



28 February 2020

2019 Half-Year Report

Australian natural skin care company Skin Elements Limited (ASX: SKN) (Skin Elements, the Company) is pleased to present its Half-Year Report to 31 December 2019.

Global Opportunity

As outlined in the Company's recent quarterly report, Skin Elements continues to drive sales into global markets including Europe, Japan, and its existing Australian distributors. Sales to Slovakia, Slovenia, Japan as well as Osborne Health and online sales in Australia total over \$200,000 since the end of the half year, with orders for Soleo Organics for March targeted to exceed over \$300,000.

Expanded Product Range in Production

Soleo Organics natural sunscreen full product range is in production for delivery in April to fulfill sales over the northern summer. The Company has committed \$500,000 to the production program. Additionally the Company has production orders in place for its PapayaActivs range based around sales to Europe as well as its Australian distributors

New Product Launch – Invisi Shield

The Company confirms its development program involving its Invisi Shield skin medical range has seen the consolidation of market testing on its products. This is being bought forward for immediate release given the global issues associated with the COVID-19 pandemic.

Capital Raising

Skin Elements will complete on 10 March 2020, a fully underwritten non renounceable rights issue raising approximately \$1 million working capital to support production of the Company's products.

The Company also has in place a \$270,000 production funding facility to provide the working capital for initial production orders for its expanded Soleo Organics and PapayaActivs ranges.

ENDS

For further information, please contact:

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About Skin Elements

Skin Elements is an ASX-listed skin care company focused on the development of natural and organic skin care products, as an alternative to current chemical-based products. It has developed a portfolio of products which includes, the Soléo Organics 100% natural and organic sunscreen, pawpaw based PapayaActivs natural therapeutic skincare, the Elizabeth Jane Natural Cosmetics brand, and the Invisi Shield skincare range. The Company has completed a highly successful test marketing phase in major international markets for Soléo Organics and has regulatory approval with the USA FDA, TGA and other significant regulators. Skin Elements aims to become the number one recognised national and international sunscreen brand.

Further information is available via the Company website: <http://skinelementslimited.com>



Natural Science by Skin Elements

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SKIN ELEMENTS LIMITED

Appendix 4D

HALF YEAR REPORT

1. COMPANY DETAILS

Name of Entity	Skin Elements Limited
ABN	90 608 047 794
Reporting Period	Half year ended 31 December 2019
Previous Reporting Period	Year end 30 June 2019

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

			\$'000
Revenues from ordinary activities	down	68% to	85
Profit (Loss) from continuing activities after tax attributable to the owners of Skin Elements Limited	down	23% to	(1,108)
Profit (Loss) for the half year attributable to the owners of Skin Elements Limited	down	23% to	(1,108)

3. NET TANGIBLE ASSETS

	Reporting Period Cents	Previous Period Cents
Net tangible assets per ordinary security	0.001	0.001

4. CONTROL GAINED OVER ENTITIES

The Group did not gain any entities during the period

LOSS OF CONTROL OVER ENTITIES

The Group did not dispose of any entities during the period.

5. DIVIDENDS

The Group did not declare or pay any dividends during the period.

6. DIVIDEND REINVESTMENT PLAN

Not applicable

7. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable

8. FOREIGN ENTITIES

Not applicable

9. AUDIT QUALIFICATION OR REVIEW

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

ATTACHMENTS

The Interim Report of Skin Elements Limited for the half year ended 31 December 2019 is attached.

SIGNED

Signed  _____

Peter Malone
Executive Chairman

Dated: 28 February 2020



Interim Financial Report

For the six months ended 31 December 2019

Skin Elements Limited ABN 90 608 047 794





Corporate Directory

SKIN ELEMENTS LIMITED

ABN 90 608 047 794

DIRECTORS

Mr Peter Malone – Executive Chairman

Mr Phil Giglia – Non-Executive Director

Mr Craig Piercy – Executive Director

COMPANY SECRETARY

Mr Craig Piercy

REGISTERED AND PRINCIPAL OFFICE

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SHARE REGISTRY

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AUDITOR

BDO Audit (WA) Pty Ltd

38 Station Street

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AUSTRALIAN SECURITIES EXCHANGE LISTING

ASX Code: SKN



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Director's Report

The Directors present the interim financial report of Skin Elements Limited (the **Company, Group** or **SEL**) for the half-year ended 31 December 2019 and the auditor's review report thereon:

DIRECTORS

The Directors of the Company at any time during or since the end of the half year and until the date of this report are noted below.

