

**Cosmedics  
Australia  
Limited**

**ABN 38 002 862 017**

**FINANCIAL REPORT  
30 June 2006**

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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, 2006.

### ***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. Dr Douglass has been responsible for the operation of a Cosmetic Clinic that has now for five years provided Intense Pulse Light, ELOS and other cosmetic procedures. He has also had more than 15 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 22 years. She was a Director, for 14 years, of a Medical Centre company and for the last 5 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 a 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, ten meetings of directors were held. Attendances were:-

**Name**

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

**Activities**

The company has continued to operate its Intense Pulsed Light enterprise, which now involves thirteen beauty salons and the company's head office in Ryde. The development of the Uni-Ject safety syringe business was actively pursued in the period under review until recent decisions were taken that have led to the sale of the assets of that business. With the assistance of the NSW Department of State and Regional Development, the syringe was exhibited at Medica 2005 in Germany during November. The company 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. This forced the Directors to cease pursuing this opportunity. 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.

**Results**

The operating loss of the Company attributable to Members of Cosmedics for the period was \$5,853,691 (2005: \$722,282 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:

1. As announced on the 16th of August 2005, 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.
2. As announced on 21<sup>st</sup> of June 2006, the Directors took the view after many months of negotiation and concerted effort, that the Company's attempt to commercialise the Uni-Ject Safety Syringe was not possible without a substantial injection of funds. Despite several attempts that have been variously reported to shareholders, it became clear that Cosmedics could not in its present form, access such funds. The assets that were part of that business were sold.

3. As announced on the 8<sup>th</sup> of June 2006, the Directors took a decision to provide the Company with a viable future by undertaking (with shareholder approval, which is sought at the Annual General Meeting) to purchase all the shares in Australian Medical Imaging Pty Limited (AMI) for 110,000,000 shares and no cash. A Heads of Agreement was signed on the 7<sup>th</sup> of June 2006.

### ***Events Subsequent to Balance Date***

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

1. The sale of the assets relating to the safety syringe was completed on the 28<sup>th</sup> of July 2006 at a price of \$170,000.00 (including GST).
2. A final agreement has been signed on the 25<sup>th</sup> of August 2006, by the Directors of Cosmedics and AMI which is subject to shareholder approval.

### ***Likely Developments in Operations***

Cosmedics will seek to sell the IPL cosmetic equipment and business, which will allow it to focus on the imaging business of AMI and its 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 year to 30 June, 2006 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***

***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.

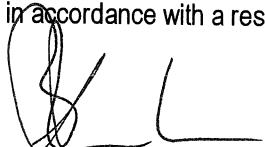
***Options***

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.

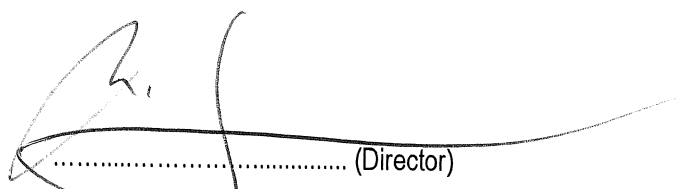
***Proceedings on Behalf of Company***

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.

Signed at Sydney this 29th day of September 2006  
in accordance with a resolution of the directors.

  
..... (Director)

Dr Bronte Douglass

  
..... (Director)

Dr Robin Mitchell

COSMEDICS AUSTRALIA LIMITED

A.B.N. 38 002 862 017

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2006

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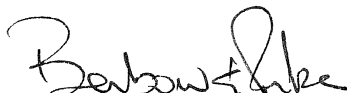
**Benbow & Pike**

ABN 76 939 671 350

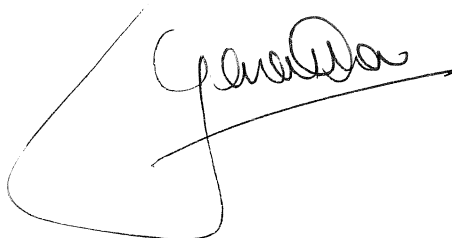
*Chartered Accountants*

**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 year ended 30 June 2006, 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: 29 September 2006



G J Abrams  
Partner

# Benbow & Pike

ABN 76 939 671 350

*Chartered Accountants*

## INDEPENDENT AUDIT REPORT

### TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED

#### Scope

##### *The financial report and director's responsibility*

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Cosmedics Australia Limited (the company) and Cosmedics Australia Limited (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 6 of the financial report has not changed as at the date of providing our audit opinion.

### **Qualification**

As reported previously we are not able to form an opinion 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 \$281,200.

The existence and value of the 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. Adequate Information necessary to support the existence and value of the Property, Plant and Equipment at that date is unavailable. In addition we are unable to confirm the values stated in the financial statements are a fair value in accordance with accounting standards to the extent of \$182,044.

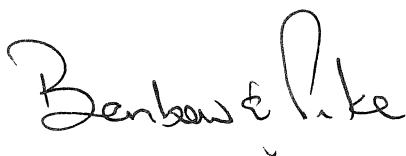
On 31 December 2005, the company acquired SSH Pty Limited, its inventory and goodwill for \$2,500,000. The composition and value of this acquisition as at the 31 December 2005 were based on the sale contract. Information to support the value of the inventory at that date is not available. Goodwill to the value of \$2,300,000 was found to be impaired and consequently written off. Consequently we are unable to confirm the value of inventory acquired and stated in the financial statements to the extent of \$150,000 is a fair value in accordance with the accounting policy.

