,074,900** |
| | | | |
| **Total Liabilities** | | **4,569,067** | **10,567,363** |
| | | | |
| **Net Assets** | | **9,994,735** | **7,223,950** |
| | | | |
| **Equity** | | | |
| Issued Capital | **18** | 26,159,423 | 19,478,284 |
| Reserves | **19** | (47,743) | 1,453,950 |
| Accumulated Losses | | (16,116,945) | (13,708,284) |
| **Total Equity** | | **9,994,735** | **7,223,950** |

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

# STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2019**

| | Issued Capital | Accumulated Losses | Foreign Currency Translation Reserve | Asset Revaluation reserve | Total Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 01 July 2018** | **19,478,284** | **(13,708,284)** | **(297,917)** | **1,751,867** | **7,223,950** |
| Loss for the Year | - | (4,169,981) | | | (4,169,981) |
| Other Comprehensive income for the year | - | 9,452 | 250,174 | | 259,626 |
| **Total comprehensive income / (loss) for the year** | **-** | **(4,160,529)** | 250,174 | **-** | (3,910,354) |
| Retirement of asset revaluation reserve upon disposal and settlement of Land and Buildings. | | 1,751,867 | | (1,751,867) | - |
| Shares issued during the year net of costs | 6,681,139 | | - | | 6,681,139 |
| **Balance at 30 June 2019** | **26,159,423** | **(16,116,945)** | **(47,743)** | **-** | **9,994,735** |

| | Issued 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** | **7,223,950** | | **7,223,950** |

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

# STATEMENT OF CASH FLOWS

**For the year ended 30 June 2019**

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers | | 22,770,727 | 25,267,595 |
| Payments to suppliers and employees | | (25,535,778) | (29,160,696) |
| Finance Costs | | (358,635) | (583,020) |
| **Net Cash Outflow from Operating Activities** | **25** | **(3,123,686)** | **(4,476,121)** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of plant and equipment | | (748,460) | (44,167) |
| Proceeds from sale of land and building | | 3,232,000 | 198,333 |
| **Net Cash Outflow from Investing Activities** | | **2,483,540** | **154,166** |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from issues of ordinary shares (net of costs) | | 3,727,571 | 3,213,293 |
| (Repayments of) / proceeds from borrowings | | (2,150,345) | 1,222,991 |
| **Net Cash Inflow from Financing Activities** | | **1,577,226** | **4,436,284** |
| **Net increase in cash and cash equivalents Held** | | **937,078** | **114,329** |
| **Cash and cash equivalents at the beginning of the financial year** | | 1,937,866 | 1,823,537 |
| **Cash and Cash Equivalents at the end of the financial year** | | **2,874,944** | **1,937,866** |

***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 2019 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 '‘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 **30 August 2019** by the Board of Directors.

### REPORTING BASIS AND CONVENTIONS

The financial statements have been prepared on an accrual’s basis. Financial assets and financial liabilities are based on historical cost.

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

**AASB 15 Revenue from Contracts with Customers (“AASB 15”)**
The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018. In accordance with the transition provisions in AASB 15 the standard has been applied using the modified retrospective approach. On this basis there were no restatements of prior comparative balances.

AASB 15 supersedes AASB 18 – Revenue, AASB 111 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers, unless these contracts are in scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15 Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 30 June 2019 the Group assessed all material contracts and it was determined that the adoption of AASB 15 had no significant impact on the Group. The updated accounting policy for revenue has been disclosed below.

**AASB 9 Financial Instruments (“AASB 9”)**
The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement (“AASB 139”), bringing together all three aspects of the accounting for financial instruments: clarification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 below.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement and classification**
At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been de-recognised as at 1 July 2018. In this regard the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

| Class of financial instrument presented in the statement of financial position | Original measurement category under AASB 139 (i.e. prior to 1 July 2018) | New Measurement category under AASB 9 (i.e. from I July 2018) |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Financial asset at amortised cost |
| Trade and other receivables | Loans and receivables | Financial asset at amortised cost |
| Trade and other payables | Financial liability at amortised cost | Financial liability at amortised cost |
| Interest bearing liabilities | Financial liability at amortised cost | Financial liability at amortised cost |

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

**Impairment of financial assets**
In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.
At 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows;

| Items existing at 1 July 2018 that are subject to the impairment provisions of AASB 9 | Credit risk attributes | Cumulative additional loss allowance required on 1 July 2018 |
|---|---|---|
| Cash and cash equivalents | All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable financial institutions. | - |
| Trade receivables | The Group applied the simplified approach and concluded that the lifetime ECL would be negligible on receivable balances not already provided for and therefore no loss allowance was required at 1 July 2018. | - |

**b. Principles of Consolidation**
Subsidiaries are all those entities over which the consolidated entity has control. The Group controls an entity when the Group 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 Group 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group 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.

**c. 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.

**d. 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 Group will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by the law.

