



## Skin Elements Limited ASX ANNOUNCEMENT

ASX CODE:SKN

25 November 2019

Ms Penelope Reid  
Advisor, Listings Compliance (Perth)  
Australian Stock Exchange

Dear Penelope

### **Skin Elements Limited (SKN) – Board Composition, Corporate Governance and Appendix 4C Query**

In response to your letter of 18 November 2019, Skin Elements Limited advises as follows:

#### **Corporate Governance**

ASX refers to:

- A. SKN's announcement released on the ASX Market Announcements Platform ('MAP') on 3 May 2019 titled 'Director Appointment' which states that SKN 'is pleased to announce the appointment of Henan Huatuo Health Management Co, Ltd (HHHM) chairman Mr Zeling Li and senior executive Ms Jialin Li to the board of Skin Elements' as Non-executive Directors.'
- B. SKN's announcement released on MAP on 10 October 2019 titled 'Director Appointment/Resignation' which states that SKN 'has received the resignation of Mr Luke Martino as a non-executive Director effective immediately'.
- C. SKN's response to ASX's query dated 21 October 2019 released on MAP on 28 October 2019 ('ASX October Query') which includes the following confirmation from SKN:

*'16. Please confirm that SKN's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.'*

*We confirm that SKN's responses to the questions above have been authorised and approved under its published continuous disclosure policy'*

- D. SKN's Annual Report for the period ended 30 June 2019 ('Annual Report') released on MAP on 31 October 2019 (noting that SKN had released two other 'Annual Reports' for the same period on 1 October 2019 and 3 October 2019) which includes the following:

- a. On page 2, Directors listed in the Corporate Directory being Peter Malone and Phil Giglia;
- b. On pages 14-15, 'The names of directors who held office during or since the end of the year and until the date of this report...' were listed as being:

Natural Science by Skin Elements

32 Ord Street, West Perth  
Western Australia, 6005  
P 08 6311 1900  
F 08 6311 1999

[www.mcarthurskincare.com](http://www.mcarthurskincare.com)  
[www.soleoorganics.com](http://www.soleoorganics.com)  
[www.skinelementslimited.com](http://www.skinelementslimited.com)

- i. Peter Malone
- ii. Luke Martino
- iii. Filippo (Phil) Giglia
- iv. Zeling Li; and
- v. Jialin Li

*SKN's Notice of Annual General Meeting released on MAP on 31 October 2019 ('Notice of AGM') which includes a resolution for the issue of performance rights to Mr Peter Malone and, inter alia, states:*

*'The Board (other than Peter Malone) have formed the view that Shareholder approval under section 208 of the Corporations Act is not required for the proposed issue of the Malone Securities to Mr Peter Malone as the exception in section 211 of the Corporations Act applies.'*

F. SKN's Corporate Governance Disclosure Policy, available at <http://skinelementslimited.com/pdf/Corporate-Governance-9-Disclosure-Policy.pdf>, which includes the following under 'Procedure to report information':

- *'The Managing Director/Chief Executive Officer and Chairperson will jointly agree on the text of the proposed Release. The Company Secretary may also be required to draft the Release for review;*
- *The Company Secretary will then distribute the Release to the Board for their review and comment. Following consultation with the Chairperson, the Company Secretary will allow such time as is reasonable in the circumstances for each Director to comment on the Release' (emphasis added)*

G. ASX Listing Rule 14.4 which states: *A director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer. However, a director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the entity. This rule does not apply to the managing director (but if there is more than one managing director, only one is entitled not to be subject to re-election).*

#### **Queries and Requests for Information**

1. *Please confirm how many directors SKN currently has and the names of each director.*

As at the date of this letter, SKN has four directors:

Mr Peter Malone  
Mr Filippo (Phil) Giglia  
Mr Zeling Li  
Ms Jialin Li

2. *Having regard to ASX Listing Rule 14.4 and noting that the Notice of AGM does not contain resolutions for the re-election of Mr Zeling Li or Jialin Li, please confirm SKN's intention regarding the composition of the Board, following the annual general meeting scheduled for 29 November 2019.*

Skin Elements Limited will appoint an additional Director to the Board at the conclusion of the Annual General Meeting to ensure that it has a minimum of three directors.

3. *Please provide SKN's board minutes for approval of:*

*3.1 the ASX October Query response;*

*3.2 the Annual Report; and*

*3.3 the Notice of AGM, including the approval for the issue of performance rights to Mr Peter Malone under resolution 3,*

*(not for release to the market).*

- 3.1 the ASX October Query response.

In accordance with the Company's Corporate Governance Disclosure Policy, the response of 28 October was prepared by the Company Secretary in conjunction with the Company's Audit Committee and the Company's Auditor particularly as the query related to the Company's audited financial statements. The finalised draft was emailed to all Directors (see attached appendix 3.1).

