

ASX RELEASE

31st January 2018

SECOS quarterly cash flow statement and Appendix 4C

Highlights:

- SECOS earned cash receipts from customers of \$5.7 million in the December quarter. For the six month period ending 31 December 2017, SECOS achieved year-on-year growth in cash receipts of 15.5%.
- Strong growth in demand for SECOS resin, with H1 FY18 resin sales up more than 400% year-on-year, as consumers, industry and regulators continue to shift toward more environmentally friendly products.
- Material local government contract won to supply compostable bags to Penrith City Council for more than \$1.5 million over 18 months, providing a material boost to near-term revenue.
- Targeted restructuring has seen SECOS achieve 100% capacity utilisation of its Nanjing plant with material cost savings.
- \$2.0 million raised from issue of convertible notes.
- SECOS forecasts March 2018 quarterly sales growth of more than 24%. The Company expects to deliver FY18 sales of more than \$24 million and for the business to grow to a revenue run rate of \$28 million by the June quarter.

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 31 December 2017.

SECOS earned cash receipts from customers of \$5.7 million during the quarter. This contributed to year-on-year growth in cash receipts for the six months ending 31 December 2017 of 15.5%.

Net cash outflow rose during the quarter as SECOS invested in working capital to meet strong demand for its products and as some deliveries were delayed by planned production shutdowns during the China plant restructure. Specifically, receivables increased by \$0.6 million and the Company invested \$0.4 million to fund work-in-progress and restructuring of the Nanjing resin plant.

As announced on 25 January 2018, this work has resulted in SECOS' Nanjing plant operating at full output capacity for the first time. The Company plans to ramp this plant up further to a 24/7 operation in the month ahead.

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The Company is seeing positive momentum across its business lines, particularly from resin sales to Southeast Asian customers. SECOS delivered its first batches of compostable and biodegradable resins in December, with back orders scheduled for delivery in January and beyond.

SECOS' films business, servicing long-established blue-chip customers, is running at a stable and profitable level. The Company expects the profitability and capacity utilisation of this segment to continue to improve this year, as benefits flow from new breathable film technology which will add value for hygiene and packaging customers.

SECOS Managing Director, Stephen Walters, said:

"We have entered CY18 with healthy momentum across our business. We look forward to reaping the rewards of our efforts and investment."

"Our \$1.5 million contract with Penrith City Council is a major win for SECOS in the organic waste diversion market. This represents what we hope is the first of many such contracts as local governments embrace changes to divert organic food waste from landfill."

"Our products are leading the way in this change, diverting food waste from landfill to composting facilities and returning nutrient value to the soil for future food production."

"More broadly, the introduction of single use plastic bag bans by several local and state governments, and the push by many packaging companies to improve their environmental credentials, has led to growth in demand for SECOS' resins and environmental bioplastic products."

"SECOS' Malaysian subsidiary Cardia Bioplastics is achieving significant growth, with H1 FY18 orders of almost \$0.8 million. This reflects a material increase in demand for our proprietary bioplastic resins, and it validates our recent decision to upgrade SECOS' Malaysian plant."

"This growth is pleasing in the context of Group cash receipts of \$12 million for the same period, as resin shows strong potential for a higher contribution looking forward."

"Beyond growing demand in Malaysia, SECOS sees similar growth for compostable resins growing throughout the world, and we are ready to meet this new demand for eco-friendly solutions as governments continue to legislate against single-use polyethylene plastic bags."

"Our raising of more than \$2 million through the issue and placement of Convertible Notes during the quarter will provide the working capital we need to fund the Company's growth in the resins market and support our international expansion plans."

Corporate

During the quarter, SECOS raised \$2.0 million through the issue and placement of unsecured convertible notes. A portion (\$292,308) of the Notes were issued to directors Richard Tegoni and Don Haller Jr., which received shareholder approval at the Company's Annual General Meeting on 30 November 2017.

Proceeds of the issue will fund additional working capital as the Company experiences new demand from international markets.

Outlook

SECOS expects strong growth in demand for bioplastics to empower the Company to accelerate its expansion, particularly in the key established markets of Malaysia, China and the US.

Based on the current order book, SECOS expect to achieve sales in the March quarter between \$1.0 million and \$1.5 million higher than the December quarter, representing quarter-on-quarter growth of more than 24%.

This underpins the Company's forecast for FY18 sales to exceed \$24 million (up from \$22 million in FY17), and for the business to grow to a revenue run rate of \$28 million by next quarter.

The Company will complement this revenue growth with a resolute focus on achieving further operational cost savings and scale improvements.

The Company's cash balance at 31 December 2017 was \$1.2 million.

The Company's December 2017 Appendix 4C follows.

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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 FY17 revenue of \$22 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.

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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

31 December 2017

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	5,717	12,034
1.2	Payments for		
	(a) research and development	(70)	(140)
	(b) product manufacturing and operating costs	(6,142)	(11,981)
	(c) advertising and marketing	(150)	(356)
	(d) leased assets	(113)	(218)
	(e) staff costs	(932)	(1,953)
	(f) administration and corporate costs	(394)	(616)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(120)	(238)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(2,204)	(3,468)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(6)	(6)
	(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	-	-
	(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	(6)	(6)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	859
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	(66)	(66)
3.5	Proceeds from borrowings	2,141	2,141
3.6	Repayment of borrowings	46	(82)
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	2,121	2,852

4.	Net increase / (decrease) in cash and cash equivalents for the period	(90)	(622)
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)	(2,204)	(3,468)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(6)	(6)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	1,201	1,201

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	1,227	480
5.2	Call deposits	-	-
5.3	Bank overdrafts	(81)	(102)
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)	1,201	433

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	115
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
8.1	Loan facilities	4,155
8.2	Credit standby arrangements	-
8.3	Other (please specify)	2,839
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	273	273
Term Loan National Australia Bank	8.36%	Secured	445	445
Unsecured Loan	10.0%	Unsecured	667	667
Loan facilities			1,386	1,386
Bank Overdraft CIMB Bank, Malaysia	8.85%	Secured	81	81
Multi Option Line Facility CIMB Bank, Malaysia	1.83%	Secured	948	948
Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	1,443	1,443
Convertible Notes	10.0%	Unsecured	3,136	3,136
Other Facilities			5,608	5,608
Total			6,994	6,994

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: **31 January 2018**

Print name: **Edmond Tern**

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.