

ASX RELEASE

31 October 2018

SECOS quarterly cash flow statement and Appendix 4C

Highlights:

- **September quarter YoY operating cash outflow improved by \$0.5m**
- **Quarterly Bioplastics sales grows by 39% YoY to \$1.7m**
- **Malaysian bioplastic resin plant is ramping up production to meet growing demand**
- **\$0.5 million cash position as at 30 September 2018 (excludes Placement and Rights Issue announced on 23 October 2018 to raise up to \$3.8 million before costs)**
- **Further \$2m net cash inflow scheduled in November 2018 from settlement of Malaysian land and building sale**

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 September 2018.

Bioplastics

Bioplastic sales were \$1.7 million up from \$1.2 million for the same period last year, representing growth of 39% including bioplastic resin sales of \$0.4 million, representing growth of 296% YoY.

SECOS' new Malaysian bioplastic plant commenced resin production on 31 July 2018, and the Company has delivered initial orders of bioplastic resin to local customers. In addition, trials of the Company's bioplastic resin have been approved for commercial supply to major bag makers in Malaysia. This generated significant interest from other bag makers who are keen to source locally-made bioplastic resin to comply with the regulatory ban on all single use traditional plastic bags coming into effect in Malaysia on 1 July 2019.

SECOS' new 30,000sq ft. facility is ideally located close to Malaysia's largest port, and will provide the Company with additional capacity and sales to meet the growing global demand for bioplastics.

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

For personal use only

Traditional Plastics

In July 2018, SECOS proactively began transitioning traditional film production for export customers from its Australian plant to its Malaysian traditional film plant with the objective of improving gross margins and customer delivery times within the Asian region. All customers began trialing and qualifying film supplied from SECOS' Malaysian plant during the quarter.

The transition process resulted in a drop in sales of circa \$1.4 million during the quarter compared to the same period last year. This was because key accounts ran down surplus stock levels of Australian film to accommodate ordering new film from SECOS' Malaysian plant. Sales were further reduced by the one off impact of the shorter lead time required to deliver from Malaysia compared to Australia. All traditional film customers have now approved the Malaysian film supply and have begun ordering new film from the Malaysian plant. Although traditional film sales are not expected to fully return to previous levels, the improved efficiencies from consolidating all traditional film manufacturing in Malaysia is expected to deliver an increase in operating margins, leading to an improved profit result.

No further production is expected from the Australian plant. During the quarter, SECOS announced it was undertaking a strategic review of its wholly-owned subsidiary, Stellar Films Australia (SFA). The Board engaged consultant Promentor to assist with the Strategic Review and will take all necessary steps to ensure that the best interests of all stakeholders are served by a thorough evaluation of the Company's options. Based on the initial findings, the Board expects to realise recurring annual cost savings of approximately \$1 million with the consolidation of the Company's traditional plastic film production to its Malaysian operations. The review is expected to be completed in early November.

Cash Flow

Cash receipts from customers were \$5.7 million.

Net cash outflow from operations was \$0.7 million – an improvement over the previous quarter whilst investing in the start-up of the new bioplastic resin plant in Malaysia. Operating cash outflow for the September quarter improved by \$0.5 million year-on-year.

SECOS Managing Director, Stephen Walters, said:

“The start of production from our new bioplastic resin plant in Malaysia was an exciting milestone for SECOS which should enable us to meet growing demand for our resin products at improved margins. We will be ramping up production of both our Malaysia and China plants to keep pace with growing global demand.”

“We are undertaking a review of our Australian subsidiary Stellar Films to identify how to best utilise the assets going forward given our strategy to be a world leader in bioplastics.”

For personal use only

Corporate

After the end of the quarter, Mr. Ian Stacey joined as Group Chief Operating Officer to strengthen the executive team to identify and execute on opportunities to extract business efficiencies and drive high performance throughout the Group.

SECOS issued 4,782,401 fully paid ordinary shares to convertible note holders on 17 September 2018, pursuant to the conversion of Convertible Notes entered into on 23 December 2016. The issue of the Shares was approved by shareholders at the Annual General Meeting held on 30 November 2017 (Resolution 5). The shares were issued at an issue price of \$0.063/share. The share issue price was based on volume weighted average selling price of SECOS shares 10 days before notice of conversion was given. SECOS gave notice of the issue under section 708A(6) of the *Corporations Act 2001* (Cth).

