

**Cosmedics
Australia
Limited**

ABN 38 002 862 017

**FINANCIAL REPORT
30 June 2008**

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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, 2008.

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 6 years provided Intense Pulse Light, ELOS and other cosmetic procedures.

Vicki Forge

Mrs Forge has been involved in the day to day operations of medical companies for the past 24 years. She was a Director, for 14 years, of a Medical Centre company and for the last 7 years has been responsible for the day to day operations of a Cosmetic Clinic.

Robin Mitchell
MB,BS,DIH,AFOM
FACOM

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

Directors shareholdings and options – Refer to Note 4.

Meetings of Directors

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

Name

B. Douglass	8
V. Forge	8
R. Mitchell	8

Activities

The Company continues to provide IPL and ELOS cosmetic services in beauty salons in the Sydney Metropolitan area. The range of services includes botox, injectable fillers and teeth whitening.

Results

The operating loss of the Company attributable to Members of Cosmedics for the period was \$85,089 (2007: \$1,204,677 loss) after income tax. As of the date of this report, Douglass Automated Laboratories & Allied Services Pty Limited (DALAS) has continued to honour its commitment to support Cosmedics Australia Limited following significant payments reducing the level of trade creditors to \$62,511 owing to 11 minor creditors, whilst DALAS is owed \$697,593.

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 issue of 7,500,000 shares for consulting services provided by Dr Peter Karamoskos.

Events Subsequent to Balance Date

No significant matters have occurred since the end of the financial year which would 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 2008.

Likely Developments in Operations

The company will continue to operate IPL cosmetic equipment, and will continue to consider further acquisitions, 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 and related areas offer a very attractive long term investment for the company, specifically in the areas of cosmetic medicine, medical imaging, aged care and medical devices, which are rapidly growing and generally highly profitable businesses which should grow the asset and revenue base for the company.

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 2008 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.

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.

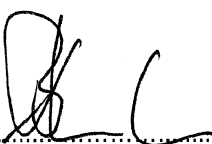
Options

At the date of this report, there are no outstanding options to acquire shares in Cosmedics.

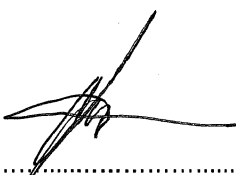
Proceedings on Behalf of Company

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 24th day of September 2008
in accordance with a resolution of the directors.

..... (Director)

Dr Bronte Douglass

..... (Director)

Ms Vicki Forge

Benbow & Pike

Chartered Accountants

ABN 76 939 671 350

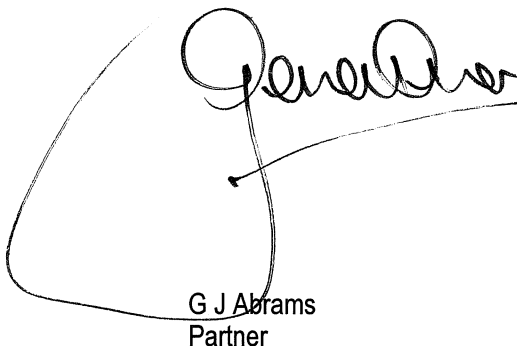
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF COSMEDICS AUSTRALIA LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 there have been:

- i. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.



Benbow & Pike
Chartered Accountants
North Sydney
Dated: 23rd September 2008



G J Abrams
Partner

Benbow & Pike

Chartered Accountants

ABN 76 939 671 350

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED

Report on the financial report

We have audited the accompanying financial report of Cosmedics Australia Limited (the company) and controlled entities, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Audit Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Cosmedics Australia Limited on 23rd September 2008, would be in the same terms if provided to the directors as at the date of this auditors report.

Qualification

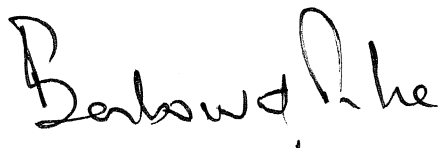
As reported previously the existence and value of the Property, Plant and Equipment as at the 30 June 2003 was based on the purchase agreement approved by the shareholders at the 2002 Annual General Meeting. Adequate Information necessary to support the existence and value of the Property, Plant and Equipment at that date is unavailable. Accordingly 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 \$44,452.

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.

