

BORN



global



Annual Report 2019

C O R P O R A T E D I R E C T O R Y

SKIN ELEMENTS LIMITED

ABN 90 608 047 794

DIRECTORS

Peter Malone (Executive Chairman)

Phil Giglia (Non-executive Director)

COMPANY SECRETARY

Craig Piercy

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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WEST PERTH WA 6005

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Email: info@skinelementslimited.com

Web: www.skinelementslimited.com

BANKERS

ANZ (Australia and New Zealand Banking
Group Limited)

1275 Hay Street

WEST PERTH WA 6005

SECURITIES EXCHANGE LISTING

ASX Limited

Level 40, Central Park 152-158 St George's
Terrace, PERTH WA 6000

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

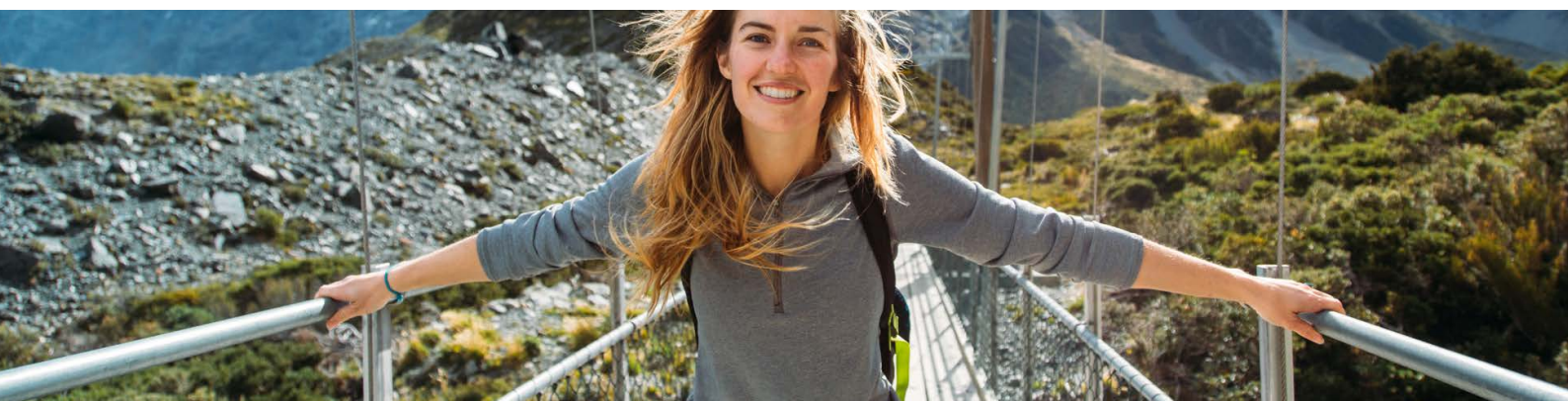
SOLICITORS

DLA Piper Australia

Level 31, Central Park

152-158 St Georges Tce

PERTH WA 6000



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CHAIRMAN'S REPORT



Dear Shareholder,

I am pleased to present the Skin Elements Limited Annual Report for the year ended 30 June 2019, and to take the opportunity to provide an update on your Company's activities and its plans the next exciting phase in the Skin Elements' journey.

The year is best summed up as one of growth, consolidation and transition. This has culminated in the finalisation of the re-branding of the entire Skin Elements' product range under the 'SKNLife' banner and the addition of new products lines to our flagship Soléo sunscreen range.

This 'scale-up' of our product range and the associated positioning and branding has been the result of a systematic, carefully planned and executed business plan by the Skin Elements' management team - commencing with our ASX listing in 2017, the strategic and complementary acquisition of McArthur Skincare and our ongoing research and development focus which has delivered new offerings to the product range.

With this scale-up now complete, Skin Elements is ready to aggressively embark

upon its plan to build a significant distribution and sales footprint in major international markets, and achieve our stated aim of becoming a leading global skincare company.

This represents an exciting juncture in the evolution of your Company, as we look forward to accelerating product manufacture and ramping up global sales of our natural and organic skincare range. Simply put, under the SKNLife banner, we are now in a position to take our products to the world, and build on the solid foundation achieved to date.