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. At this time, there is uncertainty however as to the ability of Dalas to provide further financial support. In our opinion, there is significant uncertainty affecting the company's ability to continue as a going concern.

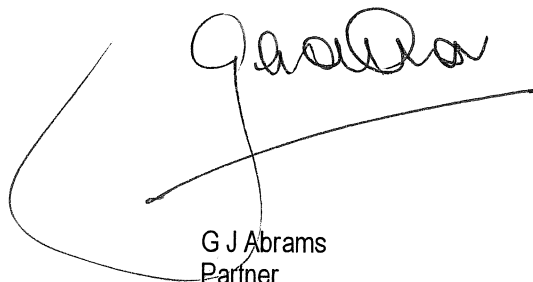
**Qualified Audit Opinion**

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 the company's and consolidated entity's financial position as at 30 June 2006 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  
Dated : 29 September 2006



G J Abrams  
Partner

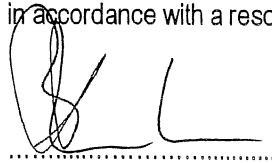
**DIRECTORS DECLARATION**

The directors of the company declare that:

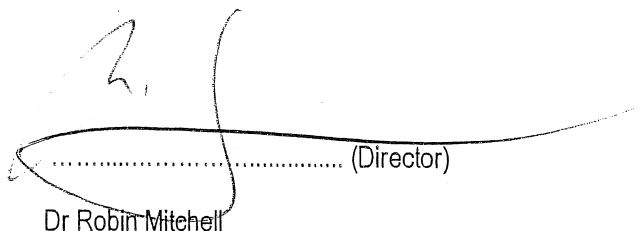
1. The financial statements and notes, as set out on pages 10 to 42, are in accordance with the Corporations Act 2001:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001, and
  - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance 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) and if the financial support became unavailable 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 29th day of September 2006  
in accordance with a resolution of the directors.

  
..... (Director)

Dr Bronte Douglass

  
..... (Director)  
Dr Robin Mitchell

**INCOME STATEMENT**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenues from ordinary activities	2	<u>514,073</u>	<u>508,568</u>	<u>514,073</u>	<u>508,568</u>
Depreciation and Amortisation Expense		21,293	20,611	21,293	20,611
Other expenses from ordinary activities		<u>6,346,471</u>	<u>1,210,239</u>	<u>6,346,471</u>	<u>1,210,239</u>
Total Expenses	3	<u>6,367,764</u>	<u>1,230,850</u>	<u>6,367,764</u>	<u>1,230,850</u>
<b>Loss from ordinary activities before income tax expense</b>		<u>(5,853,691)</u>	<u>(722,282)</u>	<u>(5,853,691)</u>	<u>(722,282)</u>
Income tax relating to ordinary activities	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Loss from ordinary activities after income tax expense</b>		<u>(5,853,691)</u>	<u>(722,282)</u>	<u>(5,853,691)</u>	<u>(722,282)</u>
<b>Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity</b>		<u>(5,853,691)</u>	<u>(722,282)</u>	<u>(5,853,691)</u>	<u>(722,282)</u>
Basic earnings per share (cents)	7	(9.72)	(2.98)	(9.72)	(2.98)
Diluted earnings per share (cents)	7	(7.40)	(1.87)	(7.40)	(1.87)

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2006

**BALANCE SHEET**

		<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>Note</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>					
Cash Assets	8	(5,279)	16,192	(5,279)	16,192
Receivables	9	-	295,494	-	295,494
Inventories	10	194,649	44,649	44,649	44,649
Other	11	4,149	7,040	4,149	7,040
<b>TOTAL CURRENT ASSETS</b>		<b>193,519</b>	<b>363,375</b>	<b>43,519</b>	<b>363,375</b>
<b>NON-CURRENT ASSETS</b>					
Property, Plant and Equipment	12	277,997	1,404,553	277,997	1,404,553
Intangibles	13	486,519	2,174,109	636,519	2,174,109
<b>TOTAL NON-CURRENT ASSETS</b>		<b>764,516</b>	<b>3,578,662</b>	<b>914,516</b>	<b>3,578,662</b>
<b>TOTAL ASSETS</b>		<b>958,035</b>	<b>3,942,037</b>	<b>958,035</b>	<b>3,942,037</b>
<b>CURRENT LIABILITIES</b>					
Payables	14	426,844	155,619	426,844	155,619
Interest Bearing Liabilities	15	27,097	24,628	27,097	24,628
Provisions		7,447	-	7,447	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>461,388</b>	<b>180,247</b>	<b>461,388</b>	<b>180,247</b>
<b>NON CURRENT LIABILITIES</b>					
Payables	16	140,024	159,832	140,024	159,832
Interest Bearing Liabilities	17	61,265	62,165	61,265	62,165
Provisions		7,681	-	7,681	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>208,970</b>	<b>221,997</b>	<b>208,970</b>	<b>221,997</b>
<b>TOTAL LIABILITIES</b>		<b>670,358</b>	<b>402,244</b>	<b>670,358</b>	<b>402,244</b>
<b>NET ASSETS</b>		<b>287,677</b>	<b>3,539,793</b>	<b>287,677</b>	<b>3,539,793</b>
<b>SHAREHOLDERS' EQUITY</b>					
Contributed Equity	18	8,531,277	5,929,702	8,531,277	5,929,702
Accumulated Losses	19	(8,243,600)	(2,389,909)	(8,243,600)	(2,389,909)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>287,677</b>	<b>3,539,793</b>	<b>287,677</b>	<b>3,539,793</b>