- 3.2 the Annual Report.

An Audit Committee and a Board meeting was held on Monday 30 September 2019. Minutes of these meetings are attached (see appendix 3.2A and 3.2B).

- 3.3 the Notice of AGM, including the approval for the issue of performance rights to Mr Peter Malone under resolution 3.

The Remuneration Committee considered the issue of the performance rights to Peter Malone and assessed that the performance rights constituted reasonable remuneration. Minutes of this Remuneration Committee meeting are attached (see appendix 3.3A).

The finalised draft of the Notice of Meeting as cleared by ASX was emailed to all directors prior to release to the market (see appendix 3.3B).

4. *Please provide documents substantiating SKN's compliance with its Corporate Governance Disclosure Policy for all announcements made to ASX from 3 May 2019 to the date of this letter*

*(not for release to the market).*

Skin Elements Limited has an established Corporate Governance Policies framework which includes the operation of the Audit Committee and Remuneration Committee and Disclosure Policy procedures.

As set out in Corporate Governance - 9 Disclosure Policy – Procedures to Report Information, the Company has a formal process for the preparation, review and authorisation of any announcement to the market as follows:

- The Managing Director/Chief Executive Officer and Chairperson will jointly agree on the text of the proposed Release. The Company Secretary may also be required to draft the Release for review;
- The Company Secretary will then distribute the Release to the Board for their review and comment. Following consultation with the Chairperson, the Company Secretary will allow such time as is reasonable in the circumstances for each Director to comment on the Release
- The Company Secretary will inform the Chairperson and Managing Director/Chief Executive Officer of each Director's comments and together with the Chairperson and Managing Director/Chief Executive Officer make any necessary changes to the Release;
- Following authorisation from the Chairperson or Managing Director/Chief Executive Officer, the Company Secretary will then release the ASX Release to the market, and ensure that the Company's website is updated.

Following on from the appointment of Mr Zeling Li and Ms Jialin Li to the Board on 3 May 2019 it was agreed by all that Luke Martino and / or Indian Ocean Group will be the point of contact to manage Board correspondence for the new Directors. In this regard it was also acknowledged that Mr Li would undertake to provide all Board correspondence to his sister Ms Jialin Li.

In respect to each announcement made to ASX from 3 May 2019 to the date of this letter this disclosure policy was complied with as follows:

<b>Date</b>	<b>Announcement</b>	<b>Documents substantiating SKN's compliance with Corporate Governance Disclosure Policy</b>	<b>Attaching Document Ref</b>
3/5/19	Appointment of New Directors	Board minute.	4.1
21/5/19	Response to Appendix 4C Query	Email to Peter Malone, Phil Giglia & Luke Martino.	4.2
17/6/19	Placement and Appendix 3B	Board minute.	4.3
01/8/19	Appendix 4C - quarterly	Email to Peter Malone, Phil Giglia & Luke Martino.	4.4
2/9/19	Preliminary Final Report	Email to Peter Malone, Phil Giglia & Luke Martino.	4.5
13/9/19	Disclosure Document	Board minute	See 4.3
1/10/19	Full Year Statutory Accounts and SKN 2019 Appendix 4G	Audit Committee minute and Board minute.	See 3.2
3/10/19	Amended Annual Report to Shareholders	Administrative lodgement correcting typographical errors	n/a
9/10/19	SKN China Distribution Agreement Not Proceeding	Board minute.	4.6
10/10/19	Director Resignation	Administrative lodgement	n/a
10/10/19	Final Director's Interest Notice	Administrative lodgement	n/a
28/10/19	Response to ASX Query	Email to Peter Malone, Phil Giglia, and Zeling Li & Jialin Li	See 3.1

31/10/19	Annual Report to shareholders	Email to Peter Malone, Phil Giglia, and Zeling Li & Jialin Li.	See 3.1
31/10/19	Notice of Annual General Meeting / Proxy Form	Remuneration Committee minute Email to Peter Malone, Phil Giglia, and Zeling Li & Jialin Li	See 3.3
31/10/19	Appendix 4C - quarterly	Email to Peter Malone, Phil Giglia, and Zeling Li & Jialin Li	4.7

#### **Appendix 4C**

*ASX refers to SKN's Appendix 4C quarterly report for the period ended 30 September 2019 lodged with MAP and released on 31 October 2019 (the 'Appendix 4C').*

*ASX notes that SKN has reported:*

- *negative net operating cash flows for the quarter of \$441,000;*
- *cash at the end of the quarter of \$309,000; and*
- *estimated cash outflows for the next quarter of \$380,000.*

*It is possible to conclude, based on the information in the Appendix 4C, that if SKN were to continue to expend cash at the rate indicated by the Appendix 4C, SKN may not have sufficient cash to continue funding its operations.*

#### **Request for Information**

*In view of that, ASX asks SKN to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market under Listing Rule 18.7A:*

- Does SKN expect that it will continue to have negative operating cash flows for the time being and, if not, why not?*

SKN currently expects to have negative operating cashflows for the December quarter with existing cash reserves of \$309,000 at the start of the quarter, receipt of the balance of R&D tax refund of \$70,000, estimated operating cash inflows of at least \$150,000 from sales of the company's products, and outflows of \$380,000 arising from normal operations for the December 2019 quarter. SKN also intends to undertake an equity raising through a fully underwritten non-renounceable rights issue of approximately \$1.0m.