The UK market represents a major current opportunity, and we continue to advance very positive discussions with a major UK retail chemist chain for the potential roll-out of a large-scale distribution agreement, which would see our products on the shelves of around 2,000 of their retail stores. Separate to this initiative, we are also in discussions over a distribution agreement with a major health store retail chain in the UK.

“The UK market represents a major current opportunity, and we continue to advance very positive discussions with a major UK retail chemist chain for the potential roll-out of a large-scale distribution agreement, which would see our products on the shelves of around 2,000 of their retail stores.”

We also have exciting plans for the massive US market, where we are in discussions with a major online retailer with a view to launching a dedicated North American-focused SKNLife on-line store for our product range.

In addition to these major opportunities, we are working with distributors in major European and Asian markets, as well as Brazil and closer to home, in Australia and New Zealand. I look forward to being in a position to share details of material progress on these opportunities in the year ahead.

While much hard work has gone into positioning the Company to now be in sight of achieving its objectives, now is not the time to rest on our efforts to date, and I and the rest of the Skin Elements’ team cannot wait to embark upon the next exciting phase in the growth and evolution of your Company. None of this would be possible without the focus and commitment of the entire Skin Elements’ team, and I would like to take this opportunity to thank them for their continued commitment to achieving our goals.

I would like to conclude by acknowledging the ongoing support of our very loyal shareholders, and I look forward to sharing news of our continued progress in the year ahead.

Yours sincerely
Peter Malone



Executive Chairman and CEO

BORN GLOBAL - THE OPPORTUNITY

THE USA

Ongoing discussions with a major online retailer in respect of launching a dedicated North American-focused SKNLife on-line store to market and sell the entire SKNLife product range into the massive North American market.



BRAZIL

Company is currently applying for Brazilian Health Regulatory Agency (ANVISA) approval to market and sell its product range in the substantial Brazilian market. A distribution agreement with Soleo Organics Brasil - Comercio de Produtos Organicos Ltda to be the exclusive Skin Elements' distributor in Brazilian market is already in place.



“In addition to these major opportunities, we are working with distributors in major European and Asian markets, as well as Brazil and closer to home, in Australia and New Zealand. I look forward to being in a position to share details of material progress on these opportunities in the year ahead.”



JAPAN & MALAYSIA

Skin Elements continues to pursue distribution opportunities in the burgeoning Asian skincare markets. These include Japan and Malaysia, and also in China.



EUROPE

Company is in discussions with distributors with a view to entering distribution agreements in a number of European markets, with a focus on providing entry to the very large supermarket segment in continental Europe.



THE UK

This represents a major current opportunity, in the retail pharmacy segment. Company is advancing discussions with a major UK chemist chain for the potential roll-out of a large-scale distribution agreement, which would see Skin Elements' products in around 2,000 of their retail outlets. Company is also discussions over a potential distribution agreement with a major UK health store retail chain.



AUSTRALIA & NEW ZEALAND

Skin Elements is well represented in different geographical markets in Australia and New Zealand by highly regarded distributors of quality health-related products including; Rener Health Products, Osborne Health Supplies, Global by Nature and CeresOrganics. The main target market is the early innovator retail market, predominantly the health shop segment, plus online sales.



BUILDING A GLOBAL SKNLIFE BRAND STRATEGY

SKNLife



KEY PRODUCTS

40

SKNProtect

- Everyday Formula Extra Lite 40g / 80g / 150g
- Everyday Formula Extra Lite Coconut 40g / 80g / 150g
- Original High Performance 40g / 80g / 150g
- Original High Performance Coconut 40g / 80g / 150g
- Baby Formula Extra Sensitive 80g / 150g
- Face formula Moisturising 40g / 80g
- Face formula Moisturising Tinted 40g / 80g
- SunProtect Packs x 4 kinds

SKNActivs

- PapayaActivs Arthritis Cream 75g
- PapayaActivs Psoriasis, Dermatitis & Rashes Cream 75g
- PapayaActivs Eczema Cream 75g
- PapayaActivs Wounds & Burns Cream 75g
- PapayaActivs Muscle Aches & Pains Cream 75g
- PapayaActivs Complete Skincare Cream 240ml
- PapayaActivs Complete Skincare Cream 240ml No Added Fragrance