Mr Peter Malone

Executive Chairman

Mr Phil Giglia

Independent Non-Executive Director

Mr Craig Piercy

Executive Director – Appointed on 29 November 2019

Mr Luke Martino

Independent Non-Executive Director – Resigned on 10 October 2019

Mr Zeling Li

Independent Non-Executive Director – Resigned on 29 November 2019

Ms Jialin Li

Independent Non-Executive Director – Resigned on 29 November 2019

PRINCIPAL ACTIVITIES

During the half-year ended 31 December 2019, the principal continuing activity of the Group consisted of the development and commercialisation of its proprietary all natural skincare technology.

REVIEW OF OPERATIONS

SKNLife product and branding platform established

During the period, Skin Elements completed the strategic re-branding, expansion and refinement across its entire natural skincare and sun care product range. This process resulted in the Company now having a total of 40 therapeutic and cosmetic skin care products in production, including five new products in the flagship Soléo Organics sunscreen range, as well as PapayaActivs range of therapeutic treatments and every day skincare, and the first five products from the Elizabeth Jane Natural Cosmetics range.

Global Opportunity

Skin Elements continues to maintain its focus on developing sales in global markets including major retail pharmacy and health chains in the United Kingdom, the expansion of its online sales portal for the USA market, and the support to its distributors in Europe with further initial orders and deposits being received.

Key incentivisation

To assist with securing these customer, Skin Elements has engaged Palmer Wilson Associates Ltd (PWA), a United Kingdom based specialist business development consultancy aimed at providing cost effective solutions to developing market entry for brands in global market, especially the United Kingdom, Europe, Middle East & Asia.

PWA together with Executive Chairman Mr Peter Malone are incentivised through the issue of performance rights which convert to shares on the achievement of sales targets.

In line with the establishment of the SKNLife business model, the Company has streamlined operations and cost structures to better fit its operations moving forward Skin Elements reviews its working capital requirements and capital raising options on an ongoing basis to ensure it has sufficient capital to support the operation and growth of the business.



Director's Report (Continued)

Capital Raise of \$1.0 million

In February 2020, Skin Elements commenced a fully underwritten non-renounceable pro-rata rights issue (Entitlement Offer) to existing shareholders at an issue price of \$0.01 per new share, on the basis of five new share for every nine ordinary shares held. Shareholders also received one new free unlisted option for every three new shares, exercisable at \$0.03 on or before 31 December 2020. Under the Entitlement Offer, which closes on 10 March 2020, The Company will issue 100,479,601 shares and 33,493,200 options raising \$1,004,796 (before costs).

Chinese distribution Agreement completed

On 9 October 2019, Skin Elements Limited advised that it was not proceeding with the Term Sheet Agreement with Henan Huatuo Health Management Co, Ltd (HHHM) and on 29 November 2019, Skin Elements settled the \$200,000 convertible note under the Term Sheet through the issue of the convertible note to third parties on similar terms. This now completes this project.

RESULTS

The Company incurred a loss of \$1,108,530 after income tax for the half-year ended 31 December 2019 (31 December 2018: loss \$1,432,081) predominantly due to the expansion of the product range as it positions the business for growth.

ISSUE OF SHARES, OPTIONS AND PERFORMANCE RIGHTS

During the half year, Skin Elements Limited issued the following shares and options:

- Placement of 4,059,838 ordinary fully paid shares and 3,535,706 free attaching options (exercisable at \$0.10 each on or before 31 December 2020) in July & August raising \$113,675.
- Issue of 761,538 ordinary fully paid shares for services rendered during the period with the fair value per share of \$0.026 each for value of \$19,800.
- Issue of 2,136,577 ordinary fully paid shares for services rendered during the period with the fair value per share of \$0.026 each for value of \$55,551.
- Issue of 3,001,326 ordinary fully paid shares and 3,001,326 free attaching options (exercisable at \$0.10 each on or before 31 December 2020) pursuant to convertible notes issued 2018 as approved by shareholders at the 2019 Annual General Meeting at a fair value per share of \$0.15 for a total value of \$450,199.
- Issue of 12,500,000 ordinary fully paid shares and 9,375,000 free attaching options (exercisable at \$0.10 each on or before 31 December 2020) pursuant to a convertible note issued during the period at a fair value per share of \$0.016 for a total value of \$200,000.