**STATEMENT OF CASH FLOWS**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash Flow from Operating Activities					
Receipts from Customers		519,448	500,450	519,448	500,450
Interest Received		321	2,422	321	2,422
Payments to Suppliers and Employees		(573,804)	(1,042,592)	(573,804)	(1,042,592)
Finance Charges		(48,581)	(58,515)	(48,581)	(58,515)
Net Cash used in Operating Activities	20	<u>(102,616)</u>	<u>(598,235)</u>	<u>(102,616)</u>	<u>(598,235)</u>
Cash Flow from Investing Activities					
Purchase of Property, Plant and Equipment		(2,191)	(139,681)	(2,191)	(139,681)
Purchase of Goodwill		-	(12,819)	-	(12,819)
Purchase of Intangible Assets		-	(180,917)	-	(180,917)
Proceeds from Sale of Property, Plant and Equipment		-	-	-	-
Proceeds from Sale of Investments		-	-	-	-
Finance Charges		-	-	-	-
Net Cash used in Investing Activities		<u>(2,191)</u>	<u>(333,417)</u>	<u>(2,191)</u>	<u>(333,417)</u>
Cash Flow from Financing Activities					
Proceeds from issue of shares		101,575	1,054,200	101,575	1,054,200
Proceeds from Borrowings from Related Entities		(18,239)	(108,565)	(18,239)	(108,565)
Other		-	149	-	149
Net Cash provided by Financing Activities		<u>83,336</u>	<u>945,784</u>	<u>83,336</u>	<u>945,784</u>
Net (Decrease) in Cash Held		<u>(21,471)</u>	<u>14,132</u>	<u>(21,471)</u>	<u>14,132</u>
Cash at 30th June 2005		<u>16,192</u>	<u>2,060</u>	<u>16,192</u>	<u>2,060</u>
Cash at 30th June 2006		<u>(5,279)</u>	<u>16,192</u>	<u>(5,279)</u>	<u>16,192</u>

## STATEMENT OF CHANGES IN EQUITY

## Economic Entity

	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	General Reserves	Total
<b>Balance as at 1 July 2004</b>	15	1,700,002	(1,255,361)	-	-	444,641
Shares issued during the year		4,229,700				
Net Profit/(Loss) attributable to the members of the company	16		(766,608)	-	-	-
Retrospective adjustment upon change in accounting policy			(367,940)			
<b>Balance as at 30 June 2005</b>	15	5,929,702	(2,389,909)	-	-	3,539,793
Shares issued during the year		2,601,575				
Net Profit/(Loss) attributable to the members of the company	16		(5,853,690)	-	-	
<b>Balance as at 30 June 2006</b>		8,531,277	(8,243,600)	-	-	287,677

## STATEMENT OF CHANGES IN EQUITY

## Parent Entity

	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	General Reserves	Total
<b>Balance as at 1 July 2004</b>	15	1,700,002	(1,255,361)	-	-	444,641
Shares issued during the year		4,229,700				
Net Profit/(Loss) attributable to the members of the company	16		(766,608)	-	-	-
Retrospective adjustment upon change in accounting policy			(367,940)			
<b>Balance as at 30 June 2005</b>	15	5,929,702	(2,389,909)	-	-	3,539,793
Shares issued during the year		2,601,575				
Net Profit/(Loss) attributable to the members of the company	16		(5,853,690)	-	-	
<b>Balance as at 30 June 2006</b>		8,531,277	(8,243,600)	-	-	287,677



## **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 Australian Accounting Standards, Urgent Issues Group Interpretations, 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 and controlled entities, and Cosmedics Australia Limited as an individual parent entity. Cosmedics Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Cosmedics Australia Limited and controlled entities, and Cosmedics Australia Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

#### ***Basis of Preparation***

##### *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Cosmedics Australia Limited and controlled entities, and Cosmedics Australia Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1:First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Cosmedics Australia Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. Reconciliations of the transition from previous Australian GAAP to AFRS have been included in Note 2 to this report.

##### *Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

#### ***Accounting Policies***

##### ***Principles of Consolidation***

A controlled entity is any entity Cosmedics Australia Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interest in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

##### ***Income Tax***

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liability and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

##### ***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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***Plant and Equipment***

Each class of plant & equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

***Plant and Equipment***

Plant & equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

***Depreciation***

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***Leases***

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives of the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with lessor, are charged as expenses in the periods in which they are incurred.

***Intangibles***

***Goodwill***

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associated. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

***Patents and Trademarks***

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 15 to 20 years.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

***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).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***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.

***Comparative Figures***

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

## 2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Economic Entity

#### Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004	Effect of transition to AIFRS \$	AIFRS at 1 July 2004 \$
<b>CURRENT ASSETS</b>				
Cash		2,060	-	2,060
Receivables		40,649	-	40,649
Inventories		5,000	-	5,000
Other		4,149	-	7,040
<b>TOTAL CURRENT ASSETS</b>		<u>51,858</u>		<u>51,858</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		154,883	-	154,883
Intangibles		693,466	(412,266)	281,200
<b>TOTAL NON-CURRENT ASSETS</b>		<u>848,349</u>		<u>436,083</u>
<b>TOTAL ASSETS</b>		<u>900,207</u>		<u>487,941</u>
<b>CURRENT LIABILITIES</b>				
Payables		74,009	-	74,009
Interest bearing liabilities		18,939	-	18,939
<b>TOTAL CURRENT LIABILITIES</b>		<u>92,948</u>		<u>92,948</u>
<b>NON-CURRENT LIABILITIES</b>				
Payables		268,334	-	268,334
Interest bearing liabilities		94,284	-	94,284
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>362,618</u>		<u>362,618</u>
<b>TOTAL LIABILITIES</b>		<u>455,566</u>		<u>455,566</u>
<b>NET ASSETS</b>		<u>444,641</u>		<u>32,375</u>
<b>EQUITY</b>				
Contributed equity		1,700,002	-	1,700,002
Accumulated Losses		(1,255,361)	-	(1,667,627)
<b>TOTAL EQUITY</b>		<u>444,641</u>		<u>32,375</u>

