

14 October 2020

Clare Porta  
ASX Compliance  
Australian Stock Exchange Limited  
20 Bridge Street  
Sydney NSW 2000

Dear Ms Porta

### **Skin Elements Limited (SKN): Query Letter**

In reply to ASX query Letter of 25 September 2020, SKN provides the following reply:

**1. ASX notes that:**

*The FY19 Half Year Report contained a qualified audit conclusion in relation to the carrying value of SKN's intangible assets, and the auditor stated the following:*

*'Due to the significant variability of the future cash flows of the asset, we were unable to satisfy ourselves as to the appropriateness and reliability of the forecast of future cash flows that was included in the impairment model. Therefore we were unable to obtain sufficient appropriate evidence about the carrying value of the Intangible assets as at 31 December 2018.*

*Consequently we were unable to determine whether any adjustments to the carrying value of the Intangible asset in the statement of financial position are necessary for the period ended 31 December 2018.'*

*The Annual Report contained a qualified audit opinion in relation to the carrying value of SKN's intangible assets of \$8,995,117, with the auditor making the same statements as detailed above (but in relation to the carrying value at 30 June 2019).*

*The FY20 Half Year Report contained a qualified audit conclusion in relation to the carrying value of SKN's intangible assets of \$8,799,721, with the auditor making the same statements as detailed above (but in relation to the carrying value at 31 December 2019).*

*SKN's responses to ASX's query letters in relation to the FY19 Half Year Report, Annual Report, and FY20 Half Year Report each stated that the directors anticipated that SKN would receive an unqualified audit opinion at the next balance date (see paragraphs B, D and H above).*

*The Preliminary Final Report included a carrying value of SKN's intangible assets of \$8,653,824.*

*In light of the above and SKN's cash receipts and net operating cash outflows for the March and June 2020 quarters:*

- a) *Do the directors still anticipate that SKN will receive an unqualified audit opinion in relation to its financial statements for the financial year ended 30 June 2020?*

The Directors anticipate SKN will receive an unqualified audit opinion in relation to its financial statements for the financial year end 30 June 2020.

With the markets response to the Company's technology continuing to be positive, the Directors are confident that the increased working capital, with increased production and increased sales activities will validate the reliability of SKN's cash flow models used to support the recoverable amount of the intangible assets.

SKN notes that the audit qualification matter reflects the auditor not being able to obtain sufficient appropriate audit evidence in regard to the forecast future cashflows that SKN has used in its VIU model assessment of the Intangible assets recoverable amount, rather than stating that SKN has not complied with AASB 136.

SKN further notes that the Company's market capitalisation is over \$20 million, well in excess of the Company's carrying value of intangibles.

*b) Has SKN obtained an independent third party valuation of its intangible assets? If the answer to this question is 'no', why not?*

No refer to response in a) above.

*2. Does SKN consider that its financial condition is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for SKN's conclusion.*

*If the answer to this question is 'no', please explain what steps SKN has taken, or proposes to take, to warrant continued listing on ASX under Listing Rule 12.2.*

SKN considers that the financial condition of SKN is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2.

As set out in the Company's Preliminary Final Report to 30 June 2020 the Group recorded a loss of \$1,937,899 (30 June 2019: 1,967,761 loss), a net working capital surplus of \$543,591 (30 June 2019: surplus of \$200,028) and had net cash outflows from operating activities of \$1,952,313 (30 June 2019: \$1,818,443).

Management believe there are sufficient funds to meet the entity's working capital requirements based upon:

- \$10.5 million from exercise of options and entering into underwriting agreement for options not exercised by 31 December 2020,
- Prefactoring finance facility to fund up to \$10 million in product manufacturing ,
- Commencing scale production of the full range of the Company's skincare products
- Entering into a Distribution Agreement with Prudential Consultants for Invisi-Shield in NSW & Tasmania for minimum \$2.4 million.
- Increase in sales through the Company's existing sales channels.
- The group expects to continue to receive the full support of its creditors.

*March Securities Issues Announcement*

3. Please confirm how many of the 24.8 million shares issued on 20 March 2020 were issued for:

a) cash consideration (including the issue price of the shares and the cash consideration received); and

	Issue Price	Shares	\$	
Bay Road Nominees Pty Ltd	\$0.0125	4,800,000	\$60,000	Cash
Lakehouse Investments Pty Ltd	\$0.0125	4,000,000	\$50,000	Cash
Douglas Lake Pty Ltd	\$0.0125	4,000,000	\$50,000	Cash
State Securities Pty Ltd	\$0.0125	8,000,000	\$100,000	Cash
Total		20,800,000	\$260,000	Cash

b) non-cash consideration (including the names of the allottees, the deemed issue price of the shares, and the nature of the non-cash consideration).

	Issue Price	Shares	\$	Services
State Securities Pty Ltd	\$0.0125	2,000,000	\$25,000	Underwriting Fee and Corporate Services
Custodian Australia Pty Ltd	\$0.0125	2,000,000	\$25,000	Pre-Factoring Finance Facility Fee
Total		4,000,000	\$50,000	

SKN notes that the 2,000,000 shares issued to State Securities and the 2,000,000 shares issued to Custodian on 23 March 2020 were incorrectly detailed as part of the Placement in the New Securities Issue announcement and Appendix 2A and Appendix 3B of 23 March 2020.