SKNCare

- Complete Esscience Hydrating Facial Cream 50ml
- Complete Esscience Complete Skincare Soap (3 bars)
- Complete Esscience Complete Skincare Body wash 350ml
- Complete Esscience Scalp Care Shampoo 250ml
- Complete Esscience Scalp Care Conditioner 250ml
- Complete Esscience Replenishing Shampoo 250ml
- Complete Esscience Replenishing Conditioner 250ml
- Combined Skincare Packs x 11 kinds

SKNCosmetics

- EJNC Anti Aging Signature 50ml
- EJNC Daily Forming & Lifting Hydrating Cream 100ml
- EJNC Intensive Recovery Rejuvenating Night Cream 100ml
- EJNC Daily Purely Whitening Essence 120ml
- EJNC Anti-Aging Eye Serum 30ml
- EJNC Gentle Micro-dermabrasion facial polish 125ml
- EJNC Ultra C+ serum 20ml

CHANNEL / TARGET MARKET

17

- USA - through online store created in San Francisco
- Japan - through retail outlets via chain of sport stores
- UK - through chain of Pharmacy stores
- Europe- through Slovakian health store / Poland - through chain of Health stores
- Malaysia through online health stores
- Australia - through online store
- Australia - through distributors and wholesalers
- China - through direct mail

- Australia - through online store
- Australia - through distributors and wholesalers
- USA - through online store created in San Francisco
- Japan - through retail outlets via chain of sport stores
- UK - through chain of Pharmacy stores
- Europe- through Slovakian health store / Poland - through chain of Health stores
- Malaysia through online health stores
- China - through direct mail

- Australia - through online store
- Australia - through distributors and wholesalers
- China - through online sales
- USA - through online store created in San Francisco
- Japan - through retail outlets via chain of sport stores
- UK - through chain of Pharmacy stores
- Europe- through Slovakian health store / Poland - through chain of Health stores
- Malaysia through online health stores

- Australia - through online store
- Australia - through distributors and wholesalers
- UK - through department store
- Malaysia through online health stores
- USA - through online store created in San Francisco
- Japan - through retail outlets via chain of sport stores
- UK - through chain of Pharmacy stores
- Europe- through Slovakian health store / Poland - through chain of Health stores

KEY STATISTICS

10

- 18 Skus plus combination packs
- All natural and Organic
- 3 hour water resistance
- Vegan
- No Animal Testing-Cruelty Free
- No. 1 rated by the EWG
- Reef Safe Sunscreen
- Biodegradable
- Australian Made

- 5 Skus
- No Animal Testing-Cruelty Free
- Biodegradable
- 60% McArthur Pawpaw Extract
- No Petrochemicals
- All Natural active ingredients
- No Sulphates
- No Parabens
- Australian Made

- 11 Skus
- No Petrochemicals
- No Animal Testing-Cruelty Free
- Biodegradable
- 60% McArthur Pawpaw Extract
- No Petrochemicals
- All Natural active ingredients
- No Sulphates
- No Parabens
- Australian Made

- 5 Skus
- No Animal Testing-Cruelty Free
- Biodegradable
- All Natural / Organic active ingredients
- Australian Made

BUILDING A GLOBAL SKNLIFE BRAND STRATEGY

SKNLife



SKNProtect

SKNActivs

SKNCare

SKNCosmetics

BRAND POSITION

Soléo Organics protecting you from the sun...naturally

Pawpaw skincare cream at its most powerful-5 x more Pawpaw in a cream than any other brand. Your health & wellness is really all that matters care for it ... naturally

Complete Esscience - a lifetime of naturally healthy skin - Your complete skincare partner...naturally

EJNC -uncover younger healthier looking skin.

CHANNEL STATEMENT

Soléo Organics is sold online, in health stores and Pharmacies.

PapayaActivs is sold in Pharmacies and online.

Complete Esscience is sold in Pharmacies & online.

Will be sold through department stores and online also through direct retail outlets.

PRICE POSITIONING

Premium Natural and organic segment.

Affordable mid-tier for a therapeutic range.

Skincare /Hair care for the entire family from children to the elderly mid-tier pricing.

Top tier natural organic cosmetics.

BRAND ESSCIENCE

Soléo Organics is a healthy alternative to traditional chemical sunscreens which is also safe for our environment.