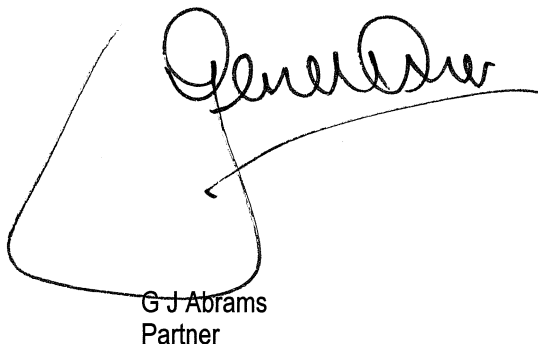
Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph:

- a. the financial report of Cosmedics Australia Limited and Controlled Entities is in accordance with 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 2008 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. other the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



Benbow & Pike
Chartered Accountants
North Sydney
Dated : 23rd September 2008



G J Abrams
Partner

DIRECTORS' DECLARATION

In the opinion of the directors of Cosmedics Australia Limited (the company):

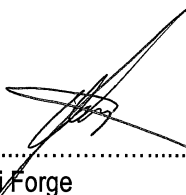
1. The financial statements and notes, as set out on pages 10 to 33, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001, and
 - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and consolidated group.
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 24th day of August 2008
in accordance with a resolution of the directors.



..... (Director)
Bronte Douglass



..... (Director)
Vicki Forge

INCOME STATEMENT

		Consolidated Entity		Parent Entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
Revenues from ordinary activities	2	<u>188,008</u>	<u>204,486</u>	<u>188,008</u>	<u>204,486</u>
Depreciation and Amortisation Expense		21,853	21,574	21,853	21,574
Other expenses from ordinary activities		<u>251,244</u>	<u>1,387,589</u>	<u>251,244</u>	<u>1,237,544</u>
Total Expenses	3	<u>273,097</u>	<u>1,409,163</u>	<u>273,097</u>	<u>1,259,118</u>
Loss from ordinary activities before income tax expense		(85,089)	(1,204,677)	(85,089)	(1,054,632)
Income tax relating to ordinary activities	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss from ordinary activities after income tax expense		<u>(85,089)</u>	<u>(1,204,677)</u>	<u>(85,089)</u>	<u>(1,054,632)</u>
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		<u>(85,089)</u>	<u>(1,204,677)</u>	<u>(85,089)</u>	<u>(1,054,632)</u>
Basic earnings per share (cents)	7	(0.12)	(1.77)	(0.12)	(1.55)
Diluted earnings per share (cents)	7	-	(1.30)	-	(1.13)

The accompanying notes form part of these financial statements.

BALANCE SHEET

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash Assets	8	2,309	1,910	2,309	1,910
Other		-	-	-	-
TOTAL CURRENT ASSETS		<u>2,309</u>	<u>1,910</u>	<u>2,309</u>	<u>1,910</u>
NON-CURRENT ASSETS					
Property, Plant and Equipment	10	86,135	107,447	86,135	107,447
Investments		-	-	200,000	200,000
Intangibles	11	-	-	-	-
TOTAL NON-CURRENT ASSETS		<u>86,135</u>	<u>107,447</u>	<u>286,135</u>	<u>307,447</u>
TOTAL ASSETS		<u>88,444</u>	<u>109,357</u>	<u>288,444</u>	<u>309,357</u>
CURRENT LIABILITIES					
Payables	12	90,829	198,275	90,829	198,275
Interest Bearing Liabilities	13	5,252	29,815	5,252	29,815
Provisions		5,859	99,162	5,859	99,162
TOTAL CURRENT LIABILITIES		<u>101,940</u>	<u>327,252</u>	<u>101,940</u>	<u>327,252</u>
NON CURRENT LIABILITIES					
Payables	12	697,593	402,853	824,423	529,683
Interest Bearing Liabilities	13	-	5,252	-	5,252
TOTAL NON CURRENT LIABILITIES		<u>697,593</u>	<u>408,105</u>	<u>824,423</u>	<u>534,935</u>
TOTAL LIABILITIES		<u>799,533</u>	<u>735,357</u>	<u>926,363</u>	<u>862,187</u>
NET ASSETS		<u>(711,089)</u>	<u>(626,000)</u>	<u>(637,919)</u>	<u>(552,830)</u>
SHAREHOLDERS' EQUITY					
Contributed Equity	15	8,822,277	8,822,277	8,822,277	8,822,277
Accumulated Losses	16	(9,533,366)	(9,448,277)	(9,460,196)	(9,375,107)
TOTAL SHAREHOLDERS' EQUITY		<u>(711,089)</u>	<u>(626,000)</u>	<u>(637,919)</u>	<u>(552,830)</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash Flow from Operating Activities					
Receipts from Customers		188,001	204,361	188,001	204,361
Interest Received		7	125	7	125
Payments to Suppliers and Employees		(450,269)	(547,902)	(450,269)	(547,902)
Finance Charges		(1,724)	(54,230)	(1,724)	(54,230)
Net Cash used in Operating Activities	22	<u>(263,985)</u>	<u>(397,646)</u>	<u>(263,985)</u>	<u>(397,646)</u>
Cash Flow from Investing Activities					
Purchase of Property, Plant and Equipment		(541)	(5,569)	(541)	(5,569)
Proceeds from Sale of Property, Plant and Equipment		-	154,545	-	154,545
Proceeds from Sale of Investments		-	-	-	-
Net Cash used in Investing Activities		<u>(541)</u>	<u>148,976</u>	<u>(541)</u>	<u>148,976</u>
Cash Flow from Financing Activities					
Proceeds from issue of shares		-	271,000	-	271,000
Proceeds from Borrowings from Related Entities		294,739	(15,141)	294,739	(15,141)
Repayment of Borrowings		(29,814)	-	(29,814)	-
Net Cash provided by Financing Activities		<u>264,925</u>	<u>255,859</u>	<u>264,925</u>	<u>255,859</u>
Net (Decrease) in Cash Held		<u>399</u>	<u>7,189</u>	<u>399</u>	<u>7,189</u>
Cash at 30th June 2007		<u>1,910</u>	<u>(5,279)</u>	<u>1,910</u>	<u>(5,279)</u>
Cash at 30th June 2008		<u>2,309</u>	<u>1,910</u>	<u>2,309</u>	<u>1,910</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY**Consolidated Entity**

