Skin Elements Limited ASX ANNOUNCEMENT

ASX CODE: SKN

28 February 2018

Skin Elements 2017 Half Year Report – Continuing to Deliver Growth

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 2017.

The six months represented a period of consolidation and growth for Skin Elements, as the Company completed the integration of its McArthur Skincare acquisition into the business, and delivered strong results from its sales channels.

Skin Elements' has established a growth strategy based on the core principles of delivering sustained sales growth, pursuing entry into new major markets and product development – by both brand and product extension, and value accretive acquisitions.

In the half-year ending 31 December 2017, the Company focused on the implementation and execution of its strategy. It is delighted with the tangible results delivered in the period, which continue to move Skin Elements towards its goal of becoming a recognised leading national and international skin care company.

A disciplined and structured approach to the establishment and growth of key sales channels resulted in the business delivering strong and sustained sales growth.

Customer revenue for the half-year totaled \$393,476. This represented a major increase of 185% over the figure for the half-year ending 31 December 2016 (\$137,931), and an increase of 128% over the previous six months, to 30 June 2017 (\$172,822).

This substantial sales growth was driven by the strong performance of the Company's distributors in the Australian and New Zealand markets, and an increased focus on its online sales channel; Skin Elements launched a new, leading edge ecommerce-focused website, which it anticipates will deliver significant new online sales moving forward.

The Company also continued to benefit from its strong relationship with its preferred manufacturing partner, Baxter Laboratories Pty Ltd, who delivered new production runs totaling 40,000 tubes of the flagship Soléo Organics 100% natural and organic sunscreen product in the half-year period. The ability of Baxter to successfully meet Skin Elements increasing production requirements is key to the effective operation of the Company's supply chain as it continues to rapidly expand its sales footprint.

Looking forward, Skin Elements maintains a highly positive outlook. It continues to pursue expansion into major, targeted global markets including; Europe, North America, China and other significant Asian markets. The Company's aim is to enter into distribution agreements in these markets, and the successful execution of this objective has the potential to deliver exponential sales growth.



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The Company will also seek to launch its next product, the Elizabeth Jane Natural Cosmetics skincare range, in the year ahead. There are 10 products in the Elizabeth Jane range and it is currently completing a rigorous test marketing program, ahead of a proposed commercial launch.

Skin Elements' board and management is committed to successfully executing its growth model and delivering value for shareholders, and the Company looks forward to continuing to aggressively pursue these objectives in the year ahead.

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://skinelementslimited.com







Corporate Directory

SKIN ELEMENTS LIMITED

ABN 90 608 047 794

DIRECTORS

Mr Peter Malone – Executive Chairman Mr Luke Martino – Non-Executive Director Mr Phil Giglia – Non 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 Subiaco WA 6008

AUSTRALIAN SECURITIES EXCHANGE LISTING

ASX Code: SKN

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DIRECTORS' REPORT

The Directors present the interim financial report of Skin Elements Limited (the **Company, Group** or **SEL**) for the half-year ended 31 December 2017 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 Luke Martino Independent Non-Executive Director

Mr Phil Giglia

Independent Non-Executive Director - Appointed: 23 November 2017

Mr David Humann

Independent Non-Executive Director - Appointed: 15 August 2016 - Passed away 21 November 2017

PRINCIPAL ACTIVITIES

During the half-year ended 31 December 2017, the principal continuing activity of the Group consisted of the development and commercialisation of its proprietary all natural skincare technology.

REVIEW OF OPERATIONS

Successful Execution of Growth Strategy

Skin Elements established a growth strategy based on core principles; sustained sales growth, accessing new, major markets and product development – by brand and product extension, and value-accretive acquisition. The execution of these core principles underpins the Company's stated goal of becoming a recognised leading national and international skin care company.

Business Growth

During the half-year, the Company completed the successful integration of its McArthur Skincare acquisition into the business. This included the integration of the McArthur Skincare business model, product range and key personnel into the Company. This integration process has now been successfully completed, but Skin Elements will continue to refine its McArthur Skincare business model in order to maximize the benefits of the acquisitions. The acquisition and integration of McArthur Skincare also saw the Company move into a new office in West Perth that enabled the operation team and management to work in a collaborative environment at one location.