60% McArthur Pawpaw Extract by far the strongest Pawpaw cream on the market (Lucas Pawpaw = 3.8% Pawpaw).

Healthy natural pawpaw skincare creams that benefit health & wellness.

Natural organic cosmetics that are effective in rejuvenating and revitalising the skin and are safe for the environment.



THE SCIENCE BEHIND SKNLIFE

Skin Elements is driven by a quest to provide the very best natural and organic skincare products to an increasingly discerning market place. Core to achieving this is an unwavering commitment to adopt the best science and technology available to ensure that its products protect the skin and don't harm the body or environment.

To date the Company has invested in excess of \$10 million over the past 10 years in developing its portfolio of skincare products, and has secured regulatory approval in key target markets – including the US FDA, the TGA in Australia, Health Canada and Japan Ministry of Health – and has won multiple global awards as the number one sun care product.

The success of this research and development program has seen Skin Elements' team of naturopaths and formulating chemists deliver the breakthrough Soléo Organics sunscreen product that not only provides a SPF30, 3-hour protection from both UVA and UVB solar radiation but is made entirely from only organic and natural ingredients.

Soléo Organics is formulated according to naturopathic principles and its key ingredients have been specially selected based on scientific research. It is totally free of synthetic preservatives, chemical UV absorbers, nano particles, titanium dioxide, SLS and petroleum by-products.

It is innovatively designed with a patented non-whitening (micronised) clear zinc, and uses zinc oxide as the active ingredient to provide broad spectrum, UVA and UVB protection from the harsh rays of the sun, while providing all natural moisturising care for the skin, via botanical extracts and anti-oxidants.

Soléo Organics forms a protective layer on the skin so that both UVA rays, which are the leading cause of premature ageing of the skin, and UVB rays, the leading cause of sunburn, are reflected from the skin's surface.

The product is also designed to be environmentally friendly from its packaging to its contents. The packaging material and container vessel are made from 100% recyclable material, and the contents of Soléo Organics is 100% all natural and biodegradable.

Similarly, Skin Elements has adopted a natural approach to its pawpaw-based PapayaActivs and Complete Esscience product ranges, which are the only products in this market segment with 600mg/g (60%) of natural pawpaw extract concentration. Pawpaw is rich in vitamins A, C and E, minerals and enzymes and is acknowledged to have traditional natural healing benefits.

The PapayaActivs therapeutic creams are listed on the Australian Register of Therapeutic Goods and contain high concentrations of the active McArthur

Leo Fung (Chief Technical Advisor) working on new formulas at the UWA laboratory facilities along with Bio tech master graduates who form part of the training team that Skin Elements has designed and instigated at the UWA



Pawpaw Extract™ plus traditional herbal medicines such as chickweed, arnica, chamomile and aloe vera. The Complete Esscience skincare range utilises the high level of enzymes and vitamins in the pawpaw extract to aid in exfoliating, cleansing, hydrating and revitalising the appearance of skin.

Skin Elements' ongoing commitment to research and development, which is designed to deliver new and enhanced product formulations is a core pillar of the business. Over the past three years it has engaged in a collaborative arrangement with the University of Western Australia's

(UWA) biotechnology faculty.

Under this arrangement, UWA students have worked with the Company on its product research and development programs and Skin Elements' has implemented an intern program which has helped mentor and develop UWA students, and provide them with employment opportunities within the business.

This aim of this program is to help ensure Skin Elements remains at the forefront of applying the latest science and best practice to its research and development activities – so it can deliver the best products to its customers.

INTRODUCING SKNLIFE

The 2019 year represented a period of 'scale-up' within the business. Key to this was the re-branding of the entire product range to position the Company's natural and organic skincare products to best match their individual target market segments.

This process included the re-branding of the McArthur Skincare papaya-based products into two new natural skincare product ranges; the PapayaActives therapeutic product range and the Complete Esscience skincare range. The PapayaActives range has six products including arthritis, eczema and associated products and Complete Esscience offers a range of 16 skincare products.