**e. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### f. Plant and Equipment

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.

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

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

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| 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.

### g. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

**h. 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.

**i. Financial Instruments**

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

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

**Impairment of financial assets**

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

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### j. 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.

### k. Foreign Currency Transactions and Balances

**Functional and presentation currency**

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

**Transaction and balances**

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

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.

### l. 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.

### m. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**n. 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.

**o. 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.

**p. Cash and Cash Equivalents**

Cash and cash equivalents include 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.

**q. Revenue**

**Revenue from contracts with customers**

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

Variable consideration with the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential adds-ons or bonuses from the customer and any other contingent events. Such estimates are determined using either the “expected value” or “most likely amount” method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate liability.

**Sale of goods**

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally the time of delivery. Currently 100% of the Groups sales are in this category.

**Other revenue**

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**r. 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.

**s. 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.

**t. 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. 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.

***Expected credit loss for impairment of receivables***
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of expected credit loss 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 Group 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Goodwill and other indefinite life intangible assets***

The Group 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.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal. The fair value less costs of disposal calculation is based on available fund, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14.

***Recovery of deferred tax assets***

Deferred tax assets are recognised for deductible temporary differences and/or tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. No deferred tax assets were recognised as at 30 June 2019.

**u. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2019 are outlined in the table below.

| Standard | Mandatory date for annual reporting periods beginning on or after) | Reporting period standard adopted by the company |
|---|---|---|
| AASB 16 Leases | 1 January 2019 | 1 July 2019 |
| 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 |
| AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 Revenue | 1 January 2018 | 1 July 2019 |
| AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15 | 1 January 2018 | 1 July 2019 |
| AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 | 1 January 2018 | 1 July 2019 |
| AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures | 1 January 2019 | 1 July 2019 |
| The revised Conceptual Framework for Financial Reporting | 1 January 2020 | 1 July 2020 |

**Impact of AASB 16 - Leases**

Management has considered the impact of AASB 16 – Leases and has prepared a detailed calculation to quantify the impact as at the adoption date of 1 July 2019. AASB 16 introduces a single, on statement of financial position accounting model for lessees. As a result, the Group, as a lessee, from the application date will recognize, right of use assets to represent its right to use the underlying assets and lease liabilities to represent its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group plans to apply AASB 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognized in retained earnings as at 1 July 2019. The cumulative impact of this implementation of this standard as at 1 July 2019 is expected to be as follows:

| Impact on the Group | 2019<br>$ |
|---|---|
| Total expected value of right of use asset | 2,567,233 |
| Total expected value of lease liability | (2,734,396) |
| **Total expected impact to retained earnings** | **(167,164)** |

## NOTE 2 PARENT ENTITY

| | 2019<br>$ | 2018<br>$ |
|---|---|---|

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**

| | | |
|---|---|---|
| **ASSETS** | | |
| Current assets | 1,042,734 | 173,245 |
| Non-current assets | 35,212,696 | 33,937,620 |
| **TOTAL ASSETS** | **36,255,430** | **34,110,865** |
| **LIABILITIES** | | |
| Current liabilities | 1,439,847 | 1,424,922 |
| Non-current liabilities | 1,137,268 | 2,991,432 |
| **TOTAL LIABILITIES** | **2,577,115** | **4,416,354** |
| **EQUITY** | | |
| Issued capital | 74,970,010 | 68,562,783 |
| Accumulated losses | (41,291,696) | (40,845,177) |
| **TOTAL EQUITY** | **33,678,315** | **27,717,606** |

**STATEMENT OF COMPREHENSIVE INCOME**

| | | |
|---|---|---|
| Loss for the year after tax | (2,423,424) | (2,421,020) |
| **Total comprehensive income** | **(2,423,424)** | **(2,421,020)** |

**Guarantees**
SECOS Group Limited has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to finance facilities. The guarantees are for the terms of the facilities. No amount outstanding as at 30 June 2019 (2018: $2,024,982).

**Contingent liabilities**
SECOS Group Limited had no contingent liabilities as at 30 June 2019. (2018: NIL).

**Contractual commitments**
At 30 June 2019, SECOS Group Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2018: 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

| | | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Revenue** | | | |
| Sales revenue | **24** | 20,851,647 | 23,638,055 |
| **Total sales revenue** | | **20,851,647** | 23,638,055 |
| **Other Income** | | | |
| Gains on disposal of assets | | 126,491 | 62,665 |
| **Total other income** | | **126,491** | **62,665** |

## NOTE 4 LOSS FOR THE YEAR

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| The Loss before income tax includes the following items of expenses: | | |
| Rental expenses relating to operating leases | 655,730 | 435,558 |
| Research, development, and patent costs | 268,489 | 154,619 |
| Depreciation | 91,835 | 168,788 |
| Restructuring | - | 767,372 |
| Superannuation expense | - | 95,726 |

## NOTE 5 INCOME TAX

Tax expense in 2019 is capital gains tax on disposal of Malaysian property.