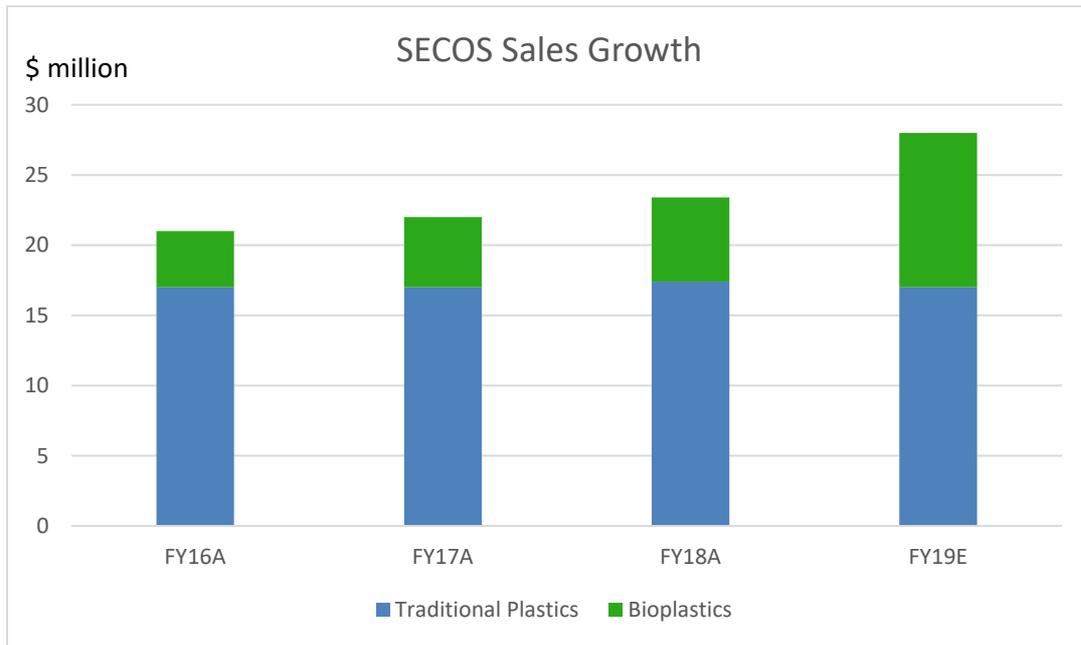
SECOS issued 15,179,597 fully paid ordinary shares via a Placement to Institutional and Sophisticated investors on 26 October 2018 pursuant to Listing Rule 7.1 and 7.1A to raise \$0.9 million before costs. The Company also raised a further \$0.3 million from directors on the same terms as the Placement. The Company will seek shareholder approval for the placement to directors at its Annual General Meeting to be held on 30 November 2018.

An Information Booklet for the Rights Issue to raise a further \$2.7 million to support the Company's FY19 business expansion plan was dispatched on 30 October 2018. The Rights Issue is scheduled to close on 13 November 2018.

Outlook

- Underpinning growth in SECOS' sales is the continuing global shift to bioplastics, with annual industry sales expected to grow by 15% and to double to \$6 billion by 2023.
- Positive feedback from prospective packaging customers in the US, Europe and Asia provides confidence in continued growth in the Company's global bioplastic resin sales.
- \$2 million net cash from sale of Malaysian land and building expected to settle by late November 2018, following the repayment of \$1.3 million in debt at settlement.
- The Board will consider further cost saving initiatives during the year and believe further improvements are possible.

For personal use only



The Company's September 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 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.

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

For personal use only

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 September 2018

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 Months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	5,705	5,705
1.2	Payments for	-	-
	(a) research and development	(70)	(70)
	(b) product manufacturing and operating costs	(4,446)	(4,446)
	(c) advertising and marketing	(191)	(191)
	(d) leased assets	(282)	(282)
	(e) staff costs	(1,009)	(1,009)
	(f) administration and corporate costs	(319)	(319)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(122)	(122)
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	(734)	(734)

For personal use only

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(281)	(281)
	(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	(281)	(281)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	150	150
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	(552)	(552)
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	(402)	(402)

4.	Net increase / (decrease) in cash and cash equivalents for the period	(1,416)	(1,416)
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)	(734)	(734)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(281)	(281)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(402)	(402)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	522	522

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	467	1,883
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)	522	1,938

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	123
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	247	247
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	5,278	5,278

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	247	247
Loan facilities			247	247
Multi Option Line Facility CIMB Bank, Malaysia	8.85%	Secured	1,026	1,026
Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	330	330
Unsecured Loan	10.0%	Unsecured	634	634
Convertible Notes	10.0%	Unsecured	3,289	3,289
Other Facilities			5,278	5,278
Total			5,525	5,525

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	100
9.2	Product manufacturing and operating costs	6,000
9.3	Advertising and marketing	200
9.4	Leased assets	200
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	7,800

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] Date: **31 October 2018**
 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.