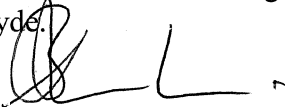


Herewith enclosed is the annual report for the year ended 30 June 2005.

This report will be mailed to shareholders in the next 4 weeks, and we propose to hold the Annual General Meeting at 10am Tuesday 20th November 2005, at our head office at Ryde.

A handwritten signature in black ink, appearing to be 'Bronte Douglass', written over the word 'Ryde'.

Bronte Douglass

**Cosmedics
Australia
Limited**

ABN 38 002 862 017

**FINANCIAL REPORT
30 June 2005**

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REPORT OF THE DIRECTORS

Your Directors present their report on the financial statements of the Company for the year ended 30th June, 2005.

Directors

The following persons held office as Directors of Cosmedics Australia Limited (Cosmedics) during the year and at the date of this report.

B. Douglass

V. Forge

R. Mitchell

Information of Directors

Bronte Douglass
MB,BS,DPH,DIH.

Dr Douglass, for some 30 years, was involved in the pathology industry. He was responsible for the establishment and growth of Douglass Laboratories which, under his management, became one of the largest pathology companies in Australia. Douglass Laboratories formed the core of the pathology operations of Sonic Healthcare Limited, a highly successful listed company. Subsequently he established a new pathology company, Diagnostic Pathology, which was sold to Alpha Healthcare Limited and on sold again to Sonic Healthcare. In the pathology industry, Dr. Douglass was responsible for hundreds of blood collection staff, collecting millions of blood samples. As such he was very aware of the problems associated with needle stick injuries both in terms of collection centre staff and the public, particularly in relation to the safe disposal of contaminated needles. Dr Douglass has been responsible for the operation of a Cosmetic Clinic that has now for four years provided Intense Pulse Light, ELOS and other cosmetic procedures. He has also had more than 14 years experience in operating Medical Centres.

Vicki Forge

Mrs Forge has been involved in the day to day operations of medical companies for the past 19 years. She was a Director, for 14 years, of a Medical Centre company and for the last 4 years has been responsible for the day to day operations of a Cosmetic Clinic. For 21 years she has been involved in the day to day operations of medical companies as Personal Assistant to the Managing Director

Robin Mitchell
MB,BS,DIH,AFOM
FACOM

Dr Mitchell is the Principal of the Airport Health Medical Centre and has been involved, in clinical medicine, aviation medicine and occupational health for more than 30 years. He is a senior consultant in occupational health in this country and has provided services for more than 50 companies in manufacturing, transport and service industries. Dr Mitchell is also a seasoned and successful personal investor and has had extensive interests in property and service businesses.

Directors shareholdings and options – Refer to Note 4.

Meetings of Directors

During the financial year 10 meetings of directors were held. Attendances were:-

Name

B. Douglass	10
V. Forge	10
R. Mitchell	10

Activities

Significant progress was made during the year in relation to the proposed production of a safety syringe. An agreement to acquire the patents relating to the safety syringe has been executed and all of the plant and equipment, the TGA and FDA approvals and Trademark were acquired prior to the end of the year under review. The Company continues to operate its cosmetic clinic and in the early part of the year the Intense Pulsed Light operations were expanded by the acquisition of the Medipulse business. The company now operates IPL and ELOS cosmetic services both at Ryde and in 26 beauty salons and medical centres in NSW.

Results

The operating loss of the Company attributable to Members of Cosmedics for the period was \$766,608 (2004: \$724,435 loss) after income tax.

Dividends

No dividend has been declared by the Directors and no dividend is recommended in respect of the current year.

Significant Changes

During the year there were no significant changes in the state of affairs of the company except for the following:

- (i) The medical centre operated by Cosmedics has been closed after the company failed to recruit doctors to work in the Centre. Goodwill relating to the centre was written off in the previous year.
- (ii) In August 2004 Cosmedics acquired the assets relating to the business of Medipulse, and entered into an employment agreement with the principal of that business. The consideration for these acquisitions was 1,500,000 shares in Cosmedics and 750,000 31 December 2005 options.
- (iii) In July 2004 Cosmedics entered into separate Heads of Agreement to purchase assets from Ensi-Med International and Ensi-Med Manufacturing (Ensi-Med) in relation to the safety syringe and to purchase the patents relating to that technology from the owners. In August and September 2004 those Heads of Agreement documents were replaced with final agreements, which were subsequently terminated in early 2005. On 9th of March 2005 Cosmedics entered into a new agreement to acquire the patents, which will require payment of \$2,200,000, the issue of 10,000,000 ordinary shares and an ongoing royalty payment. In April 2005 a new agreement was entered into with Ensi-Med to acquire the

assets necessary for the production of the safety syringe for the issue of 15,000,000 shares at 20c each (including GST), a substantially better arrangement than that which had previously been proposed. This agreement was finalized on the 30th of June 2005.

