

**ASX RELEASE**

**31 January 2019**

**SECOS Quarterly Cash Flow Statement and Appendix 4C**

**Highlights:**

- **December quarter operating cash outflow was \$0.3 million, an improvement of \$0.4 million from the previous quarter and \$1.9 million from the previous corresponding quarter**
- **\$0.7 million cash position as at 31 December 2018**
- **\$2.0 million cash inflow expected in current quarter from settlement of Malaysian property sale**
- **Ian Stacey appointed as CEO with former CEO Stephen Walters remaining as Executive Director, and Jim Walsh appointed as Non-Executive Director**

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 2018.

SECOS has invested considerable and ongoing efforts to reduce costs and address underperformance in its operations, which culminated in the closure of the Stellar Films Australia (SFA) plant in December 2018. These efforts have resulted in a decline in Net Operating Cash Out-Flows by 87% on a year on year basis to December 2018.



**Note: new Malaysian bioplastics plant launched in August 2018**

**SECOS Group Limited (ASX: SES)**

ACN 064 755 237

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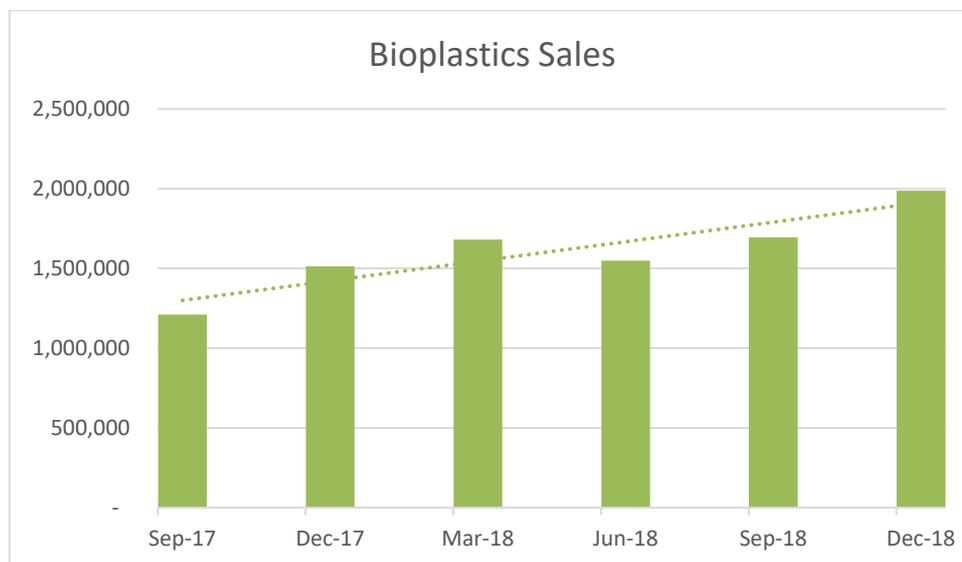
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## Bioplastics

Bioplastic sales for the quarter were a record \$2.0 million, continuing an upward trend, with sales up 17.4% from the September quarter. The Company continues to experience growth in sales of bioplastic products from its manufacturing facilities in both Malaysia and China.

The market for bioplastics continues to expand as the plastics industry responds to pressure to become more environmentally friendly and heeds trends in both consumer sentiment and emerging government regulation. SECOS is ideally positioned to serve this market with modern and versatile manufacturing infrastructure, dedicated sales personnel and a compelling product suite.

SECOS' growth trend in quarterly bioplastic sales is depicted in the chart below.



## Traditional Plastics

The decision by the SECOS Board to close the Australian traditional plastics operations of Stellar Films Group Pty Ltd contributed to lower sales with a loss of some local customers. While lower sales have occurred, they are more than offset by considerable savings in fixed overheads, reducing the cash outflows that would otherwise have been required to continue support of the subsidiary.

The Company's Malaysian cast film subsidiary, Stellar Films Malaysia, continues to trade profitably and is selling hygiene cast film to major offshore customers affected by the Australian plant closure. The consolidation of the Company's traditional film business to one location will assist to maximize the productivity of its cast film assets and improve service to customers located in the Asia Pacific region who were previously purchasing cast film from SFA.

