

Cosmedics Australia Limited

ABN 38 002 862 017

INTERIM FINANCIAL REPORT 31 December 2005

CONTENTS

	Page
Directors' Report	2
Independent Review Report to the Members	7
Directors Declaration	9
Consolidated Income Statement	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Cash Flows	12
Consolidated Statements of Changes in Equity	13
Notes to the Financial Statements	14

DIRECTORS REPORT

Your Directors present their report on the financial statements of the Company for the year ended 31 December 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 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.

Meetings of Directors

During the 6 months 6 meetings of directors were held. Attendances were:-

Name

B. Douglass	6
V. Forge	6
R. Mitchell	6

Activities

The company has continued to operate its intense pulsed light enterprise in more than twenty beauty salons and at the company's head office in Ryde. The development of the Uni-Ject safety syringe business has been actively pursued in the period under review. With the assistance of the NSW Department of State and Regional Development, the syringe was exhibited at Medica 2005 in Germany during November, where significant interest was expressed by potential distributors, from a number of countries. The company has continued its efforts to raise the necessary funds to complete the acquisition of the patents for the syringe and to that end the company obtained shareholder approval at the EGM on the 5th of September 2005 for a Share Purchase Plan (SPP). Considerable time and effort was spent in seeking ASIC approval for the SPP but approval was not obtained. The exercise of December 2005 options yielded only \$101,574.86 of a potential \$3,174,207.58, if those options had all been exercised. In these circumstances, negotiations are continuing for alternative methods of achieving the acquisition.

Results

The operating loss of the Company attributable to Members of Cosmedics for the period was \$4,371,343 (2004: \$374,397 loss) after adjustments for adoption of Australian International Financial Reporting Standards (AIFRS). No income tax expense or benefit was brought to account.

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:

1. As announced on the 16th of August, and approved by shareholders at the EGM held on the 3 September 2005, the company purchased SSH Medical Workstation Pty Ltd for 12.5 million Cosmedics shares, with a view to further establishing Cosmedics Australia Limited as a medical devices company. SSH Medical Workstation has developed a digital capture device for electronic health records.

Events Subsequent to Balance Date

The following matters have occurred since the end of the half year.

1. Mr David Hawley has resigned as Company Secretary on 18/01/2006 and Mr Stephen Erichsen has accepted that role on 18/01/2006
2. As a result of the exercise of 762,002 Dec '05 options, a similar number of shares were issued in January 2006.
3. A decision has been taken by the Directors with respect to the Half Year December 2005 accounts to reflect the impact of changes to accounting standards and AIFRS, and as such, there have been significant write downs in the items of goodwill, intangible assets and plant and equipment.

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 whilst providing further potential for growth.

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 half year to 31 December, 2005 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.

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 17,175,000 un-issued ordinary shares under option of Cosmedics that expire on 31 December, 2007 at an exercise price of \$0.1333.

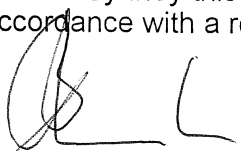
Proceedings on Behalf of Company

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.

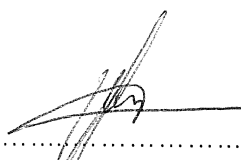
Auditor's Independence Declaration

The written Auditor's Independence Declaration in relation to the review of the half-year financial report has been included at page 3, and forms part of this report.

Signed at Sydney this 3 day of April 2006
in accordance with a resolution of the directors.


..... (Director)

Dr Bronte Douglas


..... (Director)

Vicki Forge

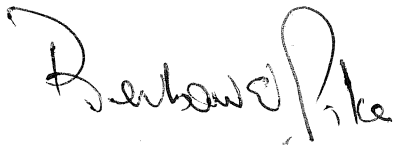
Benbow & Pike

Chartered Accountants

ABN 76 939 671 350

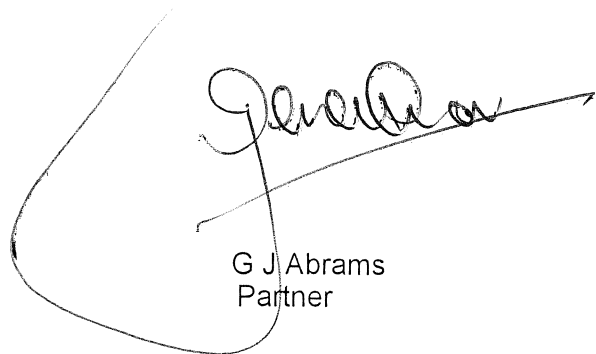
AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF
COSMEDICS AUSTRALIA LIMITED