- (iv) The dispute in relation to legal fees, as previously announced, was subsequently resolved to the satisfaction of all parties.
- (v) A Strategic Alliance Framework Agreement was negotiated and signed in the United States at the end of August between Exelint International and Cosmedics by the directors. This agreement relates to the manufacture, marketing and distribution of the safety syringe. Exelint is a very large distributor and manufacturer of high quality medical products. Cosmedics Australia Limited has not as yet negotiated a final agreement.
- (vi) During the year Cosmedics made placements in order to raise working capital. On 8th of August 2004, 5,000,000 shares were placed at 9c each and 225,000 options (exercisable at 20c prior to 31 December 2005) were placed at 1c each, increasing working capital by \$452,250.00.

On 17th of February 2005, there was a further placement of 2,500,000 ordinary shares at 19.5c at 1c each and 1,250,000 31 December 2007 options exercisable at 20c, raising \$500,000.00. a further 10,000 shares were placed at 19.5c on 29th of April along with 10,000,000 December 2007 options at 1c each, raising \$101,950.00. On the 30th of May 2005 a further 300,000 shares were issued and 300,000 options (December 2007) were also issued with an exercise price of 13.3c.

- (vii) There was a bonus issue made to all existing share and option holders on 29th of April 2005 on a one for two basis. As a result of the bonus issue the exercise price for all options was reduced to 13.3c.

Events Subsequent to Balance Date

The following matters have occurred since the end of the financial year which should significantly affect the operations of the company, the results of those operations and the state of affairs of the company in financial years subsequent to the financial year ended 30 June 2005.

- (i) Cosmedics has entered into an agreement to acquire, from SSH Medical Limited, the entire shareholding of SSH Medical Workstation Pty Ltd, for a total consideration of 12,500,000 fully paid ordinary shares in Cosmedics. The purchase is subject to the shareholder approval of Cosmedics Australia Limited. SSH Medical Workstation Pty Ltd has developed a general practice diagnostic workstation - 'MediStation', which electronically captures the results of any of twelve diagnostic medical examinations and stores the results in patient specific folders for future retrieval and transfer (if required) to remote locations. This acquisition will cement the role of Cosmedics as a medical device company.
- (ii) Cosmedics has arranged to exhibit the proposed FDA and TGA approved syringe and the MediStation product at Medica 2005 in Dusseldorf in November, in conjunction with Austrade.

Likely Developments in Operations

Cosmedics will continue to operate IPL cosmetic equipment, and will continue to consider further purchases of various medical devices and health related businesses, similar to the acquisitions already made, as well as opening further new cosmetic clinics both organically and through joint venture initiatives with other medical operators.

The directors continue to believe the medical field offers a very attractive long term investment for Cosmedics, specifically in the areas of cosmetic medicine and medical devices, which are rapidly growing and generally highly profitable businesses which should grow the asset and revenue base.

The announced Share Purchase Plan (subject to ASIC approval) is intended to broaden the base of those shareholders who have a shareholding of at least \$2000 in value, as well as raising working capital. Subsequently Cosmedics will as necessary, make an offer for the purchase of shares via a prospectus, to the public. By broadening the shareholder base and the raising of capital, Cosmedics proposes a move onto the Australian Stock Exchange (ASX). The ASX requires a minimum of 500 shareholders, each of whom has a shareholding exceeding in value \$2,000.

Corporate Governance

The Board of Directors is responsible for directing the business and the strategy of Cosmedics towards enhancing shareholder wealth.

Under the Company's constitution the Board must have no less than 3 directors and no more than 10 directors. The Board currently consists of an Executive Chairman and Managing Director, an Executive Director and a Non-Executive Director. The Company Secretary is responsible for assisting the Board and for all company secretarial matters relating to the Company's activities.

The details of the Board meetings held during the 2004/2005 financial year are set out on page 3. Procedures are in place to ensure that directors are able to meet either in person or by telephone to consider urgent matters as and when they arise. In addition, decisions of the Board may also be made by a written resolution.

The fees payable to directors have been set at \$40,000.00 per annum per director.

The terms of employment of the Managing Director and the Executive Director has been set by the Board in the absence, as appropriate, of the Managing Director and the relevant Executive Director.

The Board has continued to operate with the minimum number of directors. As has been announced, the Board is intending to seek approval to list the Company on the Australian Stock Exchange and intends to adopt the Corporate Governance procedures and processes as outlined in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Indemnifying an Officer or Auditor

No indemnities have been provided or insurance cover obtained to insure each of the directors, officers and auditors of the company, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer or auditor of the company.

Directors Benefits

No director of Cosmedics has received or become entitled to receive a benefit by reason of the contract made or proposed by the Company or a related corporation with the director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest, other than Dr B Douglass, Director, whose company receives management fees in the normal course of business, and rental for the premises occupied by Cosmedics.

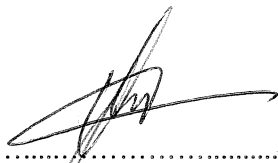
Options

At the date of this report, there are 23,812,510 un-issued ordinary shares under option of Cosmedics that expire on 31 December, 2005 along with 17,175,000 un-issued ordinary shares under option of Cosmedics that expire on 31 December, 2007, all at an exercise price of \$0.133.

Proceedings on Behalf of Company

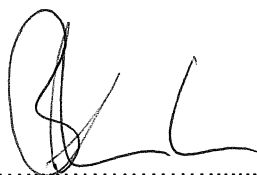
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Signed at Sydney this 30th day of September 2005
in accordance with a resolution of the directors.



