

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

SECOS GROUP LIMITED

ABN

89 064 755 237

Quarter ended ("current quarter")

30 June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,885	31,790
1.2 Payments for	-	-
(a) research and development	(57)	(263)
(b) product manufacturing and operating costs	(4,896)	(30,072)
(c) advertising and marketing	(386)	(1,309)
(d) leased assets	-	-
(e) staff costs	(785)	(3,086)
(f) administration and corporate costs	(228)	(892)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(63)	(194)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>470</b>	<b>(4,026)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(870)	(2,442)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) 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	<b>Net cash from / (used in) investing activities</b>	<b>(870)</b>	<b>(2,442)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(180)	(747)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(180)</b>	<b>(747)</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<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 period	4,651	11,286
4.2	Net cash from / (used in) operating activities (item 1.9 above)	470	(4,026)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(870)	(2,442)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(180)	(747)
4.5	Effect of movement in exchange rates on cash held	85	85
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>4,157</b>	<b>4,157</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	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,157	4,651
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,157</b>	<b>4,651</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term 'facility' includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>		
7.5	<b>Unused financing facilities available at quarter end</b>		
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	470
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,157
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,157
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>  <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	N/A
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
	8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
	8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

## 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.

**Date:** 27 June 2022

Authorised by: **By the board**

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(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## ASX RELEASE

27 July 2022

### Quarterly Activities and Appendix 4C – June 2022

The Board of sustainable and eco-friendly Biopolymer producer SECOS Group Limited (ASX: SES, “SECOS” or “the Company”) is pleased to present its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the June 2022 quarter. All figures are in AUD\$ and are provided on an unaudited basis.

### Financial Summary

- Sales in the financial year ending 30 June 2022 were up 3.2% on prior corresponding period (PCP) at \$31.0 million despite significant global supply chain and Covid-19 disruptions with most of the anticipated current year growth delayed until FY23. The estimated delay in Jewett-Cameron (JCC) sales for FY22 equated to \$3.1 million and excluding this impact, Biopolymer sales were 23.7% up on PCP. SECOS has now received initial commencement orders from JCC worth \$0.5 million with most of these sales to be recognised in the September 2022 quarter.
- June 2022 quarter sales of \$6.8 million were down 22.6% on PCP reflecting the impact of supply chain disruption and timing of orders, shipping, and sales development delays due to Covid-19 factors.
- June 2022 quarter sales of Biopolymer were down 36.9% on PCP but increased during the financial year ending 30 June 2022 by 2.3% to PCP. Port disruptions in China led to extended shipping times to Latin American customers, forcing some to temporarily secure alternative supplies which have slowed consumption and re-ordering of SECOS bioproducts.
- Positive net operating cash of \$0.5 million for the June 2022 quarter, resulting from effective working capital management in utilizing inventory reserves to meet the supply requirements of customers.
- \$6.9 million Cash receipts for June 2022 quarter, down 22.4% on PCP and down 21.5% from March 2022 quarter.
- Capital investment in capacity expansion for the quarter was \$0.9 million.
- Closing cash was \$4.2 million with no debt.

### Operational Highlights

- The SECOS MyEcoBag range is being rolled out to more retailers, with an increase from 237 to 970 Woolworth stores that stock our compostable bin-liners for food diversion into green bin organic waste streams. New store revenue growth is expected to begin in the September 2022 quarter with initial orders received from Woolworths, and grow steadily as new stores come on line.
- SECOS appointed new distributors to supply MyEco™ products, Charmlaw in Queensland and Downes in Victoria, important progress in the Company’s national rollout to independent retailers. The new distributors can supply approximately 300 independent stores, which follows recent expansion with Pacchini Sales and Distribution in NSW and

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Auslink Foods in WA. As such MyEco™ brands will become available to independent stores nationally, which have significant market share outside the two majors.