On 29 November 2019, the Company obtained shareholder approval to issue 27,000,000 performance rights to Mr Peter Malone – Executive Chairman and 20,000,000 performance rights to Palmer Wilson Associates Ltd a UK based specialist business development consultancy. These performance rights will convert into shares upon performance milestones of sales revenue of \$20,000,000 being achieved over a four year period to 31 December 2023. The fair value per right is \$0.0108 which is the share price at grant date 29 November 2019. The rights are expensed over the vesting period which is up to 49 months from the date of issue.

EVENTS SUBSEQUENT TO REPORTING DATE

In February 2020 the Company commenced a fully underwritten non renounceable pro-rata entitlement issue of 100,479,601 ordinary fully paid shares (on a ratio of 5 new shares for 9 existing shares at the record date of 11 February 2020) and 33,493,200 free attaching unlisted options exercisable at \$0.03 on or before 31 December 2020 (on a ratio of 1 option for every 3 new shares). The offer closes on 10 March 2020.

There have been no other significant events after the end of the reporting period to the date of this report.



Director's Report (Continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the half year not otherwise disclosed in this report and the interim financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 5 and forms part of this directors' report for the half-year ended 31 December 2019.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.



Peter Malone
Executive Chairman

Dated at Perth, Western Australia this 28 February 2020.



Auditor's Independence Declaration



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DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF SKIN ELEMENTS LIMITED

As lead auditor for the review of Skin Elements Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Skin Elements Limited and the entities it controlled during the period.

Wayne Basford

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

Half-Year Ended 31 December 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Period ended 31 Dec 2019 \$	Period ended 31 Dec 2018 \$
	Notes	\$	\$
Revenue			
Sale of sun care & skincare products		84,831	263,671
Cost of sales		(67,107)	(125,333)
Gross profit		17,724	138,338
Other income		294,162	247,222
Expenses			
Administration expenses	2	(542,094)	(699,025)
Consultants fees	2	(174,408)	(366,848)
Occupancy expenses		(55,221)	(61,280)
Research & development expenses		(362,533)	(414,642)
Advertising & marketing expenses		(90,732)	(124,857)
Amortisation	9	(195,428)	(150,989)
Total Expenditure		(1,108,530)	(1,817,641)
Profit / (loss) before income tax expense		(1,108,530)	(1,432,081)
Income tax expense		-	-
Profit / (Loss) after income tax from continuing operations attributable to equity holders of Skin Elements Limited		(1,108,530)	(1,432,081)
Other comprehensive income			
Total comprehensive loss attributable to equity holders of Skin Elements Limited	16	(1,108,530)	(1,432,081)
Basic loss per share	17	(0.007)	(0.011)
Diluted loss per share		N/A	N/A

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Half-Year Ended 31 December 2019

Consolidated Statement of Financial Position

	Notes	As at 31 Dec 2019 \$	As at 30 June 2019 \$
Current Assets			
Cash and cash equivalents	3	36,679	116,238
Trade receivables	4	4,537	16,152
Other receivables	5	41,036	9,536
Research and development receivable	6	253,767	649,452
Prepayments	7	31,001	97,137
Inventories	8	88,005	17,721
Total Current Assets		455,025	906,236
Non Current Assets			
Intangible assets	9	8,799,721	8,995,117
Total Non Current Assets		8,799,721	8,995,117
Total Assets		9,254,746	9,901,353
Current Liabilities			
Trade payables	10	158,546	184,880
Other payables	11	163,280	321,328
Borrowings	12	-	200,000
Total Current Liabilities		321,826	706,208
Non-Current Liabilities			
Other payables	13	439,190	-
Total Non-Current Liabilities		439,190	-
Total Liabilities		761,016	706,208
Net Assets		8,493,730	9,195,145
Shareholders Equity			
Issued Capital	14	16,126,009	15,286,784
Reserves	15	330,426	804,743
Accumulated losses	16	(7,962,705)	(6,896,382)
Total Shareholders Equity		8,493,730	9,195,145

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Half-Year Ended 31 December 2019