**2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)**

**Reconciliation of Equity at 30 June 2005**

	Note	Previous GAAP at 30 June 2005	Effect of transition to AIFRS \$	AIFRS at 30 June 2005 \$
<b>CURRENT ASSETS</b>				
Cash		16,192	-	16,192
Receivables		295,494	-	295,494
Inventories		44,649	-	44,649
Other		7,040	-	7,040
<b>TOTAL CURRENT ASSETS</b>		<u>363,375</u>		<u>363,375</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		1,404,553	-	1,404,553
Intangibles		2,542,049	(367,940)	2,174,109
<b>TOTAL NON-CURRENT ASSETS</b>		<u>3,946,602</u>		<u>3,578,662</u>
<b>TOTAL ASSETS</b>		<u>4,309,977</u>		<u>3,942,037</u>
<b>CURRENT LIABILITIES</b>				
Payables		155,619	-	155,619
Interest bearing liabilities		24,628	-	24,628
<b>TOTAL CURRENT LIABILITIES</b>		<u>180,247</u>		<u>180,247</u>
<b>NON-CURRENT LIABILITIES</b>				
Payables		159,832	-	159,832
Interest bearing liabilities		62,165	-	62,165
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>221,997</u>		<u>221,997</u>
<b>TOTAL LIABILITIES</b>		<u>402,244</u>		<u>402,244</u>
<b>NET ASSETS</b>		<u>3,907,733</u>		<u>3,539,793</u>
<b>EQUITY</b>				
Contributed equity		5,929,702	-	5,929,702
Accumulated Losses		(2,021,969)	-	(2,389,909)
<b>TOTAL EQUITY</b>		<u>3,907,733</u>		<u>3,539,793</u>

## 2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

### Parent Entity

#### Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004	Effect of transition to AIFRS \$	AIFRS at 1 July 2004 \$
<b>CURRENT ASSETS</b>				
Cash		2,060	-	2,060
Receivables		40,649	-	40,649
Inventories		5,000	-	5,000
Other		7,040	-	7,040
<b>TOTAL CURRENT ASSETS</b>		<u>51,858</u>	<u>-</u>	<u>51,858</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		154,883	-	154,883
Intangibles		693,466	(412,266)	281,200
<b>TOTAL NON-CURRENT ASSETS</b>		<u>848,349</u>	<u>-</u>	<u>436,083</u>
<b>TOTAL ASSETS</b>		<u>900,207</u>	<u>-</u>	<u>487,941</u>
<b>CURRENT LIABILITIES</b>				
Payables		74,009	-	74,009
Interest bearing liabilities		18,939	-	18,939
<b>TOTAL CURRENT LIABILITIES</b>		<u>92,948</u>	<u>-</u>	<u>92,948</u>
<b>NON-CURRENT LIABILITIES</b>				
Payables		268,334	-	268,334
Interest bearing liabilities		94,284	-	94,284
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>362,618</u>	<u>-</u>	<u>362,618</u>
<b>TOTAL LIABILITIES</b>		<u>455,566</u>	<u>-</u>	<u>455,566</u>
<b>NET ASSETS</b>		<u>444,641</u>	<u>-</u>	<u>32,375</u>
<b>EQUITY</b>				
Contributed equity		1,700,002	-	1,700,002
Accumulated Losses		(1,255,361)	-	(1,667,627)
<b>TOTAL EQUITY</b>		<u>444,641</u>	<u>-</u>	<u>32,375</u>



**2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)****Reconciliation of Equity at 30 June 2005**

	Note	Previous GAAP at 30 June 2005	Effect of transition to AIFRS \$	AIFRS at 30 June 2005 \$
<b>CURRENT ASSETS</b>				
Cash		16,192	-	16,192
Receivables		295,494	-	295,494
Inventories		44,649	-	44,649
Other		7,040	-	7,040
<b>TOTAL CURRENT ASSETS</b>		<b>363,375</b>		<b>363,375</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		1,404,553	-	1,404,553
Intangibles		2,542,049	(367,940)	2,174,109
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,946,602</b>		<b>3,578,662</b>
<b>TOTAL ASSETS</b>		<b>4,309,977</b>		<b>3,942,037</b>
<b>CURRENT LIABILITIES</b>				
Payables		155,619	-	155,619
Interest bearing liabilities		24,628	-	24,628
<b>TOTAL CURRENT LIABILITIES</b>		<b>180,247</b>		<b>180,247</b>
<b>NON-CURRENT LIABILITIES</b>				
Payables		159,832	-	159,832
Interest bearing liabilities		62,165	-	62,165
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>221,997</b>		<b>221,997</b>
<b>TOTAL LIABILITIES</b>		<b>402,244</b>		<b>402,244</b>
<b>NET ASSETS</b>		<b>3,907,733</b>		<b>3,539,793</b>
<b>EQUITY</b>				
Contributed equity		5,929,702	-	5,929,702
Accumulated Losses		(2,021,969)	-	(2,389,909)
<b>TOTAL EQUITY</b>		<b>3,907,733</b>		<b>3,539,793</b>