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

| | 2019 | 2018 |
|---|---|---|
| Tax losses carried forward | **$10,175,862** | **$8,989,582** |

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.

## NOTE 6 FRANKING CREDITS

| | Parent (Stellar) | |
|---|---|---|
| The amount of the franking credits available for subsequent reporting periods: | 2019<br>$ | 2018<br>$ |
| Opening Balance | 460,155 | 460,155 |
| **Closing Balance** | **-** | **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. Stellar Films (Group) Pty Ltd was put into liquidation on 9 January 2019.

## NOTE 7 KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of Group 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.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Short-term employee benefits | 694,846 | 630,746 |
| Post-employment benefits | 42,453 | 49,503 |
| Share based payment | 113,333 | 65,000 |
| | **850,632** | **745,249** |

## NOTE 8 REMUNERATION OF AUDITORS

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Remuneration of the auditor of the parent entity for | | |
| - auditing or reviewing the financial statements | 68,000 | 66,000 |
| - other services | - | 1,800 |
| Remuneration of other auditors of subsidiaries for: | | |
| - auditing or reviewing the financial statements of subsidiaries | 8,112 | 7,540 |
| | **76,112** | **87,340** |

## NOTE 9 LOSS PER SHARE

| | 2019 | 2018 |
|---|---|---|
| **Loss used to calculate basic/diluted EPS** | **$4,169,981** | **$3,107,886** |
| | **Number** | **Number** |
| **Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share** | **273,173,351** | **229,547,892** |
| Loss per share | 1.5 cents | 1.4 cents |

## NOTE 10 TRADE AND OTHER RECEIVABLES

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Current** | | |
| Trade Receivables | 3,699,119 | 3,975,261 |
| Less: expected credit loss | (153,748) | (75,261) |
| | **3,545,371** | **3,900,000** |
| Other receivables | - | 129,259 |
| Trade and other receivables | **3,545,371** | **4,029,259** |
| | **3,545,371** | **7,368,164** |

### Expected credit loss of Receivables

Current trade receivables are non-interest bearing and are generally on 30-day terms. An expected credit loss 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 **$78,487** (2018: $75,261) at the reporting date.

### Movement in the expected credit loss for receivables is as follows:

| 2019 | Opening Balance | Charge for the Year | Amounts Written Off | Closing Balance |
|---|---|---|---|---|
| **Group** | **$** | **$** | **$** | **$** |
| Current Trade & Other Receivables | 75,261 | 78,487 | - | 153,748 |

| 2018 | Opening Balance | Charge for the Year | Amounts Written Off | Closing Balance |
|---|---|---|---|---|
| **Group** | **$** | **$** | **$** | **$** |
| Current Trade & Other Receivables | 308,817 | - | (233,556) | 75,261 |

| | Trade Receivables | Impaired | <30 | 31-60 | 61-90 | >90 |
|---|---|---|---|---|---|---|
| **2019** | **3,545,371** | **(153,748)** | **1,740,129** | **1,037,674** | **440,311** | **481,005** |
| 2018 | 3,900,000 | (75,261) | 1,569,447 | 1,436,226 | 479,755 | 489,833 |

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 11 INVENTORIES

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Current** | | |
| Raw materials including work in progress | 1,302,757 | 1,880,649 |
| Finished goods | 1,136,839 | 1,131,932 |
| TOTAL | **2,439,596** | **3,012,581** |

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

## NOTE 12 PLANT AND EQUIPMENT

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Leasehold Improvements** | | |
| At cost | 108,938 | 47,243 |
| Accumulated depreciation | (13,238) | (10,643) |
| | **95,700** | **36,600** |
| **Plant, Machinery & Equipment** | | |
| At cost | 13,539,040 | 12,298,001 |
| Accumulated depreciation | (11,866,547) | (11,465,580) |
| | **1,672,493** | **832,419** |
| Total Cost of Assets | 13,647,978 | 12,345,244 |
| Total Accumulated Depreciation | (11,879,784) | (11,476,225) |
| **Written down value of assets** | **1,768,193** | **869,019** |

## NOTE 12 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.

| 2019 | Land $ | Building $ | Leasehold Improvements $ | Plant, Machinery & Equipment $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | **-** | **-** | **36,600** | **832,419** | **869,019** |
| Additions/(Disposals) | - | - | 61,695 | 648,224 | 709,919 |
| Depreciation Expenses | - | - | (2,595) | (89,240) | (91,835) |
| Exchange Rate Variations | | | | 281,090 | 281,090 |
| **Balance at 30 June 2019** | **-** | **-** | **95,700** | **1,672,493** | **1,768,193** |

| 2018 | Land $ | Building $ | Leasehold Improvements $ | Plant, Machinery & Equipment $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2017** | **1,718,912** | **1,567,853** | **170,245** | **786,744** | **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) | (164,532) | (168,788) |
| Exchange Rate Variations | 157,845 | 123,999 | (129,389) | (76,950) | 229,405 |
| **Balance at 30 June 2018** | **-** | **-** | **36,600** | **832,419** | **869,019** |

## NOTE 13 INTANGIBLE ASSETS

| | 2019 | 2018 |
|---|---|---|
| Goodwill | $3,532,345 | $3,532,345 |
| **Net carrying value** | **$3,532,345** | **$3,532,345** |

**Impairment Disclosures**

The Group first recognised Goodwill on its balance sheet following the acquisition of Stellar Film Group in April 2015.