..... (Director)

Vicki Forge



..... (Director)

Bronte Douglass

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED

Scope

The financial report and director's responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Cosmedics Australia Limited, for the year ended 30 June 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of the business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Qualification

As reported in the 2003 and 2004 independent audit report adequate supporting documentation was not available to enable an opinion to be formed on the recoverable value of the goodwill arising from business acquisitions. This position has not changed and accordingly we are unable to form an opinion on the value of the goodwill reported in the Statement of Financial Position to the extent of \$656,906.

The existence and value of the Intellectual Property, Inventories, Property, Plant and Equipment as at the 30 June 2003 were based on the purchase agreement approved by the shareholders at the 2002 Annual General Meeting. Information adequate to support the value of the Intellectual Property, Inventories, Property, Plant and Equipment at that date is unavailable. Accordingly we are unable to confirm the values stated in the financial statements are a fair value in accordance with accounting standards.

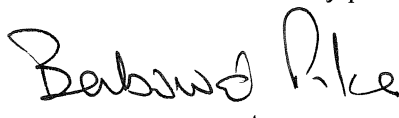
On 30 June 2005, the company acquired fixed assets, stock, patents and other proprietary technology for \$2,727,273. The composition and value of this acquisition as at the 30 June 2005 were based on the sale contract. Information adequate to support the value of the assets acquired at that date is not available. Accordingly we are unable to confirm the values acquired and stated in the financial statements are a fair value in accordance with the accounting policies for the Intellectual Property, Inventory and Fixed Assets.

During the year, a major shareholder, Douglass Automated Laboratories and Allied Services Pty Limited ("Dalas") provided financial support to the company. The company's ability to meet its debts as and when they fall due is dependent upon that financial support continuing together with the proceeds from a proposed capital raising. Dalas has negotiated an advance from a financier of \$600,000 which we are informed will be advanced to the company to assist with working capital requirements. At this time, there is uncertainty however as to the ability of Dalas to provide further financial support if required and whether the proposed capital raising will be successful. In our opinion, there is significant uncertainty affecting the company's ability to continue as a going concern.

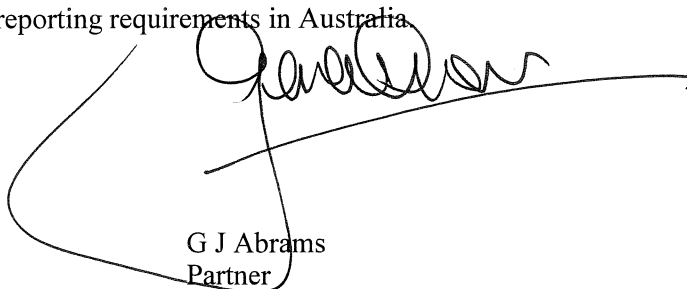
Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph, the financial report of Cosmedics Australia Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of Cosmedics Australia Limited' financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements in Australia



Benbow & Pike
Chartered Accountants
North Sydney



G J Abrams
Partner

Dated: 30th September, 2005

DIRECTORS DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 26, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001, and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company.
2. The company remains reliant on the continued financial support by Douglass Automated Laboratories and Allied Services Pty Limited (a major shareholder) until funds are provided in respect of capital raising.

If the financial support became unavailable without the benefit of the proceeds from the proposed capital raising the company would not be a going concern.

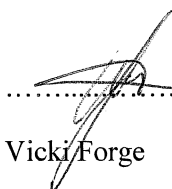
In the directors' opinion, subject to the matter referred to above, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 30th day of September, 2005
in accordance with a resolution of the directors.



..... (Director)

Bronte Douglass



..... (Director)

Vicki Forge

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2005 \$	2004 \$
Revenues from ordinary activities	2	<u>508,568</u>	<u>360,247</u>
Depreciation and Amortisation Expense		64,937	60,071
Other expenses from ordinary activities		<u>1,210,239</u>	<u>1,024,611</u>
Total Expenses	3	<u>1,275,176</u>	<u>1,084,682</u>
Loss from ordinary activities before income tax expense		(766,608)	(724,435)
Income tax relating to ordinary activities	6	<u>-</u>	<u>-</u>
Loss from ordinary activities after income tax expense		<u>(766,608)</u>	<u>(724,435)</u>
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		<u>(766,608)</u>	<u>(724,435)</u>
Basic earnings per share (cents)	7	(3.21)	(4.53)
Diluted earnings per share (cents)	7	(2.09)	(3.51)