Consolidated Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period Ended 31 December 2019				
	Issued capital	Accumulated losses	Share based payments reserves	Converting Note reserve	Total Equity
	\$	\$	\$		\$
Balance at 1 July 2019	15,286,784	(6,896,381)	312,338	492,405	9,195,146
Loss for the half-year	-	(1,108,530)	-	-	(1,108,530)
Adjustment to fair value of convertible note	-	42,206	-	(42,206)	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half-year	-	(1,066,324)	-	(42,206)	(1,108,454)
Transactions with owners in their capacity as owners					
Issue of share capital	113,675	-	-	-	113,675
Share based payments	75,351	-	18,088	-	93,439
Converting note conversion	650,199	-	-	(450,199)	200,000
	839,225	-	18,088	(450,199)	407,114
Balance at 31 December 2019	16,126,009	(7,962,705)	330,426	-	8,493,730

	Period Ended 31 December 2018				
	Issued capital	Accumulated losses	Share based payments reserves	Converting Note reserve	Total Equity
Balance at 1 July 2018	13,679,321	(4,928,620)	215,505	522,835	9,489,041
Loss for the half-year	-	(1,432,181)	-	-	(1,432,181)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half-year	-	(1,432,181)	-	-	(1,432,181)
Transactions with owners in their capacity as owners					
Issue of share capital	1,309,867	-	-	-	1,309,867
Share based payments	38,194	-	48,417	-	86,611
Converting note conversion	-	-	-	(38,249)	(38,249)
	1,348,061	-	48,417	(38,249)	1,358,229
Balance at 31 December 2018	15,027,382	(6,360,801)	263,922	484,586	9,415,089

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Half-Year Ended 31 December 2019

Consolidated Statement of Cashflows

	Notes	Period Ended 31 Dec 2019 \$	Period Ended 31 Dec 2018 \$
Cash flows from operating activities			
Receipts from customers		149,388	251,495
Payments to suppliers and employees		(1,069,333)	(1,997,119)
Interest paid		(14,289)	(2,765)
Interest received		888	-
Receipt of Research and development tax incentive		688,959	490,630
Net cash inflow / (outflow) from operating activities		(244,387)	(1,257,759)
Cash flows from investing activities			
Payments for businesses		-	-
Net cash inflow / (outflow) from investing activities		-	-
Cash flow from financing activities			
Proceeds from the issue of equity		364,833	1,261,582
Payment for share issue costs		-	(129,596)
Repayment of borrowings		(200,000)	-
Net cash inflow / (outflow) from financing activities		164,833	1,131,986
Cash and cash equivalents at the beginning of the financial period		116,233	195,661
Net increase / (decrease) in cash and cash equivalents		(79,554)	(125,773)
Cash and cash equivalents at the end of the financial period	3	36,679	69,888

This consolidated statement of cash flows should be read in conjunction with the notes to this interim financial report



Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half yearly report of Skin Elements Limited (the **Company, Group or Skin Elements**) for the half-year ended 31 December 2019 was authorised for issue in accordance with a resolution of directors on 28 February 2020.

The Company is a public company limited by shares incorporated and domiciled in Australia whose securities are traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the director's report above.

(a) Basis of preparation

The principle accounting policies adopted for the preparation of interim financial report are set out below. These accounting policies have been applied consistently to all periods presented unless otherwise stated.

(i) Statement of compliance

This interim financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report.

It is recommended that this interim financial report be read in conjunction with the any public announcements made by Skin Elements Limited up to the date of this report in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

(ii) Basis of measurement and reporting convention

This interim financial report has been prepared on an accruals basis and are based on historical cost. The interim financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

The accounting policies adopted are consistent with the accounting policies adopted in the Company's last annual financial statements for year ended 30 June 2019 unless otherwise stated.

(b) Going Concern

For the half-year ended 31 December 2019 the Group recorded a loss of \$1,108,530 (31 December 2018: \$1,432,081 loss), a net working capital surplus of \$133,199 (30 June 2019: surplus of \$200,028) and had net cash outflows from operating activities of \$244,387 (31 December 2018: \$1,257,759).

The ability of the Group to continue as a going concern is dependent on securing additional funding through issue of debt or equity, increasing revenues from sale of the Group's products and government R&D tax rebates to continue to fund its operational and marketing activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report. Subsequent to year end the entity expects to receive additional funds by the placement of equity.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- Positive cash flows from securing major distribution agreements;
- Funding to support working capital requirement;
- Will be able to raise additional equity to contribute to the Group's working capital position in the near term;
- The group expects to continue to receive the full support of its creditors;
- Non-call of amounts payable to related parties; and
- Ability to raise additional finance from debt or equity if and when required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the



Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

(c) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(d) Estimates and judgements

The preparation of the interim financial report requires the use of accounting estimates and judgements which, by definition, will seldom equal the actual results. This note provides an overview of the areas that involve a degree of judgement or complexity in preparing the interim financial report. Facts and circumstances may come to light after the event which may have significantly varied the assessment used which result in a materially different value being recorded at the time of preparing these interim financial report.