Sales and Production Growth

Skin Elements achieved sustained sales growth in the half-year, and delivered its strongest six-month sales result to date. Customer receipts for the half-year totalled \$393,476, an increase of 185% over the figure for the half-year ending 31 December 2016, of \$137,931. Within this strong half-yearly result, the Company also achieved highly significant quarter-on-quarter sales growth. The strong sales performance was supported by its distributors in the Australian and New Zealand markets. Skin Elements also increased its focus on the direct online sales channel via the launch of a new ecommerce-focused website, which it anticipates will deliver significant new sales across its product range in the year ahead. The Company's preferred manufacturing partner, Baxter Laboratories Pty Ltd, delivered productions runs totalling 40,000 tubes of the Soléo Organics sunscreen in the half-year to meet increasing demand. The Baxter relationship is highly positive for Skin Elements, and Baxter's ability to deliver an end-to-end service – manufacturing, filling, warehousing and distribution – in a timely manner is of key benefit to the Company as it continues to accelerate sales growth.

Product Development

Skin Elements is committed to expanding its product range and its immediate product development focus is on finalising derivatives of its Soleo range as well as the Elizabeth Jane Natural Cosmetics skincare range. Similar to the approach taken in the development of the Soléo Organics sunscreen, the Company aims to position the Elizabeth Jane product range as an all organic and natural cosmetics skin care range as an alternative to synthetic- based skin care products. There are 10 products in the Elizabeth Jane range

DIRECTORS' REPORT (CONTINUED)

and it is currently undergoing the final stages of a rigorous test marketing program similar to that undertaken by Soléo Organics prior to its successful commercial launch. Subject to the successful completion of test marketing, the Company will seek to deliver a commercial launch of the Elizabeth Jane product range in calendar year 2018.

New Board Appointment

In November, the Company advised of the sad news of the passing of Independent Non-Executive Director, Mr David Humann. Skin Elements' directors, management and staff extended their sympathy and condolences to David's family, friends and colleagues. Mr Humann was a highly respected and regarded Chartered Accountant, who enjoyed a long and distinguished career with leading global accountancy practice Price Waterhouse Coopers. He was also a highly credentialed company director. At Skin Elements Mr Humann played an integral role at Board level in the Company's growth and development. Highly experienced Chartered Accountant, Mr Phil Giglia was appointed to the board as an Independent Non-executive Director to fill the vacancy created by Mr Humann's passing.

RESULTS

The Company incurred a loss of \$1,374,440 after income tax for the half-year (2016: loss \$769,588) predominantly due to the integration of the McArthur program, establishment of new operational facilities and structuring and positioning of the business for continued growth.

ISSUE OF SHARES AND OPTIONS

During the half year, Skin Elements Limited issued 1,165,000 ordinary fully paid shares for services rendered during the period with the fair value per share being \$0.20 each for value of \$233,000.

The Company issued Convertible Notes to a creditor, the total value of these convertible notes issued is \$24,000.

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to period end, the Company issued Convertible Notes to related parties, creditors and various third parties. These notes convert into ordinary fully paid shares at a value of \$0.15 per share and not redeemable in cash, with one attaching free unlisted option exercisable at \$0.22 per share exercisable within two years. On exercising of this option, a further unlisted option will be attached exercisable at \$0.34 per share exercisable within a further two years. These notes have an interest rate of 10% P/A and must convert together with the applicable interest component within one year.

In January 2018 the Company issued Converting Notes for approximately \$75,000 cash and approximately \$300,000 for payment of amounts payable to related parties for services provided for a total facility of \$550,000. Currently \$100,000 remains undrawn.

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 4 and forms part of this directors' report for the half-year ended 31 December 2017.

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.

Executive Chairman

Dated at Perth, Western Australia this 28 day of February 2017.