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

STATEMENT OF FINANCIAL POSITION

	Note	2005 \$	2004 \$
CURRENT ASSETS			
Cash Assets	8	16,192	2,060
Receivables	9	295,494	40,649
Inventories	10	44,649	5,000
Other	11	7,040	4,149
TOTAL CURRENT ASSETS		<u>363,375</u>	<u>51,858</u>
NON-CURRENT ASSETS			
Property, Plant and Equipment	12	1,404,553	154,883
Intangibles	13	2,542,049	693,466
TOTAL NON-CURRENT ASSETS		<u>3,946,602</u>	<u>848,349</u>
TOTAL ASSETS		<u>4,309,977</u>	<u>900,207</u>
CURRENT LIABILITIES			
Payables	14	155,619	74,009
Interest Bearing Liabilities	15	24,628	18,939
TOTAL CURRENT LIABILITIES		<u>180,247</u>	<u>92,948</u>
NON CURRENT LIABILITIES			
Payables	14	159,832	268,334
Interest Bearing Liabilities	15	62,165	94,284
TOTAL NON CURRENT LIABILITIES		<u>221,997</u>	<u>362,618</u>
TOTAL LIABILITIES		<u>402,244</u>	<u>455,566</u>
NET ASSETS		<u>3,907,733</u>	<u>444,641</u>
SHAREHOLDERS' EQUITY			
Contributed Equity	18	5,929,702	1,700,002
Accumulated Losses	19	(2,021,969)	(1,255,361)
TOTAL SHAREHOLDERS' EQUITY		<u>3,907,733</u>	<u>444,641</u>

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

STATEMENT OF CASH FLOWS

	Note	2005 \$	2004 \$
Cash Flow from Operating Activities			
Receipts from Customers		500,450	285,695
Rent Received		-	5,822
Interest Received		2,422	67
Payments to Suppliers and Employees		(1,042,592)	(556,751)
Finance Charges		(58,515)	(28,227)
Net Cash used in Operating Activities	23	<u>(598,235)</u>	<u>(293,394)</u>
Cash Flow from Investing Activities			
Purchase of Property, Plant and Equipment		(139,681)	(2,104)
Purchase of Goodwill		(12,819)	-
Purchase of Intangible Assets		(180,917)	-
Proceeds from Sale of Property, Plant and Equipment		-	1,281
Proceeds from Sale of Investments		-	30,160
Finance Charges		-	(14,050)
Net Cash used in Investing Activities		<u>(333,417)</u>	<u>15,287</u>
Cash Flow from Financing Activities			
Proceeds from issue of shares		1,054,200	-
Proceeds from Borrowings from Related Entities		(108,565)	268,397
Other		149	-
Net Cash provided by Financing Activities		<u>945,784</u>	<u>268,397</u>
Net (Decrease) in Cash Held		<u>14,132</u>	<u>(9,710)</u>
Cash at 30th June 2004		<u>2,060</u>	<u>11,770</u>
Cash at 30th June 2005		<u><u>16,192</u></u>	<u><u>2,060</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic Accounting Principles

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Cosmedics Australia Limited, a listed public company incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Income Tax

The company adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the asset.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is measured at the average costs of the acquired inventory items.

Plant and Equipment

Plant and equipment is carried at cost, less accumulated depreciation.

Depreciation

Fixed Assets are depreciated over their estimated useful lives. Estimated useful lives are:

Furniture and Fittings	- 10 years
Plant and Equipment	- 5 years

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangibles – Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is to be amortised on a straight line basis over a period not exceeding 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

Intangibles – Intellectual Property

Intellectual property is only amortised if it is considered that the value of same has decreased in any way over the period, and then is amortised over the effective useful life. Gains in the value of any intellectual property are not recognised.

Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entities financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The company's management, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. An IFRS committee is overseeing and managing the company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable. We will

seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key material differences in the company's accounting policies on conversion to AIFRS and the financial effect of these differences where known, are as follows.

- ***Impairment of Assets***

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The company has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. Impairment testing as at 1 July 2005 confirmed an impairment on the intangible assets disclosed in the company's financial statements at 30 June 2005. The impact of the impairment is estimated to be \$50,000. As a result, a reduction of intangible assets of \$50,000 will occur via an adjustment to retained earnings as at 1 July 2004.

- ***Impairment of Goodwill***

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subject to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over a period of 20 years.

Impairment testing as at 1 July 2005 confirmed an impairment of goodwill (less accumulated amortisation) as disclosed in the company's financial statements at 30 June 2005. The impact of the impairment is estimated to be \$400,000. As a result, the previously amortised goodwill of \$37,734 will, therefore be reversed, and a reduction in capitalised goodwill of \$400,000 to occur. Accordingly a net adjustment to retained earnings at 1 July, 2004 of \$362,266 will occur. Further, an increase in the profit reported for 2005, amounting to \$44,326 being a write back of amortisation, will occur.

NOTES TO THE FINANCIAL STATEMENTS***Reconciliation of Net Profit***

Net profit / (loss) reported under Australian Accounting Standards	<u>(766,608)</u>
Key transitional adjustments:	
- Recognition of impairment loss (Assets)	-
- Reversal of amortisation of goodwill	44,326
Total transitional adjustments	<u>44,326</u>
Net profit / (loss) under AIFRS	<u>(722,282)</u>

Reconciliation of Equity

Total equity reported under Australian Accounting Standards	3,907,733
Retrospective adjustments to equity at 1 July 2004	
- Reversal of amortisation of goodwill	37,734
- Recognition of impairment loss (Goodwill)	(400,000)
- Recognition of impairment loss (Asset)	(50,000)
	<u>(412,266)</u>
Increase in current year profit resulting from transition to AIFRS	44,326
Total equity under AIFRS	<u>3,539,793</u>

