



SKIN ELEMENTS LIMITED

ACN 008 047 794

ANNUAL REPORT 2019

CORPORATE DIRECTORY

DIRECTORS

Mr Peter Malone (Executive Chairman)
Mr Luke Martino (Non-executive Director)
Mr Filippo (Phil) Giglia (Non-executive Director)
Mr Zeling Li (Non-executive Director)
Ms Jialin Li (Non-executive Director)

COMPANY SECRETARY

Craig Piercy

REGISTERED OFFICE

32 Ord Street
West Perth WA 6005
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Fax: +61 (0)8 6311 1999
Email: info@senatural.com
Web: www.skinelementslimited.com

PRINCIPAL PLACES OF BUSINESS

32 Ord Street
West Perth WA 6005

BANKERS

ANZ (Australia and New Zealand Banking Group Limited)
1275 Hay Street
West Perth WA 6005

SECURITIES EXCHANGE LISTING

ASX Limited
20 Bridge Street Sydney NSW 2000, Australia
ASX Code: SKN

SHARE REGISTRY

Link Market Services Limited
Level 4 Central Park
152 St Georges Terrace
PERTH WA 6000
Telephone (within Australia): 1300 554 474
Telephone (outside Australia): +61 1300 554 474
Email: registrars@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

AUDITORS

BDO Audit (WA) Pty Ltd
38 Station Street SUBIACO WA 6000, Australia

SOLICITORS

DLA Piper Australia
Level 31, Central Park
152-158 St Georges Tce
PERTH WA 6000

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DIRECTORS' REPORT

Your directors submit the annual report of the consolidated entity consisting of Skin Elements Limited (the **Company, Group or SEL**) and the entity it controlled during the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

DIRECTORS

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Peter Francis Malone B.Arch MBA

Executive Chairman – Appointed: 4 September 2015

Mr Malone has over 30 years experience as Chief Executive Officer (CEO) of technology programs and listed companies and holds a Masters in Business Administration from the University of Western Australia. He has been the CEO of the Skin Elements program since inception in 2005.

Mr Malone holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
15,196,172	66,351	11,397,128

Mr Luke John Martino B.Com FCA FAICD

Non-Executive Director – Appointed: 4 September 2015

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Mr Martino has over 20 years senior leadership experience in major Australian accounting firms. He is a former non-executive director of Pan Asia Corporation Limited (ASX: PZC), and the current non-executive chairman of Jador Lithium Limited (JDR). Mr Martino also hold the position of Company Secretary for South East Asia Resources Limited (ASX: SXI).

Mr Martino holds an interest in the following securities in the Company at the date of this his resignation:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
3,050,00	175,431	1,468,750

Mr Filippo (Phil) Giglia

Non-Executive Director – Appointed: 22 November 2017

Chairman of the Audit Committee, Remuneration Committee and Nomination Committee

Mr Giglia is a Chartered Accountant with more than 30 years experience in the accounting profession, with a strong depth of accounting and taxation expertise in the small to medium enterprise sector. He is also a Registered Tax Agent and Company Auditor.

Mr Giglia holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
2,217,469	9,767	323,397

DIRECTORS' REPORT (CONTINUED)

Mr Zeling Li

Non-Executive Director – Appointed: 3 May 2019

Mr Li is a qualified lawyer in the People's Republic of China. In 2006 he established the Beijing Yishoujin Biotechnology Development Co Ltd specializing in the research and development and sales in the health products sector.

Mr Li holds an interest in the following securities in the Company at the date of this report:

Number of fully paid ordinary shares	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
0	0

Ms Jialin Li

Non-Executive Director – Appointed: 3 May 2019

Ms Li is a graduate of the Henan University of Economics and Law in 1999 with a career as a journalist and editor in the media sector in China. She has recently founded Henan Zhibai Biotechnology Co Ltd which focuses on the research and development and production of cosmetics skincare products.

Ms Li holds an interest in the following securities in the Company at the date of his resignation:

Number of fully paid ordinary shares	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
0	0

Mr Craig Leslie Piercy BBus CA

Company Secretary – Appointed: 4 September 2015

Mr Piercy is a Chartered Accountant with over 25 years experience in corporate accounting, finance and compliance. He has been the Company Secretary and CFO of the Skin Elements program since inception in 2005.

Mr Piercy holds interest in the following securities in the Company as at the date of her resignation:

Number of fully paid ordinary shares	Convertible notes – converting one year from the date of issue at \$0.15 per share	Listed Options over ordinary shares Exercisable at \$0.10 on or before 31 Dec 2020
6,855,488	39,811	5,141,608

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL ACTIVITIES

During the year ended 30 June 2019, the principal continuing activity of the Group consisted of the development and commercialisation of its proprietary all natural skincare technology.

REVIEW OF OPERATIONS

Over the 2019 financial year, Skin Elements Limited has continued to execute its business plan and growth strategy to position itself as a leading global supplier of natural and organic skin care products.

The key highlights for the year include:

- (i) Focus on the the development of the brand extension and increased scale manufacture and distribution of the Soléo Organics sunscreen, PapayaActiv Therapeutics and Complete Esscience skincare product ranges and the reintroduction of the Elizabeth Jane Natural Cosmetics product range with a view to achieving a market launch 2020.
- (ii) Sales income of \$798,107 through existing online sales channels, wholesaler and distributor networks including health and lifestyles sectors in Australia, New Zealand, Japan, United States of America, Hong Kong, Indonesia and European Union and entry into new international sectors including China.
- (iii) Cash and non-cash expenses of \$3,014,993 (a decrease from \$3,623,683 in 2018) as a result of completion of the integration of the MacArthur business and focus on the brand extension and increased product scale manufacture and distribution.
- (iv) Other non-cash expenses include amortisation of the Soleo Organics, McArthur Skincare and Elizabeth Jane Natural Cosmetics intangible assets of \$390,794, and share based payments on performance rights of \$96,833.
- (v) Research and development Tax rebate of \$689,976 income at 30 June 2019 (2018: \$450,255).
- (vi) A net loss for the year ended 30 June 2019 of \$1,967,761 (2018: \$2,728,114).
- (vii) On 8 August 2018 the Company completed a capital raising of \$1,075,663 through a fully underwritten non renounceable entitlement offer to existing shareholders.
- (viii) On 4 October the Company raised \$363,800 through placement of 13,954,717 ordinary fully paid shares and 3,488,679 attaching free options exercisable at \$0.10 on or before 31 December 2020.
- (ix) On 25 March 2019 Skin Elements announced the execution of a binding term sheet with Henan Huatoua Health Management Co Ltd (HHHM) for a proposed sales and distribution agreement for at last \$20 million of new sales for its skin care product range into the Chinese skincare market together with proposed \$2.4 million strategic investment. The completion of these transactions is subject to completion of various conditions precedent including the negotiation of long form agreements and shareholder approvals. As at the date of this report, the Company has received \$200,000 of the strategic investment under convertible note and \$300,000 in sales orders for product, and has not yet finalised long form agreements or obtained shareholder approvals.
- (x) On 3 May the Company raised \$140,000 through placement of 7,000,000 ordinary fully paid shares.
- (xi) On 14 June the Company raised \$311,675 through placement of 11,131,250 ordinary fully paid shares and 5,565,625 attaching free options exercisable at \$0.10 on or before 31 December 2020. \$198,000 was received and 7,071,412 shares was issued at 30 June 2019. The remaining was completed in July and August 2019.

DIRECTORS' REPORT (CONTINUED)

RESULTS

Results for the Year

The Company incurred a loss of \$1,967,761 after income tax for the year (2018: loss \$2,728,114).

Skin Elements delivered progress in the sales and distribution of its Soleo Organics product range during the year. Revenues from all product sales for the year ending 30 June 2019 were \$798,107 (2018: \$838,292). Sales for the Soléo Organics sunscreen included China, Japan, Slovenia, Hong Kong and Australia, and in the US, via online retailer Amazon - and the Company will continue to work to expand its sales and distribution footprint for its entire product range in the year ahead.

The 2019 results include cash expenses of \$2,527,365 (a decrease from \$3,321,706 in 2018) as a result of the completion of the integration of the MacArthur business and expansion of the Company's product ranges, made up of \$899,672 in direct product development, \$643,257 in administration expenditure, \$297,175 in corporate expenditure, and \$587,534 in contracting and consulting fees.

Non-cash expenses include an amount for amortisation of the Soléo Organics, McArthur Skincare and Elizabeth Jane Natural Cosmetics intangibles of \$390,794, and share based payments on performance rights at fair value of \$96,833.

Financial position

The Company financial statements show the following key movements in the group's assets and liabilities over the two periods:

- (i) Decrease in cash assets by \$0.079m to \$0.116m (2018: \$0.195m);
- (ii) Decrease in trade receivables by \$0.020m to \$0.016m (2018: \$0.036m);
- (iii) Decrease in trade and other payables by \$0.302m to \$0.508m (2018: \$0.810m);
- (iv) Increase in R&D Tax receivables by \$0.119m to \$0.649m (2018: \$0.450m);
- (v) Decrease in non-current assets by \$0.385m to \$8.995m (2018: \$9.380m);

At 30 June 2019 the Consolidated Group had a working capital position of \$0.085m (2018: \$0.109m).

DIVIDENDS

During the financial year the Company did not pay a dividend (2018: nil).

RISK MANAGEMENT

The Board of Directors takes a pro-active approach to risk management. The Board is ultimately responsible for ensuring that risks and also opportunities are identified on a timely basis and the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Board has established an Audit & Risk Committee that operates under a charter approved by the Board. The purpose of the Audit & Risk Committee is to assist the Board in fulfilling its corporate governance, oversight, risk management and compliance practices responsibilities.