	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	General Reserves	Total
Balance as at 1 July 2006	15	8,531,277	(8,243,600)	-	-	287,677
Shares issued during the year		291,000	-	-	-	291,000
Net Profit/(Loss) attributable to the members of the company	16	-	(1,204,677)	-	-	(1,204,677)
Balance as at 30 June 2007	15	8,822,277	(9,448,277)	-	-	(626,000)
Shares issued during the year		-	-	-	-	-
Net Profit/(Loss) attributable to the members of the company	16	-	(85,089)	-	-	(85,089)
Balance as at 30 June 2008		8,822,277	(9,533,366)	-	-	(711,089)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Parent Entity

	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	General Reserves	Total
Balance as at 1 July 2006	15	8,531,277	(8,320,475)	-	-	210,802
Shares issued during the year		291,000	-	-	-	291,000
Net Profit/(Loss) attributable to the members of the company	16	-	(1,054,632)	-	-	(1,054,632)
Balance as at 30 June 2007	15	8,822,277	(9,375,107)	-	-	(552,830)
Shares issued during the year		-	-	-	-	-
Net Profit/(Loss) attributable to the members of the company	16	-	(85,089)	-	-	(85,089)
Balance as at 30 June 2008		8,822,277	(9,460,196)	-	-	(637,919)

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Cosmedics Australia Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Cosmedics Australia Limited as an individual parent entity ('Parent Entity'). Cosmedics Australia Limited is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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.

Accounting Policies

Principles of Consolidation

A controlled entity is any entity Cosmedics Australia Limited has the power to govern the financial and operating policies of so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

All controlled entities have a June financial year end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

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

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 and 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.

NOTES TO THE FINANCIAL STATEMENTS

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 charges 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 6 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of services is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax (GST)

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

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Comparative Figures

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

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

The financial report was authorised for issue on 24th September 2008 by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
2. REVENUE					
Interest Received		7	125	7	125
Medical Fees Received		188,001	204,361	188,001	204,361
Profit on Sale of Investments		-	-	-	-
Other		-	-	-	-
TOTAL REVENUE		<u>188,008</u>	<u>204,486</u>	<u>188,008</u>	<u>204,486</u>
3. PROFIT FROM ORDINARY ACTIVITIES					
a. Expenses					
Ordinary Activities					
Audit fees		34,155	36,500	34,155	36,500
Amortisation of Leased Assets		12,727	12,728	12,727	12,728
Depreciation		9,126	8,846	9,126	8,846
Finance Charges		1,724	54,231	1,724	54,231
Other Administration Costs		215,365	710,339	215,365	710,339
		<u>273,097</u>	<u>822,644</u>	<u>273,097</u>	<u>822,644</u>
b. Significant Expenses					
AIFRS impairment of Goodwill Purchased		-	586,519	-	436,519
TOTAL EXPENSES		<u>273,097</u>	<u>1,409,163</u>	<u>273,097</u>	<u>1,259,163</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity	
		2008	2007
		\$	\$
4. DIRECTORS and EXECUTIVES' REMUNERATION			
a. Directors Remuneration			
Dr B Douglass - Other		-	-
Ms V Forge - Salary		-	113,154
- Superannuation Contributions		-	10,184
- Other		-	-
		<u>-</u>	<u>123,338</u>
Dr R Mitchell - Other		-	-