In relation to our review of the financial of Cosmedics Australia Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Benbow & Pike
Chartered Accountants
North Sydney

Dated: 3 April 2006



G J Abrams
Partner

Benbow & Pike

ABN 76 939 671 350

Chartered Accountants

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED

Scope

The financial report and directors' 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 the economic entity, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the entity and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review Approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Newcastle Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the entity's financial position, and of their performance as represented by the results of their operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors' of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

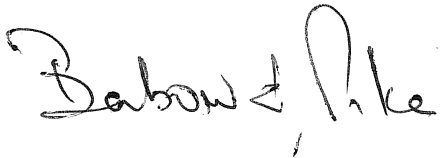
Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Cosmedics Australia Limited is not in accordance with:

(a) The *Corporations Act 2001*, including:

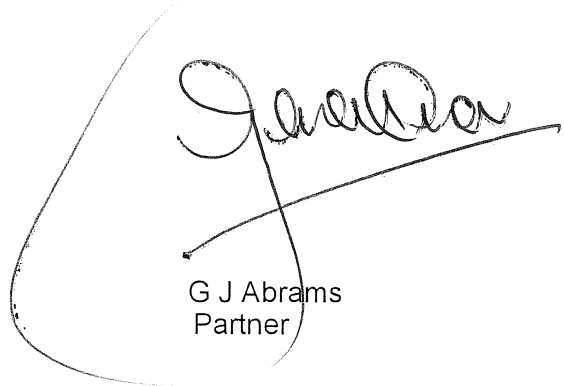
- (i) Giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the period ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) Other mandatory financial reporting requirements in Australia.



Benbow & Pike
Chartered Accountants
North Sydney

Dated: 3 April 2006



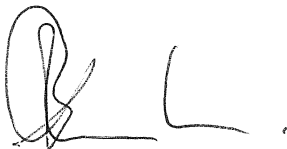
G J Abrams
Partner

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Cosmedics Australia Limited we state that in the opinion of the Directors:

- (a) The half year consolidated financial statements and notes as set out on pages 10 to 24 are in accordance with the Corporations Act and:
 - (i) Give a true and fair view of the financial position as at 31 December 2005 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) Comply with Accounting Standard AASB134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