- MyEcoBag™ range is now stocked in 116 stores within the USA and this is expected to reach over 300 stores by October 2022. The initial store rollout has established SECOS successfully within the US market with the potential to reach a significantly greater number of stores nationally.
- The sale of the MyEco™ range in Australia and the USA will be supported by SECOS' recent manufacturing capacity expansion in the Group's new Malaysian biopolymer plant which launched production this quarter adding capacity for annual sales potential of \$25 million. Cardia Malaysia delivered initial MyEcoPet pet waste bag orders to the USA market and an Australian Council FOGO bag business production line was commissioned.
- During the Quarter, SECOS secured \$700,000 in new tender business for Kitchen Caddy & Dog Waste bags for Councils, for delivery in the coming months.
- EzyDog has now been approved to go into 235 Pet Barn stores with rollout expected in the September 2022 quarter. SECOS secured additional orders supplying the EzyDog<sup>R</sup> launch of a new range of compostable and biohybrid-based dog waste bags.
- SECOS also saw the recommencement of JCC Cameron orders in June 2022 totaling \$500,000 following the resolution of labeling issues in the Californian market. Prior to the labeling issues, over 60 million pet waste bags were distributed to big box stores in the US. JCC is expected to resume sales with big box customers in the first quarter of FY23.
- SECOS' new R & D compounding and co-extrusion pilot lines have successfully completed an initial run of certified compostable material. SECOS has mapped out a series of projects where the R & D lines will be employed to develop new applications for single-layer or multi-layer compostable structures.
- The Company's customer pipeline remains robust. Over 60 major brands, convertors and distributors are working with the company in various stages of the sales process. These customers represent an estimated \$20 million in incremental sales over the short to medium term.
- Elevated materials prices and shipping costs have started to decrease and are expected to progressively return to normal levels throughout the year. SECOS has been successful in passing on most product price increases to customers which should be reflected in the first half of FY23.

## Cash Flows

Cash receipts from customers in the June 2022 quarter were \$6.9 million, down from \$8.8 million in March 2022 quarter due to timing of collections and phasing of sales. Net operating cash inflows were positive \$0.5 million as the Company successfully utilised its inventory reserves to meet the supply requirements of customers in optimising working capital. The building of inventory reserves served the Company well during the past year as it was necessary to manage difficult supply chain conditions.

During the quarter, \$0.9 million was invested in capital expenditure to further expand the newly established Malaysian biopolymer film and bag plant and for new equipment for the Research and Development Centre. The total capital expenditure for the financial year ending 30 June 2022 was \$2.4 million. The successful expansion of MyEco™ products via new distributors, partner brands and Woolworths is expected to better utilise this newly commissioned capacity

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which has the capability to supply larger compostable bin liners or waste diversion bags for households and dog owners.

Operating cash outflow for the financial year ending 30 June 2022 was \$4.0 million driven by the planned extension of the working capital cycle to counter supply chain challenges. This is reflected in increase of both inventory and receivables throughout the financial year.

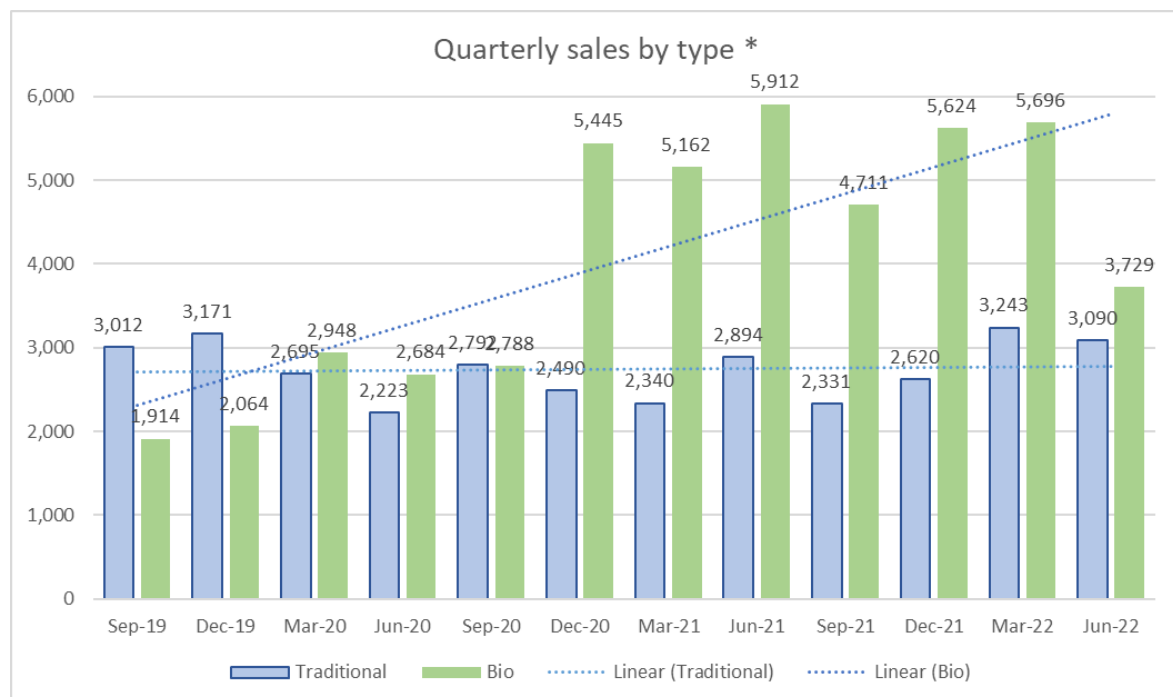
The Company continues to maintain a strong balance sheet with \$4.2 million cash in the bank and no debt.