Consistent with the Company's ongoing focus on product development and the desire to meet the needs of different market segments, it completed the development of three new formulations for its flagship Soléo sunscreen range. These were a coconut formulation for the original 100% natural and organic sunscreen and also the everyday formula, plus a face moisturising formulation and a tinted moisturising offering. The expanded Soléo sunscreen product range now includes a total of 18 individual stock keeping units (or skus). Also, production of the first five products from the Elizabeth Jane Natural Cosmetics range is now underway. With the Company's expanded product range and product branding now in place, the entire expanded product range has been re-branded

Soléo Organics protecting you and your family from the sun...naturally
Soléo Organics Creating a...

SKNLife



Soléo Organics is totally free of synthetic chemicals. It is formulated according to naturopathic principles, using only organic and all natural ingredients which are packed with botanical extracts, natural moisturisers, antioxidants and vitamins. Soléo Organics is free from synthetic preservatives, chemical UV blockers, nano particles, titanium dioxide, SLS and petroleum by-products.
Visit www.solleoorganics.com

Soléo Organics natural science by
soléo organics **skin elements**

Complete Esscience your complete skincare partner...naturally
Complete Esscience creating a...

SKNLife



Complete Esscience features the highest percentage of McArthur Papaya Extract™ in a cream - 5 x more papaya (papaya) than any other brand. Our range of papaya based skincare moisturisers, rejuvenates and smooths the skin and relieves redness. Our products are Australian owned and manufactured, are not tested on animals, contain no parabens, sulphates or paraffins and are suitable for the entire family from infants to the elderly. Visit www.sknlife.com.au

Complete Esscience natural science by
complete esscience **skin elements**

Your health & wellness is really all that matters, care for it...naturally.
PapayaActives creating a...

SKNLife



PapayaActives is the most powerful papaya (papaw) cream on the market. It has 5 x more papaya in a cream than any other brand with 60% McArthur Papaya Extract™. It contains active ingredients, chickweed, arnica, aloe vera and chamomile traditionally used in herbal medicine to assist in the relief of Psoriasis, Dermatitis & Itches / Eczema / Arthritis and Wounds & Burns.

PapayaActives natural science by
PapayaActives **skin elements**

*Always read the label. Use only as directed. If symptoms persist see your healthcare professional.

“Fantastic! Highly recommended. I had reservations about buying a sunscreen that was natural as I was worried it wouldn’t work. However, I have been happily surprised.... a lovely peace of mind that my children (and us parents!) have protection from the sun without the product we are putting on being harmful to our health. We will definately be back for more after we run out.”
Shannon N (Soléo advocate)

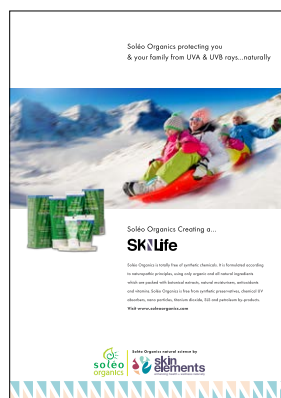
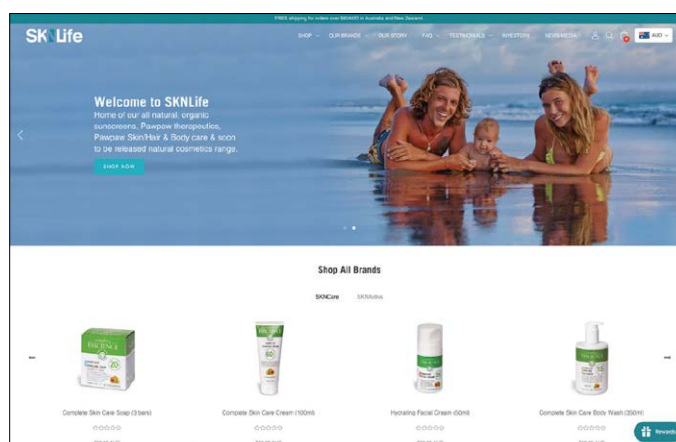
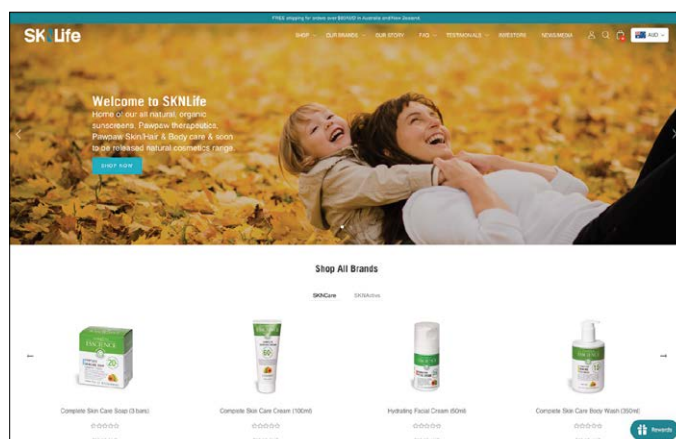
under the ‘SKNLife’ banner. Under the SKNLife banner, the Company plans to deliver sales into global markets via existing distributors, its new SKNLife on-line store to be launched soon (with a separate dedicated SKNLife on-line store to be launched in the North American market) and other major distribution agreements it is pursuing.