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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 2017, 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 2018

SKIN ELEMENTS LIMITED HALF-YEAR ENDED 31 DECEMBER 2017 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		31 Dec 2017	31 Dec 2016
	Notes	\$	\$
Revenue			
Sale of suncare & skincare products		393,476	137,931
Cost of sales		(229,082)	(65,389)
Gross profit		164,394	72,542
Grant Income		181,465	525
Expenses			
Administration expenses	2	(456,006)	(281,906)
Consultants fees	2	(491,515)	(367,180)
Occupancy expenses		(64,680)	(11,455)
Research & development expenses		(421,340)	-
Listing expenses	2	-	(182,114)
Advertising & marketing expenses		(136,664)	-
Amortisation	8	(150,095)	
Total Expenditure		(1,720,299)	(842,655)
Profit / (loss) before income tax expense		(1,374,440)	(769,588)
Income tax expense		-	-
Profit / (Loss) after income tax from continuing operations			
attributable to equity holders of Skin Elements Limited		(1,374,440)	(769,588)
Other comprehensive income			
Total comprehensive income for the year		-	
Profit / (loss) and total comprehensive income			
attributable to equity holders of Skin Elements Limited	14	(1,374,440)	(769,588)
Basic loss per share		(0.0178)	(0.0140)
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.

SKIN ELEMENTS LIMITED HALF-YEAR ENDED 31 DECEMBER 2017 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 Dec 2017	As at 30 Jun 2017
	Notes	\$	\$
Current Assets			
Cash and cash equivalents	3	655,242	1,407,153
Trade receivables	4	106,929	48,657
Other receivables	5	22,682	125,047
Inventories	7	440,204	422,820
Research and development grant receivable	6	181,391	196,584
Total Current Assets		1,406,449	2,200,261
Non Current Assets			
Intangible assets	8	9,360,258	9,510,353
Total Non Current Assets		9,360,258	9,510,353
Total Assets		10,766,707	11,710,614
Current Liabilities			
Trade and other payables	9	896,688	737,586
Borrowings - related parties	10	44,201	44,201
Total Current Liabilities		940,889	781,787
Total Liabilities		940,889	781,787
Net Assets		9,825,818	10,928,826
Chambaldon Footbo			
Shareholders Equity	11	12 200 004	12.022.004
Contributed equity	11	13,266,994	13,033,994
Reserves	12	155,247	116,816
Accumulated losses	13	(3,596,423)	(2,221,984)
Total Shareholders Equity		9,825,818	10,928,826

This consolidated balance sheet should be read in conjunction with the notes to this interim financial report

SKIN ELEMENTS LIMITED HALF-YEAR ENDED 31 DECEMBER 201& CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		31 December 2017			
	Issued capital	Accumulated losses	Share based payments reserves	Converting Note reserve	Total Equity
	\$	\$	\$		\$
Balance at 1 July 2017	13,033,994	(2,221,984)	116,816	-	10,928,826
Loss for the half-year	-	(1,374,440)	-	-	(1,374,440)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half-year	-	(1,134,440)	-	-	(1,374,440)
Transactions with owners in their capacity as owners					
Issue of share capital	233,000	-	-		233,000
Share based payments	-	-	14,431	-	14,431
Issue of converting note		-	-	24,000	24,000
	233,000	-	14,431	24,000	271,431
Balance at 31 December 2017	13,266,994	(3,596,424)	131,247	24,000	9,825,817
Balance at 1 July 2016	9,245,988	(602,901)	-	-	8,643,087
Loss for the half-year	-	(769,588)	-	-	(769,588)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half-year	-	(769,588)	-	-	(769,588)
Transactions with owners in their capacity as owners					
Issue of share capital	3,710,001	-	-	-	3,710,001
Share based payment	(116,816)	-	116,816	-	-
Share issue costs	(360,179)			-	(360,179)
	3,233,006	-	116,816	-	3,349,822
Balance at 31 December 2016	12,478,994	(1,372,490)	116,816	-	11,223,320

