

ASX RELEASE

30 July 2018

SECOS quarterly cash flow statement and Appendix 4C

Highlights:

- **Record quarterly receipts from customers at over \$7 million, up \$1 million compared with previous quarter**
- **FY18 cash receipts from customers of \$25.1 million exceeds sales guidance of \$23.8 million**
- **\$1.9 million cash balance as at 30 June 2018**
- **Cash outflow from operating activities drops to \$780K during the quarter**
- **Borrowings reduced by \$1.2m in FY18**
- **\$7.3m raised during year supported strategic investment in major China resin plant upgrade and launch of new Malaysian resin plant**
- **SECOS enters 2019 well positioned to capitalise on growing resin sales with new capacity of 3,000 tonnes, which when fully utilised, should equate to \$9 million in incremental annual revenue**

The Board of sustainable and eco-friendly bioplastics developer 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 30 June 2018.

The Group closes the financial year (unaudited) with a cash balance of \$1.9 million as at 30th June 2018. Sales for the quarter were \$6.1 million, prior to new capacity being available which is scheduled to go live in first quarter of FY2019. Without the advantage of this added capacity, the Company achieved unaudited sales revenue of approximately \$23.6 million in FY18, with growth of more than \$1 million from FY17.

SECOS Group Limited (ASX: SES)

ACN 064 755 237

Level 2, Suite 6, 205-211 Forster Road Mount Waverley VIC 3149 Australia

t: +613 8566 6805 e: info@secosgroup.com.au www.secosgroup.com.au

Bioplastics sales increased by 20% YOY (\$6M vs \$5M) compared to the Company's traditional plastic sales which remained at c\$17m YOY. The significant shift to bioplastic sales further supports SECOS' strategy to invest in enviro-friendly plastics which are expected to grow by a further 73% or \$5.6m in 2019 according to management estimates. The below table shows the divergence between traditional and bioplastics over the last three years and management's sales estimate for 2019. Bioplastic sales were curtailed by manufacturing issues in China during 2018. The upgrade of the China plant has remedied these issues and when combined with capacity coming on line in Malaysia will allow the company to achieve the significant growth expected in FYE 2019.



*Unaudited
 ** Management Estimate

Cash receipts from customers were \$7.0 million in the June quarter. Net operating cash outflow was \$0.7 million, an improvement from outflow of \$1.5 million in the previous quarter. In both the March and June 2018 quarters, the Company incurred significant (and previously disclosed) one-time expenses associated with positioning the Company to increase bioplastic production in China and commence production in Malaysia to capitalise on the increasing demand for its proprietary resin and bioplastic products in general.

SECOS took possession of its new resin plant building during the quarter and remains on track to begin the supply of its proprietary resins in Malaysia in August 2018. The new 30,000 sq ft facility is ideally located close to Malaysia's largest port and will provide the Company with much-needed extra capacity to meet the growing market demand for bioplastics.

The Malaysian plant has initial capacity to produce up to 3,000 tonnes per annum, which when fully utilised should produce revenues of \$9 million per annum at current prices. With potential to increase this capacity to 12,000 tonnes over time, the Company sees scope for this facility to deliver incremental annual revenue of close to \$40 million.

SECOS Managing Director, Stephen Walters, said:

“SECOS has delivered a promising quarter, following which we are increasingly confident in both the quality of our output and in our ability to increase global sales in the growing market for bioplastic products.”

“We are currently selling to large commercial customers on a global basis and are seeing record growth in demand for bioplastics. We are well positioned to scale up our international operations to meet this demand growth with sales offices and extensive distribution networks globally including the US, UK, Europe, South East Asia, China, Japan, Australia, India, Middle East and South Africa”

“The team is very busy with commissioning the new resin plant in Malaysia. This will be a welcome addition which will ease the capacity issue faced by our existing plant in Nanjing.”

Corporate

In May, SECOS entered a sale and leaseback agreement of freehold property belonging to its wholly-owned Malaysian subsidiary for \$3.5 million. The proceeds will be used to reduce net debt by approximately \$1.3 million and release free cash of approximately \$2.0 million. The Company collected the first parcel of freehold property proceeds (\$0.2m) on 29th June 2018.

The funds from the sale and leaseback will allow SECOS to accelerate investment to additionally increase its resin manufacturing capacity to meet growing demand for its compostable bioplastic resins and other initiatives the Company has identified to improve operating margins. The higher than expected sale price for the property, when received, will strengthen the Company's balance sheet.