Since then and as required by AASB 136 regulatory guidelines, the Group has undertaken annual impairment tests for its single cash-generating unit (“CGU”) being the manufacture and distribution of polyethylene films and the renewable resource-based resins and finished products.

Historically the Group has determined the recoverable amount of the Group’s goodwill by a Value-in-Use calculation using a discounted cash flow (“DCF”) model. For 30 June 2019, the Directors commissioned an independent fair valuation based upon a recoverable value less costs to sell.

The independent valuation has confirmed the Fair Value approach is supportive of the valuation as tabulated below:

| Valuation | Unit | Value |
|---|---|---|
| 30 Day VWAP (volume weighted average price) | AUD / share | $0.044 |
| Common shares outstanding | Number of shares | 359,193,077 |
| **Market capitalization** | | **$15,804,495** |
| Add Control Premium | 20% | $3,160,899 |
| Less Transaction Cost[5] | | ($1,100,000) |
| **Fair Value** | | **$17,865,394** |
| **Net Assets of SES (as at 30 June 2019)** | | **$9,994,735** |
| **Goodwill** | | **$3,532,345** |
| Impairment headroom | | **$6,462,390** |

Based on the above, the Fair Value of SES/CGU is higher than the book value of SES/CGU assets. The result of the Fair Value assessment is consistent with the Value-in-Use approach. Accordingly, we are of the opinion that no impairment of the carrying value is necessary.

•

[5] 6% is applicable to the market capitalization plus control premium as transaction fee for a company of this size is typically around 6%

## NOTE 14 TRADE AND OTHER PAYABLES

| | 2019 $ | 2018 $ |
|---|---|---|
| **Current** | | |
| Trade Payables | 1,940,305 | 2,875,383 |
| Sundry payables | 339,172 | 665,864 |
| | **2,279,477** | **3,541,247** |

## NOTE 15 BORROWINGS

| | 2019 $ | 2018 $ |
|---|---|---|
| **Current** | | |
| **Secured Liabilities** | | |
| Bank Loans | - | 296,921 |
| Multi-option Facility | - | 1,255,770 |
| Invoice Funding Facility | - | 676,841 |
| | **-** | **2,229,532** |
| **Unsecured Liabilities** | | |
| Unsecured Loan (Shareholder)[6] | 300,000 | 300,000 |
| Convertible Notes | **-** | 290,456 |
| Unsecured Loans (Related Parties) | - | 361,646 |
| | **300,000** | **952,102** |
| **Total Current borrowings** | **300,000** | **3,181,634** |
| | | |
| **Non-Current** | | |
| **Secured Liabilities** | | |
| Bank Loans | - | - |
| **Total bank loans** | **-** | **-** |
| **Unsecured Liabilities** | | |
| Convertible Notes | 1,132,065 | 2,998,908 |
| **Total Non-Current Borrowings** | **1,132,065** | **2,998,908** |
| | | |
| **Total borrowings** | **1,432,065** | **6,180,542** |

[6] Unsecured loan at 10% annual interest. Loan is repayable on demand by 4-weeks' notice period.

## NOTE 15 BORROWINGS (continued)

**Details of financing arrangements are set out as below:**

| | 2019 $ | 2018 $ |
|---|---|---|
| **Total Facilities** | | |
| Multi-option Facility | - | 1,255,770 |
| Term Loan | - | 296,921 |
| Invoice Funding Facility | - | 676,842 |
| | **-** | **2,229,533** |
| **Used at the reporting date** | | |
| Multi-option Facility | - | 1,255,770 |
| Term Loan | - | 296,921 |
| Invoice Funding Facility | - | 676,842 |
| | **-** | **2,229,533** |
| **Unused at the reporting date** | | |
| Multi-option Facility | - | - |
| Term Loans | - | - |
| | **-** | **-** |

**Invoice Funding Facility**
The Group maintains an Invoice Financing Facility with Timelio Pty Ltd. The facility has an uncapped limit available to fund all eligible invoices of Cardia Bioplastics Pty Ltd secured against eligible trade receivables. No outstanding invoice financing debt was in place as at 30 June 2019.