ENVIRONMENT REGULATIONS

The Group's operations are not regulated by any environment regulations including the National Greenhouse and Energy Reporting Act 2007.

DIRECTORS' REPORT (CONTINUED)

ISSUE OF SHARES OPTIONS AND NOTES

During the year, Skin Elements Limited had the following changes in its capital structure:

- (i) On 8 August 2018 the Company completed a fully underwritten non-renounceable rights issue for 43,026,519 ordinary fully paid shares and 10,756,630 free attaching options (exp 31/12/20: \$0.10) raising \$1,075,662 in cash.
- (ii) On 4 October the Company completed a placement through the issue of 13,954,717 ordinary fully paid shares and 3,488,679 free attaching options (exp 31/12/20: \$0.10) raising \$363,800 in cash.
- (iii) On 4 October 2018 the Company issued 873,353 ordinary fully paid shares to an external consultant for project services rendered for a fair value of \$29,694.
- (iv) On 7 December 2018 the Company issued 425,000 shares to an associate of a director for services rendered for a fair value of \$8,500.
- (v) 38,775,000 Listed Options expired on 31 October 2018 and 27,500,000 Unlisted Options expired on 30 November 2018. On 24 December 2018, the Company issued 61,801,381 new loyalty options (exp 31/12/20: \$0.10) on entitlement prorata basis for nil consideration.
- (vi) On 3 May 2019 the Company issued 7,000,000 ordinary fully paid shares raising \$140,000.
- (vii) On 14 June 2019 the Company issued 11,131,250 ordinary fully paid shares and 5,565,625 free attaching options (exp 31/12/20: \$0.10) raising \$311,675 in cash. \$198,000 was received and 7,071,412 shares was issued at 30 June 2019. The remaining was completed in July and August 2019.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in the capital structure of the Company during the year is detailed above.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations, business strategies and prospects of the Group include:

Continued expansion of the Groups' natural skincare products offering including developing additional products in established brands Soleo Organics suncare and McArthur pawpaw based therapeutic skincare, launch of its Elizabeth Jane Natural Cosmetics (EJNC) organic skincare range, and acquiring or developing additional brands in the natural and organic skincare space.

Growth in sales revenue of these products through development and support of existing wholesale and distributor sales networks, development and management of online and social media programs, and expansion from Australia into international markets.

As detailed in the Review of Operations above, Skin Elements On 25 March 2019 Skin Elements announced the execution of a binding term sheet with Henan Huatuo Health Management Co Ltd (HHHM) for a proposed sales and distribution agreement for at least \$20 million of new sales for its skin care product range into the Chinese skincare market together with proposed \$2.4 million strategic investment. The completion of these transactions is subject to completion of various conditions precedent including the negotiation of long form agreements and shareholder approvals. The parties are continuing to work together to finalized the long form agreements, obtained shareholder and other necessary regulatory approvals and the other conditions precedent so that the proposed sales and distribution agreement and strategic investment can proceed as envisaged.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for the key management personnel of Skin Elements Limited (the “Company” or “Group” or individually “SEL”) for the financial year ended 30 June 2019 and comparatives for the year ended 30 June 2018. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel (“KMP”) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

No remuneration consultants were used during the year.

The following table shows the gross revenue, profits/losses and share price of the Group at the end of the respective financial years.

	Consolidated 30 June 2019	Consolidated 30 June 2018
Revenue from continuing operations	\$798,107	\$838,292
Net loss	(\$1,967,761)	(\$2,728,114)
Share price	\$0.025	\$0.027

Key Management Personnel

2019

(i) Directors

Peter Malone	Executive Chairman	appointed 4 September 2015
Luke Martino	Non-Executive Director	appointed 4 September 2015
Filippo (Phil) Giglia	Non-Executive Director	appointed 22 November 2017
Zeling Li	Non-Executive Director	appointed 3 May 2019
Jialin Li	Non-Executive Director	appointed 3 May 2019

(ii) Executives

Craig Piercy	Chief Financial Officer	appointed 1 January 2017
	Company Secretary	appointed 4 September 2015
Leo Fung	Chief Technical Advisor	appointed 1 January 2017

2018

(i) Directors

Peter Malone	Executive Chairman	appointed SEO March 2005
Luke Martino	Non-Executive Director	appointed 4 September 2015
Filippo (Phil) Giglia	Non-Executive Director	appointed 22 November 2017
David Humann	Non-Executive Director	appointed 4 September 2017 - died 20 November 2017

(ii) Executives

Craig Piercy	Company Secretary	appointed SEO March 2005
Leo Fung	Chief Technical Advisor	appointed SEO March 2005

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Remuneration Philosophy

The Board of Directors has established a Nomination and Remuneration Committee. The Committee shall provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities, however, ultimate responsibility for the Company's nomination and remuneration practices remains with the Board. The main functions and responsibilities of the Committee include the following:

- assisting the Board in examining the selection and appointment practices of the Company;
- ensuring remuneration arrangements are equitable and transparent and enable the Company to attract and retain executives and directors (executive and non-executive) who will create sustainable value for members and other stakeholders;
- ensuring the Board is of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- reviewing Board succession plans and Board renewal;
- reviewing the processes for evaluating the performance of the Board, its committees and individual directors and ensuring that a fair and responsible reward is provided to executives and directors having regard to their performance evaluation;
- reviewing levels of diversity within the Company and Board and reporting on achievements pursuant to any diversity policy developed by the Board;
- reviewing the Company's remuneration, recruitment, retention and termination policies for the Board and senior executives; and
- complying with all relevant legislation and regulations including the ASX Listing Rules and *Corporations Act 2001* (Cth).

The Group's policy for determining the nature and amount of remuneration of board members and senior executives is as follows:

(i) Non-Executive Directors

The remuneration of non-executive Directors will be determined by the Board having regard to the Remuneration Committee's recommendations and evaluation of each individual director's contribution to the Board.

The maximum aggregate annual remuneration of non-executive directors is subject to approval by the shareholders in general meeting in accordance with the Company's Constitution, the ASX Listing Rules and the *Corporations Act 2001*(Cth). The current maximum aggregate remuneration amount to non-executive directors approved by shareholders under the Constitution is \$500,000 per year. The directors have resolved that fees payable to non-executive directors for Board activities are \$24,000 per year with an additional fee of \$2,000 per year payable to the Chairman of the Audit and Risk Committee and the Nomination and Remuneration Committee.

(ii) Key management personnel

The Company's remuneration policy reflects the Company's obligation to align executive remuneration with shareholders' interests and to engage appropriately qualified executive talent for the benefit of the Company. In particular, reward should reflect the competitive global market in which the Company operates, individual reward should be linked to performance criteria, and should reward both financial and non-financial performance of the Director.

The Board of Directors and the Nomination & Remuneration Committee are in the process of assessing and implementing the Company's executive reward framework to ensure reward for performance is competitive and appropriate for the results delivered.

The Company has in place an Equity Incentive Plan to provide Performance Rights, Options, or Restricted Shares to directors, Employees or contractor of the Company. For the year ended 30 June 2019 other than as set out in the share based payments – Employee Incentive Plan all executive remuneration is set at base level fixed amounts at commensurate market rates or lower. The Employee Incentive Plan aligns shareholder and stakeholder values with executives as the hurdles embedded in the incentive plans include target share price milestones which are typically set at prices above the current share price at the date of issue and expire within a defined timeframe.

The relative proportions of executive remuneration that is fixed or at risk is outlined below.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

	Fixed Remuneration		At risk - LTI	
	2019	2018	2019	2018
Directors of SEL				
Peter Malone (appointed 4 September 2015)	73%	83%	27%	17%
Luke Martino (appointed 4 September 2015)	75%	87%	25%	13%
Phil Giglia (appointed 22 November 2017)	100%	100%	-	-
David Humann (ceased 20 November 2017)	100%	100%	-	-
Zeling Li (appointed 3 May 2019)	-	-	-	-
Jialin Li (appointed 3 May 2019)	-	-	-	-
Executives of SEL				
Craig Piercy	100%	100%	-	-
Leo Fung	100%	100%	-	-

Service agreements

Remuneration and terms of employment for other key management personnel are formalised in consultancy and employment agreements. The major provisions relating to remuneration to existing directors are set out below.

Executive agreements

Peter Malone, Executive Chairman

The Company has entered into a consultancy agreement with Boston Technology Management Pty Ltd (*Boston Consultancy Agreement*) to provide services to the Group. Mr Peter Malone will be engaged by Boston Technology Management Pty Ltd to act as the Executive Chairman of the Group. Boston Technology Management Pty Ltd will be paid a consulting fee of A\$20,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Boston Consultancy Agreement continues for a period of 2 years from 1 January 2017, with the option to extend the term by mutual written agreement of the parties. The Boston Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to - Boston Technology Management Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Boston Technology Management Pty Ltd over the 3 month period if the engagement had not been terminated.

Craig Piercy, CFO / Company Secretary

The Company has entered into a consultancy agreement with Boston Technology Management Pty Ltd (*Boston Consultancy Agreement*) to provide services to the Group. Mr Craig Piercy will be engaged by Boston Technology Management Pty Ltd to act as the Company Secretary and Chief Financial Officer of the Group. Boston Technology Management Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Boston Consultancy Agreement continues for a period of 2 years from 1 January 2017, with the option to extend the term by mutual written agreement of the parties. The Boston Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to Boston Technology Management Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Boston Technology Management Pty Ltd over the 3 month period if the engagement had not been terminated. These amounts have been included in the remuneration report below.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Service agreements (cont'd)

Leo Fung, Chief Technical Advisor

The Company has entered into a consultancy agreement with Blackridge Group Pty Ltd (*Blackridge Consultancy Agreement*) to provide services to the Group. Mr Leo Fung will be engaged by Blackridge Group Pty Ltd to act as the Chief Technical Advisor of the Group. Blackridge Group Pty Ltd will be paid a consulting fee of A\$13,000 (plus GST) per month for at least 100 hours of service per month and will also be reimbursed for reasonable expenses incurred in the performance of its duties.