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

SKIN ELEMENTS LIMITED HALF-YEAR ENDED 31 DECEMBER 2017 CONSOLIDATED STATEMENT OF CASHFLOWS

	Notes	Period Ended 31 Dec 2017 \$	Period Ended 31 Dec 2016 \$
Cook flours from an author activities			
Cash flows from operating activities		335,235	131,802
Receipts from customers		(1,113,520)	,
Payments to suppliers and employees Interest received		(1,113,320)	(547,332) 525
	3	(778,211)	
Net cash inflow / (outflow) from operating activities	3	(770,211)	(415,005)
Cash flows from investing activities			
Payments for businesses		(194,284)	-
Receipt of Research and development tax incentive		196,584	156,008
Net cash inflow / (outflow) from investing activities		2,300	156,008
Cash flow from financing activities			
Proceeds from the issue of equity		-	3,710,000
Payment for share issue costs		-	(33,314)
Proceeds from borrowings		24,000	505,742
Repayment of borrowings		-	(175,476)
Net cash inflow / (outflow) from financing activities		24,000	4,006,952
Cash and cash equivalents at the beginning of the financial year		1,407,153	8,918
Net increase / (decrease) in cash and cash equivalents		(751,911)	3,747,955
Cash and cash equivalents at the end of the financial year	3	655,242	3,756,873

This consolidated statement of cash flows should be read in conjunction with the notes to this 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 2017 was authorised for issue in accordance with a resolution of directors on 28 February 2017.

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 2017 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 2017.

(b) Going Concern

For the half-year ended 31 December 2017 the group recorded a loss of \$1,374,440, net cash outflows from operating activities of \$778,211 and had net working capital of \$465,560. Subsequent to year end, the Company improved this position through the issuance of convertible notes, however while the Company's sales are still in build- up phase, the ability of the group to continue as a going concern is dependent on securing additional funding.

The Company aims to raise sufficient funds to meet its ongoing commitments, planned expanded marketing programs and expansion plans through a blend of debt and equity raisings.

However, these conditions indicate a material uncertainty about the group's ability to continue as a going concern and therefore the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Should the group not be able to continue as a going concern, it may be required to realize 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 financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and liabilities that might be necessary should the group not continue as a going concern.

Interim Financial Report | For the six months ended 31 December 2017

(c) 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 segments 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.

(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 be known at the time.

(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.

(e) 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.

(f) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

The following new standards and amendments to standards are applicable to the Company and are mandatory for the first time for the financial year beginning 1 July 2017 and beyond. None of the standards and interpretations have affected any of the amounts recognised in the current half year or any prior half year.

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They have not been applied in preparing the interim financial report.

Title and Reference	Nature of Change	Application date for entity
AASB 9 Financial Instruments AASB 9	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.	1 July 2018
	Adoption of AASB 9 is only mandatory for the year ending 30 June 2018. The entity has not yet made an assessment of the impact of these amendments.	
AASB 15 Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	1 July 2018
	The entity is yet to undertake a full analysis of the impact of this standard at this stage.	
AASB 16 (issued February 2016) Leases	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet 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 balance sheet for most leases.	1 Jan 2019
	There are some optional exemptions for leases with a period of 12 months or less and for low value leases.	

Lessor accounting remains largely unchanged from AASB 117.

The entity has not yet made a detailed assessment of the impact of this standard at this stage.

		As at 31 Dec 2017 \$	As at 31 Dec 2016 \$
PROFIT OF	R LOSS ITEMS		
	THE HALF YEAR e half year included the following items:		
(a) Listing	costs		
Costs of AS	SX listing	-	182,114
		-	182,114
(i)			
(b) Admini	stration expenses		
Advertisin	g expenses	-	11,225
Accounting	g expenses	44,583	50,953
Audit expe	enses	11,844	22,332
Legal expe	nses	13,575	119,694
Wages, su	per & leave	125,271	-
Directors f		70,000	-
Travel exp		30,921	23,746
Other expe	enses	159,811	53,956
		456,006	281,906
c) Consulti	ng fees		
Related pa	arty consulting fees (i)	237,350	108,998
	onsulting fees	254,165	258,182
		491,515	367,180

⁽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 16.