(i) Impairment of assets

The Company assesses the impairment of assets at each reporting date by evaluating conditions specific to the asset that may lead to impairment. The assessment of impairment is based on the best estimate of future cash flows available at the time of preparing the report. However, facts and circumstances may come to light in later periods which may change this assessment if these facts had been known at the time.

Due to sustained operating losses of the group, the Group has undertaken an impairment assessment of its Intangible assets in accordance with AASB136 *Impairment of assets*. The recoverable amount of Intangible assets is determined from a value in use model. The key assumptions for the value in use calculations are those regarding the future forecast cashflows which takes into account discount rates, growth rates and direct costs during the period. As a result of the assessment no impairment loss was recognised for the period.

(ii) Deferred taxes

Deferred tax assets have not been brought to account as it is not considered probable that the Company will make taxable profits over the next 12 months. The Company will make a further assessment at the next reporting period.

(iii) Amortisation rates

The Company has assessed the effective life of its Soleo Organics and McArthur intangible assets taking into account sector practices, the expected product life cycle and its own internal knowledge of the sunscreen and skincare markets to determine an appropriate amortization rate. This rate is an estimate of what the Company anticipates the intangible will be able to generate future benefits from the production and sales of the product and this may differ from the future results. The directors will continue to assess the effective life at each date.

(iv) Share Based Payments

The Company has assessed the fair value of options using a Black Scholes Option Pricing model and the fair value of performance rights using a Monte Carlo simulation model. These models include a number of estimated inputs including the Company's volatility, the risk free-rate and an estimated share price of the Company's shares in the future. These inputs were considered to be a reasonable basis available information at the time the valuations were undertaken but the outcome may be materially different if the Company had used other inputs.

(e) Segment Information

Operating Segments – AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This is consistent to the approach used for the comparative period. Operating segments are reported in a uniform manner to which is internally provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

An operating segment is a component of the group that engages in business activity from which it may earn revenues or incur expenditure, including those that relate to transactions with other group components. Each operating segment's results are reviewed regularly by the Board to make decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

The Board monitors the operations of the Company based on two segments, operational and corporate. The financial results of each segment are reported to the board to assess the performance of the Group. The Board has determined that strategic decision making is facilitated by evaluation of the operations of the legal parent and subsidiary which represent the operational performance of the group's revenues and the research and development activities as well as the finance, treasury, compliance and funding elements of the Group.

(f) Impact of adoption of new accounting standards

The note explains the impact of the adoption of AASB 16 Leases where they are different to those applied in prior periods. .

Impact on the financial statements

AASB 16 Leases eliminates the operating and finance lease classifications for leases currently accounted for under AASB 117 Leases. It instead required an entity to bring most leases onto its Statement of Financial Position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its Statement of Financial Position for most leases. As at 1 July 2019 and 31 December 2019, the Company has identified one contract that would be classified as leases under the new standard being the lease of its office premises. Due to the short term and low value of this lease, the Company has applied the exemption and elected to recognise the lease payments in profit and loss on a straight line basis instead of applying the recognition and measurement requirements in AASB 16. As a result, the adoption of the standard has no material impact on the half-year financial report.

(g) New accounting standards and interpretations that are not yet mandatory

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

	Period ended 31 Dec 2019	Period ended 31 Dec 2018
	\$	\$
PROFIT OR LOSS ITEMS		
2 LOSS FOR THE HALF YEAR		
Loss for the half year included the following items:		
(a) Administration expenses		
Accounting expenses	145,617	41,561
Audit expenses	34,985	38,181
Legal expenses	51,492	44,707
Wages, super & leave	122,939	168,021
Directors fees	20,000	49,751
Travel expenses	15,851	66,242
Other expenses	151,210	290,562
	<u>542,094</u>	<u>699,025</u>
b) Consulting fees		
Related party consulting fees (i)	173,085	208,672
External consulting fees	1,323	158,176
	<u>174,408</u>	<u>366,848</u>

(i) The Company engages the executives under consulting agreements to provide their services. A description of the services and the amounts paid or payable are listed in note 19.