b. Shareholdings

Directors	Balance 01.07.07	Received as Remuneration	Net Change ² Other	Balance 30.06.08
Dr B Douglass ¹	15,139,503	-	-	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>

1. Holdings held indirectly.

2. Net Change Other refers to shares purchased or sold during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
5. AUDITORS' REMUNERATION					
Remuneration of the auditor of the parent entity for:					
- auditing or reviewing the financial report		<u>34,155</u>	<u>36,500</u>	<u>34,155</u>	<u>36,500</u>
6. INCOME TAX					
The company has available tax losses amounting to \$2,499,358 (2007: \$2,432,711) the benefit of which has not been brought to account due to the uncertainty of eventual recoupment. These losses will only be recoverable if the various conditions under income tax legislation for carrying forward losses continue to be met in the future.					
7. EARNINGS PER SHARE					
Net profit and earnings used in the calculation of dilutive EPS		<u>(85,089)</u>	<u>(1,204,677)</u>	<u>(85,089)</u>	<u>(1,054,632)</u>
Weighted average number of ordinary shares		73,447,305	68,068,354	73,447,305	68,068,354
Weighted average number of options outstanding		-	18,754,178	-	18,754,178
8. CASH AND CASH EQUIVALENTS					
Cash at Bank		<u>2,309</u>	<u>1,910</u>	<u>2,309</u>	<u>1,910</u>
9. OTHER CURRENT ASSETS					
Security Deposits		<u>-</u>	<u>4,149</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
10. PROPERTY, PLANT & EQUIPMENT					
Plant & Equipment - at cost		62,157	61,616	62,157	61,616
Accumulated Depreciation		(42,448)	(33,322)	(42,448)	(33,322)
Total Fixed Assets		<u>19,709</u>	<u>28,294</u>	<u>19,709</u>	<u>28,294</u>
Movements in Fixed Assets					
Opening written down value		28,294	186,116	28,294	186,116
Plus: Additions		541	5,569	541	5,569
Less: Depreciation		(9,126)	(8,846)	(9,126)	(8,846)
Disposals		-	(154,545)	-	(154,545)
Closing written down value		<u>19,709</u>	<u>28,294</u>	<u>19,709</u>	<u>28,294</u>
Leased Assets – at cost		127,273	127,273	127,273	127,273
Accumulated Amortisation		(60,847)	(48,120)	(60,847)	(48,120)
Total Leased Assets		<u>66,426</u>	<u>79,153</u>	<u>66,426</u>	<u>79,153</u>
Movements in Leased Assets					
Opening written down value		79,153	91,881	79,153	91,881
Plus: additions		-	-	-	-
Less: amortisation		(12,727)	(12,728)	(12,727)	(12,728)
disposal of leased assets		-	-	-	-
Closing written down value		<u>66,426</u>	<u>79,153</u>	<u>66,426</u>	<u>79,153</u>
Total Property, Plant and Equipment		<u>86,135</u>	<u>107,447</u>	<u>86,135</u>	<u>107,447</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
11. INTANGIBLE ASSETS					
Investment in Subsidiary		-	-	200,000	200,000
		<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
12. PAYABLES					
Current					
Trade Creditors		62,511	163,528	62,511	163,528
Sundry Creditors		<u>28,318</u>	<u>34,747</u>	<u>28,318</u>	<u>34,747</u>
		<u>90,829</u>	<u>198,275</u>	<u>90,829</u>	<u>198,275</u>
Non Current					
Other Amounts Payable – Related Company		<u>697,593</u>	<u>402,853</u>	<u>824,423</u>	<u>529,683</u>
This amount is payable at call, however it is considered unlikely that it will be repaid in full in the next 12 months.					
13. INTEREST BEARING LIABILITIES					
Current					
Lease Liability	17	<u>5,252</u>	<u>29,815</u>	<u>5,252</u>	<u>29,815</u>
Non Current					
Lease Liability	17	<u>-</u>	<u>5,252</u>	<u>-</u>	<u>5,252</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
14. LEASING COMMITMENTS					
Finance Lease Commitments					
Payable					
- not later than 1 year		5,315	31,891	5,315	31,891
- later than 1 year but not later than 5 years		-	5,315	-	5,315
- later than 5 years		-	-	-	-
Minimum lease payments		<u>5,315</u>	<u>37,206</u>	<u>5,315</u>	<u>37,206</u>
Less future finance charges		<u>63</u>	<u>2,139</u>	<u>63</u>	<u>2,139</u>
Total Lease Liability		<u>5,252</u>	<u>35,067</u>	<u>5,252</u>	<u>35,067</u>
Non cancellable operating leases contracted for but not capitalised in the financial statements					
Payable					
-Not later than 12 months		-	34,564	-	34,564
-Between 12 months and five years		-	37,267	-	37,267
-Greater than 5 years		-	-	-	-
Minimum lease payments		<u>-</u>	<u>71,831</u>	<u>-</u>	<u>71,831</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
15. ISSUED CAPITAL					
76,664,518 (2007:					
69,164,518) Ordinary					
Shares fully paid		8,822,277	8,695,777	8,822,277	8,695,777
At the beginning of the		8,695,777	8,415,777	8,695,777	8,415,777
reporting period					
Shares issued for goodwill		-	-	-	-
purchased					
Other		126,500	280,000	126,500	280,000
At reporting date		8,822,277	8,695,777	8,822,277	8,695,777
		No.	No.	No.	No.
At the beginning of the		69,164,518	66,077,018	69,164,518	66,077,018
reporting period					
Purchased businesses and		-	-	-	-
goodwill					
Other		7,500,000	3,087,500	7,500,000	3,087,500
At reporting date		76,664,518	69,164,518	76,664,518	69,164,518
Share Options Issued					
December 2007		\$	\$	\$	\$
At the beginning of the		126,500	115,500	126,500	115,500
reporting period					
Options issued for goodwill		-	-	-	-
purchased					
Expired / Exercised		(126,500)	11,000	(126,500)	11,000
At reporting date		-	126,500	-	126,500
		No.	No.	No.	No.
At the beginning of the		19,375,000	17,175,000	19,375,000	17,175,000
reporting period					
Options issued:					
Purchased businesses		-	-	-	-
and goodwill					
Expired / Exercised		(19,375,000)	2,200,000	(19,375,000)	2,200,000
At reporting date		-	19,375,000	-	19,375,000
Total Share Capital		8,822,277	8,822,277	8,822,277	8,822,277