**2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)****Economic Entity****Reconciliation of Profit or Loss for 2005**

	<b>Previous GAAP</b>	<b>Effect of transition to AIFRS</b>	<b>AIFRS</b>
<b>Note</b>		<b>\$</b>	<b>\$</b>
<b>CLASSIFICATION OF EXPENSES BY NATURE</b>			
Revenues from ordinary activities	508,568	-	508,568
Depreciation and amortisation expense	(64,937)	44,326	(20,611)
Other expenses from ordinary activities	<u>(1,210,239)</u>	<u>-</u>	<u>(1,210,239)</u>
<b>Profit / (Loss) from ordinary activities before income tax expense</b>	(766,608)	44,326	(722,282)
Income tax benefit applicable thereto	-	-	-
<b>Total changes in equity other than those resulting from transactions with owners</b>	<u>(766,608)</u>	<u></u>	<u>(722,282)</u>

**2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)****Parent Entity****Reconciliation of Profit or Loss for 2005**

	<b>Previous GAAP</b>	<b>Effect of transition to AIFRS</b>	<b>AIFRS</b>
<b>Note</b>		<b>\$</b>	<b>\$</b>
<b>CLASSIFICATION OF EXPENSES BY NATURE</b>			
Revenues from ordinary activities	508,568	-	508,568
Depreciation and amortisation expense	(64,937)	44,326	(21,611)
Other expenses from ordinary activities	(1,210,239)	-	(1,210,239)
<b>Profit / (Loss) from ordinary activities before income tax expense</b>	(766,608)	44,326	(722,282)
Income tax benefit applicable thereto	-	-	-
<b>Total changes in equity other than those resulting from transactions with owners</b>	(766,608)		(722,282)

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>3. REVENUE</b>					
Interest Received		321	2,422	321	2,422
Medical Fees Received		513,752	506,146	513,752	506,146
Profit on Sale of Investments		-	-	-	-
Other		-	-	-	-
<b>TOTAL REVENUE</b>		<u>514,073</u>	<u>508,568</u>	<u>514,073</u>	<u>508,568</u>
<b>4. PROFIT FROM ORDINARY ACTIVITIES</b>					
a. <b>Expenses</b>					
<b>Ordinary Activities</b>					
Audit fees		40,250	37,800	40,250	37,800
Amortisation of Leased Assets		12,727	12,682	12,727	12,682
Depreciation		8,566	7,929	8,566	7,929
Finance Charges		48,581	58,515	48,581	58,515
Other Administration Costs		1,112,596	1,113,924	1,112,596	1,113,924
		<u>1,222,720</u>	<u>1,230,850</u>	<u>1,222,720</u>	<u>1,230,850</u>
b. <b>Significant Expenses</b>					
AIFRS impairment of Goodwill Purchased		5,145,044	-	5,145,044	-
<b>TOTAL EXPENSES</b>		<u>6,367,764</u>	<u>1,230,850</u>	<u>6,367,764</u>	<u>1,230,850</u>

**NOTES TO THE FINANCIAL STATEMENTS**

		Economic Entity	
	Note	2006	2005
		\$	\$
5. DIRECTORS and EXECUTIVES' REMUNERATION			
a. Directors Remuneration			
Dr B Douglass	- Other	-	-
Ms V Forge	- Salary	79,918	82,995
	- Superannuation Contributions	7,096	7,470
	- Other	-	2,000
		<u>87,014</u>	<u>92,465</u>
Dr R Mitchell	- Other	-	3,000

## b. Shareholdings

Directors	Balance 01.07.05	Received as Remuneration	Net Change <sup>2</sup> Other	Balance 30.06.06
Dr B Douglass	15,139,503 <sup>1</sup>	-	-	15,139,503
Ms V Forge	375,000	-	-	375,000
Dr R Mitchell	375,000	-	-	375,000
		-	-	
Total	<u>15,889,503</u>	<u>-</u>	<u>-</u>	<u>15,889,503</u>

## c. Options and Rights Holdings

Directors	Balance 01.07.05	Granted as Remuneration	Options Exercised	Net Change <sup>3</sup> Other	Balance 30.06.06	Total Vested 30.06.06	Total Exer- cisable 30.06.06
Dr B Douglass	15,069,752	-	244,752	(14,825,000)	-	-	-
Ms V Forge	-	-	-	-	-	-	-
Dr R Mitchell	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Total	<u>15,069,752</u>	<u>-</u>	<u>244,752</u>	<u>(14,825,000)</u>	<u>-</u>	<u>-</u>	<u>-</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 due to expiry.