SKIN ELEMENTS LIMITED HALF-YEAR ENDED 31 DECEMBER 2017

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

		As at 31 Dec 2017	As at 30 June 2017
3	CASH	\$	\$
	Cash at bank	655,242	1,407,153
	Balance per statement cash flows	655,242	1,407,153
	(a) Reconciliation of loss after income tax to net	Period ended 31 Dec 2017 \$	Period ended 31 Dec 2016 \$
	cash flows from operating activities		
	Loss for the half year	(1,374,440)	(769,588)
	Non-cash items	-	
	Amortisation	150,095	-
	Share based payments	247,431	-
	Acquisition of stock margin & deferred tax	43,517	-
	Increase in traded receivables	(58,241)	(6,264)
	Increase in other receivables	(182,821)	(8,876)
	Decrease in inventories	(60,901)	61,110
	Increase / (decrease) in trade and other payables	457,149	308,612
	Net cash outflow from operating activities	(778,211)	(415,006)

(b) Non-cash financing and investing activities

(i) Issue of Shares to consultants

The Company issued 1,165,000 shares for services rendered during the period. The total value attributed to the shares was \$233,000 (refer note 11).

(ii) Issue of performance rights

The Company obtained shareholder approval to issue 4,400,000 performance rights to directors which includes hurdles that the share price must exceed \$0.34 and \$0.51 per share for a period of 5 days before 30 June 2019 and 30 June 2020 (further details can be found at note 12 (ii).

TRADE RECEIVABLES	As at 31 Dec 2017 \$	As at 30 June 2017 \$
Trade receivables	106,929	48,657
	106,929	48,657

(i) Classification of trade and other receivables

Trade debtors 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 have any provision for doubtful debts in respect to their receivables as at 31 December 2017 (30 June: Nil). Due to the short term nature of the current receivables, their carrying amounts approximate their fair value.

(ii) Receivables and impairment

The trade debtor's balance does not have any amounts that are past due but not impaired.

		As at 31 Dec 2017 \$	As at 30 June 2017 \$
5	OTHER RECEIVABLES		
	GST receivable (net) ADBN Withholding	22,305 377 22,682	124,670 377 125,047
6	RESEARCH AND DEVELOPMENT TAX INCENTIVE	As at 31 Dec 2017 \$	As at 30 June 2017 \$
	Research and development grant receivable	181,391 181,391	196,584 196,584

The Group continued its development program during the half year ended 31 December 2017. 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 2018 and assess the availability of applicable government assistance.

		As at 31 Dec 2017	As at 30 June 2017
		\$	\$
7	INVENTORY		
	Raw materials	63,526	=
	Finished goods	376,678	422,820
		440,204	422,820
	Movements in inventory		
	Opening balance	422,820	89,198
	Inventory purchased	246,466	207,125
	Inventory transferred to costs of sales	(229,082)	(196,219)
	Inventory acquired as part of business		
	combination	-	322,716
	Inventory written off	-	
	Closing balance	440,204	422,820

		As at	As at
		31 Dec 2017	30 June 2017
		<u></u>	\$
8	INTANGIBLE ASSETS		
	Soléo Organics – formula & technology	6,443,937	6,578,398
	McArthur – formula & technology	685,567	699,296
	Website development costs Elizabeth Jane Natural Cosmetics – formula &	16,501	18,407
	technology	2,214,253	2,214,253
		9,360,258	9,510,353
		3,000,200	
	Movements in Soléo Organics – formula & technology		
	Opening balance	6,578,398	6,457,529
	Development cost additions	-	451,913
	Less: R&D tax incentives	-	(196,584)
	Less: Write-off or impairments	-	-
	Less: Amortisation	(134,461)	(134,461)
	Closing balance	6,443,937	6,578,398
	Movements in McArthur – formula & technology		
	Opening balance	699,296	_
	Development cost additions	-	703,572
	Less: R&D tax incentives	_	-
	Less: Write-off or impairments	_	-
	Less: Amortisation	(13,729)	(4,276)
	Closing balance	685,567	699,296
	Movements in Website development costs		
	Opening balance	18,407	-
	Development cost additions	-	19,000
	Less: R&D tax incentives	-	-
	Less: Write-off or impairments	- (1.005)	- (502)
	Less: Amortisation	(1,906)	(593)
	Closing balance	16,501	18,407
	Movements in Elizabeth Jane Natural Cosmetics – formula & technology		
		2,214,253	2 21/1 252
	Opening balance Development cost additions	2,214,253	2,214,253
	Less: R&D tax incentives	<u>-</u>	-
	Less: Write-off or impairments	_	-
	Less: Amortisation		- -
	Closing balance	2,214,253	2,214,253
	crossing building	2,217,233	