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

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

**Convertible Notes**

**On 23 December 2018**, SECOS raised $2,140,900 through issue of the three-year convertible notes to sophisticated investors. As at 30 June 2019, $500,000 remain outstanding with the rest converted to equity.

**On 30 June 2018**, SECOS raised $1,678,376 through issue of the three-year convertible notes to sophisticated investors. As at 30 June 2019, $783,783 remain outstanding with the rest converted to equity.

There is no change to the terms of the convertibles notes since issue.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The corresponding interest on convertible notes is expensed to profit or loss.

## NOTE 16 SHORT TERM PROVISIONS

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Employee benefits | 331,997 | 699,582 |
| Lease make good provision | - | 70,000 |
| Other accruals | 446,902 | |
| | **778,899** | **769,582** |

## NOTE 17 LONG TERM PROVISIONS

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Employee benefits | 5,203 | 6,118 |
| Other provisions | 73,423 | 69,874 |
| | **78,626** | **75,992** |

## NOTE 18 ISSUED CAPITAL

**a) Share Capital**

| | 2019 | 2018 |
|---|---|---|
| **Ordinary - fully paid shares** | **$26,159,423** | **$19,478,284** |

**b) Movements in Ordinary Share Capital**

| Date | | Number of Shares | $/share | Amount ($) |
|---|---|---|---|---|
| **01-Jul-18** | **Balance** | **229,547,883** | | **19,478,284** |
| 05-Jul-18 | Director shares in lieu of cash | 174,604 | 0.093 | 16,250 |
| 18-Jul-18 | Placement | 2,000,000 | 0.075 | 150,000 |
| 13-Sep-18 | Convertible notes converted | 4,782,401 | 0.063 | 300,000 |
| 08-Oct-18 | Convertible notes converted | 1,602,564 | 0.062 | 100,000 |
| 09-Oct-18 | Director shares in lieu of cash | 193,452 | 0.084 | 16,250 |
| 23-Oct-18 | Placement to sophisticated investors | 15,179,599 | 0.062 | 941,135 |
| 20-Nov-18 | Rights Issue | 13,881,703 | 0.062 | 860,666 |
| 19-Dec-18 | AGM approved loan to equity | 2,741,919 | 0.110 | 301,611 |
| 19-Dec-18 | AGM approved director shares placement | 4,516,131 | 0.062 | 280,000 |
| 19-Dec-18 | AGM approved director convertible notes | 5,165,645 | 0.062 | 320,270 |
| 19-Dec-18 | Placement | 652,113 | 0.062 | 40,431 |
| 21-Jan-19 | Director shares in lieu of cash | 248,471 | 0.065 | 16,250 |
| 01-Feb-19 | Convertible notes converted | 991,965 | 0.050 | 50,000 |
| 29-Mar-19 | Convertible notes converted | 21,665,775 | 0.040 | 866,631 |
| 11-Apr-19 | Director shares in lieu of cash | 313,102 | 0.052 | 16,250 |
| 15-May-19 | Placement with Options | 31,785,750 | 0.040 | 1,271,430 |
| 31-May-19 | Convertible notes converted | 8,750,000 | 0.040 | 350,000 |
| 12-Jun-19 | Convertible notes converted | 2,500,000 | 0.040 | 100,000 |
| 19-Jun-19 | Placement - Armytage | 12,500,000 | 0.040 | 500,000 |
| | Cost of capital | | | (138,893) |
| 30-Jun-19 | Treasury Shares[7] | | | 322,858 |
| **30-Jun-19** | **Balance** | **359,193,077** | | **26,159,423** |

•

[7] Related party placement shares subject to shareholders' approval

## NOTE 18 ISSUED CAPITAL (continued)

**b) Options**

| | 2019<br>Number | 2018<br>Number |
|---|---|---|
| **Unlisted Options** | **15,892,875** | **-** |

The unlisted Options were attached to Placement Shares on 15 May 2019 with the following Terms and Conditions:

Options are unlisted securities.
The options held by the option holder are exercisable in whole or in part at any time before expiry date of 16 May 2021. Options not exercised before the expiry date will automatically lapse.

Each Option is exercisable at a price of A$0.06 per option.

Each Share allotted as a result of the exercise of an Option will rank in all respects pari passu with the existing Shares in the Company on issue at the date of allotment. The Company will make application for official quotation on ASX of new shares allotted on exercise of the options.

Options do not have any voting rights at general meetings of the Company.

Subject to the Constitution of the Company and the Corporations Act, the Options will be freely transferable.
There are no participating entitlements inherent in the options to participate in new issues of capital, which may be offered to shareholders during the currency of the Options. Prior to any new pro rata issue of securities to shareholders, holders of Options will be notified by the Company before the record date (to determine entitlements to the issue), to exercise Options.

In the event of any reconstruction (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of holders of Options will be changed to the extent necessary to comply with the Listing Rules at the time of the reorganisation.