Developing the SKNLife on-line store

A key component of the Company’s sales and distribution strategy is its ability to maximise the impact and sales from its e-commerce channel. It has identified the opportunity to refine and enhance its on-line sales offering to better reflect and market the entire SKNLife product range as one that has the potential to drive very significant sales growth.

Plans to implement this strategy are well advanced, and will involve rationalising the existing Soléo Organics sunscreen website and McArthur sales website into the SKNLife on-line store, which will be a new fully functional on-line shopping and market place for the entire range of SKNLife skincare products.

The SKNLife on-line store will be rolled out and be accessible for the global online market. In the massive US market, the Company is in discussions with a major online retailer and plans to launch a separate, dedicated North American-focused SKNLife on-line store in the year ahead.



KEY OFFICERS OF THE COMPANY



Mr Peter Malone
Executive Chairman

Mr Malone has over 30 years' experience in global financial markets and has been responsible for raising AUD\$100m+ for technology development companies. He has a proven track record in developing and managing technology development programs, from idea stage to reality. Previous CEO to listed companies, he has a Masters degree from UWA and has taught and consulted in Australia, USA, Europe and Asia in business and management. Mr Malone is responsible for the strategic direction of the Company and is its Managing Director and Chief Executive Officer of the Company.



Mr Phil Giglia
Independent
Non-Executive Director

Mr Giglia joined the Skin Elements' board in November 2017. Mr Giglia is a Chartered Accountant with more than 25 years' experience in senior roles, with a strong depth of expertise in the small to medium enterprise sector. Mr Giglia worked for leading global accountancy firm Price Waterhouse Coopers from 1985 to 1991. He is the founder and principal of Perth accountancy practice, Giglia & Associates, and is also a director of Global Marine Enclosures Pty Ltd. Mr Giglia has a Bachelor of Business (with Distinction) from the Western Australian Institute of Technology, and is a Member of the Institute of Chartered Accountants in Australia and New Zealand.



Mr Craig Piercy
Company Secretary & CFO

Mr Piercy has over 25 years' experience in corporate, accounting and finance. He has worked extensively in development of technology ventures into successful commercial businesses. Mr Piercy is a member of the Institute of Chartered Accountants, and he has been previously responsible for listing and ongoing management of public companies in Australia and the USA.

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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

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 holds 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 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 |
|--------------------------------------|--|--|
| 3,050,00 | 175,431 | 1,468,750 |

Mr Filippo (Phil) Giglia B.Bus (Dist.) CA

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 specialising in 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 and skincare products.

Ms 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 |

Mr Craig Leslie Piercy B.Bus 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 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 |
|--------------------------------------|--|---|
| 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, PapayaActivs 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 in 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 Huatoa 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 a 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 were 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 \$0.201m (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 were 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, PapayaActivs and Complete Esscience 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, on 25 March 2019 Skin Elements announced the execution of a binding term sheet with Henan Huatoa 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 finalize the long form agreements, obtain 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 Jun 2019 \$ | Consolidated 30 Jun 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 executive.

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.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (cont'd)

| | Fixed Remuneration | | At risk - STI | |
|--|--------------------|------|---------------|------|
| | 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% |
| Filippo (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\$24,000 (plus GST) per annum. Mr Martino will also be reimbursed for reasonable expenses incurred in the performance of his duties as a non-executive Director of the Company.