The Blackridge Consultancy Agreement continues for a period of 2 years from 1 February 2017, with the option to extend the term by mutual written agreement of the parties. The Blackridge Consultancy Agreement contains standard termination provisions under which the Company must give 3 months written notice of termination (or shorter period in the event of a material breach) or alternatively payment in lieu of service. At the end of the notice period the Company must pay to Blackridge Group Pty Ltd an amount equal to the consulting fee that would otherwise be payable to Blackridge Group Pty Ltd over the 3 month period if the engagement had not been terminated.

Non-executives

The non-executive directors' appointments are on the following basis:

Luke Martino – Non-Executive Director

The Company has entered into an agreement with LJM Capital Corporation Pty Ltd (*Martino Agreement*). Mr Martino is engaged by LJM Capital Corporation Pty Ltd to provide non-executive director services to the Company. LJM Capital Corporation Pty Ltd will be paid a fee of A\$60,000 (plus GST) per annum for at least 40 hours of service per month. Mr Martino will also be reimbursed for reasonable expenses incurred in the performance of his duties as a non-executive Director of the Company.

Phil Giglia – Non-Executive Director

The Company has entered into an agreement with Colosseum Securities Pty Ltd (*Giglia Agreement*). Mr Giglia is engaged by Colosseum Securities Pty Ltd to provide non-executive director services to the Company. Colosseum Securities Pty Ltd will be paid a fee of A\$60,000 (plus GST) per annum for at least 40 hours of service per month and \$2,000 (plus GST) per annum as Chairman. Mr Giglia will also be reimbursed for reasonable expenses incurred in the performance of his duties as a non-executive Director of the Company.

Zeling Li – Non Executive Director

The Company has appointed Mr Li to the Board of Directors on 3 May 2019 pursuant to the Term Sheet with HHHM dated 25 March 2019. Mr Li's appointment has not yet been ratified by shareholders and the Company has not yet entered into any agreement with regard to fee for director services to the Company.

Jialin Li - Non Executive Director

The Company has appointed Mr Li to the Board of Directors on 3 May 2019 pursuant to the Term Sheet with HHHM dated 25 March 2019. Mr Li's appointment has not yet been ratified by shareholders and the Company has not yet entered into any agreement with regard to fee for director services to the Company.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Details of remuneration

Details of the remuneration of the key management personnel of the Group are set out in the following tables.

	Cash Salary & fees (excl. GST)	Non-cash benefits	Super- annuation	Share-based payments \$	Total \$
	\$	\$	\$		
2018/19					
Directors					
Peter Malone ¹	240,000	-	-	88,030	328,030
Luke Martino ²	27,000	-	-	8,803	35,803
Filippo (Phil) Giglia ³	29,000	-	-	-	29,000
Zeling Li ⁴	-	-	-	-	-
Jialin Li ⁵	-	-	-	-	-
Executives of SEL					
Craig Piercy ⁶	156,000	-	-	-	156,000
Leo Fung ⁷	156,000	-	-	-	156,000
	608,000	-	-	96,833	704,833

¹. Peter Malone, fees paid to Boston Technology Management Pty Ltd.

². Luke Martino, fees paid to LJM Capital Corporation Pty Ltd, agreement commenced on 1 January 2017. He agreed to a fee reduction from his original contract in FY19 to allow for further reinvestment of funds into the Company for research and development purposes.

³. Filippo (Phil) Giglia, fees paid to Colosseum Securities Pty Ltd, agreement commenced on 22 November 2017. He agreed to a fee reduction from his original contract in FY19 to allow for further reinvestment of funds into the Company for research and development purposes

⁴ Zeling Li was appointed on 3 May 2019.

⁵ Jialin Li was appointed on 3 May 2019

⁶. Craig Piercy, fees paid to Boston Technology Management Pty Ltd.

⁷. Leo Fung, the above fees paid to Blackridge Group Pty Ltd who engage Leo Fung, refer to the service agreement section for details of the changes for the period.

Details of remuneration in the prior period

	Cash Salary & fees	Non-cash benefits	Super- annuation	Share-based payments \$	Total \$
	\$	\$	\$		
2017/18					
Directors					
Peter Malone ¹	240,000	-	-	51,130	291,130
Luke Martino ²	60,000	-	-	5,113	65,113
Filippo (Phil) Giglia ³	36,500	-	-	-	36,500
David Humann ⁴	33,333	-	-	-	33,333
Executives of SEL					
Craig Piercy ⁵	156,000	-	-	-	156,000
Leo Fung ⁶	156,000	-	-	-	156,000
	681,833	-	-	56,243	738,276

¹. Peter Malone, fees paid to Empire Services Pty Ltd and Boston Corporate Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and the Company post listing on ASX.

². Luke Martino, fees paid to LJM Capital Corporation Pty Ltd, agreement commenced on 1 January 2017.

³ Filippo (Phil) Giglia, fees paid to Colosseum Securities Pty Ltd, agreement commenced on 22 November 2017.

⁴. David Humann, fees paid to James Anne Holdings Pty Ltd, agreement commenced on 1 January 2017. Mr Humann died on 20 November 2017.

⁵. Craig Piercy, fees paid to Equities Services Pty Ltd and Boston Corporate Pty Ltd, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

⁶. Leo Fung, the above fees paid to Blackridge Group Pty Ltd and Essential Property Pty Ltd who engage Leo Fung, refer to the service agreement section for details of the changes for the periods pre and post the Company listing on ASX.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Termination benefits

No termination benefits are payable to executive or non-executive directors.

Share-based compensation – Employee Incentive Plan

The Company has established an Equity Incentive Plan (EIP) to assist in the motivation, retention and reward of senior management and other employees. The EIP is designed to align the interest of senior management and other employees with the interest of Shareholders by providing an opportunity for the participants to receive an equity interest in the Company. The securities issued under the Employee Incentive Plan currently do not include individual performance conditions for the recipients, instead, the milestones hurdles for these securities include share price targets which align all shareholder and stakeholder interests with the executives.

During the year up to the date of this report the Company did not issue any new EIP securities and has on issue the following EIP securities:

	Type of rights	Number of rights at the start of the year	Value of rights at grant date* \$	Number of rights vested during the year	Value of rights at vesting date* \$	Number of rights lapsed during the year	Value at lapse date \$
Directors of Skin Elements Limited							
Peter Malone	Tranche A	2,000,000	100,000	-	-	2,000,000	100,000
Peter Malone	Tranche B	2,000,000	64,000	-	-	-	-
Luke Martino	Tranche A	200,000	10,000	-	-	200,000	10,000
Luke Martino	Tranche B	200,000	6,400	-	-	-	-

* The value at grant date calculated in accordance with AASB2 Share-based payment of rights granted during the year as part of remuneration. These have been valued based on the share price on the grant date of the performance rights. No adjustment has been made for the value of rights which lapsed during the year.

Share-based compensation – Employee Incentive Plan (cont'd)

The rights have the following performance hurdles, Tranche A, 5 Day VWAP of more than \$0.34, Tranche B, 5 Day VWAP of more than \$0.51 per share.

The assessed fair value at grant date of rights granted to the individual is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

The fair value of the rights has been determined as \$0.05 to \$0.032 per right. The Company used a Monte Carlo simulation model to value the rights with the following inputs:

Particulars	Terms
Consideration	Nil
Grant date	30 November 2017
Expiry date	30 June 2019 (Tranche A) and 30 June 2020 (Tranche B)
Share price	\$0.177
Expected volatility	40%
Dividend yield	0%
Risk free rate	1.75% (Tranche A) and 1.89%(Tranche B)

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Transaction with KMP's

The Group had the following related party transactions with the key management personnel during the year:

Other Transactions with Key Management Personnel	2019 \$	2018 \$
Boston Technology Management Pty Ltd (a company of which Mr Piercy is a director) provided office facilities on monthly rental basis at commercial rates.	-	20,909
Indian Ocean Advisory Group (a company associated with Mr Martino), provided professional accounting and corporate advisory services. The services are at commercial arms-length hourly rates.	79,038	217,075

Loans to / from KMP's

The following information relates to the loans provided by associates of key management personnel during the previous year.

Movement in the loan balance are presented below:

	Balance at the start of the year \$	Amount borrowed \$	Amounts extinguished \$	Closing balance \$
2017/18				
Boston Corporate Pty Ltd	18,711	31,212	(49,923)	-
Boston Corporate Pty Ltd	10,988	16,807	(27,795)	-
Essential Property Pty Ltd	14,502	14,643	(29,145)	-
	44,201	62,662	(106,863)	-

The terms of the loans are as follows:

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.

The total benefit to directors and executives is \$106,863. These balances due under these loans result from the provision of consulting services unpaid during the period.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONT'D)

Convertible notes

The Company entered into arrangements to extinguish the related party borrowings in exchange for convertible notes on the same terms and conditions as the third party convertible notes issued during the period December 2017 to March 2018.