Shares issued pursuant to the exercise of Options will be issued not more than 14 days after the Notice of Exercise.

### 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.

### 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 19 RESERVES

Nature and purpose of Reserves is foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary as described in Note 1(k).

## NOTE 20 SHARE BASED PAYMENTS

In July 2018, the Company issued 174,604 fully paid ordinary shares to directors, Mr Tegoni and Mr Haller, as part payment of their respective director fee for the quarter ending 30 June 2018. The shares were issued at an issue price of $0.0931/share, had been determined based on the volume weighted average sale price of SECOS share for June 2018 Quarter.

In October 2018, the Company issued 193,453 fully paid ordinary shares to directors, Mr Tegoni and Mr Haller, as part payment of their respective director fee for the quarter ending 30 September 2018. The shares were issued at an issue price of $0.0840/share. The share issue price had been determined based on volume weighted average sale price of SECOS shares for September 2018 Quarter.

In January 2019, the Company issued 248,471 fully paid ordinary shares to directors, Mr Tegoni and Mr Haller, as part payment of their respective director fee for the quarter ending 31 December 2018. The shares were issued at an issue price of $0.0654/share. The share issue price had been determined based on volume weighted average sale price of SECOS shares for the December 2018 Quarter.

In April 2019, the Company issued 313,103 fully paid ordinary shares to directors, Mr Tegoni and Mr Haller, as part payment of their respective director fee for the quarter ending 31 March 2019. The shares were issued at an issue price of $0.0519/share. The share issue price had been determined based on volume weighted average sale price of SECOS shares for the March 2019 Quarter.

The issue of these shares to Directors is approved by shareholders at the Annual General Meeting held on 30 November 2018 (Resolutions 10 & 11).

## NOTE 21 CONTROLLED ENTITIES

### Controlled Entities Consolidated

| Name | Country of Incorporation | Principal activities | Equity Holding (%) | |
|---|---|---|---|---|
| | | | 2019 | 2018 |
| **Stellar Films Group Pty Ltd**<br>***In liquidation - on 9-Jan-2019*** | Australia | Manufacturing | 0% | 100% |
| **Stellar Films (Malaysia) Sdn Bhd** | Malaysia | Manufacturing | 100% | 100% |
| **CO2 Starch Pty Ltd** | Australia | Research | 100% | 100% |
| **Secos Americas LLC** | USA | Sales and marketing | 100% | 100% |
| **Cardia Bioplastics (Australia) Pty Ltd** | Australia | Sales and marketing | 100% | 100% |
| **Cardia Bioplastics (Malaysia) Sdn Bhd**<br>*100% owned by Cardia Bioplastics (Australia) Pty Ltd* | Malaysia | Manufacturing | 100% | 100% |
| **Tristano Pty Ltd**<br>*100% owned by Cardia Bioplastics (Australia) Pty Ltd* | Australia | Research | 100% | 100% |
| **Biograde (Hong Kong) Pty Ltd**<br>*100% owned by Cardia Bioplastics (Australia) Pty Ltd* | Hong Kong | Holding company | 100% | 100% |
| **Biograde (Nanjing) Pty Ltd**<br>*100% owned by Biograde (Hong Kong) Pty Ltd* | China | Manufacturing | 100% | 100% |

## NOTE 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Bank Guarantees | 50,713 | 50,713 |
| The parent entity provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to banking & finance facilities and credit facilities. Banking facilities had been settled. | - | 2,017,000 |
| | **50,713** | **2,067,713** |

There were no contingent assets as at 30 June 2019 (2018: NIL).

## NOTE 23 LEASING COMMITMENTS

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **a. Finance Lease Commitments** | | |
| Not later than 12 months | 12,144 | 15,531 |
| between 12 months and 5 years | 24,920 | 34,748 |
| | **37,064** | **50,279** |
| **b. Operating Lease Commitments** | | |
| Not later than 12 months | 710,098 | 427,199 |
| between 12 months and 5 years | 458,182 | 166,776 |
| | **1,168,280** | **593,975** |

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 24 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, Chief Executive Officer and Chief Financial Officer oversee the previously separate Cardia and Stellar business. The Group now share common R&D resources 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)** | **2019 $** | **2018 $** |
|---|---|---|
| Australia | 3,323,420 | 3,099,485 |
| Asia | 14,032,910 | 18,134,878 |
| Americas | 3,121,664 | 2,403,692 |
| **Total Revenue** | **20,851,647** | **23,638,055** |

**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 27.7% (2018: 25.2%) of external revenue.

| **Assets by geographical region** | **2019 $** | **2018 $** |
|---|---|---|
| The location of segment assets (non-current) by geographical location of assets is disclosed below: | | |
| Australia | 120,504 | 142,721 |
| Asia | 1,647,689 | 726,298 |
| **Total Assets** | **1,768,193** | **869,019** |

