



25 March 2019

Skin Elements to enter Chinese skincare market

Welcomes Strategic Investor to drive global expansion plans

Highlights

- **Proposed major distribution agreement with Henan Huatuo Health Management Co, Ltd (HHHM) to deliver at least A\$20 million of new sales of Skin Elements all natural skincare products over three years**
- **HHHM intends to distribute Skin Elements products in China via its Huatuo Health Centres**
- **HHHM will undertake a strategic investment in Skin Elements of \$2.4 million (subject to shareholder approval)**
- **HHHM is further incentivised to grow the distribution and product expansion of Skin Elements sales into China over the next three years through the issue by SKN of performance shares (subject to shareholders approval and achievement of milestones)**

Australian natural skin care company Skin Elements Limited (ASX: SKN) (**Skin Elements** or the **Company**) is pleased to announce the execution of a binding term sheet (**Term Sheet**) which contemplates a \$2.4 million strategic investment (by way of convertible notes) (**Strategic Investment**) and the execution of a major sales and distribution agreement for its skin care product range in the Chinese skin care market (**Distribution Agreement**).

The Term Sheet is with Henan province-based health and skin care distribution group, Henan Huatuo Health Management Co, Ltd (**HHHM**), and is a significant milestone in Skin Elements' growth strategy to become a leading global provider of natural and organic skin care products.

HHHM is an advanced technology enterprise specialising in research and development of Chinese medicine health products, physiotherapy services, health management, and vocational skills training for Chinese medicine.

Chairman Mr Li Zeling established the Shoubijin Technology Group through Xinxiang Bokai Biotechnology Development Co., Ltd. in September 2006 in Beijing, specialising in research and development and sales in the health product sector. At present, there are more than 200 Huatuo Health Centers predominantly distributing into East China, North China, South China and Southwest China. In 2018 the group's total sales were 380 million yuan (A\$79.8 million) through its e-commerce platform and distribution agency sales. (Source: HHHM company profile 2019)

Other than Tranche A of the Strategic Investment, the transactions contemplated by the Term Sheet, being the Strategic Investment, and the execution of the Distribution Agreement, are both subject to the satisfaction of various conditions precedent including the negotiation of a long form Distribution Agreement and shareholder approval. The shareholder approval will include a resolution for the purposes of item 7 of section 611 of the Corporations Act (to allow HHHM to increase its voting power above 20%). SKN will also consult with ASX and if deemed necessary, seek approval for the purposes of Listing Rule 10.1 relation to the proposed Distribution Agreement. The conditions precedent are listed in **section 1 of Appendix "A"** of this announcement.

The financial impact on the Company of the transactions proposed in the Term Sheet is anticipated to be positive with the Strategic Investment injecting \$2.4 million into the Company and the proposed Distribution Agreement contemplating the progressive delivery of a minimum of \$20 million in orders over three years on the Company's standard commercial terms. Each order will be paid for on order with production undertaken by the Company's contract manufacturing suppliers.

For the purposes of this announcement and the Appendix, "sales" and "orders" have the same meaning.

Investors should note that the detailed terms of the Strategic Investment and the Distribution Agreement are yet to be formalised and executed, and that the proposed conditions precedent may not be able to be satisfied and therefore there is risk that the transactions as set out in the announcement (other than Tranche A of the Strategic Investment) do not proceed.

Under the terms of the proposed Distribution Agreement:

- HHHM will be granted exclusive distribution rights for Skin Elements products for the Peoples Republic of China (PRC);
- HHHM will place initial orders of A\$20 million over a three year period for Skin Elements range of skin care products including Soleo Organics sunscreen, Complete Esscience natural skincare and PaypayaActivs therapeutic creams, to be progressively delivered to HHHM by Skin Elements;
- The first shipment of product pursuant to these orders is expected to be shipped on or prior to 30 June 2019;
HHHM will market and sell the Skin Elements' product range via its established health and skin care distribution network, initially in Henan province. These initial orders will be via e-commerce distribution whereby individual customers in China will be able to purchase Skin Elements products with these sales individually supplied direct from Skin Elements. Over the course of the first year the program will also be broadened to retailing through established retail outlets as all necessary retail approvals are granted; and
- SKN will provide all necessary documents, assistance and product samples required for HHHM to obtain any necessary China Food & Drug Administration (CFDA) registration on selected SKN products.

It is the intention of both parties that the initial order would represent the first stage of what is proposed to be a long-term working relationship between Skin Elements and HHHM, under which it is proposed that Skin Elements will provide orders for product lines from its wider product range, and HHHM will expand its distribution network in China.

Further details of the proposed sales schedule in the Distribution Agreement are set out in **section 2 of Appendix "A"** of this announcement.