*State Securities*

4. Please confirm whether the options underwriting agreement is still on foot (see paragraphs J iii) and K above).

SKN and State Securities confirm that the Underwriting Agreement is on foot.

5. How many SKN securities does State Securities hold?

State Securities Pty Ltd holds 10,000,000 SKN shares.

*6. Who introduced SKN to State Securities (see paragraph K above), and was any introduction fee paid in relation to the introduction or the subsequent agreements between SKN and State Securities?*

SKN was referred to State Securities by Enrico Mattiaccio.

State Securities was contacted by SKN's corporate consultant Mr Robin Armstrong who had previously dealt with State Securities.

No introduction fee was paid.

*Custodian*

*7. Has SKN drawn down any further amounts under the \$10 million pre-factoring financing facility with Custodian since 30 June 2020?*

Since 30 June 2020 SKN has not drawn down any further amounts under the pre-factoring finance facility given continuing production delays.

*Please also confirm whether the \$10 million pre-factoring financing facility is still available to SKN.*

SKN and Custodian confirm that the \$10 million pre-factoring financing facility is still available to SKN.

*8. Has Custodian registered the production stock it has funded on the Personal Property Securities Register?*

Due to COVID-18 restrictions on the Company's contract production laboratory in Victoria, limited production has meant no stock has been registered under the PPSR.

*9. ASX notes that ASIC searches indicate that:*

*Mr Alex Gulabovski resigned as the sole director and secretary of Custodian on 1 August 2020;*

*Mr Joshua Gulabovski was appointed as the sole director and secretary of Custodian on 1 August 2020;*

*Mr Alex Gulabovski is no longer the sole shareholder of Custodian; and*

*Custodian's sole shareholder is now an entity in which Mr Joshua Gulabovski holds a controlling interest.*

*In light of the above, please confirm the AFSL and Credit Licence (or authorised representative) numbers and details for Mr Joshua Gulabovski, Custodian, and the AperioMoney group (also see paragraph N above).*

Mr Alex Gulabovski has confirmed that Custodian has had a change of directorship and shareholders consistent with all Aperio related entities. Mr Alex Gulabovski continues to act on behalf of Custodian and work closely with high net worth professional investors to consider opportunities outside of the traditional investment space.

Mr Alex Gulabovski's AFS Representative number is 000276283.

*10. Please confirm whether:*

*a) The funding for the pre-factoring financing facility agreements has been provided directly by Mr Alex Gulabovski, Mr Joshua Gulabovski, or by a client(s) of Messrs Gulabovski/Aperio.*

Mr Alex Gulabovski has confirmed that Custodian Australia has been specially setup for opportunities outside of the traditional investment space and that funds within Custodian are a combination of his own funds and that of high net worth professional investors considering opportunities outside of what AperioMoney does in the adviser space.

*b) There is any relationship or connection between Custodian or the Aperiomoney Group and State Securities.*

Mr Gulabovski has confirmed that Custodian or AperioMoney has no relationship with State Securities Pty Ltd. SKN understands that State Securities and Custodian are known to each other professionally.

*11. How many SKN securities does Custodian hold?*

2,300,000

*12. SKN announced the issue of 300,000 shares to Custodian 'for corporate financial services' on 12 June 2020, while the related Appendix 2A disclosed that the issue date was 14 May 2020 (see paragraphs L and M above).*

*Why wasn't the issue of shares to Custodian on 14 May 2020 announced to the market prior to 12 June 2020?*

SKN notes that the shares issued to Custodian on 14 May 2020 were announced to the market on 12 June 2020 as part of a detailed package of cleansing prospectus and other securities issues announcements prepared and lodged during that period. SKN has reviewed its administrative systems and processes to ensure that the Company meets its obligations under Listing Rules in a timely manner.

*13. Who introduced SKN to Custodian (see paragraph N above), and was any introduction fee paid in relation to the introduction or the subsequent agreements between SKN and Custodian?*

SKN was seeking to increase the existing pre-factoring finance facility with State Securities to fund increased production of its natural skincare products. State Securities advised that its investment profile was more suited to equity investment rather than specialised lending of this nature, and therefore, State Securities referred SKN to Mr Alex Gulabovski from AperioMoney, who had capacity for this type of facility and was able to consider funding of at least \$1 million.

No introduction fee was paid.

*General*

*14. Does SKN consider that it has adequate resources, systems and controls to comply with its obligations under the Listing Rules? If the answer to this question is:*

*a) 'yes', please explain why SKN considers that its resources, systems and controls are adequate.*

*b) 'no', what steps does SKN intend to take to ensure that it has adequate resources, systems and controls to comply with its obligations under the Listing Rules?*

SKN considers that it has adequate resources, systems and controls to ensure that it complies with its obligations under the Listing Rules.

SKN has been transitioning from research & development to commercial operations over the past twelve months and is making the following changes:

- i. The appointment of new Company Secretaries as announced on 9 October 2020, and
- ii. Appointment of a new independent Non-Executive Director to be announced this week.

*15. Please confirm that SKN is complying with the Listing Rules and, in particular, Listing Rule 3.1.*

SKN confirms that SKN is complying with the Listing Rules and, in particular, Listing Rule 3.1. and there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

*16. Please confirm that SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.*

SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy.

Yours sincerely,

**Peter Malone**  
Executive Chairman