



1 July 2020

Ms Elizabeth Harris
Manager, Listings Compliance (Perth)
Australian Stock Exchange

Dear Elizabeth

Skin Elements Limited (SKN) – Response to Queries

Skin Elements Limited (SKN) provides the following response to ASX query Letter of 30 June 2020:

December 2019 Appendix 4C

It appears that the State Securities Financing Facility was not disclosed to the market at the time it was entered into by SKN. Accordingly, please respond to the following questions:

- 1.1 *Were details of the State Securities Financing Facility announced to the market prior to the December 2019 Appendix 4C?*
- 1.2 *If the answer to question 1.1 above is:*
 - 1.2.1 *'yes', please provide the details of the relevant announcement.*
 - 1.2.2 *'no' please confirm why SKN did not disclose its entry into the State Securities Financing Facility at an earlier time, commenting specifically on when SKN believes it was obliged to release information regarding the State Securities Financing Facility to the market under Listing Rules 3.1 and 3.1A and what steps SKN took to ensure that information regarding the State Securities Financing Facility was released promptly and without delay.*
- 1.3 *Please provide full details in relation to the State Securities Financing Facility including, but not limited to, the lender's name, the applicable interest rate, the maturity date, the intended use of the funds, the date upon which SKN entered into the State Securities Financing Facility, whether it is secured or unsecured (and if it is secured, the nature of the security), how it is repayable, and the material covenants and events of default.*
- 1.4 *Since the release of the December 2019 Appendix 4C, have any funds been drawn down by SKN pursuant to the State Securities Financing Facility? If the answer to this question is 'yes', how much and when?*
2. *Please provide a copy of the State Securities Financing Facility agreement and all correspondence between SKN and State Securities Pty Ltd in relation to the State Securities Financing Facility and any other arrangements between the parties (not for release to the market).*
3. *Is State Securities Pty Limited a party to which Listing Rule 10.1 applies?*

Natural Science by Skin Elements

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www.mcarthurskincare.com
www.soleoorganics.com
www.skinelementslimited.com

SKN announced the details and terms of the production funding facility provided by State Securities Pty Ltd in SKN's Appendix 4C quarterly cashflow report on 31 January 2020. This was the same date the facility was entered into.

The facility provided for an unsecured loan of \$270,000 being available for a period of 6 months (from 14 February 2020) at an interest rate of 15% per annum for use as working capital in the production of the Company's products. The Company did not and does not consider the existence of this facility to be price sensitive.

Further to the announcement on 31 January 2020, the Company did not draw down this facility as the production order for the Company's Soleo Organics production had not yet been finalised with the Company's production laboratories. SKN subsequently proceeded with an alternative production funding program.

Attached is the facility offer document dated 31 January 2020. No further documentation was settled as SKN did not proceed with drawdown. The only other arrangement between the parties is the underwriting of the options exercise as detailed in the announcement of 15 April 2020. Attached is the cover email and underwriting agreement, both dated 15 April 2020.

State Securities Pty Ltd is not a party to which ASX LR 10.1 applies.

March 2020 Appendix 4C

4. *It appears that the Custodian Financing Facility was not disclosed to the market at the time it was entered into by SKN. Accordingly, please respond to the following questions:*

4.1 *Were details of the Custodian Financing Facility announced to the market prior to the March 2020 Appendix 4C?*

4.2 *If the answer to question 4.1 above is:*

4.2.1 *'yes', please provide the details of the relevant announcement.*

4.2.2 *'no' please confirm why SKN did not disclose its entry into the Custodian Financing Facility at an earlier time, commenting specifically on when SKN believes it was obliged to release information regarding the Custodian Financing Facility to the market under Listing Rules 3.1 and 3.1A and what steps SKN took to ensure that information regarding the Custodian Financing Facility was released promptly and without delay.*

4.3 *Please provide full details in relation to the Custodian Financing Facility including, but not limited to, the lender's name, the applicable interest rate, the maturity date, the intended use of the funds, the date upon which SKN entered the Custodian Financing Facility, the date upon which it was agreed to increase the Custodian Financing Facility to \$10 million, whether the Custodian Financing Facility is secured or unsecured (and if it is secured, the nature of the security), how it is repayable, and the material covenants and events of default.*