	Balance at the start of the year \$	Amount of notes issued \$	Amounts extinguished \$	Closing balance \$	Fair Value
2017/18					
Boston Corporate Pty Ltd	-	77,718	-	77,718	106,162
LJM Capital Corporation PL	-	60,500	-	60,500	82,644
Colosseum Securities Pty Ltd	-	7,150	-	7,150	9,767
Essential Property Pty Ltd	-	29,145	-	29,145	39,812
	-	174,513	-	174,513	238,385

There is no movement of above convertible notes in current financial year.

The terms of the convertible notes are set out below:

Particulars	Terms
Principal	Face value of the consideration provided.
Interest rate	10%
Period	1 year
Repayment	Convertible at any time during the year and automatically after one year.
Security	The borrowing is unsecured and there are no covenants in place for the notes.

Fair value

The loans were extinguished by issuing convertible notes. The Company has fair valued the securities issued to extinguish the loans. These include a share at \$0.15 in addition to the note holder receiving an option exercisable at \$0.10 on or before 31 December 2020. The convertible notes have been valued as follows:

Particulars	Terms
Share	Share price at date of issue \$0.11
Option – Exercise price	\$0.10
Option – Grant date	31 January 2018
Option – Expiry date	31 December 2020
Option – Share price	\$0.11
Option – Expected volatility	86.81%
Option – Dividend yield	0%
Option – Risk free rate	1.77% (first option) and 2.15% (second options)

DIRECTORS' REPORT (CONTINUED)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group including their personally related parties, is set out below:

All securities	Balance at beginning of year or appointment date	Issued on exercise of options	Other changes*	New Issues	Balance at end of year or date of resignation
2019					
Directors					
Peter Malone					
- Ordinary shares	10,130,781	-	-	5,065,390 ³	15,196,172
- Options	5,065,390	-	(5,065,390) ¹	11,397,128 ^{3,4}	11,397,128
- Unlisted options	5,065,390	-	(5,065,390) ¹	-	-
- Performance rights	4,000,000	-	(2,000,000) ²	-	2,000,000
- Convertible notes	66,361	-	-	-	66,351
Luke Martino					
- Ordinary shares	1,250,000	-	-	1,800,000 ³	3,050,000
- Options	625,000	-	(625,000) ¹	1,468,750 ^{3,4}	1,468,750
- Unlisted options	625,000	-	(625,000) ¹	-	-
- Performance rights	400,000	-	(200,000) ²	-	200,000
- Convertible notes	128,425	-	-	-	128,425
Filippo (Phil) Giglia					
- Ordinary shares	40,000	-	-	2,177,469 ³	2,217,469
- Options	-	-	-	323,397 ³	323,397
- Unlisted options	-	-	-	-	-
- Convertible notes	7,150	-	-	-	7,150
Zeling Li					
- Ordinary shares	-	-	-	-	-
- Options	-	-	-	-	-
Jialin Li					
- Ordinary shares	-	-	-	-	-
- Options	-	-	-	-	-
Executives of SEL					
Craig Piercy					
- Ordinary shares	4,570,325	-	-	2,285,161 ³	6,855,488
- Options	2,285,162	-	(2,285,162) ¹	5,141,608 ^{3,4}	5,141,608
- Unlisted options	2,285,162	-	(2,285,162) ¹	-	-
- Convertible notes	39,811	-	-	-	39,811

¹. Options (SKNO) and unlisted options expired on 31 October 2018 and 30 November 2018 respectively.

². Performance Rights lapsing on 30 June 2019.

³. Includes entitlement issue taken up.

⁴. As approved at the 2018 Annual General Meeting, the holders of the legacy options were awarded one-for-one basis were issued replacement options converting at \$0.10 and expiring on 31 December 2020.

DIRECTORS' REPORT (CONTINUED)

Voting of shareholders at last year's annual general meeting

The Company received 99.9% of "yes" votes on its remuneration report for the 2018 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

END OF THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED

Directors' Meetings

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	Directors' Meetings*		Audit and risk Committee		Remuneration committee	
	Held	attended	Held	attended	Held	attended
Peter Malone	4	4	1	1	-	-
Luke Martino	4	4	-	-	-	-
Phil Giglia	4	4	1	1	-	-
Zeling Li	-	-	-	-	-	-
Jialin Li	-	-	-	-	-	-

* Matters considered by the Board during the year have also been effected by execution of circulated resolutions by directors.

Indemnification and insurance of Directors and Officers

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the Company against a liability incurred by such directors and officers to the extent permitted by the Corporations Act 2001. The nature of the liability and the amount of the premium has not been disclosed due to confidentiality of the insurance contracts. The Company has not otherwise during or since the end of the year, indemnified, or agreed to indemnify an officer or an auditor of the Company, or of any related body corporate, against a liability incurred by such an officer or auditor.

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of the proceedings.

The Company was not a party to any such proceedings in the year.

Shares under Options

Unissued ordinary shares of Skin Elements Limited under option as at the date of this report are:

Date	Options
83,112,315	Options exercisable at \$0.10 each on or before 31 December 2020 (SKNOA)
338,000	Unlisted Options exercisable at \$0.22 each on or before 6 March 2020 (convertible notes).

Events subsequent to the end of the financial year

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have been significantly affected, or may significantly affect, the operations of the Group.

DIRECTORS' REPORT (CONTINUED)

Auditor Independence and Non-Audit Services

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 audit of the annual report. This Independence Declaration is set out on page 20 and forms part of this directors' report for the year ended 30 June 2019.

Non-audit services provided by the auditors, BDO Audit (WA) Pty Ltd, and their related entities, are set out below.
BDO Audit (WA) Pty Ltd and their related entities received or are due to receive the following amounts for the provision of non-audit services:

	2019 \$	2018 \$
BDO Audit (WA) Pty Ltd associated entities:		
Independent Expert Report	48,815	-
	<u>48,815</u>	<u>-</u>

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 30th day of September 2019.



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

As lead auditor of Skin Elements Limited for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 30 September 2019

SKIN ELEMENTS LIMITED
FOR THE YEAR ENDED 30 JUNE 2019
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended 30 June 2019 \$	Year Ended 30 June 2018 \$
Revenue			
Revenue From Contracts with Customers		798,107	838,292
Cost of sales		(440,851)	(392,979)
- Gross profit		357,256	445,314
Other income	2	689,976	450,255
Expenses			
Administration expenses	2	(643,257)	(857,701)
Corporate expenses	2	(297,175)	(325,458)
Consultants fees	2	(587,534)	(826,108)
Occupancy expenses		(104,268)	(122,519)
Research and development expenses		(899,672)	(1,003,955)
Amortisation	9	(390,794)	(301,977)
Advertising and marketing expenses		(92,294)	(185,965)
Total Expenditure		(3,014,993)	(3,623,683)
Profit / (loss) before income tax expense		(1,967,761)	(3,178,295)
Income tax (expense) / benefit	3	-	-
Profit / (Loss) after income tax from continuing operations attributable to equity holders of Skin Elements Limited		(1,967,761)	(2,728,114)
Other comprehensive income			
<i>Items that may be realised through profit and loss</i>			
Movement in reserve		--	-
Total comprehensive income for the year		--	-
Profit / (loss) and total comprehensive income attributable to equity holders of Skin Elements Limited		(1,967,761)	(2,728,114)
Basic earnings per share	15	(0.014)	(0.035)
Diluted earnings per share		N/A	N/A

This consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to this Annual Report

SKIN ELEMENTS LIMITED
AS AT 30 JUNE 2019
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2019 \$	As at 30 June 2018 \$
Current Assets			
Cash and cash equivalents	4	116,238	195,661
Trade and other receivables	5	25,689	82,567
Prepayment	6	97,136	-
Inventories	8	17,721	191,255
Research and development receivable	7	649,452	450,181
Total Current Assets		906,236	919,664
Non Current Assets			
Intangible assets	9	8,995,117	9,379,763
Total Non Current Assets		8,995,117	9,379,763
Total Assets		9,901,353	10,299,427
Current Liabilities			
Trade and other payables	10	506,208	810,386
Borrowings	11	200,000	-
Total Current Liabilities		706,208	810,386
Non Current Liabilities		-	-
Total Non Current Liabilities		-	-
Total Liabilities		706,208	810,386
Net Assets		9,195,145	9,489,041
Shareholders Equity			
Issued Capital	12	15,286,784	13,679,321
Reserves	14	804,743	738,340
Accumulated losses	13	(6,896,382)	(4,928,620)
Total Shareholders Equity		9,195,145	9,489,041

This consolidated statement of financial position should be read in conjunction with the notes to this Annual Report

SKIN ELEMENTS LIMITED
FOR THE YEAR ENDED 30 JUNE 2019
CONSOLIDATED STATEMENT OF CASHFLOWS

	Notes	Year Ended 30 June 2019 \$	Year Ended 30 June 2018 \$
Cash flows from operating activities			
Receipts from customers		798,166	851,395
Payments to suppliers and employees		(3,096,304)	(2,151,496)
Receipt of Research and development tax incentive		490,630	-
Interest paid		(11,010)	-
Interest received		75	74
Net cash inflow / (outflow) from operating activities	4	(1,818,443)	(1,300,027)
Cash flows from investing activities			
Payments for businesses		-	(205,847)
Receipt of Research and development tax incentive			196,584
Payments for intangibles		(6,148)	(183,702)
Net cash inflow / (outflow) from investing activities		(6,148)	(192,965)
Cash flow from financing activities			
Proceeds from the issue of equity		1,744,963	150,000
Payment for share issue costs		(199,795)	-
Proceeds from Share applications		-	32,500
Proceeds from Con Note		200,000	-
Proceeds from borrowings		-	99,000
Net cash inflow / (outflow) from financing activities		1,745,168	281,500
Cash and cash equivalents at the beginning of the financial year		195,661	1,407,153
Net increase / (decrease) in cash and cash equivalents		(79,423)	(1,211,492)
Cash and cash equivalents at the end of the financial year	4	116,238	195,661