Filippo (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\$24,000 (plus GST) per annum and \$2,000 (plus GST) per annum as Chairman of the Audit Committee, Remuneration Committee and Nomination Committee. 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 Ms Li to the Board of Directors on 3 May 2019 pursuant to the Term Sheet with HHHM dated 25 March 2019. Ms 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 2018/19

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 \$ |
|------------------------------------|--------------------------------------|-------------------------|-----------------------|----------------------------|----------------|
| 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 2017

| | Cash Salary & fees \$ | Non-cash benefits \$ | Super-annuation \$ | Share-based payments \$ | Total \$ |
|------------------------------------|--------------------------|-------------------------|-----------------------|----------------------------|----------------|
| 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 Employee 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.

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 2017/18.

Movement in the loan balance are presented below:

| | Balance at the start of the year 1/7/2017 \$ | Amount borrowed \$ | Amounts extinguished \$ | Closing balance 30/6/2018 \$ |
|----------------------------|---|--------------------------|-------------------------------|---------------------------------------|
| 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 1/7/2017 \$ | Amount of notes issued \$ | Amounts extinguished \$ | Closing balance 30/6/2018 \$ | Fair Value \$ |
|------------------------------|--|------------------------------|----------------------------|------------------------------------|------------------|
| 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 instruments have been valued as follows:

| Particulars | Terms |
|------------------------------|-------------------------------------|
| Share | Share price at date of issue \$0.15 |
| Option – Exercise price | \$0.10 |
| Option – Grant date | 31 January 2018 |
| Option – Expiry date | 31 December 2020 |
| Option – Expected volatility | 86.81% |
| Option – Dividend yield | 0% |
| Option – Risk free rate | 1.77% |

DIRECTORS' REPORT (CONTINUED)

Interest in Securities

The number of securities 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:

| | 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 |
|------------------------------|--|-------------------------------|--------------------------|---------------------------|---|
| 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 | 66,350 | - | - | - | 66,350 |
| 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 |

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 30 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 | - |
| | 48,815 | - |

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.

AUDITOR'S INDEPENDENCE DECLARATION



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DECLARATION OF INDEPENDENCE BY 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.

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

Wayne Basford
Director

BDO Audit (WA) Pty Ltd
Perth, 30 September 2019

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

| | Notes | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 2018 \$ |
|--|-------|---------------------------------|---------------------------------|
| Revenue | | | |
| Revenue from continuing operations | | 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) | (2,728,114) |
| 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 to 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

| | Notes | As at 30 Jun 2019 \$ | As at 30 Jun 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 Shareholder 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.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

| | Notes | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 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 | 18 | - | (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 Convertible 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.

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

| | 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) |
| <i>Transactions with owners in their capacity as owners</i> | | | | | |
| 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.

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 \$200,028 (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,
- 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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 decisions about resources to be allocated to the segments and assess its performance, and for which discrete financial information is available.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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.

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
- 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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

| | Year ended 30 Jun 2019 | Year ended 30 Jun 2018 |
|---|---------------------------|---------------------------|
| 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 |

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

| 3. INCOME TAX BENEFIT | Year ended 30 Jun 2019 \$ | Year ended 30 Jun 2018 \$ |
|---|---------------------------------|---------------------------------|
| 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 | - | - |

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

(i) Refer to the note 22 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) |
| (Increase) / decrease 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) |

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

| | As at 30 Jun 2019 \$ | As at 30 Jun 2018 \$ |
|-----------------------------|----------------------------|----------------------------|
| 5. TRADE 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. PREPAYMENTS | | |
| 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 |

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

| | 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 |

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

| | Year ended 30 Jun 2019 | Year ended 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.

| | Year ended 30 Jun 2019 | Year ended 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

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

| 12. ISSUED CAPITAL | As at 30 Jun 2019 Shares | As at 30 Jun 2018 Shares | As at 30 Jun 2019 \$ | As at 30 Jun 2018 \$ |
|--------------------|--------------------------------|--------------------------------|----------------------------|----------------------------|
| 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 |

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

| 14. RESERVES | As at 30 Jun 2019 \$ | As at 30 Jun 2018 \$ |
|-----------------------------|----------------------------|----------------------------|
| 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(a) | 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 \$0.15 per share in January 2019. Upon conversion, each note holder will also receive a free attaching \$0.10 option for each share issued. The conversion has not occurred as issue of shares has to be approved by shareholders.