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

	As at 31 Dec 2018	As at 30 June 2019
3 CASH	\$	\$
Cash at bank	36,679	116,238

Non-cash financing and investing activities

(i) Issue of Shares to consultants

The Company issued a total of 2,898,115 shares to consultants for services rendered during the period. The total value attributed to the shares was \$75,351 (refer note 14).

	As at 31 Dec 2019	As at 30 June 2019
4 TRADE RECEIVABLES	\$	\$
Trade receivables	4,537	16,152
	4,537	16,152

(i) Classification of trade and other receivables

Trade receivables are amounts due from customers for sale of goods in the ordinary course of business. The trade receivables are generally due for settlement within 30 days and therefore are classified as current. The group does not currently have any provision for doubtful debts in respect to their receivables as at 31 December 2019 (30 June 2019: Nil). Due to the short term nature of the current receivables, their carrying amounts approximate their fair value.

(ii) Receivables and impairment

The trade debtors balance does not currently have any amounts that are past due but not impaired.

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
5 OTHER RECEIVABLES		
GST receivable (net)	40,659	9,159
ABN Withholding	377	378
	<u>41,036</u>	<u>9,537</u>

	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
6 RESEARCH AND DEVELOPMENT TAX INCENTIVE		
Research and development receivable	253,767	649,452
	<u>253,767</u>	<u>649,452</u>

The Group continued its development program during the half year ended 31 December 2019. This program will result in a claim for research and development tax incentive which will subsequently be received after the year end. The Group will continue to develop its all natural skincare technology during the next year and assess the availability of applicable government assistance.

	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
7 PREPAYMENTS		
Raw materials	31,001	97,136
	<u>31,001</u>	<u>97,136</u>
8 INVENTORY		
Packaging	70,715	-
Finished goods	17,290	17,721
	<u>88,005</u>	<u>17,721</u>

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
9 INTANGIBLE ASSETS		
Soléo Organics – formula & technology	5,920,558	6,052,125
McArthur – formula & technology	788,859	806,503
Website development costs	8,906	10,807
Elizabeth Jane Natural Cosmetics – formula & technology	2,081,398	2,125,683
	<u>8,799,723</u>	<u>8,995,117</u>
Movements in Soléo Organics – formula & technology		
Opening balance	6,052,125	6,315,263
Less: Amortisation	(131,567)	(263,136)
Closing balance	<u>5,920,558</u>	<u>6,052,125</u>
Movements in McArthur – formula & technology		
Opening balance	806,503	835,642
Development cost additions	-	6,148
Less: Amortisation	(17,644)	(35,041)
Closing balance	<u>788,859</u>	<u>806,503</u>
Movements in Website development costs		
Opening balance	10,807	14,607
Less: Amortisation	(1,901)	(3,800)
Closing balance	<u>8,906</u>	<u>10,807</u>
Movements in Elizabeth Jane Natural Cosmetics – formula & technology		
Opening balance	2,125,683	2,214,253
Less: Amortisation	(44,285)	(88,570)
Closing balance	<u>2,081,398</u>	<u>2,125,683</u>

The company assess the impairment of assets at each reporting date as disclosed in note 1(d)(i).

	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
10 TRADE PAYABLES		
Trade creditors	158,546	184,880
	<u>158,546</u>	<u>184,880</u>

(a) Fair value of trade payables

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amount of trade and other payables are assumed to be the same as their fair values, due to their short term nature.

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

11 OTHER PAYABLES	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
Customer Prepayments on Orders	86,486	1,087
Payroll Payables	68,100	54,049
Other Payables	8,694	266,192
	<u>163,280</u>	<u>321,328</u>

Customer prepayments on orders are deposits received from customers which will be recorded as sales revenue upon delivery.

12 BORROWINGS	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
Convertible Notes	-	200,000
	<u>-</u>	<u>200,000</u>

Skin Elements settled the \$200,000 convertible note under the Tern Sheet through the issue of the convertible note to third parties on similar terms.