This consolidated statement of cash flows should be read in conjunction with the notes to this Annual Report

SKIN ELEMENTS LIMITED
FOR THE YEAR ENDED 30 JUNE 2019
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital \$	Share based Payments Reserves \$	Convertible Note Reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2018	13,679,321	215,505	522,835	(4,928,620)	9,489,041
Loss for the period	-	-	-	(1,967,761)	(1,967,761)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(1,967,761)	(1,967,761)
Transactions with owners in their capacity as owners					
Issue of convertible notes	-	-	-	-	-
Repayment of convertible notes	-	-	(30,430)	-	(30,430)
Cost associated with share issues	(208,195)	-	-	-	(208,195)
Issue of shares (consultants)	38,194	-	-	-	38,194
Share based payments	-	96,883	-	-	96,833
Issue of shares (shareholders)	1,777,464	-	-	-	1,777,464
	1,607,463	96,883	(30,430)	-	1,673,866
Balance at 30 June 2019	15,286,784	312,338	492,405	(6,896,381)	9,195,145
Balance at 1 July 2017	13,033,994	116,816	-	(2,200,506)	10,950,304
Loss for the year	-	-	-	(2,728,114)	(2,728,114)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(2,728,114)	(2,728,114)
Transactions with owners in their capacity as owners					
Equity Issued - consultants	233,000	-	-	-	233,000
Issue of convertible notes	-	-	592,092	-	592,092
Conversion of convertible notes	69,257	-	(69,257)	-	-
Equity Issued - consultants	200,000	-	-	-	200,000
Share issued	150,000	-	-	-	150,000
Share issue costs	(6,930)	-	-	-	(6,930)
Share based payments	-	98,689	-	-	98,689
	645,327	98,689	522,835	-	1,266,851
Balance as at 30 June 2018	13,679,321	215,505	522,835	(4,928,620)	9,489,041

The above consolidated statement of changes in equity should be read in conjunction with the notes to this annual report

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting standards and Australian Accounting Interpretations and complies with other requirements of the law. The Company is a public company limited by shares incorporated and domiciled in Australia whose shares are traded on the Australian Securities Exchange. The financial report has also been prepared on a historical cost basis except for assessing the fair value of the business combination and the fair value of the share based payments. As at 30 June 2019 the activities of the Company were the manufacture and distribution of skincare products.

Reporting convention.

This annual report has been prepared on an accruals basis and are based on historical cost with the exception of the business combination, share based payments and convertible note fair values. The annual 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 2018.

(b) Statement of Compliance

The financial report was authorised for issue on in accordance with a resolution of directors on 30 September 2019.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards, as adopted in Australia. Compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS) as adopted by the AASB.

(c) Going concern

For the year ended 30 June 2019 the Group recorded a loss of \$1,967,761 (30 June 2018: \$2,728,114 loss), a net working capital surplus of \$85,170 (30 June 2018: \$109,278) and had net cash outflows from operating activities of \$1,818,443 (30 June 2018: \$1,300,027). Included in the current liabilities there is a convertible liability of \$200,000 which is expected to be converted to shares.

The ability of the entity 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,
- Will be able to raise additional equity to contribute to the Group's working capital position in the near term,

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies (cont)

- The group expects to continue to receive the full support of its related party creditors, 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 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

(d) Business Combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises of the fair value of assets transferred, liabilities incurred to the former owner, equity interests issued and the fair value of any contingent consideration.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Acquisition related costs are expensed as incurred.

(e) Principles of Consolidation

General consolidation principles

The consolidated financial statements comprise Skin Elements Limited and its controlled entity as at 30 June 2019.

A subsidiary is fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which the group ceases to have control. Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss

(f) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the annual 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 annual report.

All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances known to management. 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 annual report. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies (cont)

- (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 of the assets recoverable amount. 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.
- (ii) **Deferred taxes**
Deferred tax assets relating to income tax losses 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 Soléo 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 sale of the product and this may differ from the future results. The directors will continue to assess the effective life at each reporting date.
- (iv) **Share based payments**
The Company has assessed the fair value of the options issued using on Black Scholes Option Pricing model and the fair value of performance rights using a Monte Carlo simulation model. These models includes a number of estimated inputs including the Company's volatility, the risk-free rate and an estimated shares price of the Company's shares into 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 difference if the Company had used other inputs. .
- (v) **Convertible notes**
During the previous period the Company extinguished debt by way of issuing convertible notes. The Company assessed the fair value of instruments issued using the fair value of the equity instruments issued to extinguish the debt. The fair value of the instruments included the fair value of ordinary shares issued and the fair value of options using a Black Scholes Option Pricing model. This model includes a number of estimated inputs including the Company's volatility, the risk-free rate and the shares price of the Company's shares. These inputs were considered to be a reasonable basis available information at the time the valuations were undertaken but the outcome may be materially difference if the Company had used other inputs.

(g) Segment Reporting

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

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies (cont)

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.

(h) Foreign Currency Translation

Both the functional and presentation currency of the Company and its Australian subsidiary is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All exchange differences in the annual report are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(i) Revenue Recognition

AASB 15 was adopted without restating comparative information. 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. The Company generates revenue from the delivery of goods as follows: Revenue from selling goods The Company sells products to external customers using a number of mediums which include internet sales, employees direct selling and the use of wholesalers and businesses whom purchase the product and are then responsible for their own on selling processes. The internet sales are driven by the Company's website which sets out pricing for the product and delivery. Each wholesalers and business customer order is specific to the client's requirements, however, for each category of customer the performance obligations cease when the Company has delivered the goods to the customers. As at 30 June the Company did not have any material customer contracts at the reporting date.

(i) Sale of goods

Revenue for sale of suncare and skincare products, is recognised when the customers obtain control of the goods. This usually occurs when the goods are delivered. No other products or services are bundled in such contracts. Invoices are usually payable within 30 days and no element of financing is deemed present as the services are charged within standard credit terms which is consistent with industry practice.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies (cont)

(j) Income Tax

The income tax expense or benefit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination
- and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
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Note 1 Significant accounting policies (cont)

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(k) Goods and services taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
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Note 1 Significant accounting policies (cont)

(l) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Cash and cash equivalents

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(n) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from prepaid or cash on delivery to 60 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

SKIN ELEMENTS LIMITED
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Note 1 Significant accounting policies (cont)

(o) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale inventories are valued at the lower of cost and net realisable value.

(p) Intangible assets

(i) Formula and technology

Separately acquired formula and technology are shown at historical cost. Formula and technology acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(ii) Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Costs that are directly attributable to the improvement of identifiable and unique software products controlled by the Group are recognised as intangible assets when the Company meets to capitalisation criteria to recognise the asset list in development costs above.

(iii) Criteria for capitalising development costs of Formula and technology and Software

Development costs of Formula and technology and Software which meet the criteria below are capitalised to the asset to which they relate in the year the costs were incurred. Research expenditure and development expenditure that do not meet the criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The criteria for recognising development assets are as follows:

- it is technically feasible to complete and will be available for use;
- management intends to complete the asset and use it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available, and
- the expenditure attributable to the asset during its development can be reliably measured.
- Directly attributable costs that are capitalised as part of the asset include employee costs and an appropriate portion of relevant overheads.
- Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for commercial production.

SKIN ELEMENTS LIMITED
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FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Significant accounting policies (cont)

(q) Intangible asset amortisation

The Company commences amortisation where the development process is at a stage where the products can be produced in commercial quantities. The Company has assessed that the Soléo intangible assets and the McArthur intangibles assets are at a stage where they meet this test. The Company has assessed the effective life for these assets to be 25 years and amortised the asset carrying values on a straight-line basis for the period. The Company has a policy to regularly review the effective life of each asset.

(r) Research and development tax incentives (government funding)

Research and development tax incentives received or receivable from the government are recognised at their fair value where there is a reasonable assurance that the amount will be received and the Group will comply with all attached conditions. The value of the research and development tax incentives received or receivable is recognised as income where the expenses to which it relates are included in the profit or loss or alternatively as a reduction to the asset where the costs have been capitalised to the statement of financial position.

(s) Financial assets

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risk and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets are classified according to their business model and the characteristics of their contractual cash flows and are initially measured at fair value adjusting for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

(i) Financial assets carried at amortised cost

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and other receivables fall into this category of financial instruments.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not

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Note 1 Significant accounting policies (cont)

individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is

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Note 1 Significant accounting policies (cont)

virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(w) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits however due to the infancy of the Group, no long service leave has been accrued.

(x) Share-based payment transactions

The grant by the Company of options over its equity instruments to contractors or to its employees is measured at the fair value of contractor's services (where the services can be valued) or at the fair value of the equity instruments provided (which includes employee services received) during the period. The measurement date is the grant date and the cost is recognised over the vesting period for the services received by the Company with an increase to the expense (or asset if it directly relates to the development of an asset) with a corresponding increase to equity or reserves.

(y) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(z) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

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Note 1 Significant accounting policies (cont)

- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(aa) Convertible note

The financial instruments issued by the Group comprise convertible notes and attaching options that can be converted to ordinary shares at the option of the holder. The number of the shares and options to be issued is fixed. These convertible notes are recognised as equity and are not re-measured subsequent to initial recognition.