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
		\$	\$
2. REVENUE			
Interest Received		2,422	67
Medical Fees Received		506,146	342,386
Profit on Sale of Investments		-	9,737
Other		-	8,057
TOTAL REVENUE		<u>508,568</u>	<u>360,247</u>
3. PROFIT FROM ORDINARY ACTIVITIES			
a. Expenses			
Ordinary Activities			
Audit fees		37,800	3,950
Amortisation of Goodwill		44,326	52,406
Amortisation of Leased Assets		12,682	9,983
Depreciation		7,929	7,655
Finance Charges		58,515	28,227
Accounting and Secretarial		-	21,500
All Other Expenses		1,113,924	613,071
		<u>1,275,176</u>	<u>736,792</u>
b. Significant Expenses			
Write-off of Goodwill Purchased		-	347,890
TOTAL EXPENSES		<u>-</u>	<u>1,084,682</u>

NOTES TO THE FINANCIAL STATEMENTS**4. DIRECTORS and EXECUTIVES' REMUNERATION****a. Directors Remuneration**

Dr B Douglass - Other	-	1,000
Ms V Forge - Salary	82,995	48,292
- Superannuation Contributions	7,470	4,346
- Other	2,000	1,000
	<u>92,465</u>	<u>54,638</u>
Mr M Boland - Other	-	1,000
Dr R Mitchell - Other	3,000	-

b. Shareholdings

Directors	Balance 01.07.04	Received as Remuneration	Net Change ² Other	Balance 30.06.05
Dr B Douglass	10,093,002	-	5,046,501	15,139,503
Ms V Forge	250,000	-	125,000	375,000
Dr R Mitchell	250,000	-	125,000	375,000
		-	-	
Total	<u>10,593,002</u>	<u>-</u>	<u>5,296,501</u>	<u>15,889,503</u>

c. Options and Rights Holdings

Directors	Balance 01.07.04	Granted as Remu- neration	Options Exercised	Net Change ³ Other	Balance 30.06.05	Total Vested 30.06.05	Total Excer- cisable 30.06.05
Dr B Douglass	10,046,501	-	-	5,023,251	15,069,752	-	15,069,752
Ms V Forge	-	-	-	-	-	-	-
Dr R Mitchell	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Total	<u>10,046,501</u>	<u>-</u>	<u>-</u>	<u>5,023,251</u>	<u>15,069,752</u>	<u>-</u>	<u>15,069,752</u>

Notes:

1. Holdings held indirectly
2. Net Change Other refers to shares purchased or sold during the financial year
3. Net Change Other includes those options that have been forfeited by holders as well as options issued during the year under review.