SECOS will continue to explore development of its breathable film technology and development of more environmentally friendly cast and hygiene cast films, which are expected to become a major market over the coming years.

## Cash Flow

Cash receipts from customers were \$5.8 million in the quarter, an increase of \$0.1m over the previous quarter despite the closure of the Australian traditional film plant.

Net cash outflow from operations was \$0.3 million, achieving further improvement over the previous quarter whilst investing in the start-up of the new bioplastic resin plant in Malaysia.

SECOS Chief Executive Officer, Ian Stacey, said:

*"I can report that as the demand for compostable resin and converted products continues to expand, SECOS management and staff are focusing on four areas as we grow the business:*

- *Achieving economies of scale through the establishment of additional production capacity in Malaysia and China*
- *Enhancing margins through the advantages offered by scale that enable better raw material prices*
- *Developing new product formulations to expand the scope of applications through which our compostable resins can be commercialised*
- *Working to ensure that our formulations meet evolving market and regulatory requirements*

*"We also working to capture efficiencies at plant level. To that end, we have established a recycle capability within our compostable resin operations, which gives SECOS the ability to use compostable scrap or waste, thereby ensuring we continue to improve production efficiencies."*

## Corporate

SECOS completed a Rights Issue on Tuesday, 13 November 2018, issuing 13,881,703 New Shares to raise \$860,665 (before costs), representing 9,363,034 New Shares applied for under the pro-rata entitlements of the Rights Issue and 4,518,669 New Shares applied for under the Shortfall Offer.

On 15 November 2018, Mr Jim Walsh joined the Board as a Non-Executive Director, further strengthening the expertise and experience of the Board.

## Outlook

- Continued growth in revenue and profitability through bioplastic sales with focus on resins, film and bag products
- The closure of SFA and the recent restructure of corporate overheads is expected to materially reduce cash outflows from the March 2019 quarter
- Consolidated sales for FY19 expected to remain flat, primarily driven by the loss of customers associated with the closure of the Company's Australian traditional plastics plant.
- Margins from newly-established Malaysian resin plant are expected to trend upward in FY20 when the subsidiary is expected to achieve greater scale in sales and production
- Further investment in research and development expected to enhance the Group's application of its technology across emerging market segments

The Company's December 2018 Appendix 4C follows.

### **For more information, please contact:**

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Executive Chairman

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### About SECOS Group Limited

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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 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.

## 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 2018**

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 Months) \$A'000</b>
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	5,815	11,520
1.2	Payments for	-	-
	(a) research and development	(70)	(140)
	(b) product manufacturing and operating costs	(3,788)	(8,234)
	(c) advertising and marketing	(184)	(375)
	(d) leased assets	(472)	(754)
	(e) staff costs	(1,139)	(2,148)
	(f) administration and corporate costs	(328)	(647)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(112)	(234)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(276)</b>	<b>(1,010)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(327)	(608)
	(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)		-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(327)</b>	<b>(608)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	1,842	1,992
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	-	-
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(1,028)	(1,580)
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>815</b>	<b>413</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>	<b>211</b>	<b>(1,205)</b>
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)	<b>(276)</b>	<b>(1,010)</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	<b>(327)</b>	<b>(608)</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	<b>815</b>	<b>413</b>
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>733</b>	<b>733</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	678	467
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
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>733</b>	<b>522</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>87</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	

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
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	

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities	173	173
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	4,152	4,152

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 National Australia Bank	8.36%	Secured	173	173
<b>Loan facilities</b>			<b>173</b>	<b>173</b>
Multi Option Line Facility CIMB Bank, Malaysia	8.85%	Secured	1,052	1,052
Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	204	204
Unsecured Loan	10.0%	Unsecured	328	328
Convertible Notes	10.0%	Unsecured	2,568	2,568
<b>Other Facilities</b>			<b>4,152</b>	<b>4,152</b>
<b>Total</b>			<b>4,325</b>	<b>4,325</b>

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	100
9.2	Product manufacturing and operating costs	5,000
9.3	Advertising and marketing	300
9.4	Leased assets	600
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>7,300</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: [sent electronically without signature] Date: **31 January 2019**  
 Print name: **Edmond Tern** (Director/Company Secretary)

#### 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.