(bb) New standards and interpretations adopted during the current year

This note explains the impact of the adoption of AASB 9 Financial Instruments, AASB 15 Revenue from Contracts with Customers on the Group's financial statements, and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

Impact on Financial Statements

AASB 9 was adopted without restating comparative information. This change in methodology has not had an impact on the financial statements. The Company applies the AASB 9 simplified approach to measuring expected credit losses, which requires expected lifetime credit losses to be recognised from initial recognition of trade receivables with maturities of 12 months or less. The Company has made an assessment of the expected credit losses within its debtors balance. For the periods presented, a majority of the Groups' sales are made directly to retail customers who pay in advance for the products. The Company's history of returns is extremely low and therefore the historical credit losses will not be material.

AASB 15 was adopted without restating comparative information. 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. The Company generates revenue from the delivery of goods as follows: Revenue from selling goods The Company sells products to external customers using a number of mediums which include internet sales, employees direct selling and the use of wholesalers and businesses whom purchase the product and are then responsible for their own on selling processes. The internet sales are driven by the Company's website which sets out pricing for the product and delivery. Each wholesalers and business customer order is specific to the client's requirements, however, for each category of customer the performance obligations cease when the Company has delivered the goods to the customers. As at 30 June the Company did not have any material customer contracts at the reporting date and will assess the impact of AASB 15 going forward.

The Group has applied AASB 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under AASB 118. The details of accounting policies under AASB 118 are disclosed separately if they are different from those under AASB 15.

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Note 1 Significant accounting policies (cont)

(cc) 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.

Leases

AASB 16 Leases eliminates the operating and finance lease classifications for leases currently accounted for under AASB 117 Leases. It instead requires 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 30 June 2019, the Company has identified one contract that would be classified as leases under the new standard being the lease of office premises. Due to the short term and low value nature of this lease, the Company will apply 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.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
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	Year ended 30 Jun 2019	Year ended 30 Jun 2018
	\$	\$
Profit or loss items		
2 LOSS FOR THE YEAR		
Loss for the year included the following items:		
(a) Administration expenses		
Accounting expenses	144,308	98,362
Wages and salaries	331,794	474,828
Travel expenses	28,998	112,391
Other expenses	138,157	172,120
	643,257	857,701
(b) Corporate expenses		
ASX fees	54,185	31,667
Audit expenses	58,923	47,337
Directors fees	53,570	179,590
Filing fees	9,978	2,170
Legal expenses	68,043	40,631
Share Registry and shareholder communications	52,476	24,063
	297,175	325,458
(c) Contract and consulting fees		
Executive services contracts (i)	420,804	317,245
Share based performance rights	96,833	98,689
External consulting fees	69,897	410,173
	587,534	826,108
(i) The Company engages the executives under consulting agreements to provide their services. These services are disclosed in note 18.		
(d) Other income		
Interest	-	74
R&D Grant income	689,976	450,181
	689,976	450,255

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
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	Year ended 30 Jun 2019 \$	Year ended 30 Jun 2018 \$
3 INCOME TAX BENEFIT		
Current tax	-	-
Deferred tax	-	-
	-	-

Numerical reconciliation between tax benefit and pre-tax net loss

Loss before income tax benefit	(1,967,761)	(2,728,114)
Income tax (expense) / benefit calculated at 27.5%. (2018: 27.5%)	(541,134)	(750,231)
Effect of non-(assessable) / deductible item	(107,468)	(67,243)
Movements in unrecognised temporary differences	616,796	817,474
Income tax benefit	-	-

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
4 CASH AND CASH EQUIVALENTS		
Cash at bank (i)	116,238	195,661
Balance per statement cash flows	116,238	195,661

(i) Refer to the note 19 for commentary on risk management.

Loss for the year	(1,967,761)	(2,728,114)
Non-cash items		
Amortisation	390,794	301,977
Acquisition stock margin	-	(26,149)
Shared based payments	135,027	600,946
Decrease / (increase) in trade receivables	20,357	12,147
(Increase) / decrease in other receivables	36,576	(59,718)
Decrease / (increase) in inventories/prepayments	76,397	(393,607)
Decrease / (increase) in tax receivable	(199,271)	(196,584)
Increase in trade and other payables	(310,562)	882,932
Net cash (outflow) / inflows from operating activities	(1,818,443)	(1,300,027)

(b) Non-cash financing and investing activities

SKIN ELEMENTS LIMITED
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	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
5 TRADE AND OTHER RECEIVABLES		
Trade receivables (i)	16,152	36,509
GST	9,159	45,681
Other	377	377
Total	25,689	82,567

(i) Classification and impairment of trade and other receivables

Trade debtors are amounts due from customers for the 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 expected credit loss in respect to their receivables as at 30 June 2019 (30 June 2018: Nil). Due to the short-term nature of the current receivables, their carrying amounts approximate their fair value. The trade debtor's balance does not currently have any amounts that are past due but not impaired.

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
6 Prepayment		
Raw material	97,136	-
	97,136	-

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
7 GRANT RECEIVABLE		
Research and development receivable (i)	649,452	450,181
	649,452	450,181

(i) The Group continued its development program during the year ended 30 June 2019 resulting in a claim for research and development tax incentive. The claim has been approved subsequent to 30 June 2019.

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
8 INVENTORIES		
Finished goods	17,721	129,636
Raw materials	-	61,619
	17,721	191,255

SKIN ELEMENTS LIMITED
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	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
9 INTANGIBLE ASSETS		
Soléo Organics – formula and technology	6,052,125	6,315,261
McArthur skincare – formula and technology	806,503	835,642
Website development costs	10,807	14,607
Elizabeth Jane Natural Cosmetics – formula and technology	2,125,683	2,214,253
	8,995,117	9,379,763
 Movements in Soléo Organics – formula and technology		
Opening balance	6,315,261	6,578,397
Less: Amortisation	(263,136)	(263,136)
Closing balance	6,052,125	6,315,261
 Movements in McArthur – formula and technology		
Opening balance	835,642	870,683
Cost on acquisition	6,148	-
Less: Amortisation	(35,287)	(35,041)
Closing balance	806,503	835,642
 Movements in website development costs		
Opening balance	14,607	18,407
Less: Amortisation	(3,800)	(3,800)
Closing balance	10,807	14,607
 Movements in Elizabeth Jane Natural Cosmetics – formula and technology		
Opening balance	2,214,253	2,214,253
Less: Amortisation	(88,570)	-
Closing balance	2,125,683	2,214,253
 Profit or loss expense		
Soléo amortisation	263,136	263,136
McArthur amortisation	35,287	35,041
Website costs	3,800	3,800
Elizabeth Jane Natural Cosmetics	88,570	-
	390,793	301,977

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	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
10 TRADE PAYABLES		
Trade creditors (i) (ii)	184,880	236,139
Other creditors (ii)	321,328	574,247
	506,208	810,386

(i) Fair value of trade and other payables

Trade payables are unsecured and are usually paid within 60 days of recognition.

(ii) The carrying amount of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
11 BORROWINGS		
Loans - related parties	-	-
Convertible Note (iii)	200,000	-
	200,000	-
Movements in related party loans		
Opening balance	-	44,201
Amounts borrowed (i)	-	62,662
Conversion of debt to notes (ii)	-	(106,863)
Closing balance	-	-

(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.

- (ii) On 1 March 2018, the Company agreed to issue 106,863 convertible notes to extinguish borrowings.
- (iii) During the year the company entered into a convertible note arrangement with Henan Hetuo Health Management Co, Ltd (HHHM) with the following key terms:
 Interest rate: 0%
 Maturity: 31 December 2019
 Conversion terms: \$0.016 per share

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12 ISSUED CAPITAL	As at 30 Jun 2019	As at 30 Jun 2018	As at 30 Jun 2019	As at 30 Jun 2018
	Shares	Shares	\$	\$
Ordinary Shares	158,404,002	86,053,001	15,283,784	13,679,321

(ii) Movement in share capital

Date	Details	Number of shares	\$
1/07/2018	Opening balance	86,053,001	13,676,321
1/08/2018	Issue of non renounceable rights issue shares	43,026,519	1,075,664
4/10/2018	Issue of placement shares for cash	13,954,717	363,800
4/10/2018	Issue of consultant shares pursuant to a contract for services (i)	873,353	29,694
20/12/2018	Issue of consultant shares pursuant to a contract for services (i)	425,000	8,500
2/05/2019	Issue of placement shares for cash	7,000,000	140,000
14/06/2019	Issue of placement shares for cash (ii)	7,071,412	198,000
	Less: Transaction costs		(208,195)
	Closing balance	158,404,002	15,283,784

(i) Issue of shares is a share based payment based on value of services provided.

(ii) Total share placement is 11,131,233 shares. The remaining shares have been issued subsequent to 30 June 2019 following the receipt of funds.

13 ACCUMULATED LOSSES	As at 30 Jun 2019	As at 30 Jun 2018
	\$	\$
Opening balance	4,928,620	2,200,506
Loss for the year	1,967,761	2,728,114
Closing balance	6,896,381	4,928,620

SKIN ELEMENTS LIMITED
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	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
1		
4 RESERVES		
Options Reserve	116,816	116,816
Share based payment reserve	195,522	98,689
Convertible note reserve	492,405	522,835
	804,743	738,340

	As at 30 Jun 2019 Options	As at 30 Jun 2018 Options	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
(i) Options				
Options	-	2,000,000	116,816	116,816

The above options expired during the period.