## NOTE 25 CASH FLOW INFORMATION

| | **2019 $** | **2018 $** |
|---|---|---|
| **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| **Profit/(Loss) for the year after tax** | **(4,169,981)** | **(3,107,886)** |
| **Non-Cash Items** | | |
| Depreciation & Amortization | 91,835 | 168,788 |
| Issue of shares in lieu of cash | 65,000 | 65,000 |
| Foreign Currency translation differences | (19,625) | (235,894) |
| Financing costs paid during the year | 358,635 | 499,737 |
| | **(3,674,136)** | **(2,610,255)** |
| **Movements in assets and liabilities** | | |
| Decrease/(increase) in inventories | 572,984 | (1,350,997) |
| Decrease/(increase) in trade and other receivables | 831,275 | (662,358) |
| Increase/(decrease) in trade and other payables | (926,961) | 147,489 |
| **Net cash outflow from operating activities** | **(3,123,686)** | **(4,476,121)** |

## NOTE 26 EVENTS AFTER THE REPORTING DATE

On 5 July 2019, the Company issued 389,689 fully paid ordinary shares to Mr Richard Tegoni and Mr Donald Haller Jr as part payment of director fee in lieu of cash for the quarter ending 30 June 2019. The share issue had been approved by shareholders in Annual General Meeting held on 30 November 2018. The shares were issued at an issue price of $0.042/share. The share issue price had been determined based on volume weighted average sale price of SECOS shares for the June 2019 Quarter.

On 16 August 2019, the Company issued 7,094,575 fully paid ordinary shares to convertible note holders pursuant to Convertible Notes Deed entered into on 30 June 2018. The shares were issued at an issue price of $0.040/share. Consequently, total outstanding convertible notes is now $1.0m.

## NOTE 27 RELATED PARTIES

### Parent Entity
SECOS Group Limited is the parent entity.

### Subsidiaries
Interests in subsidiaries are set out in Note 21.

### 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
Related entities transaction in 2018 related to unsecured loan extended by Stellar directors. The loans have since been settled through issue of new shares in SECOS as approved by shareholders at Annual General Meeting held on 30 November 2018 (resolution 14 & 15).

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

| | **2019**<br>**$** | **2018**<br>**$** |
|---|---|---|
| Stephen Walters | - | 75,532 |
| Trevor Haines | - | 137,233 |
| Robert Morgan | - | 72,763 |
| Peter Symons | - | 76,117 |
| **TOTAL** | **-** | **361,645** |

## NOTE 28 FINANCIAL INSTRUMENTS

### Financial risk management objectives

The Group'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 Group'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.

### 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.

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.

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

| **Year ended 30 June 2019** | **<6 months** | **6-12 months** | **1-5 years** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 2,874,945 | - | - | 2,874,945 |
| Trade and other receivables | 3,545,371 | - | - | 3,545,371 |
| | **6,420,316** | **-** | **-** | **6,420,316** |
| **Financial liabilities** | | | | |
| Trade and other payables | 2,279,477 | - | - | 2,279,477 |
| Borrowings | 300,000 | - | 1,132,065 | 1,432,065 |
| | **2,579,477** | **-** | **1,132,065** | **3,711,542** |
| **Net maturity** | **3,840,839** | **-** | **(1,132,065)** | **2,708,774** |

## NOTE 28 FINANCIAL INSTRUMENTS (continued)

| 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 | 3,541,247 | - | - | 3,541,247 |
| Borrowings | 3,181,634 | - | 2,998,908 | 6,180,542 |
| | **6,722,881** | **-** | **2,998,908** | **9,721,789** |
| **Net maturity** | **1,002,909** | **-** | **(2,998,908)** | **(415,759)** |

### Fair Value of financial instruments

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

### Market risks

### Interest Rate Risk

There is no material exposure for the Group after paying off bank debts on completion of sale and leaseback of land and buildings.

| | 2019 $ | 2018 $ |
|---|---|---|
| **Variable rate instruments** | | |
| Bank Loans | - | 296,921 |
| Multi-option Facility | - | 1,255,770 |
| Invoice Funding Facility | - | 676,842 |
| | **-** | **2,229,533** |

**Interest rate risk sensitivity analysis**

An official increase/decrease in interest rates of 2% has no adverse/favorable effect on profit before tax of $0 (2018: $45,000) 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 $1.4 million as at 30 June 2019 at fixed interest rate of 10.0% (2018: $6.2 million).

## NOTE 28 FINANCIAL INSTRUMENTS (continued)

### 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. The risk is measured using sensitivity analysis and cash flow forecasting.

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:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Financial Assets | 803,923 | 2,904,413 |
| Financial Liabilities | 183,709 | 227,110 |

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 2019, 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:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Change in Profit and Equity | | |
| - movement in AUD to USD by 7.0% | +/- 46,000 | +/- 267,000 |

### Foreign Currency Translation Reserves ("FCTR")

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary as described in Note 1(k). At 30 June 2019, all balance sheet items in foreign currencies are translated to local currency at closing exchange rate and this is further translated to Australian dollar. Upon consolidation of the entities, the impact is captured in reserves line in equity section.