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>6. AUDITORS' REMUNERATION</b>					
Remuneration of the auditor of the parent entity for:					
- auditing or reviewing the financial report		<u>40,250</u>	<u>37,800</u>	<u>40,250</u>	<u>37,800</u>
<b>7. INCOME TAX</b>					
The company has available tax losses amounting to \$1,799,056 (2005: \$1,075,849) 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.					
<b>8. EARNINGS PER SHARE</b>					
Net profit and earnings used in the calculation of dilutive EPS		<u>(5,853,691)</u>	<u>(722,282)</u>	<u>(5,853,691)</u>	<u>(722,282)</u>
Weighted average number of ordinary shares		60,213,433	24,222,477	60,213,433	24,222,477
Weighted average number of options outstanding		17,175,000	25,319,288	17,175,000	25,319,288
<b>9. CASH ASSETS</b>					
Cash at Bank		<u>(5,279)</u>	<u>16,192</u>	<u>(5,279)</u>	<u>16,192</u>
<b>10. RECEIVABLES</b>					
Trade Debtors		-	5,696	-	5,696
Income Tax Refundable		-	681	-	681
GST Receivable		<u>-</u>	<u>289,117</u>	<u>-</u>	<u>289,117</u>
<b>11. INVENTORIES</b>					
Medical Supplies - at cost		<u>194,649</u>	<u>44,649</u>	<u>44,649</u>	<u>44,649</u>
<b>12. OTHER CURRENT ASSETS</b>					
Sundry Receivables		-	2,891	-	2,891
Security Deposits		<u>4,149</u>	<u>4,149</u>	<u>4,149</u>	<u>4,149</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>13. PROPERTY, PLANT &amp; EQUIPMENT</b>					
Plant & Equipment - at cost		210,592	1,315,855	210,592	1,315,855
Accumulated Depreciation		(24,476)	(15,910)	(24,476)	(15,910)
Total Fixed Assets		<u>186,116</u>	<u>1,299,945</u>	<u>186,116</u>	<u>1,299,945</u>
Movements in Fixed Assets					
Opening written down value		1,299,945	37,593	1,299,945	37,593
Plus: additions		2,191	1,270,281	2,191	1,270,281
Less: depreciation		(8,566)	(7,929)	(8,566)	(7,929)
Impairment of asset		(1,107,454)	-	(1,107,454)	-
Closing written down value		<u>186,116</u>	<u>1,299,945</u>	<u>186,116</u>	<u>1,299,945</u>
Leased Assets – at cost		127,273	127,273	127,273	127,273
Accumulated Amortisation		(35,392)	(22,665)	(35,392)	(22,665)
Total Leased Assets		<u>91,881</u>	<u>104,608</u>	<u>91,881</u>	<u>104,608</u>
Movements in Leased Assets					
Opening written down value		104,608	117,290	104,608	117,290
Plus: additions		-	-	-	-
Less: amortisation		(12,727)	(12,682)	(12,727)	(12,682)
disposal of leased assets		-	-	-	-
Closing written down value		<u>91,881</u>	<u>104,608</u>	<u>91,881</u>	<u>104,608</u>
Total Property, Plant and Equipment		<u>277,997</u>	<u>1,404,553</u>	<u>277,997</u>	<u>1,404,553</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>14. INTANGIBLE ASSETS</b>					
Goodwill at cost		486,519	436,519	636,519	436,519
Intellectual property, including rights and domains		-	1,737,590	-	1,737,590
		<u>486,519</u>	<u>2,174,109</u>	<u>636,519</u>	<u>2,174,109</u>
<b>15. PAYABLES</b>					
<b>Current</b>					
Trade Creditors		390,223	134,721	390,223	134,721
Sundry Creditors		36,621	20,898	36,621	20,898
		<u>426,844</u>	<u>155,619</u>	<u>426,844</u>	<u>155,619</u>
<b>Non Current</b>					
Other Amounts Payable – Related Company		<u>90,024</u>	<u>159,832</u>	<u>90,024</u>	<u>159,832</u>
This amount is payable at call, however it is considered unlikely that it will be repaid in full in the next 12 months.					
<b>16. INTEREST BEARING LIABILITIES</b>					
<b>Current</b>					
Lease Liability	17	<u>27,097</u>	<u>24,628</u>	<u>27,097</u>	<u>24,628</u>
<b>Non Current</b>					
Lease Liability	17	<u>35,067</u>	<u>62,165</u>	<u>35,067</u>	<u>62,165</u>



**NOTES TO THE FINANCIAL STATEMENTS**

Note	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>17. CAPITAL AND LEASING COMMITMENTS</b>				
Finance Lease Commitments				
Payable				
- not later than 1 year	31,891	31,891	31,891	31,891
- later than 1 year but not later than 5 years	37,206	69,097	37,206	69,097
- later than 5 years	-	-	-	-
Minimum lease payments	<u>69,097</u>	<u>100,988</u>	<u>69,097</u>	<u>100,988</u>
Less future finance charges	<u>6,932</u>	<u>14,195</u>	<u>6,932</u>	<u>14,195</u>
Total Lease Liability	<u>62,165</u>	<u>86,793</u>	<u>62,165</u>	<u>86,793</u>
Non cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
-Not later than 12 months	37,333	37,333	37,333	37,333
-Between 12 months and five years	74,229	111,562	74,229	111,562
-Greater than 5 years	-	-	-	-
Minimum lease payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**