4.4 *Since the release of the March 2020 Appendix 4C, have any further funds have been drawn down by SKN pursuant to the Custodian Financing Facility? If the answer to this question is 'yes', how much and when?*

5. *Please provide a copy of the Custodian Financing Facility agreement and all correspondence between SKN and Custodian Australia Pty Ltd ('Custodian') in relation to the Custodian Financing Facility and any other arrangements between the parties (not for release to the market).*
6. *Is Custodian a party to which Listing Rule 10.1 applies?*
7. *In light of ASX's Compliance Update no 7/16 (see paragraph 1 above) and Australian Securities and Investments Commission (ASIC) records which show that Custodian was incorporated on 12 February 2020:*
 - 7.1 *Please explain SKN's rationale for entering into the Custodian Financing Facility.*
 - 7.2 *Please provide details of any due diligence which was undertaken by or on behalf of SKN in relation to Custodian and its director(s) prior to entering into the Custodian Financing Facility. In answering this question, please specifically address the following:*
 - 7.2.1 *What enquiries did SKN make about Custodian's capacity to meet its funding obligations under the Custodian Financing Facility agreement? If it made no such enquiries, why not?*
 - 7.2.2 *Did SKN enquire as to whether Custodian held a credit licence? If not, why not?*

SKN announced the details of the pre-factoring finance facility ("Pre-Factoring Finance Facility") with Custodian Australia Pty Ltd ("Custodian") in SKN's Appendix 4C quarterly cashflow report on 30 April 2020, the date upon which SKN agreed to accept Custodian's offer to increase that facility from \$1 million to \$10 million. The announcement set out the main terms of the facility, which is used to assist the Company to secure orders with contract production laboratories and ingredients suppliers so that it can scale up production for its products to meet demand for large scale orders.

As a junior company, SKN is constantly managing its capital requirements and looking for opportunities to reduce its risk of funding. In December 2019, SKN commenced assessment of several proposals to provide funding for the production by contract production laboratories of its natural skincare products. After arms' length negotiation, SKN decided to enter into the arrangement with Custodian as it had been established for the purposes of, and had capacity for, this type of investment.

On the 19 February 2020, SKN and Custodian agreed in principle that Custodian would provide a Pre-Factoring Finance Facility for up to \$1 million, and that each drawdown would be separately documented. Pursuant to the terms negotiated with Custodian, SKN can request a drawdown of funds to meet the production costs for specified production runs. Each drawdown is documented separately. The facility is a cash advance with the right to lodge security over the production stock. No security has been registered at the date of this letter as the production order is still underway and the inventory has not yet been delivered into store. The facility is repayable by SKN after six months with the ability to extend the repayment date for a further six months. Interest is calculated at 15% pa payable monthly in arrears.

The first drawdown of \$250,000 was made on 9 March 2020 and was provided directly to the Company's production laboratories for production of the Company's Soleo Organics sunscreen order. SKN did not regard this arrangement to be price sensitive and no announcement was made at that time. Attached is the cover email of 13 March 2020 and drawdown agreement of 2 March 2020.

On 26 March 2020, after additional assessment, Custodian advised SKN that it had obtained approval to increase the size of the Pre Factoring Finance Facility to \$10 million on the agreed terms, and made an offer to SKN. Attached is the cover email and offer letter, both of 26 March 2020. SKN

considered the offer from Custodian and on 30 April 2020 resolved to accept it. Attached is SKN's cover email and acceptance letter of 30 April 2020. SKN's Appendix 4C was released on the same day.

On 9 May 2020, following a drawdown request by SKN, Custodian provided a further \$250,000 to SKN under the Pre Factoring Financing Facility on the agreed terms to fund the production of Invisi-Shield Natural sanitiser with the right to lodge security over the Invisi-Shield production. Attached is the confirmation email on 7 May 2020 and drawdown agreement dated effective on 9 May 2020.

As at the date of this email, SKN has drawn a total of \$500,000 pursuant to the Pre Factoring Finance Facility for the production of inventory.

Custodian is not a party to which LR 10.1 applies.