		Consolidated As at 31 Dec 2017	As at 30 June 2017 \$
•	TRADE PAYABLES	<u> </u>	· · · · · · · · · · · · · · · · · · ·
	Trade creditors	437,206	216,784
	Other creditors	129,216	190,536
	Loans from Related parties	330,266	330,266
		896,688	737,586

(a) Fair value of trade payables

9

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.

10	BORROWINGS	As at 31 Dec 2017 \$	As at 30 June 2017 \$
	Loans - related parties	44,201 44,201	44,201 44,201
	Movements in related party loans		
	Opening balance	44,201	44,611
	Amounts borrowed	-	593,091
	Amounts repaid	-	(593,501)
	Closing balance	44,201	44,201

(i) Terms of the borrowings

The operating company and the Company obtained working capital funding from the executives of the Company to allow the group to continue operating and pay its debts as and when they fell due. The loan is provided on the following terms:

Particulars	Terms
Principal	No fixed amount, funding provided when needed.
Interest rate	0%
Period	No fixed term.
Repayment	On commencement of listing, at the Company's discretion and subject to available funds.
Security The borrowing is unsecured and there are no covenants in place for the loan.	

11 ISSUED CAPITAL

	As at	As at	As at	As at
	31 Dec 2017	30 Jun 2017	31 Dec 2017	30 Jun 2017
(i) Share Capital	Shares No.	Share No.	\$	\$
Ordinary Shares	77,715,001	76,550,001	13,266,994	13,033,994

(ii) Movement in share capital

	•	Number of	
Date	Details	shares	\$
1 July 2017	Opening balance	76,550,001	13,033,994
31 August 2017	Issue of shares to consultants (665,000	133,000
31 August 2017	Issue of shares to Indian Ocean Advisory Group	500,000	100,000
		77,715,001	13,266,994

12	RESERVES				As at 31 Dec 2017 \$	As at 30 June 2017 \$
	Share based payment re Converting note reserve				131,247 24,000 155,247	116,816 116,816
	(i) Options		As at 31 Dec 2017 Options No.	As at 30 Jun 2017 Options No.	As at 31 Dec 2017 \$	As at 30 Jun 2017 \$
	Options		2,000,000	2,000,000	116,816	116,816
	Date	Details			Number of Options	\$
	23 December 2016	Opening bala Issue of optio	nce ns – consultants		2,000,000	- 116,816
		Closing balan	ce	-	2,000,000	116,816

(ii) Fair value of performance rights granted to key management personnel during the period

On 30 November 2017, at the Company's 2017 Annual General Meeting, the Company approved the issue of 4,400,000 performance rights in two equal tranches. Of these performance rights, 4,000,000 were issued to Mr Peter Malone (Chairman) and the remaining 400,000 performance rights to Mr Luke Martino (Non-Executive Director).

The company has used a Monte Carlo statistical valuation to determine the value of the rights. Details for each Tranche are tabled below:

			Exercise		Expiry Date of Milestone	Fair value per	Total Fair
Tranche	Number	Grant Date	Price	Volatility	Achievements	Right	Value
Α	2,200,000	30/11/2017	Nil	90%	30/06/2019	\$0.0751	\$165,220
В	2,200,000	30/11/2017	Nil	90%	30/06/2020	\$0.0768	\$168,960

Performance Milestones:

- (1) 5 Day VWAP of more than \$0.34 per share; and
- (2) 5 Day VWAP of more than \$0.51 per share.