The terms of the proposed Strategic Investment are set out in **section 3 of Appendix "A"** of this announcement. The Company has already received Tranche A of the Strategic Investment, being an amount



of \$500,000. The convertibility of this amount, and the issue of the attaching options, are both subject to shareholder approval. In addition, HHHM will also be entitled to be issued with an aggregate of 115,000,000 performance shares to be issued in 3 tranches (for no additional consideration). These are described in **section 4 of Appendix "A"**.

SKN will also be appointing two new Directors nominated by HHHM to the Board being Mr Li Zeling and Ms Li Jaling.

It is contemplated that if HHHM does not comply with its obligations under the Distribution Agreement, SKN will have recourse against HHHM, including being able to seek compensation from HHHM. It is also contemplated that in such circumstances HHHM will agree not to exercise its voting power to change the composition of the Board.

Corporate adviser Indian Ocean Corporate Pty Ltd (**Indian Ocean**) has introduced HHHM and advised SKN on both the distribution and investment agreements with HHHM. Luke Martino, a Director of Skin Elements Limited is also a director of Indian Ocean Corporate Pty Ltd. Indian Ocean through its Guangzhou "China Team" office has extensive contacts in the Chinese market and in addition to structuring this agreement will perform an ongoing role in monitoring and assisting SKN with the distribution arrangements going forward in China.

Indian Ocean will receive the following fees for its services:

- a management fee of \$10,000 per month over 6 months;
- a 6% fee on the Strategic Investment amount; and
- subject to shareholder approval, 5,000,000 shares and 5,000,000 Options (defined below).
- 2.5% of sales for the services of the Guangzhou "China Team" in managing the sales process in China on SKN's behalf

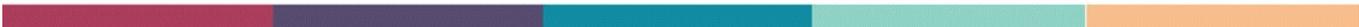
Further details and other key terms of the proposed transactions are set out in **section 5 of Appendix "A"** of this announcement.

Skin Elements anticipates that all conditions of the Term Sheet will be satisfied within three months of this announcement.

Skin Elements executive chairman Peter Malone said:

"We are delighted to enter into this agreement with Henan Huatuo Health Management. It represents our first large-scale distribution transaction in our key targeted global markets, and is the culmination of an extensive period of negotiation which has included due diligence meetings with HHHM in China. Our discussions with distribution partners in major international markets are ongoing, and with this term sheet now in place, and our capability to execute on our global growth plans and deliver large scale product orders now established, we see a clear opportunity to move to expedite other potential global distribution opportunities.

"Skin Elements believes HHHM is an ideal distribution partner for the Chinese market, and it shares our values of seeking to provide high quality, natural and organic skin care products to meet the needs of an increasingly discerning skin care market. We look forward to delivering on this first key agreement and then working to expand our working relationship with HHHM to grow Skin Elements' product footprint in the massive Chinese market."



HHHM chairman Mr Li said:

“It gives us great pleasure and satisfaction to now be entering in to this significant agreement with Skin Elements. We see the combination of Skin Elements’ high-quality world-class skin care products, and our strong sales and distribution track record and knowhow in China as providing the foundation for a highly successful partnership – which we see growing and expanding in the future. We also welcome the opportunity to make a strategic investment in Skin Elements to help underpin its global expansion plans.”



Mr Li Zeling (Chairman HHHM) and Mr Peter Malone (executive Chairman SKN) on signing the Term Sheet.

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Appendix A - Summary of the Agreement

1. Conditions Precedent

The proposed transactions are subject to satisfaction of the following conditions:

- Skin Elements and HHHM (together, the **Parties**) entering into a formal Distribution Agreement confirming clear rights to distribution in the Peoples Republic of China;
- Skin Elements and the existing convertible note holders converting all convertible notes issued by the Company (being \$450,199, to be converted at an issue price of \$0.15 per share into 3001,327 shares and 3,001,327 attaching options).
- HHHM obtain China Food and Drug Administration (CFDA) registration on selected Skin Elements products (the Company has not yet determined what products if any will require CFDA approval) ;
- Skin Elements obtaining all and any necessary third party, regulatory or shareholder approvals or consents (if required) to give effect to the transaction. The Company anticipates that it will require ASX and shareholder approval to issue the securities contemplated under this Term Sheet and is not aware at this time of any other approvals required;
- Skin Elements obtaining all and any necessary IP assignment agreements or similar from any and all required employees, directors, consultants, contracts etc to ensure full ownership of all IP is secured by Skin Elements;
- the appointment of up to two new directors to the board of Skin Elements as nominated by HHHM; and
- the Use of Funds to be approved by the Parties (such approval to be achieved within 45 days of the Agreement).