## Sales Development

June 2022 Quarter sales of \$6.8 million were impacted by recent well-documented global events which include Covid-19-related logistics & shipping delays. The global supply chain crisis has resulted in a build-up of inventory and extension of receivables to accommodate the longer lead times to deliver from order to customer. SECOS recognizes revenue when stock is shipped which means orders received in the June 2022 quarter may not be recognised until the following quarter including the \$0.5m order from JCC received in June. As supply chain and fulfillment timelines begin to retract working capital is expected to normalise.

For the financial year ending 30 June 2022, Biopolymer sales have grown by 2.3% compared to PCP with much of the planned current year growth pushed forward into FY23. Excluding JCC, the underlying Biopolymer sales grew by 23.7%. As JCC sales resume, it is expected that growth will continue and will be supplemented by our own brand sales.

SECOS is working on extending its range of sustainable products to include different precursors such as starch-based compostable resin, film and bags, plant-derived ethanol films. These options can be included in either Biohybrid-based film or bag offerings.



\*There has been a re-allocation of traditional and bio sales in historical quarters.

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### **Compostable Resin**

Compostable resin sales in June 2022 quarter were down 57.1% on PCP and down 63.9% on March 2022 quarter. Resin sales in the quarter were impacted by unwinding of working capital from distributors who had increased stocks to mitigate supply chain challenges. For the financial year ending 30 June 2022, compostable resin sales were up 7.1% on PCP.

### **Compostable Bags**

Compostable bag sales in June 2022 quarter were down 32.4% on PCP and down 11.6 % on March 2022 quarter. Growth has been impacted by a previously stated pause of sales to JCC, which have NOW resumed for FY23. Growth has also been impacted by temporary slowing of council business, although the company has noted an increase in orders in June 2022 with new tender orders of \$0.7m for delivery in the first quarter of FY23. For the financial year ending 30 June 2022, compostable bag sales were down 6.3% on PCP.

### **Compostable Film**

Compostable blown film sales currently represent a relatively small component of Biopolymer business and in June 2022 quarter were up 116.4% on PCP and 236.8% on March 2022 quarter. Growth has been in hygiene and diaper applications. SECOS Group continues to qualify sales of compostable film through its cast lines for brands interested in adopting a more sustainable offering to replace their traditional plastic products. For the financial year ending 30 June 2022, compostable film sales were up 24.4% on PCP.

### **Traditional Plastic**

Traditional sales in June 2022 quarter were up 6.8% on PCP and down 4.7% on March 2022 quarter. Oil prices between June 2021 to June 2022 increased by 50.7% (US\$ 73/barrel to US\$ 110/barrel), which translated to significantly higher raw materials input costs for the traditional polymer business. For the financial year ending 30 June 2022, traditional plastics sales were up 4.7% on PCP.

## **Outlook**

We remain confident that the trends that underpinned past growth will continue to underpin future growth. While FY22 has been very challenging, important progress has been made and the company is focused on delivering on its exciting growth prospects. Retail Store acquisition as evidenced by Woolworths expansion and new distributors to independent retailers have added over 1000 stores to which MyEco™ branded stock will soon be supplied.