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

(iii) Convertible Note Reserve

The Convertible Note Reserve represents the equity portion of the Convertible Notes issued on the following terms:

These notes convert into ordinary fully paid shares at a value of \$0.15 per share and not redeemable in cash, with one attaching free unlisted option exercisable at \$0.22 per share exercisable within two years. On exercising of this option, a further unlisted option will be attached exercisable at \$0.34 per share exercisable within a further two years. These notes have an interest rate of 10% P/A and must convert together with the applicable interest component within one year.

In January 2018 the Company issued Converting Notes for approximately \$75,000 cash and approximately \$300,000 for payment of amounts payable to related parties for services provided for a total facility of \$550,000. Currently \$100,000 remains undrawn.

		As at 31 Dec 2017	As at 30 June 2017
		\$	\$
13	ACCUMULATED LOSSES		
	Opening balance	2,221,983	602,901
	Loss for the period / year	1,374,440	1,619,082
	Closing balance	3,596,423	2,221,983

				ec 2017	3	31 Dec 2016
4.4	EARNINGS DED CHARE			\$		\$
14	EARNINGS PER SHARE					
	Loss attributable to ordinary shareholders		(1,374,440)		(769,588)
	Weighted average number of ordinary shares (i)					
	Balance before transaction			76,550,001		1
	Effect of shares issued for the acquisition (55,000,000 shar	es) (ii)		-		55,000,000
	Effect of shares issued for the IPO (18,550,000 shares * (8,	/184 days))		-		806,522
	Shares issued to consultants (1,165,000 shares * (121/184	days))		766,114		
				77,316,115	_	55,806,523
	Basic loss per share calculation (6mths loss / weighted ave shares)			(0.017)		(0.014)
	shares _j			(0.017)		(0.014)
		Operations		Corporate		Company
		o peration.	•	Administra	tion	company
15	SEGMENT REPORTING					
	Half Year ended 31					
	December 2017					
	Segment Revenue	39	3,476		-	393,476
	Significant items					
	Interest income	(0.00	-		74	74
	Consultants fees		3,450)		(72,005)	(679,900)
	Employment costs Amortisation		9,240) 9,095)		(72,885)	(432,125) (150,095)
	Other expenses		,,093) 1,439)		_	(491,439)
	Share based payments	(132	-	((14,431)	(14,431)
	Segment net operating loss after tax	(845	5,748)		28,692)	(1,374,440)
		,	, ,	,		
	Half Year ended 31 December 2016					
	Segment Revenue	17	9,782		-	179,782
	Significant items					
	Interest Income		95		-	95
	Consultants fees	(43	3,599)		-	(43,589)
	Segment net operating loss after tax	(21	L,777)		_	(21,777)
		,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			,,,,,,
	Segment assets					
	At 31 December 2017	10,09	2,945		673,762	10,766,707
	At 30 June 2017	10,17	6,362	1,	534,252	11,710,614
	Segment liabilities					
	At 31 December 2017	(390),464)	(5	50,425)	(940,889)

16 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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
		\$	\$	\$	\$
Director	Transaction				
Peter Malone	Executive services (i)	120,000	49,544	83,786	40,318
	IPO placement fee (ii)	-	28,926	-	28,926
Luke Martino	Corporate advisory services (iii)	158,810	168,907	23,637	168,907
	IPO placement fee (iii)	-	1,650	-	1,650

⁽i) A company associated with Mr Malone, Boston Corporate Pty Ltd, provides consulting services in connection with the operations of the Company.

⁽iii) Companies associated with Mr Martino, Indian Ocean Advisory Group and LJM Corporate Capital Pty Ltd, to which Mr Martino is one of the directors, provided professional accounting and IPO corporate advisory services during the half year. During the period, 500,000 shares at \$0.20 per share were issued for services provided.