		Economic Entity		Parent Entity	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
18. CONTRIBUTED EQUITY					
66,077,018 (2005:					
52,815,016) Ordinary					
Shares fully paid		<u>5,804,452</u>	<u>5,804,452</u>	<u>5,804,452</u>	<u>5,804,452</u>
At the beginning of the		5,804,452	1,700,002	5,804,452	1,700,002
reporting period					
Shares issued for goodwill		2,500,000	3,135,000	2,500,000	3,135,000
purchased					
Other		<u>111,325</u>	<u>969,450</u>	<u>111,325</u>	<u>969,450</u>
At reporting date		<u>8,415,777</u>	<u>5,804,452</u>	<u>8,415,777</u>	<u>5,804,452</u>
		No.	No.	No.	No.
At the beginning of the		52,815,016	16,000,010	52,815,016	16,000,010
reporting period					
Shares issued:		-	12,505,006	-	12,505,006
Bonus (1:1)					
Purchased businesses and		12,500,000	16,500,000	12,500,000	16,500,000
goodwill					
Other		<u>762,002</u>	<u>7,810,000</u>	<u>762,002</u>	<u>7,810,000</u>
At reporting date		<u>66,077,018</u>	<u>52,815,016</u>	<u>66,077,018</u>	<u>52,815,016</u>
Share Options Issued					
December 2005		\$	\$	\$	\$
At the beginning of the		9,750	-	9,750	-
reporting period					
Options issued for goodwill		-	7,500	-	7,500
purchased					
Other		-	2,250	-	2,250
Expired / Excercised		<u>(9,750)</u>	<u>-</u>	<u>(9,750)</u>	<u>-</u>
At reporting date		<u>-</u>	<u>9,750</u>	<u>-</u>	<u>9,750</u>
		No.	No.	No.	No.
At the beginning of the		23,812,510	14,900,005	23,812,510	14,900,005
reporting period					
Options issued:		-	7,937,505	-	7,937,505
Bonus					
Purchased businesses and		-	750,000	-	750,000
goodwill					
Other		-	225,000	-	225,000
Expired / Excercised		<u>(23,812,510)</u>	<u>-</u>	<u>(23,812,510)</u>	<u>-</u>
At reporting date		<u>-</u>	<u>23,812,510</u>	<u>-</u>	<u>23,812,510</u>

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
December 2007					
At the beginning of the reporting period		115,500	-	115,500	-
Options issued for goodwill purchased		-	-	-	-
Other		-	115,500	-	115,500
At reporting date		<u>115,500</u>	<u>115,500</u>	<u>115,500</u>	<u>115,500</u>
		<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
At the beginning of the reporting period		17,175,000	-	17,175,000	-
Options issued:					
Bonus		-	5,625,000	-	5,625,000
Purchased businesses and goodwill		-	-	-	-
Other		-	11,280,000	-	11,280,000
At reporting date		<u>17,175,000</u>	<u>17,175,000</u>	<u>17,175,000</u>	<u>17,175,000</u>
Total Share Capital		8,531,277	5,926,702	8,531,277	5,926,702
<b>19. RETAINED EARNINGS</b>					
Balance at beginning of year		(2,389,909)	(1,667,627)	(2,389,909)	(1,667,627)
Operating Loss for the year net of income tax		(5,853,691)	(722,282)	(5,853,691)	(722,282)
Balance at the end of the year		<u>(8,243,601)</u>	<u>(2,389,909)</u>	<u>(8,243,601)</u>	<u>(2,389,909)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**20. RELATED PARTY TRANSACTIONS**

- (i) During the year, \$190,000 was paid to Douglass Automated Laboratories and Allied Services Pty Limited (a major shareholder) for management services rendered.
- (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 \$90,024 remains payable to that company. To date no interest has been paid on these funds.
- (iv) During the year, \$57,064 was paid to Douglass Automated Laboratories and Allied Services Pty Limited for rent of premises at Ryde.
- (v) During the year, a loan of \$25,000 was lent from Occare Pty Limited, a company controlled by Dr R Mitchell.

**21. 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.

**22. CONTINGENT LIABILITIES**

There are no contingent liabilities.

**23. SEGMENT REPORTING**

The company continued to operate in the health services industry.

## NOTES TO THE FINANCIAL STATEMENTS

Note	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>24. CASH FLOW INFORMATION</b>				
(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>(5,279)</u>	<u>16,192</u>	<u>(5,279)</u>	<u>16,192</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>(5,853,691)</u>	<u>(766,608)</u>	<u>(5,853,691)</u>	<u>(766,608)</u>
Non-cash flows in profit from ordinary activities				
Depreciation and Amortisation	21,293	64,937	21,293	64,937
Non-Cash Expenses	-	30,000	-	30,000
AIFRS impairment adjustments	5,145,044	-	5,145,044	-
	<u>5,166,337</u>	<u>94,937</u>	<u>5,166,337</u>	<u>94,937</u>
Changes in assets and liabilities				
(Increase)/decrease in receivables	5,696	(5,696)	5,696	(5,696)
(Increase)/decrease in other receivables & prepayments	292,688	(2,891)	292,688	(2,891)
(Increase)/decrease in inventories	(150,000)	351	(150,000)	351
Increase/(decrease) in trade creditors	255,503	-	255,503	-
Increase/(decrease) in other creditors	15,723	81,672	15,723	81,672
Increase/(decrease) in provisions	15,128	-	15,128	-
	<u>434,738</u>	<u>73,436</u>	<u>434,738</u>	<u>73,436</u>
<u>Cash flows from operations</u>	<u>(252,616)</u>	<u>(598,235)</u>	<u>(252,616)</u>	<u>(598,235)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**25. 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 2006.

- (i) The sale of the assets relating to the safety syringe was completed on the 28<sup>th</sup> of July 2006 at a price of \$170,000.00 (including GST).
- (ii) A final agreement has been signed on the 25<sup>th</sup> of August 2006, to acquire the company Australian Medical Imaging Pty Ltd and its subsidiaries Australian Medical Imaging (North Shore) Pty Limited and Australian Medical Imaging (Chatswood) Pty Ltd ("AMI"). As previously announced, CMA will pay 110,000,000 fully paid ordinary shares in CMA to AMI's owners and the transaction is subject to due diligence, an independent experts report and shareholder approval. Shareholder approval will also be sought for a change in name to "Australian Medical Imaging Limited". The shares to be issued will be escrowed only to the extent of any escrow imposed by the Newcastle Stock Exchange. Dr. Douglass and Dr. Mitchell will remain on the board following settlement of the transaction.