.....(Director)
Bronte Douglass
Director



.....(Director)
Vicki Forge
Director

3 April 2006

CONSOLIDATED INCOME STATEMENT

	Note	Consolidated 31/12/05 2005 \$	Entity 30/6/05 2005 \$	Entity 31/12/04 2004 \$
Revenues from ordinary activities		<u>270,205</u>	<u>236,544</u>	<u>272,024</u>
Depreciation and amortisation Expense		10,656	10,320	10,291
Other expenses from ordinary activities		593,302	600,621	609,618
Asset impairment write down (on adoption of AIFRS)	3	4,037,590	-	-
Total expenses		<u>4,641,548</u>	<u>610,941</u>	<u>619,909</u>
Loss from ordinary activities before income tax expense		(4,371,343)	(374,397)	(347,885)
Income tax relating to ordinary activities		-	-	-
Loss from ordinary activities after income tax expense		<u>(4,371,343)</u>	<u>(374,397)</u>	<u>(347,885)</u>
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		<u>(4,371,343)</u>	<u>(374,397)</u>	<u>(347,885)</u>
Basic earnings per share (cents)	2	(8.03)	(1.27)	(1.82)
Diluted earnings per share (cents)		(4.91)	0.03	(1.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Consolidated 31/12/05 2005 \$	Entity 31/12/05 2005 \$	Entity 30/6/05 2005 \$	Entity 31/12/04 2004 \$
CURRENT ASSETS					
Cash Assets		30,691	30,691	16,192	5,922
Receivables		3,388	3,388	295,494	6,937
Inventories		194,649	44,649	44,649	5,000
Other		4,149	4,149	7,040	210,000
TOTAL CURRENT ASSETS		<u>232,877</u>	<u>82,877</u>	<u>363,375</u>	<u>227,859</u>
NON-CURRENT ASSETS					
Other Amounts Receivable		3,048	3,048	-	2,698
Other Financial Assets		-	-	-	4,149
Property, Plant and Equipment		1,395,168	1,395,168	1,404,553	151,892
Intangibles		486,519	636,519	2,174,109	588,700
TOTAL NON-CURRENT ASSETS		<u>1,884,735</u>	<u>2,034,735</u>	<u>3,578,662</u>	<u>747,439</u>
TOTAL ASSETS		<u>2,117,612</u>	<u>2,117,612</u>	<u>3,942,037</u>	<u>975,298</u>
CURRENT LIABILITIES					
Payables		237,883	237,883	155,619	75,099
Payroll Liabilities		28,735	28,735		8,805
Interest Bearing Liabilities		12,608	12,608	24,628	11,459
TOTAL CURRENT LIABILITIES		<u>279,226</u>	<u>279,226</u>	<u>180,247</u>	<u>95,363</u>
NON CURRENT LIABILITIES					
Payables		107,771	107,771	159,832	138,902
Interest Bearing Liabilities		62,165	62,165	62,165	86,793
TOTAL NON CURRENT LIABILITIES		<u>169,936</u>	<u>169,936</u>	<u>221,997</u>	<u>225,695</u>
TOTAL LIABILITIES		<u>449,162</u>	<u>449,162</u>	<u>402,244</u>	<u>321,058</u>
NET ASSETS		<u>1,668,450</u>	<u>1,668,450</u>	<u>3,539,793</u>	<u>654,240</u>
SHAREHOLDERS' EQUITY					
Contributed Equity	3	8,429,702	8,429,702	5,929,702	2,669,752
Accumulated Losses		(2,389,910)	(2,389,910)	(2,015,512)	(1,667,627)
Current Year Earnings/(Losses)		(4,371,343)	(4,371,343)	(374,397)	(347,885)
TOTAL SHAREHOLDERS' EQUITY		<u>1,668,450</u>	<u>1,668,450</u>	<u>3,539,793</u>	<u>654,240</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Consolidated 31/12/05 2005 \$	Entity 30/6/05 2005 \$	Entity 31/12/04 2004 \$
Cash Flow from Operating Activities				
Receipts from Customers		272,394	237,206	303,893
Interest Received		119	579	1,843
Payments to Suppliers and Employees		(545,295)	(470,837)	(599,660)
Finance Charges		(28,140)	(27,912)	(14,971)
Goods and Services Tax Refunded		292,549	-	-
Net Cash used in Operating Activities		<u>(8,373)</u>	<u>(260,964)</u>	<u>(308,895)</u>
Cash Flow from Investing Activities				
Purchase of Property, Plant and Equipment		(1,271)	(132,381)	(7,300)
Payment for Subsidiary, net of cash acquired		-	-	-
Net Cash used in Investing Activities		<u>(1,271)</u>	<u>(132,381)</u>	<u>(7,300)</u>
Cash Flow from Financing Activities				
Proceeds from issue of shares		-	394,143	452,250
Repayment of Borrowings		(114,082)		(132,193)
Proceeds from Borrowings		138,225	9,472	-
Net Cash provided by Financing Activities		<u>24,143</u>	<u>403,615</u>	<u>320,057</u>
Net (Decrease) in Cash Held		<u>14,499</u>	<u>10,270</u>	<u>3,862</u>
Cash at 30 June 2005		<u>16,192</u>	<u>5,922</u>	<u>2,060</u>
Cash at 31 December 2005		<u>30,691</u>	<u>16,192</u>	<u>5,922</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	31/12/05 2005 \$	30/06/05 2005 \$	31/12/04 2004 \$
Total equity at the beginning of the period:				
Under AGAAP		3,907,733	1,045,235	444,641
Under AIFRS		3,539,793	654,240	32,375
Net Profit/(Loss) for the period		<u>(4,371,343)</u>	<u>(374,397)</u>	<u>(347,885)</u>
Other movements in equity for the period:				
Share Capital		<u>2,500,000</u>	<u>3,259,950</u>	<u>969,750</u>
Total of other movements in equity for the period		2,500,000	3,259,950	969,750
Total AIFRS adjusted equity at the end of the period		<u>1,668,450</u>	<u>3,539,793</u>	<u>654,240</u>
Reconciliation to AGAAP closing equity:				
Total adjusted equity at the end of the period		N/A	3,539,793	654,240
Adjustment in respect of the provision for amortisation on goodwill as at 1 January 2003 written back in line with AIFRS		N/A	367,941	390,995
AGAAP Closing Equity		<u>N/A</u>	<u>3,907,733</u>	<u>1,045,235</u>

