

**ASX RELEASE**

**30 January 2017**

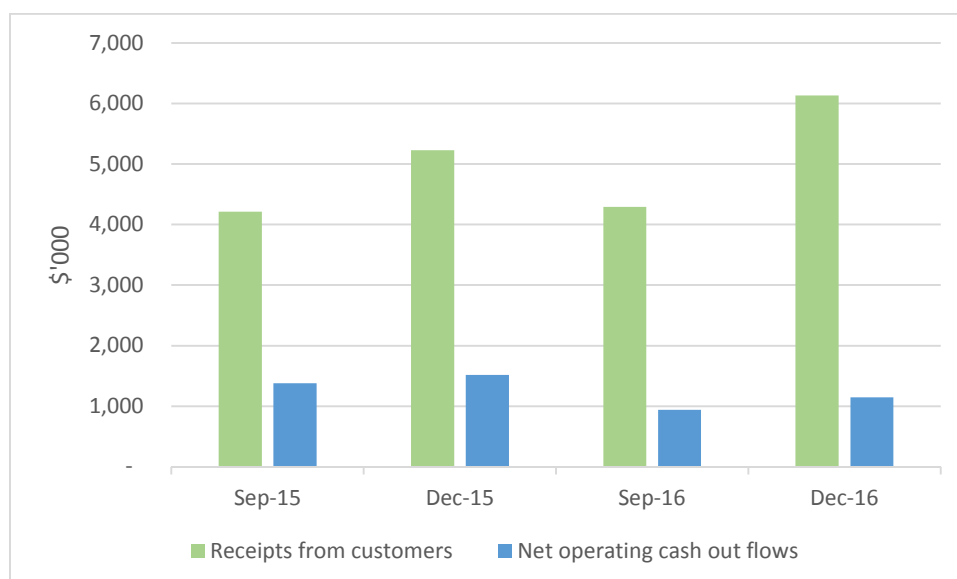
## **SECOS GROUP QUARTERLY CASH FLOW STATEMENT AND APPENDIX 4C**

**Highlights:**

- **Record level of quarterly cash receipts from customers of \$6.1 million, up 42% from September 2016 quarter**
- **Cash outflows running at a reduced rate as SECOS continues to focus on cost reduction, having secured a new, more attractive export invoice funding arrangement**
- **Sales growth expected to continue as SECOS addresses rising demand across the attractive niche markets of films, packaging and waste management**
- **Cash balance at 31 December 2016 of \$1.5 million, up from \$1.2 million at 30 September 2016**

The Board of sustainable packaging company SECOS Group Limited (ASX: SES, “the Company”) is pleased to present its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the consolidated entity consisting of SECOS Group Limited and the entities it controlled (“SECOS Group”) for the quarter ended 31 December 2016.

The chart below shows the consistent revenue growth and healthy cash flow generation SECOS achieved in the first half of FY17 relative to the prior comparable period.



SECOS Managing Director, Stephen Walters, said:

“We are proud to have delivered improving results for shareholders in the December quarter. The Company’s recent growth in sales suggests that our sustainable films and products are gaining genuine traction in multiple markets.

“However, our work is far from done. We will continue to address our cost base and look forward to scaling up as an increasingly efficient and attractive proposition for packaging customers and investors.”

### **Financial highlights**

- During the December 2016 quarter, SECOS achieved a record level of cash receipts from customers of \$6.1 million — up 42% from the previous quarter, and up 16% from the same period the previous year.
- In line with company forecasts and accounting for seasonal growth expectations, group sales grew by 13% from the previous quarter.
- Net operating cash outflow rose marginally to \$1.1 million, although as SECOS continues to focus on fixed cost reduction, the Company’s cash outflows occurred at a vastly reduced rate compared to the period one year earlier (\$1.5 million). With the exception of a research and development grant of \$200,000 received during the September quarter, net operating cash outflow remained at fundamentally similar levels over the first half of FY17.
- During the quarter, SECOS secured a new export invoice funding arrangement with Timelio. This provides SECOS with a significantly more suitable working capital funding solution which is less restrictive than the facility Timelio has replaced.
- The Company’s cash balance at 31 December 2016 was \$1.5 million, up from \$1.2 million at 30 September 2016.