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005 \$	2004 \$
5. AUDITORS' REMUNERATION			
Remuneration of the auditor of the parent entity for:			
- auditing or reviewing the financial report		<u>37,800</u>	<u>3,950</u>
6. INCOME TAX			
The company has available tax losses amounting to \$1,075,849 (2004 \$337,651) the benefit of which has not been brought to account due to the uncertainty of eventual recoupment. These losses will only be recoverable if the various conditions under income tax legislation for carrying forward losses continue to be met in the future.			
7. EARNINGS PER SHARE			
Net profit and earnings used in the calculation of dilutive EPS		<u>(766,608)</u>	<u>(724,435)</u>
Weighted average number of ordinary shares		24,222,477	16,000,010
Weighted average number of options outstanding		25,319,288	14,900,005
8. CASH ASSETS			
Cash at Bank		<u>16,192</u>	<u>2,060</u>
9. RECEIVABLES			
Trade Debtors		5,696	-
Income Tax Refundable		681	-
GST Receivable		<u>289,117</u>	<u>40,649</u>
		<u>295,494</u>	<u>40,649</u>
10. INVENTORIES			
Medical Supplies (at cost)		<u>44,649</u>	<u>5,000</u>
11. OTHER CURRENT ASSETS			
Sundry Receivables		2,891	-
Security Deposits		<u>4,149</u>	<u>4,149</u>
		<u>7,040</u>	<u>4,149</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
		\$	\$
12. PROPERTY, PLANT & EQUIPMENT			
Plant & Equipment – at cost		1,315,855	45,574
Accumulated Depreciation		(15,910)	(7,981)
Total Fixed Assets		<u>1,299,945</u>	<u>37,593</u>
Movements in Fixed Assets			
Opening written down value		37,593	44,250
Plus: additions		1,270,281	2,094
Less: depreciation		(7,929)	(7,655)
disposal of assets		-	(1,096)
Closing written down value		<u>1,299,945</u>	<u>37,593</u>
Leased Assets – at cost		127,273	127,273
Accumulated Amortisation		(22,665)	(9,983)
Total Leased Assets		<u>104,608</u>	<u>117,290</u>
Movements in Leased Assets			
Opening written down value		117,290	-
Plus: additions		-	127,273
Less: amortisation		(12,682)	(9,983)
disposal of leased assets		-	-
Closing written down value		<u>104,608</u>	<u>117,290</u>
Total Property, Plant and Equipment		<u>1,404,553</u>	<u>154,883</u>
13. INTANGIBLE ASSETS			
Goodwill at cost		836,519	681,200
Accumulated amortisation		(82,060)	(37,734)
		<u>754,459</u>	<u>643,466</u>
Intellectual property, including rights and domains		1,787,590	50,000
		<u>2,542,049</u>	<u>693,466</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
		\$	\$
14. PAYABLES			
Current			
Trade Creditors		134,721	40,482
Sundry Creditors		20,898	33,527
		<u>155,619</u>	<u>74,009</u>
Non Current			
Other Amounts Payable – Related Company		<u>159,832</u>	<u>268,334</u>
This amount is payable at call, however it is considered unlikely that it will be repaid in full in the next 12 months.			
15. INTEREST BEARING LIABILITIES			
Current			
Lease Liability		<u>24,628</u>	<u>18,939</u>
Non Current			
Lease Liability		<u>62,165</u>	<u>94,284</u>
16. CAPITAL AND LEASING COMMITMENTS			
Finance Lease Commitments			
Payable			
- not later than 1 year		31,891	31,891
- later than 1 year but not later than 5 years		69,097	117,645
- later than 5 years		-	-
Minimum lease payments		<u>100,988</u>	<u>149,536</u>
Less future finance charges		<u>14,195</u>	<u>36,313</u>
Total Lease Liability		<u>86,793</u>	<u>113,223</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005 \$	2004 \$
17. CONTRIBUTED EQUITY			
52,815,016 (2004: 16,000,010) Ordinary Shares fully paid		<u>5,804,452</u>	<u>1,700,002</u>
At the beginning of the reporting period		1,700,002	1,700,002
Shares issued for goodwill purchased		3,135,000	-
Placements		939,450	-
Other		30,000	-
At reporting date		<u>5,804,452</u>	<u>1,700,002</u>
	No.		No.
At the beginning of the reporting period		16,000,010	16,000,010
Shares issued: Bonus (1:1)		12,505,006	-
Purchased businesses and goodwill		16,500,000	-
Placements		7,510,000	-
Other		300,000	-
At reporting date		<u>52,815,016</u>	<u>16,000,010</u>
Share Options Issued			
December 2005		\$	\$
At the beginning of the reporting period		-	-
Options issued for goodwill purchased		7,500	-
Placements		<u>2,250</u>	-
At reporting date		<u>9,750</u>	-
	No.		No.
At the beginning of the reporting period		14,900,005	14,900,005
Options issued: Bonus		7,937,505	-
Purchased businesses and goodwill		750,000	-
Placements		<u>225,000</u>	-
At reporting date		<u>23,812,510</u>	<u>14,900,005</u>
December 2007		\$	\$
At the beginning of the reporting period		-	-
Options issued for goodwill purchased		-	-
Placements		112,500	-
Other		<u>3,000</u>	-
At reporting date		<u>115,500</u>	-

NOTES TO THE FINANCIAL STATEMENTS

	No.	No.
At the beginning of the reporting period	-	-
Options issued: Bonus	5,625,000	-
Purchased businesses and goodwill	-	-
Placements	11,250,000	-
Other	300,000	-
At reporting date	<u>17,175,000</u>	<u>-</u>
 Total Share Capital	 5,929,702	 1,700,002
 18. RETAINED EARNINGS		
Balance at beginning of year	(1,255,361)	(530,926)
Operating Loss for the year net of income tax	<u>(766,608)</u>	<u>(724,435)</u>
Balance at the end of the year	<u>(2,021,969)</u>	<u>(1,255,361)</u>
 19. RELATED PARTY TRANSACTIONS		
(i) During the year, \$196,364 was paid to Douglass Automated Laboratories and Allied Services Pty Limited (a major shareholder) for management services rendered as agreed to by the Board of Directors on 4/12/03.		
(ii) No other remuneration is paid to any director of the company other than that disclosed above and in Note 4.		
(iii) During the year, Douglass Automated Laboratories and Allied Services Pty Limited provided funds to assist cash flow, and at the end of the year \$159,832 remains payable to that company. To date no interest has been paid on these funds.		
(iv) During the year, \$66,770 was paid to Douglass Automated Laboratories and Allied Services Pty Limited for rent of premises at Ryde.		
 20. CAPITAL COMMITMENTS		
There are no capital commitments. However it is envisaged that as the group begins to grow, further capital items will have to be provisioned for to accord with the envisioned expansion rate at each period.		
 21. CONTINGENT LIABILITIES		
There are no contingent liabilities.		
 22. SEGMENT REPORTING		
The company continued to operate in the health industry.		

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
		\$	\$
23. CASH FLOW INFORMATION			
(a) <u>Reconciliation of Cash</u>			
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash on hand		<u>16,192</u>	<u>2,060</u>
(b) <u>Reconciliation of Cash Flow from Operations with Profit from ordinary activities after income tax</u>			
Profit from ordinary activities after income tax		<u>(766,608)</u>	<u>(724,435)</u>
Non-cash flows in profit from ordinary activities			
Depreciation and Amortisation		64,937	70,055
Non-Cash Expenses		30,000	-
Intangibles Written Off		-	347,890
(Profit)/loss on disposal of investments		-	(9,737)
(Profit)/loss on disposal of plant and equipment		-	(185)
		<u>94,937</u>	<u>408,023</u>
Changes in assets and liabilities			
(Increase)/decrease in receivables		(5,696)	(40,649)
(Increase)/decrease in other receivables & prepayments		(2,891)	(4,149)
(Increase)/decrease in inventories		351	2,000
Increase/(decrease) in other creditors		81,672	65,816
		<u>73,436</u>	<u>23,018</u>
<u>Cash flows from operations</u>		<u>(598,235)</u>	<u>(293,394)</u>

NOTES TO THE FINANCIAL STATEMENTS

24. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant matters have occurred since the end of the financial year which should significantly affect the operations of the company, the results of those operations and the state of affairs of the company in financial years subsequent to the financial year ended 30 June 2005.