13 OTHER PAYABLES – NON-CURRENT	As at 31 Dec 2019	As at 30 June 2019
	\$	\$
Third parties	142,161	
Related parties*	297,029	-
Total	<u>439,190</u>	<u>-</u>

*Related party payables arise from funds loaned to the Group or from unpaid consulting services from the Related Parties to the Group. The amounts outstanding are not at call and maybe paid from future cashflows or by the issue of equity subject to shareholder approvals. See note 19.

14 ISSUED CAPITAL	As at 31 Dec 19	As at 30 Jun 19	As at 31 Dec 19	As at 30 Jun 19
	Shares No.	Share No.	\$	\$
(i) Share Capital				
Ordinary Shares	180,863,281	158,404,002	16,126,009	15,286,784

(ii) Movement in share capital

Date	Details	Number of shares	\$
01-Jul-19	Opening balance	158,404,002	15,286,784
31-July-19	Issue of shares placement	4,059,838	113,675
31-Dec-19	Issue of shares consultants	761,538	19,800
31-Dec-19	Issue of shares consultants	2,136,577	55,551
31-Dec-19	Issue of shares convertible note	3,001,326	450,199
31-Dec-19	Issue of shares convertible note	12,500,000	200,000

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

31-Dec-19	Closing balance	180,863,281	16,126,009
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	As at 31 Dec 19	As at 30 Jun 19
	\$	\$
15 RESERVES		
Option reserve	116,816	116,816
Share based payment reserve	213,610	195,522
Converting Note Reserve	-	492,405
	330,426	804,743

(i) Options	As at 31 Dec 19	As at 30 Jun 19	As at 31 Dec 19	As at 30 Jun 19
	Options No.	Options No.	\$	\$
Options (expired)	-	-	116,816	116,816

(ii) Share Based Payments	As at 31 Dec 19	As at 30 Jun 19	As at 31 Dec 19	As at 30 Jun 19
	No.	No.	\$	\$
Performance Rights	49,200,000	2,200,000	213,535	98,689

Movements in share based payments reserve

Date	Details	Number of Performance Rights	\$
01/07/2019	Opening balance	2,200,000	195,522
31/12/2019	Expense recognised for the period for rights issued in prior period	-	13,736
29/11/2019	Performance rights issued to Mr Peter Malone	27,000,000	2,500
29/11/2019	Performance rights issued to Palmer Wilson Associates Ltd	20,000,000	1,852
		49,200,000	213,610

On 29 November 2019, the Company obtained shareholder approval to issue 27,000,000 performance rights to Mr Peter Malone – Executive Chairman and 20,000,000 performance rights to Palmer Wilson Associates Ltd a UK based specialist business development consultancy. These performance rights will convert into shares upon performance milestones of sales revenue of \$20,000,000 being achieved over a four year period to 31 December 2023. The fair value per right is \$0.0108 which is the share price at grant date 29 November 2019.. The rights are subject to performance conditions and are expensed over the vesting period which is up to 49 months from the date of issue. The relevant expense recognised for the period was \$4,352.

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

18 SEGMENT REPORTING

	Operations	Corporate & Administration	Company
Half Year ended 31 December 2019			
Segment Revenue	84,831	-	84,831
Significant items			
Consultants fees	(71,100)	(103,307)	(174,407)
Employment costs	(122,939)	-	(122,939)
Amortisation	(195,642)	-	(195,642)
Other expenses	(464,447)	(217,913)	(682,360)
Share based payments	-	(18,013)	(18,013)
Segment net operating loss after tax	(769,297)	(339,233)	(1,108,530)
Half Year ended 31 December 2018			
Segment Revenue	263,571	-	263,571
Significant items			
Consultants fees	(91,978)	(274,869)	(366,847)
Employment costs	(119,605)	(49,751)	(169,356)
Amortisation	(150,989)	-	(150,989)
Other expenses	(450,937)	(245,635)	(696,572)
Share based payments	-	(48,417)	(48,417)
Segment net operating loss after tax	(813,509)	(618,672)	(1,432,081)
Segment assets			
At 31 December 2019	9,233,063	21,683	9,254,746
At 30 June 2019	9,766,820	134,533	9,901,353
Segment liabilities			
At 31 December 2019	(358,523)	(402,492)	(761,016)
At 30 June 2019	(207,322)	(498,886)	(706,208)

19 RELATED PARTY TRANSACTIONS

The Group may enter into agreements for services rendered with individuals (or an entity that is associated with the individuals) during the ordinary course of business.