Both SKN and Custodian, as part of the negotiations for the facility, undertook reasonable due diligence enquiries expected for this type of transaction, including:

- Direct enquiry of SKN and Custodian Australia and the Aperiomoney Group, and their websites to obtain an understanding of the respective businesses and the capacity to deliver under the proposed arrangements
- Meetings in Melbourne including a site visit to the Company's contract manufacturing facilities
- Search of ASIC and AFSL databases including identification of AFSL and Credit Services Licence for the Aperiomoney Group, and Alex Gulabovski, Director of Custodian Australia. Mr Gulabovski has been a licenced financial planner for over thirty years and so is regarded as a fit and proper person.
- General Google search with no adverse findings

Custodian has been established to provide short term (3-12 months) funding solutions for manufacturing, business acquisitions and business development. Alex Gulabovski is the sole director and owner of Custodian Australia Pty Ltd. Custodian operates within the Aperiomoney group, a retail and wholesale financial planning group with Australian Financial Service Licences and Credit Services Licences and led by Alex Gulabovski, a licenced financial planner for over 30 years with experience in investment and finance. See <http://aperio.com.au/>

Absolut Solutions

- 8. Please provide full details of SKN's contractual arrangements with Absolut Solutions.*
- 9. Please explain SKN's rationale for progressing Absolut Solutions' Invisi Shield project to commercialisation.*
- 10. Please explain SKN's rationale for expanding its current business of natural products (being predominantly natural sun protection creams, skincare and cosmetics products) to hand sanitiser products.*
- 11. Please provide the material terms of the contractual arrangements with Absolut Solutions including, but not limited to, the consideration paid for the Invisi Shield project and any other relevant terms.*

12. Please provide details of any due diligence which was undertaken by or on behalf of SKN in relation to Absolut Solutions and its director(s) prior to agreeing to progress the commercialisation of the Invisi Shield project. In answering this question, please specifically address the following:

12.1 How was SKN introduced to Absolut Solutions? In your answer, please include details of any introduction fees.

12.2 Please provide details of the Invisi Shield project including how developed the project was prior to SKN acquiring the brand.

A copy of the offer and acceptance letter between Skin Elements Limited and Absolut Solutions Pty Ltd is provided.

In SKN's half year report released on 2 March 2020, the Company advised of its development program involving its Invisi Shield natural sanitiser range.

As detailed in the announcement and response to ASX, both of 20 March 2020, as part of its ongoing research and development into natural skincare formulas, SKN has been collaborating with Absolut Solutions Pty Ltd ("Absolut Solutions") over the past two years on research and development and test marketing in the sanitiser products sector. The development of the Invisi-Shield range fits directly with SKN's stated ethos of developing all natural and organic skincare technologies. There are significant synergies with SKN's existing expertise in natural skincare technology that can be applied to the Invisi-Shield Sanitiser range including ingredients, production processes, and sales and marketing channels.

Absolut Solutions is a private company owned by a small group of private shareholders. Two of the majority shareholders in Absolut Solutions are entities associated with David Thorn and Lester Churchill, both of whom are also long-term shareholders in SKN and have been known to SKN for over ten years. Lester Churchill is the sole director of Absolut Solutions with David Thorn involved in day to day operations.

Absolut Solutions created the brand name Invisi Shield in 2018 and undertook initial test batch production and test marketing of the Invisi Shield sanitiser to independent pharmacies in Western Australia, and selected schools and daycare centres.

In late 2018, Skin Elements was approached by Lester Churchill and David Thorn from Absolut Solutions to assist with technical assessment of ingredients and formula in sanitiser applications that Absolut Solutions were proposing to market in Western Australia. Subsequently, recognising that they did not have suitable personnel and sufficient capital to progress the Invisi Shield project to commercialisation, Absolut Solutions offered the project to Skin Elements Limited in late 2019.

Over January and February 2020, Skin Elements undertook a due diligence assessment of the Invisi Shield product which included a review of the test market feedback undertaken by Absolut Solutions and observed the obvious increasing demand for sanitisers. This was completed on the 28 February 2020, when Skin Elements confirmed that they would acquire the Invisi Shield brand and historical test market data for the Invisi-Shield project from Absolut Solutions for payment of \$30,000 cash and 250,000 shares in SKN, which are in the process of being issued.

Skin Elements is now proceeding to bring the project to commercialisation as a range of personal care sanitisers under the Invisi Shield brand.

13. Please confirm that SKN is complying with the Listing Rules and, in particular, Listing Rule 3.1.

SKN confirms that it is complying with the Listing Rules and, in particular, Listing Rule 3.1. and there is no information that should be given to ASX under that rule that has not already been released to the market.