## 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 2019 and of the performance for the year ended on that date of the company and Group.
    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 29th day of August 2019

# 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 2019, 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 2019 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.

## 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. 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** | **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.<br><br>There is a risk that the carrying amount of goodwill exceeds its recoverable amount and may be impaired.<br><br>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.<br><br>The recoverable amount of the cash generating unit (CGU) has been calculated based on the fair value less cost to dispose model prepared by an expert who is independent of the Group.<br><br>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:<br>— a detailed analysis of any changes to the business to determine the continued appropriateness of a single segment and CGU;<br>— a detailed evaluation of the valuation report prepared by the Group's independent expert upon which the valuation methodology is based; and<br>— testing the accuracy of the fair value less cost to dispose model derived from the share price of the Group at 30 June 2019 less expected costs incurred to sell the business.<br><br>We also considered the adequacy of the Group's disclosures in relation to the impairment testing in the financial report. |

| INVENTORY | |
|---|---|
| **Area of focus** | **How our audit addressed it** |
| The Group's inventory of \$2.4 million is significant to the financial statements and has decreased by \$0.6 million from the prior year. The Group's inventory predominantly includes polyethylene films and renewable resource-based resins. | Our audit procedures included:<br>— A physical verification of inventory at material locations within the Group;<br>— Performance of cut-off testing for both inwards and outwards goods around the year end date; |

| INVENTORY | |
|---|---|
| **Area of focus** | **How our audit addressed it** |
| Inventory is required to be carried at the lower of its cost and net realisable value applying the weighted average cost method.<br><br>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. | — 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;<br>— we evaluated management's judgement and assumptions in determining the valuation of the inventory at balance date; and<br>— we assessed management's judgements in relation to the need for provisioning against the value of inventory.<br><br>We also considered the adequacy of disclosures in relation to inventory in the notes to the financial statements. |

## 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 2019 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.

## 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 2019.

In our opinion, the Remuneration Report of SECOS Group Limited, for the year ended 30 June 2019, 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, 29 August 2019

# SHAREHOLDERS' INFORMATION

The shareholder information set out below was applicable as at **8 August 2019**

## (A) DISTRIBUTION OF EQUITY SECURITIES

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

| Ordinary Shares | Number of Holders |
|---|---|
| 1 - 1,000 | 296 |
| 1,001 - 5,000 | 315 |
| 5,001 - 10,000 | 166 |
| 10,001 - 100,000 | 409 |
| 100,001 and over | 233 |
| | **1,419** |

**There were 1,419 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 % |
|---|---|---|
| R&K EDWARDS INVESTMENTS LLC | 43,336,950 | 12.1 |
| BELGRAVIA | 43,170,500 | 12.0 |
| DONALD HALLER JR | 28,685,837 | 8.0 |
| STELLAR DEVELOPMENTS PTY LTD | 20,716,906 | 5.8 |
| MR RICHARD TEGONI | 15,578,664 | 4.3 |
| NATIONAL NOMINEES LIMITED | 13,159,891 | 3.7 |
| PE GROUP HOLDINGS PTY LTD | 12,633,972 | 3.5 |
| TREVOR HAINES | 9,610,096 | 2.7 |
| STEPHEN WALTERS | 9,337,733 | 2.6 |
| BRENDAN O'SULLIVAN | 8,834,487 | 2.5 |
| GOBBLE PTY LTD | 8,303,346 | 2.3 |
| FEMALE PTY LTD | 5,018,993 | 1.4 |
| J L COLMAN | 4,980,000 | 1.4 |
| ADVANCE PUBLICITY PTY LTD | 4,959,485 | 1.4 |
| KIRZY PTY LTD | 2,250,740 | 1.0 |
| SCOTCH INVESTMENTS PTY LTD | 3,450,000 | 1.0 |
| GARY T HEDRICK | 2,370,831 | 0.9 |
| BABDESSA PTY LTD | 2,998,549 | 0.8 |
| RETZOS FAMILY PTY LTD | 2,916,432 | 0.8 |
| DMWAKE HOLDINGS PTY LTD | 2,666,666 | 0.7 |
| **TOTAL** | **247,073,913** | **68.7%** |

## (C) SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders listed in the holding company's register as at 8 August 2019 are:

| | Number of Ordinary Shares Held | Percentage of Issued Shares % |
|---|---|---|
| R&K EDWARDS INVESTMENTS LLC | 43,336,950 | 12.1 |
| BELGRAVIA | 43,170,500 | 12.0 |
| DONALD HALLER JR | 28,685,837 | 8.0 |
| STELLAR DEVELOPMENTS PTY LTD | 20,716,906 | 5.8 |

## (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.