		Transactio	Transaction Value		ng Balance
		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Technical					
personnel	Transaction	\$	\$	\$	\$
Craig Piercy	Consultancy services (iv)	99,300	29,727	36,305	24,711
	Office facilities (iv)	12,545	11,455	-	4,200
	IPO placement fee (v)	-	17,357	-	17,357
Leo Fung	Consultancy services (vi)	78,000	29,727	105,152	28,237

⁽iv) A company of which Mr Piercy is a Director, Boston Corporate Pty Ltd, provides consulting services in connection with the operations of the Company in addition to provision of office facilities to the Company.

The Group also obtained funding from entities and associates of three executives of the Company during the half year:

·	Borrowings	As at 31 Dec 2017	As at 30 June 2017 \$
	Loans – related parties	374,877 374,877	44,611

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

RELATED PARTY TRANSACTIONS

16 (CONTINUED)

In addition to the transactions above, the Company also entered into a share sale agreement with shareholders of SE Operations Pty Ltd (SEO) to swap their securities for securities in Skin Elements Limited (SEL). This included certain related parties or associated entities and the details are listed below.

Director / Technical personnel	No. of shares in SEO	No. of options in SEO	No. of shares in SEL	No. of Listed Options in SEL (i)	No. of Unlisted Options in SEL (ii)
				5,065,3	
Peter Malone	40,523,123	20,261,561	10,130,781	90	5,065,390
Luke Martino	5,000,000	2,500,000	1,750,000	625,000 2,272,6	,
Craig Piercy	18,181,310	9,090,655	4,545,328	64	2,272,664

- (i) Listed options exercisable at \$0.20 each on or before 31 October 2018.
- (ii) Unlisted options exercisable at \$0.30 each on or before 30 November 2018.

The shares and options in SEL are subject to a 2 year escrow period.

(iii) On 30 November 2017, at the Company's 2017 Annual General Meeting, the Company approved the issue of 4,400,000 performance rights in two equal tranches. Of these performance rights, 4,000,000 were issued to Mr Peter Malone (Chairman) and the remaining 400,000 performance rights to Mr Luke Martino (Non-Executive Director). Refer to Note 12(ii) for additional details on the performance rights issued.

17 CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities as at 31 December 2017.

18 SUBSEQUENT EVENTS

Subsequent to period end, the Company issued Convertible notes to related parties, creditors and various third parties. Please refer to Note 12(iii) for additional details on this convertible note.

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

BUSINESS COMBINATIONS (PROVISIONAL ACCOUNTING)

in the administration and consulting expenses in

the profit and loss.

19

On 5 May 2017 the Company acquired the business and business assets of McArthur Skincare. The acquisition provides the group with an established product formula which will augment the Company's current activities and future progress.

Business combination	Year Ended 30 Jun 2017 \$
Purchase consideration	
Value of shares issued	555,000
Cash paid and payable	622,716
- Total purchase consideration	1,177,716
The fair value of assets and liabilities recognised as a result of the acquisition are as follows:	
Website development asset	19,000
Product formulation information	703,572
Inventory	455,144
Deferred tax liabilities	0
Net identifiable assets acquired	1,177,716
Fair value of net assets acquired	1,177,716
Business combination	
Outflow of cash from the acquisition of subsidiaries, net of cash acquired	
Purchase consideration	416,869
Less: Balance acquired	0
	416,869
Amount payable as at 30 June 2017	(205,847)
Acquisition-related costs have all been included	

DIRECTORS' DECLARATION

In the opinion of the directors of Skin Elements Limited:

- (a) the consolidated financial statements and notes set out on pages 5 to 25 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 2017 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.

mann

Peter Malone
Executive Chairman

Dated at Perth, Western Australia this 28th day of February 2018.



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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Skin Elements Limited

Report on the Half-Year Financial Report

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 2017, 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, 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 2017 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.

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.

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 2017 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.

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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

Wayne Basford

Director

Perth, 28 February 2018



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