14. 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 by the Board of Directors in accordance with its published continuous disclosure policy.

Yours sincerely

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

Craig Piercy
Company Secretary





30 June 2020

Reference: 19993

Mr Craig Piercy
Director and Company Secretary
Skin Elements Limited
32 Ord Street
West Perth WA 6005

By email: craig@senatural.com

Dear Mr Piercy

Skin Elements Limited ('SKN'): Query Letter

ASX Limited ('ASX') refers to the following:

- A. SKN's Appendix 4C and quarterly activities report for the period ended 31 December 2019, released on the ASX Market Announcements Platform ('MAP') on 31 January 2020 ('**December 2019 Appendix 4C**') in which SKN disclosed an undrawn production financing facility with State Securities Pty Ltd for \$270,000 ('**State Securities Financing Facility**').
- B. SKN's half yearly report and accounts for the period ending 31 December 2019, released on MAP on 2 March 2020 ('**Half Year Report**').
- C. ASX's aware query letter dated 13 March 2020 and SKN's response dated 19 March 2020, released together on MAP on 20 March 2020 ('**SKN Aware Response**'). In its response, SKN outlines the role of Absolut Solutions Pty Ltd ('**Absolut Solutions**') in the development of SKN's Invisi-Shield Range.
- D. SKN's Appendix 4C and quarterly activities report for the period ended 31 March 2020, released on MAP on 30 April 2020 ('**March 2020 Appendix 4C**') in which SKN disclosed a production financing facility with Custodian Australia Pty Ltd for \$10,000,000 ('**Custodian Financing Facility**') of which \$250,000 had been drawn at 31 March 2020. The quarterly activities report stated the following with respect to this facility:

'During the quarter the Company secured a \$1 million pre-factoring financing facility with Custodian Australia Pty Ltd of which \$250,000 has been drawn down for the purchase of ingredients, packaging and securing production slots with the Company contract production laboratories.

This facility has now been increased to \$10 million on similar terms which will allow the Company to scale up production for its products to meet demand for large scale orders, particularly for the Invisi-Shield Natural sanitiser.'
- E. ASX's query letter dated 18 May 2020 and SKN's response to the query letter dated 21 May 2020, released together on MAP on 22 May 2020.
- F. Listing Rule 3.1, which requires a listed entity to immediately give ASX 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.
- G. The definition of 'aware' in Chapter 19 of the Listing Rules, which states that:

'an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity' and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information".'

H. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

'3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed.'

I. ASX's Compliance Update no 7/16 dated 25 July 2016, which states, amongst other things, that where a listed entity announces a material transaction and there is little or no information regarding the other party or parties to that transaction in the public domain (for example, because they are private companies), the announcement should also include a summary of the due diligence undertaken by the listed entity on their financial and other capacity to perform their obligations in relation to the transaction (see: https://www.asx.com.au/resources/newsletters/listed_at_asx/listed-at-asx-20160725_0716.html)

Questions and Requests for Information

Having regard to the above, ASX asks SKN to respond separately to each of the following questions and requests for information.

December 2019 Appendix 4C

1. It appears that the State Securities Financing Facility was not disclosed to the market at the time it was entered into by SKN. Accordingly, please respond to the following questions:

1.1 Were details of the State Securities Financing Facility announced to the market prior to the December 2019 Appendix 4C?

1.2 If the answer to question 1.1 above is:

1.2.1 'yes', please provide the details of the relevant announcement.

1.2.2 'no' please confirm why SKN did not disclose its entry into the State Securities Financing Facility at an earlier time, commenting specifically on when SKN believes it was obliged to release information regarding the State Securities Financing Facility to the market under Listing Rules 3.1 and 3.1A and what steps SKN took to ensure that information regarding the State Securities Financing Facility was released promptly and without delay.

1.3 Please provide full details in relation to the State Securities Financing Facility including, but not limited to, the lender's name, the applicable interest rate, the maturity date, the intended use of the funds, the date upon which SKN entered into the State Securities Financing Facility, whether it is secured or unsecured (and if it is secured, the nature of the security), how it is repayable, and the material covenants and events of default.

