



20 May 2019

Ms Penelope Reid
Adviser, Listings Compliance (Perth)

ListingCompliancePerth@asx.com.au

Skin Elements Limited (SKN) – Response to Appendix 4C Query

We refer to your letter of 15 May 2019 requesting additional information on SKN's Appendix 4C quarterly report for the period ended 31 March 2019, to which we reply as follows:

1. Does SKN expect that it will continue to have negative operating cash flows for the time being and, if not, why not?

SKN reported in its Appendix 4C quarterly report at 31 March 2019, cash at the end of the quarter of \$330,000. Since then the Company has raised \$140,000 from a placement.

The Company estimates that it will receive cash inflows of \$800,000 from sales orders for the next quarter ended 30 June 2019, with cash outflows of \$340,000 for manufacturing costs which will only be incurred upon receipt of the cash from the sales orders. Additionally, operational costs are estimated at \$366,000.

On this basis, the Company estimates net positive cashflows of approximately \$234,000 for the next quarter ended 30 June 2019.

The Company has received \$500,000 in the quarter ended 31 March 2019 under the Term Sheet with Henan Huatuo Health Management Co, Ltd (**HHHM**), of which \$200,000 is a loan under the \$2.4 million strategic investment (repayable by 31 December 2019 if shareholder approvals are not obtained), and \$300,000 is the first order for product under the proposed \$20 million distribution agreement.

2. Has SKN 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?

As detailed in the Appendix 3B announcement to the market on 3 May 2019, SKN has raised \$140,000 from a placement under LR7.1.

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As set out in the Announcement to the market on 25 March 2019, SKN has entered into a binding Term Sheet with HHHM for a proposed \$20 million distribution agreement and \$2.4 million strategic investment. As set out in this announcement, the Term Sheet is subject to various conditions precedent which the Company and HHHM are currently working through.

- 3. SKN notes the Appendix 4C states, 'A further \$200,000 was also received as part of the first tranche of the proposed \$2.4 million strategic investment in Skin Elements by HHHM which is subject to shareholder approval'. When is this due to occur? When is the shareholder meeting?**

Under the Term Sheet an extraordinary shareholders meeting is proposed to be held by 30 June 2019 to obtain the required shareholders approvals. The Company and HHHM are currently working through the detailed documentation that forms the Notice of Meeting for this extraordinary shareholders meeting, and will advise the market immediately if there is any material changes in documentation or timetable.

- 4. Does SKN expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?**

SKN expects to be able to continue its operations and to meet its business objectives.

This view is formed on the basis of positive net operating cashflows in the next quarter resulting from proposed sales orders from existing sales channels and proposed Distribution Agreement with HHHM, and the proposed strategic investment by HHHM.

- 5. Please confirm that SKN is complying with Listing Rule 3.1 and that 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.**

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

- 6. 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.**

We confirm that SKN's responses to the questions above have been authorised and approved by the Board of Directors under its published continuous disclosure policy.

Yours sincerely



Craig Piercy
Company Secretary

Natural Science by Skin Elements



15 May 2019

Reference: ODIN02128

Mr Craig Piercy
Company Secretary
Skin Elements Limited
7/36 Ord Street
WEST PERTH WA 6005

By email: craig@senatural.com

Dear Mr Piercy

Skin Elements Limited ('SKN'): Appendix 4C Query

ASX refers to SKN's Appendix 4C quarterly report for the period ended 31 March 2019 lodged with the ASX Market Announcements Platform and released on 1 May 2019 (the 'Appendix 4C').

ASX notes that SKN has reported:

- negative net operating cash flows for the quarter of \$85,000;
- cash at the end of the quarter of \$330,000; and
- estimated cash outflows for the next quarter of \$706,000.

It is possible to conclude, based on the information in the Appendix 4C, that if SKN were to continue to expend cash at the rate indicated by the Appendix 4C, SKN may not have sufficient cash to continue funding its operations.

Request for Information

In view of that, ASX asks SKN to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market under Listing Rule 18.7A:

1. Does SKN expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has SKN 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?
3. SKN notes the Appendix 4C states, 'A further \$200,000 was also received as part of the first tranche of the proposed \$2.4 million strategic investment in Skin Elements by HHHM which is subject to shareholder approval'. When is this due to occur? When is the shareholder meeting?
4. Does SKN expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
5. Please confirm that SKN is complying with Listing Rule 3.1 and that 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.
6. 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.

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Please also provide any other information that SKN considers may be relevant to ASX forming an opinion on whether SKN is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **3 PM AWST Monday, 20 May 2019**.

If we do not have your response by then, ASX will have no choice but to consider suspending trading in SKN's securities under Listing Rule 17.3. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SKN's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail at ListingsCompliancePerth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1 and 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to SKN's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that SKN's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SKN's securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

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Yours sincerely

Penelope Reid
Adviser, Listings Compliance (Perth)