



Skin Elements Limited ASX ANNOUNCEMENT

ASX CODE : SKN

31 October 2017

Quarterly Activity Report - Period ending 30 September 2017

Australian natural skin care company Skin Elements Limited (ASX: SKN) (Skin Elements, the Company) is pleased to present its Quarterly Activities Report for the period ending 30 September 2017.

Skin Elements is an Australian owned and operated skin care company focused on the development, manufacture and sales of natural and organic skin care products – including the market leading Soléo Organics 100% natural and organic sunscreen, the Elizabeth Jane Natural Cosmetic skincare range and the McArthur Skincare range of therapeutic and cosmetic skin care products. It aims to expand its product range, and sales and distribution footprint to position the Company as a leading, recognised national and international skin care company.

QUARTER HIGHLIGHTS

- **Sales growth:** Sales continued to grow strongly in the quarter for the Soléo Organics 100% natural and organic sunscreen and McArthur Skincare products in established markets.
- **Production continued to ramp up:** A further 20,000 tube production run of the Soléo Organics sunscreen and a 10,000 tube production run of McArthur Skincare products was completed.
- **New Memorandum of Understanding to facilitate sales & distribution into Chinese market:** Potentially highly significant Agreement with Australian, China-focused healthcare export business, Ageless Products.
- **New Head Office premises:** the Company completed the transition to an expanded corporate and operational head office premises in West Perth.

SEPTEMBER QUARTER COMMENTARY

Skin Elements continued to focus on delivering to its business plans in the September quarter. This involved an ongoing commitment to sales growth and production to support market demand across the product range. Also, having completed the acquisition of the McArthur Skincare business in the previous quarter, the Company continued to work on finalising the successful integration of the McArthur Skincare business into the Skin Elements business. With this substantial body of work now complete the Company is well placed to aggressively pursue its core objective of becoming a leading global supplier of natural skin care products.

The Company reported customer receipts for the quarter of \$128,000 – an increase of 45.5% on the previous quarter. This represented a record quarter of customer receipts to date, and continues the Company's steep growth in quarter-on-quarter customer receipts. Skin Elements anticipates that its ongoing commitment to its growth objectives, aligned with a continual improvement in its business processes, will help the Company continue to deliver strong growth moving forward. During the quarter the Company also received a refund of \$197,000 from the Federal Government's Research and Development Tax Incentive for the financial year ending 30 June 2017.

Skin Elements remains in a sound financial position to pursue its growth objectives with \$1.124 million in cash at the end of the quarter, and it continues adopt a prudent approach to capital management across all aspects of the business.



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SALES AND OPERATIONS UPDATE

The Company continued to make strong operational progress in the quarter. Its preferred manufacturing partner, Baxter Laboratories Pty Ltd (Baxter), delivered a new production run of 20,000 tubes of the Soléo Organics sunscreen - with a further 20,000 tubes planned to follow - to meet new demand from established markets. This followed the first large-scale production run, of 10,000 tubes of Soléo Organics sunscreen, delivered in the previous quarter. A production run of 10,000 tubes of McArthur Skincare products was also completed in the quarter.

Skin Elements' achieved strong sales growth in the September quarter, in established markets. It also focused on its online sales channel via the Soléo Organics and McArthur Skincare websites. In addition, the Company entered into an agreement with Renier Health Products Pty Ltd to distribute the Soléo Organics sunscreen into the West Australian pharmacy market.

In total, \$26,000 in receipts from sale of Soléo Organics sunscreen and \$102,000 in receipts from sale of McArthur Skincare products were recorded in the quarter.

MOU WITH AGELESS PRODUCTS PTY LTD

Subsequent to the quarter, Skin Elements entered into a Memorandum of Understanding (MoU) with Australian, China-focused health care export business Ageless Products Pty Ltd (Ageless) to explore the opportunity to form a joint venture for the distribution of Skin Elements' product range into China and other major global markets. This is a potentially highly significant agreement for the Company, which may help pave the way for commercial scale access to these major global targets markets.

Ageless is a Melbourne-headquartered business focused on the distribution, sales and marketing of high quality Australian health care and food products into China, South East Asia and other major global markets. The business is led by Managing Director Brett Greene, a highly successful international health care sector product marketer, and director Andrew Robb, the former Federal Minister for Trade and Investment who was responsible for the landmark China-Australia Free Trade Agreement.