The global supply chain crisis has effectively pushed SECOS' growth pipeline into FY23. Maintaining sales volumes while mitigating the numerous impacts to our business and that of our customers has been extremely challenging. Some normalisation of supply chain is leading to lower freight costs and more predictable delivery times ex-Asia, which will lower costs and facilitate better customer outcomes and more predictable stock management.

The Board is pleased that there are current signs of improving trading conditions and believe the impacts experienced during FY22 were well managed and furthermore significant milestones were achieved. These include the establishment of a new manufacturing plant, R&D centre, expansion of MyEco branded products nationally within Australia and the initial launch into the extremely difficult to enter, USA market. These achievements establish a strong foundation for growth into FY23 and although the delays and disruption experienced during the year were frustrating, the Company remains confident in its ability to sell out the group's manufacturing assets over the coming few years which currently allow for sales of between \$50m to \$60m per annum when fully utilized.

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SECOS Group is launching three additional bin liner SKU's (Stock Keeping Units) to add to the existing MyEcoBag™ range sold to independent stores that will cater to compostable food diversion and dog waste bag markets.

The launch of the Company's new Malaysian plant is starting to supply branded product, in both MyEco™ and partner brands. We expect capacity utilization to improve following key-customer audits being completed and further orders being received.

Cost pressures remain a challenge in the short-term, but we are seeing improvements in supply chain, and shipping logistics, which are expected to normalise.

The Company's growth will be underpinned by:

- Investment in marketing and branding of the Company's MyEco trademarks in selected retail markets, with particular emphasis on waste diversion, courier bags, and food applications, which has already yielded positive results with the expansion to 970 Woolworths stores.
- SECOS is planning further expansion of retail stores stocking MyEco™ brands and partner brands in the USA and Australia.
- Investment in research and development of new products and resin grades, with particular emphasis on new, high-value laminate structures for food packaging and hygiene applications.
- Expanding available production capacity largely due to the establishment of the new biopolymer plant in Malaysia which will be able to produce over 480 million compostable bags plus an additional 300 mt of new compostable resin per month.
- Supplying sustainable film to evolving hygiene and packaging markets, utilizing available capacity in the Company's Malaysian cast-film manufacturing plant.
- The Company's significant sales pipeline indicates increased demand for SECOS bioplastic products and technology. SECOS expects to make additional announcements concerning major new customers.
- Developing more effective ways to manage supply chain disruptions while maintaining a safe workplace for staff, suppliers, and customers.
- As Woolworth's volumes increase to 970 stores, SECOS will drive scale advantages on MyEcoBag production and logistics.

Strong demand for certified compostable alternatives continues to be driven by the worldwide shift to environmentally acceptable packaging, legislative and regulatory changes, consumer buying behaviors and knowledge, and the expansion of composting infrastructure and technology. On 30 June 2022, California announced new legislation requiring all packaging to be recyclable or compostable, significantly cutting traditional plastic use.

This announcement was authorised for release by the Board of SECOS Group Limited.

**For more information, please contact:**

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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. SECOS supplies its proprietary biodegradable and compostable resins, packaging products and high-quality cast films to a blue-chip global customer base. SECOS Group is integrated from resin production, into film (cast and blown) production and can develop bespoke compostable solutions for a range of applications.

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 China and a resins plant in Malaysia. The Company also produces high quality cast films in Malaysia.

SECOS has sales offices in Australia, Malaysia, China, and USA, with a network of leading distributors across North Americas, Mexico and Latin Americas, Europe, Asia, the Middle East, Africa, and India.

### **Disclaimer and Explanatory Notes Forward Looking Statements**

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This document may include forward looking statements. Forward looking statements include, but are not necessarily limited to, statements concerning SECOS' planned operational program and other statements that are not historic facts. When used in this document, the words such as "could", "plan", "budget", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward looking statements. Although SECOS believes its expectations reflected in these are reasonable, such statements involve risks and uncertainties, including but not limited to risks and uncertainties relating to impacts that may arise from Covid-19, and no assurance can be given that actual results will be consistent with these forward-looking statements. SECOS confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning this announcement continue to apply and have not materially changed.

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