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This interim financial report covers the economic entity of Cosmedics Australia Limited (the 'Entity') and its subsidiaries (the 'Group'), and as such does not include all the notes of the type normally included in a financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 (prepared under Australian Accounting Standards 'AGAAP'), and any public announcements made by Cosmedics Australia Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act, 2001.

Basic Accounting Principles

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

The half-year 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.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discreet reporting period.

Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed below.

Reconciliation of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005

To the balances reported on the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in below.

Summary of significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings and integral plant – 40 years.
- Leasehold improvements – over lease term
- Plant and equipment, other than plant integral to buildings – various periods not exceeding 10 years

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value in a pre-tax discount rate that reflects current market assessments for the time value of money and the risks specific to the asset.

(b) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(c) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(d) Inventories

Inventories are recorded using the FIFO method and are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories include medical supplies to be consumed in providing future services and completed units of 'Medistations' ready for sale.

(e) Trade and other receivables

Trade receivables which generally have 15-30 day terms are recognised and carried original invoice amount less any allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(f) Cash and cash equivalents

Cash and short term deposits and the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purposes of the Cash Flow Statement cash and cash equivalents consists of cash and cash equivalents as defined above net of outstanding bank overdrafts.

(g) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(h) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Revenue from services is recognised on the date on which the services were provided to the patient.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(j) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction,
- affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(k) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(l) Earnings per share (EPS)

Basic EPS for profit is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity and preference dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS for profit is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Reconciliation of total equity as presented under AGAAP to that under AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") are illustrated below.

Reconciliation of total equity as present under AGAAP to that under AIFRS

	Consolidated	Entity	Entity
	Half Year	Half Year	Half Year
	ended	ended	ended
	31 Dec 2005	30 June	31 Dec 2005
	\$	\$	\$
Total equity under AGAAP	<u>3,907,233</u>	<u>1,045,235</u>	<u>444,641</u>
Adjustments to equity:			
Writeback of goodwill amortization ¹	82,060	59,005	37,734
Writeback of Intellectual Property asset due to impairment ²	(50,000)	(50,000)	(50,000)
Writeback of Goodwill Due to impairment ³	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>
Total equity under AIFRS	<u>3,539,793</u>	<u>654,240</u>	<u>32,375</u>

¹ Goodwill is not amortised under AASB 3 'Business Combinations' but was amortised under AGAAP.

² Writeback of Goodwill asset due to impairment recognized under AASB 136.

³ Writeback of Intellectual Property asset due to impairment recognized under AASB 136.

Reconciliation of profit after tax under AGAAP to that under AIFRS

	Consolidated	Entity	Entity
	Half Year ended	Half Year	Half Year
	30 Dec 2005	ended	ended
		30 June	31 Dec 2004
	\$	\$	\$
Profit after tax as previously reported	<u>(4,371,343)</u>	<u>(397,452)</u>	<u>(369,156)</u>
Writeback of goodwill amortization ¹	N/A	22,055	21,271
Tax impact of AIFRS	<u>N/A</u>	<u>-</u>	<u>-</u>
Profit after tax under AIFRS	<u>(4,371,343)</u>	<u>(374,397)</u>	<u>(347,885)</u>

¹ Goodwill is not amortised under AASB 3 'Business Combinations' but was amortised under AGAAP.

Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated 31/12/05 2005 \$	Entity 30/06/05 2005 \$	Entity 31/12/04 2004 \$
2. EARNINGS PER SHARE				
Net profit and earnings used in the calculation of dilutive EPS		<u>(4,371,343)</u>	<u>(374,397)</u>	<u>(202,143)</u>
Weighted average number of ordinary shares		54,445,451	29,412,719	19,116,858
Weighted average number of options outstanding		32,075,005	34,166,101	15,366,717
3. CONTRIBUTED EQUITY				
65,315,016 Ordinary Shares fully paid. (31 Dec 04: 23,500,010)		<u>8,304,452</u>	<u>5,804,452</u>	<u>2,660,002</u>
At the beginning of the reporting period		5,804,452	2,660,002	1,700,002
Shares issued for goodwill purchased		2,500,000	3,000,000	135,000
Other		-	144,450	825,000
At reporting date		<u>8,304,452</u>	<u>5,804,452</u>	<u>2,660,002</u>
		No.	No.	No.
At the beginning of the reporting period		52,815,016	23,500,010	16,000,010
Purchased businesses and goodwill		12,500,000	15,000,000	1,500,000
Placements		-	1,810,000	6,000,000
Bonus Issue		-	12,505,006	-
At reporting date		<u>65,315,016</u>	<u>52,815,016</u>	<u>23,500,010</u>
Options Placed		125,250	125,250	9,750
Total Share Capital		<u>8,429,702</u>	<u>5,929,702</u>	<u>2,669,752</u>

Share Options Issued:

No new share options were issued during the 6 months to 31 December 2005.

SHAREHOLDER DISTRIBUTION INFORMATION

ORDINARY SHARES Ranges Capital		Investors	Securities	% Issued
1 – 1,000	3	2,100	0.00	
1,001,-5,000	40	123,133	0.19	
5,001 – 10,000	38	246,533	0.38	
10,001 – 100,000	113	4,024,727	6.16	
100,001 – and over	<u>44</u>	<u>60,918,523</u>	<u>93.27</u>	
Total	<u>238</u>	<u>65,315,016</u>	<u>100.00</u>	

OPTIONS (DEC 2007) Ranges Capital		Investors	Securities	% Issued
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 Half Year Ended 31 December 2005

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

Ran k	Investor	Current Balance	% Issued Capital
1	Douglass Automated Laboratories and Allied Services Pty Limited	15,139,503	23.18%
2	SSH Medical Limited	12,500,000	19.14%
3	Stomar Pty Limited <Malachi A/C>	5,625,000	8.61%
4	Ensi Med International Pty Limited	3,735,870	5.72%
5	EM Global Pty Ltd	3,735,869	5.72%
6	David Peter Hawley + Jenny Ree Hawley	2,250,000	3.44%
7	D & G Mason Nominees Pty Ltd	1,875,000	2.87%
8	N & V Curie Pty Ltd	1,875,000	2.87%
9	Clark & Bradley Computer Services Pty Limited <Braddon Central Discretionary A/C>	1,858,498	2.85%
10	Send Judah First Pty Limited <Marsh Family A/C>	1,509,073	2.31%
11	Geoff Cowan & Associates Pty Limited <Cowan Discretionary A/C>	1,144,473	1.75%
12	LAH Securities Pty Ltd	798,719	1.22%
13	Reynolds Nominees Pty Limited	753,000	1.15%
14	Tony Del Gigante + Christine May Del Gigante <Crestvale Super Fund A/C>	750,000	1.15%
15	Paul Williams	750,000	1.15%
16	Malcolm Bird	600,003	.92%
17	Resource Capital Australia Pty Limited	550,000	.84%
18	Mr James Crawford	450,000	.69%
19	Vicki Forge	375,000	.57%
20	Robin Mitchell	375,000	.57%
TOTAL FOR TOP 20:		56,650,008	86.73%
Investors			
TOTAL IN THIS REPORT:		20	56,650,008 86.73%
TOTAL OTHER INVESTORS:		218	8,665,008 13.27%
GRAND TOTAL:		238	65,315,016 100.00%

OPTIONS – Dec 07

Ran k	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	David Peter Hawley + Jenny Ree Hawley	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%