Movement in Convertible Note

| Date | Details | Number of notes | \$ |
|------------|---|-----------------|----------|
| 1/07/2018 | Opening balance | 409,272 | 522,835 |
| 26/10/2018 | Converting Note repaid | (28,000) | (28,000) |
| 26/10/2018 | Adjustment to fair value resulting from repayment | (2,430) | (2,430) |
| 30/06/2019 | Closing balance | 378,842 | 492,405 |

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

| 15. EARNINGS PER SHARE | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 2018 \$ |
|--|---------------------------------|---------------------------------|
| 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) | (0.0359) |

| 16. SEGMENT REPORTING | Operations | Corporate & Administration | Company |
|---|-------------|-------------------------------|-------------|
| Year ended 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 recognised at a point in time.

| | | | |
|----------------------------|------------|-----------|------------|
| Segment assets | | | |
| At 30 June 2019 | 9,766,820 | 134,533 | 9,901,353 |
| 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) |

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

| 17. KEY MANAGEMENT PERSONNEL | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 2018 \$ |
|------------------------------|---------------------------------|---------------------------------|
| Short term | 608,000 | 681,333 |
| Post employment benefits | - | - |
| Share based payments | 96,833 | 56,243 |
| | 704,833 | 738,076 |

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 Jun 2019 \$ | 30 Jun 2018 \$ | 30 Jun 2019 \$ | 30 Jun 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.

Convertible notes

During prior year the Company extinguished borrowings by way of issuing convertible notes. The following transactions occurred with related parties during the prior period 2017/18:

| | Balance at the start of the year 1/7/2017 \$ | Amount of notes issued \$ | Amounts extinguished \$ | Closing balance 30/6/2018 \$ | Fair Value \$ |
|---------------------------------|---|---------------------------------|-------------------------------|---------------------------------------|------------------|
| 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 \$0.15 per share in January 2019. Upon conversion, each note holder will also receive a free attaching \$0.10 option for each share issued. The conversion has not occurred as issue of shares has to be approved by shareholders.

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

| | As at 30 June 2019 \$ | As at 30 June 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 June 2019 \$ | As at 30 June 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.

| Director / Technical personnel | No. of Listed Options in SEL (i) (iii) | No. of Unlisted Options in SEL (ii) (iii) |
|--------------------------------|---|--|
| 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.

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 June 2019 \$ | As at 30 June 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.

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.

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 June 2019 \$ | As at 30 June 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.

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

| 20. COMMITMENTS | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 2018 \$ |
|--|---------------------------------|---------------------------------|
| 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 | - | - |
| | 85,833 | 188,833 |

| 21. PARENT ENTITY DISCLOSURE | As at 30 June 2019 \$ | As at 30 June 2018 \$ |
|---------------------------------|-----------------------------|-----------------------------|
| Financial position | | |
| Assets | | |
| Current assets | 3,788,557 | 2,807,137 |
| Non-current assets | 5,593,377 | 7,112,813 |
| Total assets | 9,381,934 | 9,919,950 |
| Liabilities | | |
| Current liabilities | (281,181) | (430,908) |
| Non-current liabilities | - | - |
| Total liabilities | (281,181) | (430,908) |
| Equity | | |
| Issued capital | 17,135,129 | 15,433,333 |
| Reserves | 997,215 | 738,341 |
| Accumulated losses | (8,937,199) | (6,682,632) |
| Total equity | 9,195,145 | 9,489,042 |
| | | |
| | 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 | (735,131) | (1,438,778) |

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 |

| | Year Ended 30 Jun 2019 \$ | Year Ended 30 Jun 2018 \$ |
|--|---------------------------------|---------------------------------|
| 23. AUDITOR REMUNERATION | | |
| <i>Amounts received or due and receivable by BDO Audit (WA) Pty Ltd and its associated entities for:</i> | | |
| Assurance Services | | |
| An audit and review of the financial report for the Group | 54,841 | 47,337 |
| Non- Assurance Services | | |
| Independent Expert Report | 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 31 to 61 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.

INDEPENDENT AUDITOR'S REPORT



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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.

INDEPENDENT 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.

INDEPENDENT AUDITOR'S REPORT



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 19 to 28 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

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 |



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