### **Operational highlights**

SECOS continues to implement its business strategy to become a leader in sustainable packaging, with core market segments being Films & Packaging and Waste Management Solutions.

### **Films & Packaging**

#### *US sales growth turning the corner*

- The trial conducted in the September quarter with protective packaging specialist Storopack USA led to the successful fulfilment of initial orders in the December quarter. SECOS has now received follow-up orders and anticipates further business growth in the coming six months.
- The Company has successfully developed a sustainable courier bag for a large US online retail customer using biohybrid resin. SECOS continues to grasp opportunities to reinforce its growing reputation as an innovator in sustainable packaging.

#### *Asian sales exceeding already high industry growth projections*

- Building on its earlier business development success in Japan, SECOS has received orders and made deliveries to a second Japanese pet sheet manufacturer. The Company looks forward to boosting sales to this prominent plastics company.

#### *Global sales continue to gain momentum*

- SECOS commenced deliveries during the quarter of biohybrid resin for adhesive bottles to an industry-leading chemical company. The Company has subsequently commenced trials of this innovative product across several countries which represent previously untapped territory for SECOS.

#### *Targeted research and development yielding promising new products*

- Real-time trials of SECOS' newly-developed breathable film product line have commenced with very positive results. This product enters the market positioned as the technological leader in second-generation breathable films, which SECOS will make available to customers at compelling price points. This project continues to hit its key milestones and is on track to deliver its first commercial outcomes as per the project plan.

### **Waste Management Solutions**

SECOS' renewed focus on commercialising existing projects and product applications continues to deliver positive sales outcomes.

- SECOS is experiencing rising demand for dog waste bags. The Company views its recent sales growth as sustainable, fulfilling initial orders for delivery into the US and Canada during the quarter and experiencing order growth in line with the SECOS business strategy.
- SECOS continued to supply organic waste management systems to the Australian local council sector during the December quarter. The Company is now seeking official municipal certification of its newly-developed High Speed Compostable bag.
- SECOS is continuing its expansion in the US and is pursuing a commercial opportunity to enter the Compostable Waste Management sector. The Company notes a building of momentum among US municipalities aiming to eliminate food waste from landfills. SECOS is well-positioned to service this demand with sustainable solutions, and looks forward to updating investors regarding new business progress.
- Cleanaway Waste Management Ltd (formerly known as Transpacific Industries Group Ltd) placed a repeat order with SECOS during the quarter, of which the Company anticipates February delivery.

## Corporate highlights

- In December, SECOS raised more than \$995,000 through the issue of two-year convertible notes to sophisticated investors. The Company has immediately put proceeds of the issue to work in funding additional working capital to meet strong demand from international markets, notably the US and Japan.
- SECOS acknowledges the significant vote of confidence in the Company's direction by directors and key management personnel — Chairman Richard Tegoni, director Don Haller and CFO Edmond Tern — in personally funding more than \$400,000 of the funds raised.

## Outlook

The Company is pleased to report that SECOS is currently experiencing strong levels of interest in its products, particularly its innovative biohybrid films.

The anticipated sales orders underpinning the business case for capacity expansion at the Company's Nanjing plant are materialising and utilisation is continuing to improve.

SECOS intends to continue to review its cost base while pursuing topline growth through selling more products more efficiently, reaping productivity benefits which should drive more attractive group margins.

Appendix 4C follows.

## For more information, please contact:

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## About SECOS Group Limited

**SECOS Group Limited (ASX: SES)** is a leading developer and manufacturer of sustainable packaging materials. Based in Melbourne, Australia, SECOS supplies its proprietary biodegradable resins, packaging products and high-quality cast films to a blue-chip global customer base.

SECOS holds a strong patent portfolio and the global trend toward sustainable packaging is fueling the Company's growth, bringing FY16 revenue of \$21 million.

The Company's headquarters and Global Application Development Centre are based in Melbourne, Australia. SECOS has a Product Development Centre and manufacturing plant for resins and finished products in Nanjing, China, with manufacturing plants for high quality cast films in Melbourne and Kuala

Lumpur, Malaysia. SECOS' annual production capacity is 7,200 tonnes of bioplastic resins, 15,000 tonnes of cast film and 2,000 tonnes of blown film and finished products.