	As at 30 Jun 2019 Rights(a)	As at 30 Jun 2018 Rights	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
(ii) Performance rights				
Performance rights	2,200,000	4,400,000	195,522	98,689

(a) The Company has previously issued performance rights to directors which will convert into ordinary fully paid shares on achieving certain share market price hurdles. The fair value of the rights has been valued at \$0.075 to \$0.077 per right. The rights are subject to performance conditions and are amortised over the vesting period which is up to 20 months from the date of issue. On 30 June 2019, 2,200,000 of these performance rights expired without achieving the performance hurdle. The relevant expenses are still recognised up to expiry date in accordance with accounting standard AASB 2.

	As at 30 Jun 2019 Notes	As at 30 Jun 2018 Notes	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
(iii) Convertible Note reserve				
Convertible Note	378,842	409,272	492,405	522,835

(a) The Company has issued the convertible notes in January 2018. The convertible notes were mandatorily convertible into shares at a fixed price of \$0.015 per share in January 2019. Upon conversion, each note holder will also receive a free attaching \$0.22 option for each share issued. Each option also entitle the holder a further \$0.34 option should the original option be exercised. The conversion has not occurred as issue of shares has to be approved by shareholders.

Movement in Convertible Note

Date	Details	No. of notes	\$
1/07/2018	Opening balance	409,272	522,835
26/10/2018	Converting Note repaid	(28,000)	(28,000)

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

26/10/2018	Adjustment to fair value resulting from repayment	(2,430)	(2,430)
30/06/2019	Closing balance	378,842	492,405

	Year ended 30 Jun 2019	Year ended 30 Jun 2018
	\$	\$
15 EARNINGS PER SHARE		
Loss attributable to ordinary shareholders	(1,967,761)	(2,728,114)
Weighted average number of ordinary shares used as the denominator in calculated basis earnings per shares	136,771,476	78,062,200
Basic loss per share calculation (12mths loss / weighted ave shares)	(0.014)	(0.035)

16 SEGMENT REPORTING

	Operations	Corporate & Administration	Company
As at 30 June 2019			
Segment Revenue*	798,107	-	798,107
Expenses			
Interest income	-	74	74
Consultants fees	(278,604)	(212,097)	(490,701)
Amortisation	(390,793)	-	(390,793)
Share Based Payments	-	(96,833)	(96,833)
Segment net operating loss after tax	(1,329,388)	(638,373)	(1,967,761)
Year ended 30 June 2018			
Segment Revenue*	838,292	-	838,292
Significant items			
Interest income	-	74	74
Consultants fees	(156,391)	(669,717)	(826,108)
Amortisation	(301,977)	-	(301,977)
Share Based Payments	-	(98,689)	(98,689)
Segment net operating loss after tax	(1,372,056)	(1,356,058)	(2,728,114)

* Revenue in both 2018 and 2019 financial years are from the sale of goods and are recognized at a point in time.

	Operations	Corporate & Administration	Company
Segment assets			
At 30 June 2019	9,766,820	134,533	9,901,353

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

At 30 June 2018	10,095,169	204,258	10,299,427
Segment liabilities			
At 30 June 2019	(207,322)	(498,886)	(706,208)
At 30 June 2018	(338,438)	(471,948)	(810,386)

	As at 30 Jun 2019	As at 30 Jun 2018
	\$	\$
17 KEY MANAGEMENT PERSONNEL		
Short term	608,000	681,333
Post employment benefits	-	-
Share based payments	96,833	56,243
	<u>704,833</u>	<u>738,076</u>

Detailed remuneration disclosures are provided in the remuneration report within the directors' report.

18 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 year. 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	
		30 June 2019	30 June 2018	30 June 2019	30 June 2018
		\$	\$	\$	\$
Director	Transaction				
Luke Martino (i)	Corporate advisory services	79,038	223,283	11,437	67,201
Technical personnel					
Craig Piercy (ii)	Office facilities	-	23,000	-	-

(i) A company associated with Mr Martino, Indian Ocean Advisory Group, to which Mr Martino is one of the directors, provided professional accounting and corporate advisory services in the both periods. In the prior year the Company also settled part of amounts owing in respect of service provided during the Company's IPO by the issue of 500,000 shares with a fair value of \$100,000.

(ii) 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.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

18 RELATED PARTY TRANSACTIONS (CONT)

Convertible notes

During prior year the Company extinguished borrowings by way of issuing convertible notes. The following transactions occurred with related parties during the period:

	Balance at the start of the year \$	Amount of notes issued \$	Amounts extinguished \$	Closing balance \$	Fair Value
2017/18					
Boston Corporate Pty Ltd	-	77,718	-	77,718	106,162
LJM Capital Corporation Pty Ltd	-	60,500	-	60,500	82,644
Colosseum Securities Pty Ltd		7,150		7,150	9,767
Essential Property Pty Ltd	-	29,145	-	29,145	39,812
	-	174,513	-	174,513	238,385

The Company fair valued the notes at \$238,385. The convertible notes were mandatorily convertible into shares at a fixed price of \$0.015 per share in January 2019. Upon conversion, each note holder will also receive a free attaching \$0.22 option for each share issued. Each option also entitle the holder a further \$0.34 option should the original option be exercised. The conversion has not occurred as issue of shares has to be approved by shareholders.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

18 RELATED PARTY TRANSACTIONS (CONT)

	As at 30 Jun 2019	As at 30 Jun 2018
	\$	\$
Borrowings		
Convertible Notes*	200,000	-
	200,000	-

*During the year the company entered into a convertible note arrangement with Henan Hetuo Health Management Co, Ltd (HHHM) with the following key terms:

- Interest rate: 0%
- Maturity: 31 December 2019
- Conversion terms: \$0.016 per share

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

	As at 30 Jun 2019	As at 30 Jun 2018
	\$	\$
Movements in related party loans		
Opening balance	-	44,201
Amounts borrowed	-	62,662
Amounts repaid	-	-
Conversion of debt to notes (refer above)	-	(106,863)
Closing balance	-	-

For the terms and conditions, refer to note 14 above.

	No. of Listed Options in SEL (i) (iii)	No. of Unlisted Options in SEL (ii) (iii)
Director / Technical personnel		
Peter Malone	5,065,390	5,065,390
Luke Martino	625,000	625,000
Craig Piercy	2,285,162	2,285,162

(i) Listed options exercisable at \$0.20 each on or before 31 October 2018 (expired).

(ii) Unlisted options exercisable at \$0.30 each on or before 30 November 2018 (expired).

(iii) As approved at the 2018 Annual General Meeting, the holders of the legacy options were awarded one-for-one basis were issued replacement options converting at \$0.10 and expiring on 31 December 2020.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

19 FINANCIAL RISK MANAGEMENT

General

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit or loss information has been included where relevant to add further context

The Groups financial instruments consist mainly of bank deposit accounts, trade accounts receivable, other amounts receivable, trade accounts payable, and other payable including amounts payable to related parties. The totals for each category of financial instrument, measured in accordance with AASB9 Financial Instruments as detailed in the accounting policies are as follows:

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
Categories of financial instruments		
Financial assets		
Cash and cash equivalents	116,238	195,661
Trade and other receivables	25,689	36,509
	141,927	232,170
Financial liabilities		
Trade and other payables	(506,208)	(810,386)
Convertible Note - HHHM	(200,000)	-
	(706,208)	(810,386)

Financial Risk Management Policies

The Boards overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements. Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance.

Specific Financial Risk Exposures and Management

The main risk of the Company is exposed to, through its financial instruments, are credit risk, liquidity risk, and market risk relating to interest rate risk and other price risk. There have been no substantive changes in the types of risks the Company is exposed to, how these risks arise, or the Boards objectives, policies and processes for managing or measuring the risks from the previous period.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

19 FINANCIAL RISK MANAGEMENT (CONT'D)

Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company. The Company's objective in managing credit risk is to minimise the credit losses incurred, mainly on trade and other receivables. Credit risk is managed through maintaining procedures that ensure, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness and their financial stability is monitored and assessed on a regular basis. Such monitoring is used in assessing receivables for impairment. Credit terms for normal sales income are generally 30 days from the day of invoice. For sales with longer settlements, terms are specified in the individual client contracts. The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the statement of financial position. The Company has no significant concentrations of credit risk with any single counterparty or group of counterparties. Details with respect to credit risk of trade and other receivables are provided in note 5. Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. All cash and cash equivalents are held with large reputable financial institutions within Australia and therefore credit risk is considered minimal.

Liquidity Risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company is not currently exposed to any significant liquidity risk on the basis that the realisable value of financial assets is significantly greater than the financial liabilities due for settlement after the receipt of cash from the capital raising in August 2018. The Company manages its liquidity risk through the following mechanisms: preparing forward looking cash flow analysis in relation to its operating, investing and financing activities; maintaining a reputable credit profile; managing credit risk related to financial assets; only investing surplus cash with major financial institutions; and comparing the maturity profile of financial liabilities with the realisation profile of financial assets. Cash flows realised from financial liabilities reflect management's expectation as to the timing of realisation timing may therefore differ from that disclosed.