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

On 16th July 2018, the Board announced the appointment of internationally experienced plastics industry veteran, Mr David Wake as Non-Executive Director of the Company. Mr Wake brings a stellar track record of unlocking shareholder value and an ability to contribute to the Company's global ambitions.

Outlook

- **New resin plant in Malaysia expected to start production with first deliveries scheduled for August 2018**
- **Bioplastic sales are expected to continue to grow while traditional plastic sales are expected to continue at the same rate throughout FY19, further supporting the shift to eco-friendly plastics.**
- **\$2 million net cash from sale of Malaysian factory expected to settle by late November 2018**
- **Repayment of \$1.3 million in debt anticipated in late CY18**
- **The Board will consider further cost saving initiatives during the year and believe further improvements are possible**
- **SECOS expects improved output in 2019 from its Nanjing plant following the investment in upgrading and repositioning this facility in 2018**
- **Continued improvement in gross margin expected, supported by improved manufacturing efficiencies from the Company's investment in new equipment and plant upgrades in FY18**
- **Strong pipeline of orders and sales worldwide as consumers and regulators continue to favour more environmentally conscious brands**
- **SECOS remains well positioned to drive significant revenue growth through its proprietary bioplastic technologies, strong geographic footprint and global patent protection**

The Company's June 2018 Appendix 4C follows.

For more information, please contact:

Richard Tegoni

Executive Chairman

+61 411 110 901

r.tegoni@secosgroup.com.au

Tim Dohrmann

Investor and Media Enquiries

+61 468 420 846

tim@nwrcommunications.com.au

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.

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 10,000 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, Europe, Asia, the Middle East, Africa and India.

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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

Quarter ended ("current quarter")

ABN 89 064 755 237

30 June 2018

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 Months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	7,030	25,150
1.2	Payments for	-	-
	(a) research and development	(70)	(280)
	(b) product manufacturing and operating costs	(6,099)	(23,473)
	(c) advertising and marketing	(154)	(681)
	(d) leased assets	(108)	(436)
	(e) staff costs	(1,041)	(4,118)
	(f) administration and corporate costs	(162)	(1,294)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(154)	(583)
1.6	Income taxes paid	(1)	(2)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(780)	(5,716)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(13)	(19)
	(b) businesses (see item 10)		-
	(c) investments	(343)	(343)
	(d) intellectual property		-
	(e) other non-current assets		-
2.2	Proceeds from disposal of:		-
	(a) property, plant and equipment	198	198
	(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)		-
2.6	Net cash from / (used in) investing activities	(158)	(164)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	1,429	4,927
3.2	Proceeds from issue of convertible notes	(266)	2,375
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(228)
3.5	Proceeds from borrowings		-
3.6	Repayment of borrowings	(251)	(1,079)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid		-
3.9	Other (provide details if material)		-
3.10	Net cash from / (used in) financing activities	912	5,994

4.	Net increase / (decrease) in cash and cash equivalents for the period	(6)	114
4.1	Cash and cash equivalents at beginning of quarter/year to date		
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(760)	(5,716)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(158)	(164)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	912	5,994
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	1,937	1,944

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,882	1,889
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
	Funds in Transit	-	-
	Deposits against Bank Guarantee Issued	55	55
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,937	1,944

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	121
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	

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	

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	472	472
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	6,179	6,179

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 or are proposed to be entered into after quarter end, include details of those facilities as well.

Facility and lender	Interest Rate	Secured/ Unsecured	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
Term Loan CIMB Bank, Malaysia	8.85%	Secured	175	175
Term Loan National Australia Bank	8.36%	Secured	297	297
Loan facilities			472	472
Multi Option Line Facility CIMB Bank, Malaysia	8.85%	Secured	1,074	1,074
Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	677	677
Unsecured Loan	10.0%	Unsecured	367	367
Convertible Notes	10.0%	Unsecured	3,289	3,289
Other Facilities			5,707	5,707
Total			6,179	6,179

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	90
9.2	Product manufacturing and operating costs	6,000
9.3	Advertising and marketing	200
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)	-
9.8	Total estimated cash outflows	7,740

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
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: [sent electronically without signature]
(Director/Company Secretary)

Date: **30 July 2018**

Print name: **Edmond Tern**

Notes

1. 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.
2. 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.
3. 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.