



9 October 2019

China Distribution Agreement Not Proceeding

Australian natural skin care company Skin Elements Limited (ASX: SKN) (Skin Elements, the Company) executed and announced on 25 March 2019 a binding Term Sheet (Agreement) for a proposed Sale and Distribution Agreement (Distribution Agreement) with Henan Huatuo Health Management Co Ltd (HHHM) for Skin Elements' skin care product range in the Chinese skin care market, in conjunction with a strategic equity investment by HHHM in Skin Elements, (ASX announcement, 25 March 2019).

The completion of the Agreement is subject to a number of conditions precedent including the entering into of a Distribution Agreement for HHHM to place initial orders of A\$20 million over a three year period for Skin Elements range of skin care products including Soleo Organics sunscreen, Complete Esscience natural skincare and PaypayaActivs therapeutic creams, to be progressively delivered to HHHM by Skin Elements.

Despite significant effort by both parties and advisors, initial convertible loan note deposit of \$200,000, and initial order of \$300,000 for product delivered into China, Skin Elements advises that the parties were not able to reach agreement on a number of matters, among these being the form of guarantee for the delivery of the minimum sales orders as set out in the terms of the Distribution Agreement.

The parties have therefore agreed to terminate the Agreement and not proceed with the Distribution Agreement and strategic investment. This decision has come after a month of discussion further to such advice from Mr Li on 5 September 2019 as both parties were unable to reach a satisfactory solution. The convertible note of \$200,000 is repayable on or before 31 December 2019 though Mr Li is seeking repayment within seven days.

With the agreement not proceeding, the Company has received advice that the HHHM nominees Mr Zeling Li and Ms Jialin Li will provide resignation notices from the Board of Skin Elements Limited as soon as possible.

Skin Elements will continue to focus on the delivery of its expanded natural suncare and skincare product ranges into existing market channels and pursue key opportunities in key global markets.

As part of the assessment of the recoverable amount of its natural skincare technology intellectual property value of \$8.9 million in its 30 June 2019 audited annual report, the Company prepared

detailed cashflow projections based on a reasonable and reliable assessment of Skin Elements completing negotiations with major customers internationally, particularly in the UK, USA and China.

Notwithstanding that the proposed and now terminated Agreement with HHHM would have assisted in supporting the reliability of Skin Elements' cashflow projections and that there are currently no signed major sales contracts in place, the Board and management are confident that the ongoing sales negotiations will lead to major contracts, particularly with a major UK retail chemist chain, a major online retailer in the USA, and a skincare distributor in Europe which will validate the Company's cashflow projections.

The Company has completed the development of an expanded range of its Soleo Organics sunscreen products, with the Company now releasing three additional new formulae, with a total of 18 individual skus (previously 1 formula and 3 skus).

Similarly the Company has integrated the papaya based products acquired from McArthur Health Products over the past twenty months, now releasing two new natural skincare product ranges being the PapayaActiv Therapeutic range of 6 products including arthritis, eczema and associated products, and the Complete Esscience skincare range of 16 products.

With production of the expanded ranges including the first 5 products of Elizabeth Jane Natural Cosmetics now underway, the Company will be delivering sales through its Australia distributors, online through its new website and internationally through both online and new major importer contracts.

The Company will also be undertaking a fully underwritten non renounceable rights issue to raise approximately \$1 million working capital to support production of stock, with details to be announced once finalised.

END

Natural Science by Skin Elements

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About Skin Elements

Skin Elements is an Australian ASX-listed skin care company that has developed and internationally launched a range of 40 natural and organic skin care products. The portfolio of products includes the award winning Soléo Organics 100% natural and organic sunscreen, its PapayaActivs natural therapeutics range, the Complete Esscience natural skincare, and the Elizabeth Jane Natural Cosmetics brand.

The current key international markets include North America, United Kingdom and Europe.

Further information is available via the Company website:

<http://skinelementslimited.com>



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