- (i) Cosmedics has entered into an agreement to acquire, from SSH Medical Limited, the entire shareholding of SSH Medical Workstation Pty Ltd, for a total consideration of 12,500,000 fully paid ordinary shares in Cosmedics. The purchase is subject to the shareholder approval of both parties. SSH Medical Workstation Pty Ltd has developed a general practice diagnostic workstation - 'MediStation', which electronically captures the results of any of twelve diagnostic medical examinations and stores the results in patient specific folders for future retrieval and transfer (if required) to remote locations. This acquisition will cement the role of Cosmedics as a medical device company.
- (ii) Cosmedics has arranged to exhibit the proposed FDA and TGA approved syringe at Medica 2005 in Dusseldorf in November, in conjunction with Austrade.

NOTES TO THE FINANCIAL STATEMENTS**25. FINANCIAL INSTRUMENTS**

2005	Floating Interest Rate	Fixed interest Rate Maturing In:		Non Interest Bearing	Total	Average Interest Rate:	
		1 Year or Less	Over 1 to 5 Years			Floating %	Fixed %
Financial Assets							
Cash	-	-	-	16,192	16,192	-	-
Receivables ¹	-	-	-	295,494	295,494	-	-
	-	-	-	311,686	311,686		

**Financial
Liabilities**

Trade Creditors ²	-	-	-	134,721	134,721	-	-
Sundry Creditors ²	-	-	-	20,898	20,898	-	-
Finance Lease	-	-	-	86,793	86,793	-	9.59
	-	-	-	242,412	242,412	-	

2004	Floating Interest Rate	Fixed interest Rate Maturing In:		Non Interest Bearing	Total	Average Interest Rate:	
		1 Year or Less	Over 1 to 5 Years			Floating %	Fixed %
Financial Assets							
Cash	-	-	-	2,060	2,060	-	-
Receivables ¹	-	-	-	40,649	40,649	-	-
	-	-	-	42,709	42,709		

**Financial
Liabilities**

Trade Creditors ²	-	-	-	40,482	40,482	-	-
Sundry Creditors ²	-	-	-	33,527	33,527	-	-
Finance Lease	-	-	-	113,223	113,223	-	9.59
	-	-	-	187,232	187,232		

Notes:

1. Receivables are non-interest bearing and are settled on normal commercial terms.
2. Trade Creditors and Sundry Creditors are non-interest bearing and are settled on normal commercial terms.

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

COMPANY DIRECTORY**Directors:**

Bronte Douglass
Robin Mitchell
Vicki Forge

Bankers:

St George Bank
70-74, Top Ryde Shopping Centre
Ryde 2112

Company Secretary:

Bronte Douglass: 1/12/03-5/10/04
Anil Sharma: 5/10/04-14/12/04
David Hawley: 14/12/04-

Auditors:

Benbow & Pike
Chartered Accountants
13/263 Alfred Street (North)
North Sydney 2060

Registered Office:

Cosmedics Australia Limited
Level 1, 219 Blaxland Road
Ryde 2112

Share Register:

ASX Perpetual Registrars Pty
Limited
HSBC Building
Level 22,
300 Queen Street
Brisbane QLD 4000

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

SHAREHOLDER DISTRIBUTION INFORMATION**ORDINARY SHARES**

Ranges	Investors	Securities	% Issued Capital
1 – 1,000	3	2,100	0.00
1,001,-5,000	39	121,113	0.23
5,001 – 10,000	38	246,533	0.47
10,001 – 100,000	112	3,976,727	7.53
100,001 – and over	<u>43</u>	<u>48,468,523</u>	<u>91.77</u>
Total	<u>185</u>	<u>52,815,016</u>	<u>100.00</u>

OPTIONS (DEC 2005)

Ranges	Investors	Securities	% Issued Capital
1 – 1,000	6	3,300	0.01
1,001-5,000	69	165,750	0.70
5,001 – 10,000	33	237,654	1.00
10,001 – 100,000	44	1,527,052	6.41
100,001 – and over	<u>12</u>	<u>21,878,754</u>	<u>91.88</u>
Total	<u>165</u>	<u>23,812,510</u>	<u>100.00</u>

OPTIONS (DEC 2007)

Ranges	Investors	Securities	% Issued Capital
1 – 1,000	-	-	-
1,001-5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 – and over	<u>20</u>	<u>17,175,000</u>	<u>100.00</u>
Total	<u>20</u>	<u>17,175,000</u>	<u>100.00</u>