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- 1.4 Since the release of the December 2019 Appendix 4C, have any funds been drawn down by SKN pursuant to the State Securities Financing Facility? If the answer to this question is 'yes', how much and when?
 2. Please provide a copy of the State Securities Financing Facility agreement and all correspondence between SKN and State Securities Pty Ltd in relation to the State Securities Financing Facility and any other arrangements between the parties (not for release to the market).¹
 3. Is State Securities Pty Limited a party to which Listing Rule 10.1 applies?

March 2020 Appendix 4C

4. It appears that the Custodian Financing Facility was not disclosed to the market at the time it was entered into by SKN. Accordingly, please respond to the following questions:
 - 4.1 Were details of the Custodian Financing Facility announced to the market prior to the March 2020 Appendix 4C?
 - 4.2 If the answer to question 4.1 above is:
 - 4.2.1 'yes', please provide the details of the relevant announcement.
 - 4.2.2 'no' please confirm why SKN did not disclose its entry into the Custodian Financing Facility at an earlier time, commenting specifically on when SKN believes it was obliged to release information regarding the Custodian Financing Facility to the market under Listing Rules 3.1 and 3.1A and what steps SKN took to ensure that information regarding the Custodian Financing Facility was released promptly and without delay.
 - 4.3 Please provide full details in relation to the Custodian Financing Facility including, but not limited to, the lender's name, the applicable interest rate, the maturity date, the intended use of the funds, the date upon which SKN entered the Custodian Financing Facility, the date upon which it was agreed to increase the Custodian Financing Facility to \$10 million, whether the Custodian Financing Facility is secured or unsecured (and if it is secured, the nature of the security), how it is repayable, and the material covenants and events of default.
 - 4.4 Since the release of the March 2020 Appendix 4C, have any further funds have been drawn down by SKN pursuant to the Custodian Financing Facility? If the answer to this question is 'yes', how much and when?
5. Please provide a copy of the Custodian Financing Facility agreement and all correspondence between SKN and Custodian Australia Pty Ltd ('Custodian') in relation to the Custodian Financing Facility and any other arrangements between the parties (not for release to the market).²
6. Is Custodian a party to which Listing Rule 10.1 applies?
7. In light of ASX's Compliance Update no 7/16 (see paragraph I above) and Australian Securities and Investments Commission (ASIC) records which show that Custodian was incorporated on 12 February 2020:
 - 7.1 Please explain SKN's rationale for entering into the Custodian Financing Facility.
 - 7.2 Please provide details of any due diligence which was undertaken by or on behalf of SKN in relation to Custodian and its director(s) prior to entering into the Custodian Financing Facility. In answering this question, please specifically address the following:

¹ The fact that ASX tells an entity that a document is not for release to the market does not prevent ASX from releasing any of the information contained in the document (as opposed to the document itself) to the market if ASX considers it necessary to inform the market.

² See Note 1 above.

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- 7.2.1 What enquiries did SKN make about Custodian's capacity to meet its funding obligations under the Custodian Financing Facility agreement? If it made no such enquiries, why not?
 - 7.2.2 Did SKN enquire as to whether Custodian held a credit licence? If not, why not?

Absolut Solutions

8. Please provide full details of SKN's contractual arrangements with Absolut Solutions.
9. Please explain SKN's rationale for progressing Absolut Solutions' Invisi Shield project to commercialisation.
10. Please explain SKN's rationale for expanding its current business of natural products (being predominantly natural sun protection creams, skincare and cosmetics products) to hand sanitiser products.
11. Please provide the material terms of the contractual arrangements with Absolut Solutions including, but not limited to, the consideration paid for the Invisi Shield project and any other relevant terms.
12. Please provide details of any due diligence which was undertaken by or on behalf of SKN in relation to Absolut Solutions and its director(s) prior to agreeing to progress the commercialisation of the Invisi Shield project. In answering this question, please specifically address the following:
 - 12.1 How was SKN introduced to Absolut Solutions? In your answer, please include details of any introduction fees.
 - 12.2 Please provide details of the Invisi Shield project including how developed the project was prior to SKN acquiring the brand.
13. Please confirm that SKN is complying with the Listing Rules and, in particular, Listing Rule 3.1.
14. 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.

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 **10:00am AWST on Tuesday, 7 July 2020**.

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.

Your response should be sent to me by e-mail. 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 Rules 3.1 and 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.

Release of correspondence

ASX reserves the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Enquiries

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

Yours sincerely

Elizabeth Harris
Manager, Listings Compliance (Perth)