These conditions must be satisfied within three months (or such other date as mutually agreed by the Parties), otherwise the Term Sheet terminates and the Parties will be released from their obligations under the Term Sheet.

2. Distribution Agreement

The proposed Distribution Agreement shall grant HHHM exclusive distribution rights for the Peoples Republic of China (PRC) on standard terms and conditions which shall include termination events to be agreed by the parties.

The Distribution Agreement shall specify that HHHM shall place minimum orders as follows:

- **Year 1** A\$1.5 million by 30 June 2019, and A\$1.5 million by 31 December 2019
- **Year 2** A\$3.0 million by 30 June 2020, and A\$3.0 million by 31 December 2020
- **Year 3** A\$5.5 million by 30 June 2021, and A\$5.5 million by 31 December 2021.

Payments are to be made on the placement of the orders for a total of \$20 million over three years.

3. Strategic Investment

HHHM (or their nominees) will make a A\$2.4 million cash investment in Skin Elements as follows:

- **Tranche A:** Investment amount of \$500,000 by way of an unsecured convertible note (convertible into 31,250,000 fully paid ordinary shares (A\$0.016 per share) and 23,437,500 free attaching options (exercisable at \$0.10 and expiring December 2020) (**Options**)). Tranche A is to be completed before 19 March 2019. The repayment date of the convertible note is to be 31 December 2019 and the convertible note has a coupon rate of 0%. The Company has received the funds for Tranche A of the strategic



investment. The ability to convert this to shares and the issue of the attaching options remains subject to shareholder approval.

- **Tranche B:** Investment amount of \$1,000,000 by way of unsecured convertible note (convertible into a 62,500,000 fully paid ordinary shares (A\$0.016 per share) and 46,875,500 free attaching Options). Tranche B is to be completed before 30 June 2019. The Convertible Note will become immediately repayable on 1 July 2019 should shareholder approval not be received on or before 30 June 2019, or is otherwise repayable on 31 December 2019.
- **Tranche C:** Investment amount of \$900,000 by way of placement of 56,250,000 fully paid ordinary shares (A\$0.016 per share) and 42,187,500 free attaching Options. Tranche C is to be completed before 31 December 2019 subject to shareholder approval.

The Company expects a subscription agreement to be entered into in the near future which will detail the terms of the strategic investment including the convertible notes. At this time, no detailed terms have been agreed other than the conversion price.

4. Performance Shares

HHHM (or their nominees) will be issued 115,000,000 Performance Shares as follows:

- **Class A:** 22,500,000 performance shares convertible into fully paid ordinary shares (nil exercise) upon Skin Elements achieving sales of A\$3 million through the Distribution Agreement.
- **Class B:** 37,500,000 performance shares convertible into fully paid ordinary shares (nil exercise) upon Skin Elements achieving sales of A\$9 million (cumulative including sales hurdle above) through the Distribution Agreement.
- **Class C:** 55,000,000 performance shares convertible into fully paid ordinary shares (nil exercise) upon Skin Elements achieving sales of A\$20 million (cumulative including sales hurdle above) through the Distribution Agreement.

Each performance share shall convert into one ordinary share upon the satisfaction of the relevant performance milestone. The timing for achieving the relevant performance milestone will be consistent with the timings (relating to the Distribution Agreement requirements) set out in section 2 above. The terms of the performance shares are subject to approval by ASX and their issue is subject to shareholder approval.

5. Other terms and conditions

The Term Sheet contains the following additional key terms:

- Skin Elements must not enter into any material contract or incur any material liability, declare any dividends, vary its capital structure, or in any way acquire or dispose of the Company, its business and operations or its assets, other than in the ordinary course of staff annual reviews & / or recruitments, without the prior written consent of HHHM; and
- to the extent that the Term Sheet, the Distribution Agreement or any other material contracts entered into by Skin Elements allow the Company to appoint a third party to receive certain rights or for any other purpose, Skin Elements shall not appoint such a third party without the prior written consent of the HHHM.

6. General Meeting

Skin Elements intends to hold a general meeting of its shareholder prior to 30 June 2019 to consider the proposed transactions described in this announcement. Further updates will be provided in due course.



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About Skin Elements

Skin Elements is an Australian owned and operated 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 its lead product, the Soléo Organics 100% natural and organic sunscreen, PapayaActivs natural therapeutics, Complete Esscience natural skincare, and the Elizabeth Jane Natural Cosmetics brand. 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.

Forward Looking Statements

This announcement may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Skin Elements Limited's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, specific provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. Skin Elements Limited does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside Skin Elements Limited's control. Past performance is not a reliable indication of future performance.

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

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