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$	\$	\$	\$	\$	\$
At 30 June 2019						
Trade payables	(184,880)				(184,880)	(184,880)
Other Payables	(321,328)				(321,328)	(321,328)
Convertible note		(200,000)			(200,000)	(200,000)
	(506,208)	(200,000)			(706,208)	(706,208)
At 30 June 2018						
Trade payables	(236,139)				(236,139)	(236,139)
Other Payable	(574,247)				(574,247)	(574,247)
	(810,386)				(810,386)	(810,386)

Market Risk

The Company has minimal exposure to foreign exchange risk or interest rate risk.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

19 FINANCIAL RISK MANAGEMENT (CONT'D)

Capital Management

The Groups objectives when managing capital are to:

- i. Safeguard their ability to continuing as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- ii. Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure the Group may issue new shares or obtain additional borrowing facilities. The group monitors capital based on the assessment of the working capital requirements and net cash available on a monthly basis. The 30 June net cash available calculation is set out below:

	As at 30 Jun 2019 \$	As at 30 Jun 2018 \$
Cash and cash equivalents	116,238	195,661
Trade and other receivables	25,688	82,567
Research and development receivable	649,452	450,181
	791,378	919,664
Trade and other payables	(506,208)	(810,386)
Convertible Note	(200,000)	-
Working capital available	85,170	109,278

Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values as the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Financial Instruments Measured at Fair Value

The Company does not currently have a significant fair value issues with regard to level 1 (active market for the financial instruments, level 2 (not traded in an active market) or level 3 (significant inputs is not based on observable market data) as the fair value estimates relate trade payables and receivables.

The Company considers capital to include, share capital, loans and borrowings and convertible notes.

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

	Year ended 30 Jun 2019	Year ended 30 Jun 2018
	\$	\$
20 COMMITMENTS		
The Group has entered into commercial leases on office premises at 32 Ord Street. The lease runs for three years on commercial terms. The remaining commitments are below.		
Within one year	85,333	103,000
After one year but not more than five years	-	85,833
More than five years	-	-
	<u>85,833</u>	<u>188,833</u>
21 PARENT ENTITY DISCLOSURE		
	As at 30 Jun 2019	As at 30 Jun 2018
	\$	\$
Financial position		
Assets		
Current assets	3,788,557	2,807,137
Non-current assets	5,593,377	7,112,813
Total assets	<u>9,381,934</u>	<u>9,919,950</u>
Liabilities		
Current liabilities	(281,181)	(430,908)
Non-current liabilities	-	-
Total liabilities	<u>(281,181)</u>	<u>(430,908)</u>
Equity		
Issued capital	17,135,129	15,433,333
Reserves	997,215	738,341
Accumulated losses	(8,937,199)	(6,682,632)
Total equity	<u>9,195,145</u>	<u>9,489,042</u>
	Year ended 30 Jun 2019	Year ended 30 Jun 2018
Financial performance		
(Loss) for the year	(735,131)	(1,438,778)
Other comprehensive income	-	-
Total comprehensive loss	<u>(735,131)</u>	<u>(1,438,778)</u>

SKIN ELEMENTS LIMITED
NOTES TO THE CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019

22 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c).

Name	Country of Incorporation	Class of share	2019 %	2018 %
SE Operations Pty Ltd	Australia	Ordinary shares	100	100

23 AUDITOR REMUNERATION

Amounts received or due and receivable by BDO Audit (WA) Pty Ltd and its associated entities for:

Assurance Services

An audit and review of the financial report for the Group

Non- Assurance Services

Independent Expert Report

Year ended 30 Jun 2019	Year ended 30 Jun 2018
\$	\$
54,841	47,337
48,815	-
103,656	47,337

24 CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities as at 30 June 2019.

25 SUBSEQUENT EVENTS

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have been significantly affected the amount disclosed in the annual report.

DIRECTORS' DECLARATION

In the opinion of the directors of Skin Elements Limited:

- (a) the financial statements and notes set out on pages 21 to 53 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 30 June 2019 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and other mandatory professional reporting requirements;
- (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.
- (c) the consolidated financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
- (d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

This declaration is signed in accordance with a resolution of the board of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Peter Malone
Executive Chairman

Dated at Perth, Western Australia this 30th day of September 2019.



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INDEPENDENT AUDITOR'S REPORT

To the members of Skin Elements Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Skin Elements Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

Included in the consolidated statement of financial position as at 30 June 2019 is technology and formula Intangible assets of \$8,995,117 as disclosed in note 9 and note 1(p)(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 cashflows that was included in the impairment model. Therefore we were unable to obtain sufficient appropriate audit evidence about the carrying value of the Intangible assets as at 30 June 2019.

Consequently we were unable to determine whether any adjustments to the carrying value of the Intangible asset in the statement of financial position are necessary for the year ended 30 June 2019.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the



financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1(c) 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* and *Material uncertainty related to going concern* sections, we have determined there are no key audit matters to be communicated in our report.

Other information

The directors are responsible for the other information. The other information comprises the information contained in Directors' report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 19 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Skin Elements Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Wayne Basford', with a long horizontal flourish extending to the right.

Wayne Basford
Director

Perth, 30 September 2019

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

Fully paid ordinary shares

Substantial Shareholder Information as at 25 September 2019

Shareholder Name	Securities	%
Sovereign Empire Pty Ltd	15,196,172	10.04
Prosperity Finance Co Limited	10,000,500	6.61
Mgold Pty Ltd	9,112,572	6.02

Listed options exercisable at \$0.10 on or before 31 December 2020

Holder of 5% or more listed options expiry 31 December 2020 as at 25 September 2019

Options Holder Name	Securities	%
Sovereign Empire Pty Ltd	11,397,128	14.71
Prosperity Finance Co Limited	10,000,650	12.91
Mgold Pty Ltd	8,334,429	10.76
Sovereign Equities Pty Ltd	5,141,608	6.64

Fully paid ordinary shares

Distribution of Shareholders as at 25 September 2019

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	12	4,501
1,001 - 5,000	27	103,866
5,001 - 10,000	111	1,078,168
10,001 - 100,000	191	7,845,235
100,001 - 9,999,999	165	153,432,070
	506	162,463,840

Listed Options exercisable at \$0.10 on or before 31 December 2020

Distribution of Options holders as at 25 September 2019

Spread of Holdings	Holders	Securities
NIL holding	-	-
1 - 1,000	9	4,577
1,001 - 5,000	122	551,547
5,001 - 10,000	34	281,209
10,001 - 100,000	122	5,705,615
100,001 - 9,999,999	100	76,476,461
	387	83,019,409

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

Fully paid ordinary shares

Top Twenty Shareholders as at 25 September 2019

1	SOVEREIGN EMPIRE PTY LTD	15,196,172	10.04
2	PROSPERITY FINANCE CO LIMITED	10,000,500	6.16
3	MGOLD PTY LTD	9,112,572	5.61
4	CITICORP NOMINEES PTY LIMITED	6,867,042	4.23
5	SOVEREIGN EQUITIES PTY LTD	6,855,488	4.22
6	BRAUNII PTY LTD	5,768,234	3.55
7	EQUITIES SERVICES PTY LTD	4,642,857	2.86
8	TOP OCEANIA INTERNATIONAL LIMITED	4,475,000	2.75
9	PLATYPUS INVESTMENTS GROUP PTY LTD	4,000,000	2.46
10	POLARITY B PTY LTD	3,637,476	2.24
11	PERPETUAL CAPITAL INVESTMENTS PL	3,021,429	1.86
12	TOM MCARTHUR PTY LTD	3,000,000	1.85
13	BLACKRIDGE GROUP PTY LTD	3,000,000	1.85
14	FLYHALF WA PTY LTD	2,500,000	1.54
15	NINETY THREE PTY LTD	2,250,000	1.38
16	CLARE MALONE	2,250,000	1.74
17	JAMES OWEN MOSES	1,921,062	1.18
18	LJM CAPITAL CORPORATION PTY LTD	1,875,000	1.15
19	Q SERVICES HOLDINGS PTY LTD	1,753,177	1.08
20	IMPACT NOMINEES PTY LTD	1,500,000	0.92
Total		93,626,009	57.63
Balance of register		68,837,831	42.37
Grand total		162,463,840	100.00

The shares carry the right to one vote for each ordinary share held

Unmarketable parcels

The number of shareholders with Holdings less than a marketable parcel of ordinary shares as at 25 September 2019 was 150, holding 1,186,535 shares.

Restricted Securities

There are no restricted voting rights attaching to ordinary shares.

On-Market Buy Back

There is no current on-market buy-back.

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION IN ACCORDANCE WITH LISTING RULES OF THE ASX LIMITED.

Listed Options exercisable at \$0.10 on or before 31 December 2020

Top Twenty Listed options Holders as at 24 September 2019

1	SOVEREIGN EMPIRE PTY LTD	11,397,128	13.73
2	PROSPERITY FINANCE CO LTD	10,000,500	12.05
3	MGOLD PTY LTD	8,334,429	10.04
4	SOVEREIGN EQUITIES PTY LTD	5,141,608	6.19
5	EQUITIES SERVICES PTY LTD	2,321,429	2.80
6	TOP OCEANIA INTERNATIONAL LIMITED	2,237,500	2.70
7	CLARE MALONE	1,687,500	2.03
8	BRAUNII PTY LTD	1,515,357	1.83
9	LJM CAPITAL CORPORATION PTY LTD	1,406,250	1.69
10	HEKIMA PTY LTD	1,333,334	1.61
11	POLARITY B PTY LTD	1,000,000	1.20
12	PLATYPUS INVESTMENTS GROUP PL	1,000,000	1.20
13	ROBIN ARMSTRONG	900,000	1.08
14	CALIBRE CAPITAL INC	875,000	1.05
15	BLACKRIDGE GROUP PTY LTD	750,000	0.90
16	ROBIN GERALD ARMSTRONG	750,000	0.90
17	ENRICO MATTIACCIO	657,354	0.79
18	CHRIS SMAILES & SHARON SMAILES	625,000	0.75
19	MR GEORGE ADAM MITCHELL TENNENT	587,500	2.01
20	LAKEHOUSE ENTERPRISES PTY LTD	571,154	0.69
Total		53,051,043	63.95
Balance of register		29,928,366	36.05
Grand total		83,019,409	100.00