A number of entities associated with the directors and select technical staff have consulting agreements in place which have resulted in transactions between the Group and those entities during the period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

		Transaction Value		Outstanding Balance	
		31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
		\$	\$	\$	\$
Director	Transaction				
Peter Malone	Executive services (i)	120,000	120,000	86,866	40,570
Phil Giglia	Directors fees (ii)	14,000	30,000	41,800	27,500
Craig Piercy	Executive Director (iii)	13,000	-	13,000	-
Luke Martino	Corporate advisory services (ii)	16,932	22,141	-	306
	Directors fees (iii)	6,000	30,000	53,675	50,375

Half-Year Ended 31 December 2019

Condensed Notes to the Consolidated Interim Financial Report

- (i) A company associated with Mr Malone, Boston Corporate Pty Ltd, provides consulting services in connection with the operations of the Company.
- (ii) A company of which Mr Giglia is a director, Colosseum Securities Pty Ltd, provided directors services during the half year
- (iii) Mr Craig Piercy was appointed a Director on 29 November 2019. A Company of which Mr Piercy is a Director, Boston Technology Management Pty Ltd, provides consulting services in connection with the operations of the Company.
- (iv) Mr Luke Martino resigned as Director on 10 October 2019. A company of which Mr Martino is a director, Indian Ocean Advisory Group, provided professional accounting and IPO corporate advisory services during period.
- (iii) A company of which Mr Martino is a director, LJM Corporate Capital Pty Ltd, provided directors services during the half year up unto his resignation on 10 October 2019.

	Transaction	Transaction Value		Outstanding Balance	
		31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Technical personnel		\$	\$	\$	\$
Craig Piercy	Consultancy services (v)	65,000	78,000	51,958	20,355
	Office facilities	-	-	-	-
Leo Fung	Consultancy services (vi)	78,000	78,000	103,405	37,944

(v) A company of which Mr Piercy is a Director, Boston Corporate Pty Ltd, provides consulting services in connection with the operations of the Company.

(vi) A company, Blackridge Group Pty Ltd, provides consulting services of Mr Fung in connection with the operations of the Company.

Convertible notes

- 1) During prior years the Company extinguished borrowings by way of issuing convertible notes. The convertible notes were mandatorily convertible into shares at a fixed price of \$0.015 per share. Upon conversion, each note holder will also receive a free attaching \$0.22 option for each share issued. During the period all the notes were converted resulting total number of 1,927,677 shares were issued to related parties.
- 2) During prior year the company entered into a convertible note arrangement with Henan Hetuo Health Management Co, Ltd (HHHM). The company settled the \$200,000 convertible note under the Tern Sheet through the issue of the convertible note to third parties on similar terms.

19 CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities as at 31 December 2019 (30 June 2019: none).

20 SUBSEQUENT EVENTS

In February 2020 the Company commenced a fully underwritten non renounceable pro-rata entitlement issue of 100,479,601 ordinary fully paid shares (on a ratio of 5 new shares for 9 existing shares at the record date of 11 February 2020) and 33,493,200 free attaching unlisted options exercisable at \$0.03 on or before 31 December 2020 (on a ratio of 1 option for every 3 new shares). The offer closes on 10 March 2020

There have been no other significant events after the end of the reporting period to the date of this report.



Directors' Declaration

In the opinion of the directors of Skin Elements Limited:

- (a) the consolidated financial statements and notes set out on pages 6 to 21 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Peter Malone
Executive Chairman

Dated at Perth, Western Australia this 28th day of February 2020.

Independent Auditor's Review Report



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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Skin Elements Limited

Report on the Half-Year Financial Report

Qualified conclusion

We have reviewed the half-year financial report of Skin Elements Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, with the exception of the matter described in the *Basis for qualified conclusion* section, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for qualified conclusion

Included in the consolidated statement of financial position as at 31 December 2019 is technology and formula Intangible assets of \$8,799,721 as disclosed in note 9 and note 1(d)(i). Due to sustained operating losses, the Group has undertaken an impairment assessment of its Intangible in accordance with AASB 136 *Impairment of assets*.

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 2019.

Consequently we were unable to determine whether any adjustments to the carrying value of the Intangible asset in the consolidated statement of financial position are necessary for the period ended 31 December 2019.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 (b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.



Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Wayne Basford', is written over a faint, larger 'BDO' logo.

Wayne Basford

Director

Perth, 28 February 2020



Skin Elements Limited

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