The Company has agreed to settle the \$200,000 convertible note to Mr Li through the transfer of the Convertible Note to third parties on the same terms.

- Has SKN taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?*

As previously advised SKN is proposing to undertake a fully underwritten non renounceable rights issue to raise approximately \$1 million for working capital and fund ongoing production expansion.

The Company is currently negotiating with prospective underwriters and has commenced the preparation of the rights issue documentation.

*7. Does SKN expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?*

SKN expects to be able to continue its operations and to meet its business objectives.

As set out in the Company's Annual Report, the Company's response dated 28 October 2019, and the Company's Appendix 4C Quarterly report dated 31 October 2019, Skin Elements current business focus is to:

- Achieve positive cashflows from securing major distribution agreements.
- Raising additional equity to contribute to the Group working capital position in the near term.

In addition to the continued development of its existing Australian and international distributor sales channels and the Company's online sales channels, Skin Elements is negotiating with major international customers for the sale and delivery of Skin Elements' significantly expanded natural skincare and suncare product ranges into those markets.

These major customers include UK retail businesses Boots Limited and Holland & Barrett Limited, development of a Company online retail site in the USA, and a European retail distribution group IMK Ltd from whom Skin Elements has received initial orders for in excess of over \$100,000 of the Company's products.

Skin Elements has engaged Palmer Wilson Associates Ltd to assist with securing these customers. Palmer Wilson Associates Ltd is a United Kingdom based specialist business development consultancy aimed at providing companies with cost effective solutions to developing market entry for brands in global markets, especially the United Kingdom, Europe Middle East and Asia. SKN is seeking shareholder approval to issue performance rights to Palmer Wilson Associates Ltd to incentivise the securing of these customers.

Although the Board is confident that these negotiations will lead to major sales contracts, there are no signed contracts with these customers at this time, other than noted above.

*8. Please confirm that SKN is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.*

We confirm that SKN is complying with the Listing Rules and, in particular, Listing Rule 3.1. and there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market,

*9. Please confirm that SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.*

SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy.

*Please also provide any other information that SKN considers may be relevant to ASX forming an opinion on whether SKN is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*

SKN considers that the financial condition of SKN is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2.

As detailed in the Company's latest 2019 Annual Report and other recent disclosures referenced above, SKN is in a positive working capital position, and Management believe there are sufficient funds to meet the entity's working capital requirements. SKN has a net asset position of \$9.195 million.

Yours sincerely

A handwritten signature in black ink, appearing to read 'CPiercy', written in a cursive style.

**Craig Piercy**  
**Company Secretary**





18 November 2019

Reference: ODIN10772

Mr Craig Piercy  
Company Secretary  
Skin Elements Limited  
7/36 Ord Street  
WEST PERTH WA 6005

By email: craig@senatural.com

Dear Mr Piercy

**Skin Elements Limited ('SKN'): Board Composition, Corporate Governance and Appendix 4C Query**

Corporate Governance

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#### Queries and Requests for Information

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(not for release to the market).
4. Please provide documents substantiating SKN's compliance with its Corporate Governance Disclosure Policy for all announcements made to ASX from 3 May 2019 to the date of this letter (not for release to the market).

#### Appendix 4C

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### **Request for Information**

In view of that, ASX asks SKN to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market under Listing Rule 18.7A:

5. Does SKN expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
6. Has SKN taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
7. Does SKN expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
8. Please confirm that SKN is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.
9. Please confirm that SKN's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SKN with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that SKN considers may be relevant to ASX forming an opinion on whether SKN is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

### **When and where to send your response**

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9 AM AWST Thursday, 21 November 2019**.

If we do not have your response by then, ASX will have no choice but to consider suspending trading in SKN's securities under Listing Rule 17.3. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SKN's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail at [ListingsCompliancePerth@asx.com.au](mailto:ListingsCompliancePerth@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Listing Rule 3.1 and 3.1A**

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Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to SKN's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that SKN's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SKN's securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Enquiries**

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

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**Penelope Reid**  
Adviser, Listings Compliance (Perth)