Pursuant to the MoU, Skin Elements and Ageless propose to work together to establish an incorporated 50:50 joint venture, called the be called Elizabeth Jane International Pty Ltd, for the purpose of utilising the specialist sales, marketing, distribution and regulatory services of Ageless to secure the distribution, sales and marketing of Skin Elements' Elizabeth Jane Natural Cosmetics product range, as well as the Soléo Organics 100% natural and organic sunscreen and its McArthur Skincare skin care products, in China and other key global markets. Further details on the MoU and on Ageless are included in the Company's ASX announcement of 17 October 2017.

About the Elizabeth Jane Natural Cosmetics Product Range

Skin Elements is committed to expanding its product range and the Company's immediate product development focus is on the Elizabeth Jane Natural Cosmetics skincare range. There are 10 products in the Elizabeth Jane range and it is currently the subject of a rigorous test marketing program, similar to that undertaken by the Soléo Organics product range, in preparation for a proposed commercial launch.



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The Company has adopted the same successful approach to its development of the Elizabeth Jane product range as it did with the Soléo Organics sunscreen – to offer consumers an alternative to synthetic-based skin care products via a cosmetics skin care range that use only organic and natural ingredients.

CORPORATE

New head office

Skin Elements completed the transition into an expanded corporate and operational head office in West Perth during the quarter. It leased premises at 32 Ord Street, immediately adjacent to its existing head office, and this has increased the Company's office space by 360m². The new head office has been designed to meet the needs of an expanding team with the integration of staff from the McArthur Skincare business. The expanded head office premises delivers the key benefit of allowing all operation staff and management to work in a collaborative environment at one location.

Annual Report

Skin Elements released its Preliminary Final Report and Full year Audited Statutory Accounts for the year ending 30 June 2017 during the quarter and its 2017 Annual Report is now available.

ENDS

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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 its lead product, the Soléo Organics 100% natural and organic sunscreen, pawpaw based McArthur natural therapeutic 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.

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

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		
Skin Elements Limited		
ABN		Quarter ended ("current quarter")
90 608 047 794		30 September 2017

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	128	128
1.2	Payments for		
	(a) research and development (note 4)	(55)	(55)
	(b) product manufacturing and operating costs	(41)	(41)
	(c) advertising and marketing	(13)	(13)
	(d) leased assets	(22)	(22)
	(e) staff costs	(242)	(242)
	(f) administration and corporate costs	(163)	(163)
1.3	Dividends received	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	197	197
1.8	Other	-	-
1.9	Net cash from / (used in) operating activities	(211)	(211)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	-
	(b) businesses (see note 5)	(72)	(72)
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(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	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(72)	(72)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
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	-	-
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	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	1,407	1,407
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(211)	(211)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(72)	(72)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,124	1,124

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	1,124	1,407
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,124	1,407

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	(60)
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	
Non-executive director remuneration (per the directors agreements)		Nil
Executive directors remuneration (per the service agreement)		(60)

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	(5)
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	
Office rent – sublease (calculated as the cost of the head lease).		

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	N/A	
8.2	Credit standby arrangements	N/A	
8.3	Other (please specify)	N/A	
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 into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	(24)
9.2	Product manufacturing and operating costs	(50)
9.3	Advertising and marketing	(42)
9.4	Leased assets	(15)
9.5	Staff costs	(210)
9.6	Administration and corporate costs	(61)
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	(402)

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	N/A	N/A
10.2	Place of incorporation or registration	N/A	N/A
10.3	Consideration for acquisition or disposal	N/A	N/A
10.4	Total net assets	N/A	N/A
10.5	Nature of business	N/A	N/A

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: 
(Executive Chairman)

Date: 31 October 2017

Print name: Peter Malone

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.
2. 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 with the exception of the additional detail presented in item 1.2 above.
3. The Group comprises parent entity Skin Elements Limited (ACN 608 047 794) and wholly owned subsidiary Skin Elements Operations Pty Ltd (ACN 110 352 424) acquired on 31 December 2016.
4. The Group has undertaken research and development activities as part of its on-going operations. The costs associated with the research and development process have been identified and disclosed separately from the additional cost categories such as lease, staff and administration costs.
5. The Group acquired specific assets of the McArthur Skin Care in May 2017. As part of the acquisition the Group agreed to purchase the stock that existed as at 5 May 2017 on a deferred payment arrangement. The payment listed in item 2.1(b) above relates to a part payment for that stock for the three month period to 30 September 2017.