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

SHAREHOLDERS INFORMATION**The 20 largest shareholders at 26 September 2005:****ORDINARY & ESCROW SHARES**

Rank	Investor	Current Balance	% Issued Capital
1	Douglass Automated Laboratories and Allied Services Pty Limited	15,139,503	28.67%
2	Stomar Pty Limited <Malachi A/C>	5,625,000	10.65%
3	Ensi Med International Pty Limited	3,735,870	7.07%
4	Ensi Med Manufacturing Pty Limited	3,735,870	7.07%
5	David Peter Hawley + Jenny Ree Hawley	2,250,000	4.26%
6	D & G Mason Nominees Pty Ltd	1,875,000	3.55%
7	N & V Curie Pty Ltd	1,875,000	3.55%
8	Clark & Bradly Computer Services Pty Limited <Braddon Central Discretionary A/C>	1,858,498	3.52%
9	Send Judah First Pty Limited <Marsh Family A/C>	1,509,073	2.86%
10	Geoff Cowan & Associates Pty Limited <Cowan Discretionary A/C>	1,144,473	2.17%
11	LAH Securities Pty Ltd	798,719	1.51%
12	Reynolds Nominees Pty Limited	753,000	1.43%
13	Tony Del Gigante + Christine May Del Gigante <Crestvale Super Fund A/C>	750,000	1.42%
14	Paul Williams	750,000	1.42%
15	Malcolm Bird	600,003	1.14%
16	Resource Capital Australia Pty Limited	600,000	1.14%
17	Mr James Crawford	450,000	.85%
18	Vicki Forge	375,000	.71%
19	Robin Mitchell	375,000	.71%
20	Jonathan Shakes	322,500	.61%
TOTAL FOR TOP 20:		44,522,508	84.30%
Investors			
TOTAL IN THIS REPORT:		20	44,522,508 84.30%
TOTAL OTHER INVESTORS:		215	8,292,508 15.70%
GRAND TOTAL:		235	52,815,016 100.00%

OPTIONS – Dec 05

Rank	Investor	Current Balance	% Issued Capital
1	Douglass Automated Laboratories and Allied Services Pty Limited	15,069,752	63.29%
2	Resource Capital Australia Pty Limited	3,000,000	12.60%
3	David Peter Hawley + Jenny Ree Hawley	1,025,000	4.30%
4	Reynolds Nominees Pty Limited	751,000	3.16%
5	Malcolm Bird	525,002	2.20%
6	Paul Williams	375,000	1.57%
7	Mr James Crawford	225,000	.94%
8	Teresa Mitry	225,000	.94%
9	Jonathan Shakes	225,000	.94%
10	Mrs Samantha Jane Harrington	187,500	.79%
11	Mr Richard James Flynn	150,000	.63%
12	John Frederick Boland	120,000	.50%
13	Mr Thomas John Swanton	100,000	.40%
14	Mr Michael Hall	96,000	.35%
15	Barry Gracey	82,650	.31%
16	Braypack International Pty Limited	75,000	.31%
17	Teresa Mitry	75,000	.31%
18	Mrs Dominique Ogilvie	75,000	.31%
19	Tim Olsen	75,000	.31%
20	Tambrey Holdings Pty Ltd	67,500	.28%
TOTAL FOR TOP 20:		22,524,904	94.59%
<hr/>			
Investors			
TOTAL IN THIS REPORT:		20	22,524,904 94.86%
TOTAL OTHER INVESTORS:		144	1,287,606 5.41%
GRAND TOTAL:		164	23,812,510 100.00%

COSMEDICS AUSTRALIA LIMITED**A.B.N. 38 002 862 017**

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2005

OPTIONS – Dec 07

Rank	Investor	Current Balance	% Issued Capital
1	D & G Mason Nominees Pty Ltd	2,437,500	14.19%
2	N & V Curie Pty Ltd	2,437,500	14.19%
3	Greg Collier + Carol Collier	1,500,000	8.73%
4	Margaret Ruth Collier	1,500,000	8.73%
5	John Kerrigan	1,500,000	8.73%
6	Stomar Pty Limited <Malachi A/C>	1,500,000	8.73%
7	Stomar Pty Limited <Collier Benefits Super Fund A/C>	1,500,000	8.73%
8	Mr Anthony Chen	900,000	5.24%
9	Mr Michael Patrick Kerrigan	750,000	4.37%
10	Jack Voytek Wachmiller	750,000	4.37%
11	Mrs Samantha Jane Harrington	375,000	2.18%
12	Carla Douglass	300,000	1.75%
13	Microlaw Pty Limited	300,000	1.75%
14	Mr Anthony John Pomeroy	300,000	1.75%
15	Mr Ian Devlin	225,000	1.31%
16	Joellen Henderson	225,000	1.31%
17	Mr Todd Van Skiver	225,000	1.31%
18	Mr Richard James Flynn	150,000	.87%
19	Natasha Forge	150,000	.87%
20	Mr Peter John Gee	150,000	.87%
TOTAL FOR TOP 20:		17,175,000	100.00%
Investors			
TOTAL IN THIS REPORT:		20	17,175,000 100.00%
TOTAL OTHER INVESTORS:		0	0 0%
GRAND TOTAL:		20	17,175,000 100.00%