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

## APPENDIX 4C

### QUARTERLY REPORT FOR ENTITIES SUBJECT TO LISTING RULE 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

#### Name of entity

**SECOS GROUP LIMITED**

**ABN**

**89 064 755 237**

**Quarter ended ("current quarter")**

**31 December 2016**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,132	10,422
1.2 Payments for		
(a) research and development	(73)	(159)
(b) product manufacturing and operating costs	(5,762)	(9,545)
(c) advertising and marketing	(162)	(172)
(d) leased assets	(145)	(212)
(e) staff costs	(917)	(2,002)
(f) administration and corporate costs	(173)	(517)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	6
1.5 Interest and other costs of finance paid	(49)	(108)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	199
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,146)</b>	<b>(2,088)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(7)	(158)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	15
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(7)</b>	<b>(143)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	50	1,124
3.2	Proceeds from issue of convertible notes	996	996
	Proceeds from exercise of share options		
3.3		-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	515	1,032
3.6	Repayment of borrowings	(204)	(582)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>1,357</b>	<b>2,570</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	<b>1,351</b>	<b>1,212</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,146)	(2,088)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7)	(143)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,357	2,570
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>1,550</b>	<b>1,550</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	1,647	1,454
5.2	Call deposits	-	-
5.3	Bank overdrafts	(152)	(158)
5.4	Other (provide details)		
	Funds in Transit	-	-
	Deposits against Bank Guarantee Issued	55	55
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,550</b>	<b>1,351</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	<b>108</b>
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Stephen Walters was paid a salary of \$53,529 inclusive of superannuation for the quarter.

Trevor Haines was paid a salary of \$38,158 in cash inclusive of superannuation for the quarter.

Directors' fees totalling \$16,250 (Ex GST) were paid in cash during the quarter as detailed below:



COB Pty Ltd (a company controlled by Mr. Richard Tegoni)- \$12,500 (Ex GST)  
Donald Haller- \$3,750

On 4 January 2017, the Company has issued 213,816 fully paid ordinary shares under Loan Share Plan to two of its directors- M/s Richard Tegoni and Donald Haller Jr., in lieu of the part payment of their respective remuneration for the quarter ending 31 December 2016.

M/s.Tegoni and Haller each had agreed to accept 50% of their respective Dec'16 Quarter remuneration to be paid in Shares.

The issue of these shares to Directors was approved by shareholders at the Annual General Meeting held on 18 November 2016 (Resolutions 7 & 9).The shares are issued at an issue price of \$0.076/share. The share issue price has been determined based on volume weighted average sale price of SECOS shares for Dec' 16 Quarter.

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
N/A		

**8. Financing facilities available**  
*Add notes as necessary for an understanding of the position*

- 8.1 Loan facilities  
8.2 Credit standby arrangements  
8.3 Other (please specify)

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
1,427	1,403
-	-
2,353	2,217

- 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Sr No	Facility lender and	Interest Rate	Secured/Unsecured	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<b>8.1</b>	<b>Loan Facilities include</b>				
1	Term Loan CIMB Bank, Malaysia	8.85%	Secured	660	660
2	Term Loan National Australia Bank	8.36%	Secured	767	743
				<b>1,427</b>	<b>1,403</b>
<b>8.3</b>	<b>Other Facilities include</b>				
1.	Bank Overdraft CIMB Bank, Malaysia	8.85%	Secured	158	150
2.	Multi Option Line Facility CIMB Bank, Malaysia	1.83%	Secured	920	859
3	Payroll overdraft National Australia Bank	8.36%	Secured	75	-
4	Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	1,200	1,200
				<b>2,353</b>	<b>2,217</b>
	<b>Total</b>			<b>3,780</b>	<b>3,620</b>

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	90
9.2	Product manufacturing and operating costs	5,000
9.3	Advertising and marketing	100
9.4	Leased assets	150
9.5	Staff costs	1,000
9.6	Administration and corporate costs	300
9.7	Other (provide details if material)	-
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>6,640</b>

<b>10.</b>	<b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

### Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....  
(Director/Company Secretary)

Date: **30 January 2017**

Print name: **Rekha Bhambhani**

### Notes

- The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.