**NOTES TO THE FINANCIAL STATEMENTS**

**26. FINANCIAL INSTRUMENTS**

**Economic Entity**

2006	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	-	-	-	-	-	-	-
Receivables <sup>1</sup>	-	-	-	-	-	-	-
	-	-	-	-	-		
Financial Liabilities							
Overdraft				5,279	5,279	13.00	
Trade Creditors <sup>2</sup>	-	-	-	390,223	390,223	-	-
Sundry Creditors <sup>2</sup>	-	-	-	160,266	160,266	-	-
Finance Lease	-	-	-	62,165	62,165	-	9.59
	-	-	-	617,933	617,933		

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 <sup>1</sup>	-	-	-	295,494	295,494	-	-
	-	-	-	311,686	311,686		
Financial Liabilities							
Trade Creditors <sup>2</sup>	-	-	-	134,721	134,721	-	-
Sundry Creditors <sup>2</sup>	-	-	-	20,898	20,898	-	-
Finance Lease	-	-	-	86,793	86,793	-	9.59
	-	-	-	268,064	268,064		

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.

**26. FINANCIAL INSTRUMENTS (cont.)**
**Parent Entity**

2006	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	-	-	-	-	-	-	-
Receivables <sup>1</sup>	-	-	-	-	-	-	-
	-	-	-	-	-		
Financial Liabilities							
Overdraft				5,279	5,279	13.00	
Trade Creditors <sup>2</sup>	-	-	-	390,223	390,223	-	-
Sundry Creditors <sup>2</sup>	-	-	-	160,266	160,266	-	-
Finance Lease	-	-	-	62,165	62,165	-	9.59
	-	-	-	617,933	617,933		
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 <sup>1</sup>	-	-	-	295,494	295,494	-	-
	-	-	-	311,686	311,686		
Financial Liabilities							
Trade Creditors <sup>2</sup>	-	-	-	134,721	134,721	-	-
Sundry Creditors <sup>2</sup>	-	-	-	20,898	20,898	-	-
Finance Lease	-	-	-	86,793	86,793	-	9.59
	-	-	-	268,064	268,064		

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 2006

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**COMPANY DIRECTORY**

**Directors:**

Bronte Douglass  
Robin Mitchell  
Vicki Forge

**Bankers:**

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

**Company Secretary:**

David Hawley: 14/12/04-25/1/06  
Stephen Erichsen: 25/1/06-

**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

**SHAREHOLDER DISTRIBUTION INFORMATION****ORDINARY SHARES**

<b>Ranges</b>	<b>Investors</b>	<b>Securities</b>	<b>% Issued Capital</b>
1 – 1,000	597	596,100	0.90
1,001,-5,000	51	150,633	0.23
5,001 – 10,000	106	757,283	1.15
10,001 – 100,000	116	4,227,479	6.40
100,001 – and over	<u>44</u>	<u>60,345,523</u>	<u>91.33</u>
<b>Total</b>	<b><u>914</u></b>	<b><u>66,077,018</u></b>	<b><u>100.00</u></b>

**OPTIONS (DEC 2007)**

<b>Ranges</b>	<b>Investors</b>	<b>Securities</b>	<b>% Issued Capital</b>
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>
<b>Total</b>	<b><u>20</u></b>	<b><u>17,175,000</u></b>	<b><u>100.00</u></b>

## SHAREHOLDERS INFORMATION

### The 20 largest shareholders:

#### ORDINARY & ESCROW SHARES

Rank	Investor	Current Balance	% Issued Capital	
1	Douglass Automated Laboratories and Allied Services Pty Limited	15,139,503	22.91%	
2	SSH Medical Limited	11,813,000	17.88%	
3	ANZ Nominees Limited	7,471,739	11.31%	
4	Stomar Pty Limited <Malachi A/C>	5,625,000	8.51%	
5	David Peter Hawley + Jenny Ree Hawley	2,250,000	3.41%	
6	D & G Mason Nominees Pty Ltd	1,875,000	2.84%	
7	N & V Curie Pty Ltd	1,875,000	2.48%	
8	Clark & Bradly Computer Services Pty Limited <Braddon Central Discretionary A/C>	1,858,498	2.87%	
9	Send Judah First Pty Limited <Marsh Family A/C>	1,509,073	2.28%	
10	Geoff Cowan & Associates Pty Limited <Cowan Discretionary A/C>	1,144,473	1.73%	
11	LAH Securities Pty Ltd	798,719	1.21%	
12	Reynolds Nominees Pty Limited	753,000	1.14%	
13	Tony Del Gigante + Christine May Del Gigante <Crestvale Super Fund A/C>	750,000	1.14%	
14	Paul Williams	750,000	1.14%	
15	Malcolm Bird	600,003	.91%	
16	Resource Capital Australia Pty Limited	600,000	.83%	
17	Mr James Crawford	450,000	.68%	
18	Vicki Forge	375,000	.57%	
19	Robin Mitchell	375,000	.57%	
20	Jonathan Shakes	322,500	.49%	
TOTAL FOR TOP 20:		44,522,508	85.18%	
Investors				
TOTAL IN THIS REPORT:		20	44,522,508	85.18%
TOTAL OTHER INVESTORS:		215	8,292,508	14.82%
GRAND TOTAL:		235	52,815,016	100.00%

**OPTIONS – Dec 07**

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