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
16. RETAINED EARNINGS				
Balance at beginning of year	(9,448,277)	(8,243,600)	(9,375,107)	(8,320,475)
Operating Loss for the year net of income tax	(85,089)	(1,204,677)	(85,089)	(1,054,632)
Balance at the end of the year	<u>(9,533,366)</u>	<u>(9,448,277)</u>	<u>(9,460,196)</u>	<u>(9,375,107)</u>

17. RELATED PARTY TRANSACTIONS

- (i) No remuneration has been paid to any director of the company as disclosed 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 \$697,593 remains payable to that company. To date no interest has been paid on these funds.

18. COMMITMENTS FOR EXPENDITURE

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.

19. CONTINGENT LIABILITIES

There are no contingent liabilities.

20. STATEMENTS OF OPERATIONS BY SEGMENTS

The company continued to operate in the health services industry.

21. EVENTS AFTER REPORTING DATE

No significant matters have occurred since the end of the financial year which would 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 2008.

NOTES TO THE FINANCIAL STATEMENTS

Note	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
22. CASH FLOW INFORMATION				
(a) <u>Reconciliation of Cash</u>				
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash on hand	<u>2,309</u>	<u>1,910</u>	<u>2,309</u>	<u>1,910</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>(85,089)</u>	<u>(1,204,677)</u>	<u>(85,089)</u>	<u>(1,054,632)</u>
Non-cash flows in profit from ordinary activities				
Depreciation and Amortisation	21,853	21,574	21,853	21,574
AIFRS impairment adjustments	-	586,563	-	436,518
	<u>21,853</u>	<u>608,137</u>	<u>21,853</u>	<u>458,092</u>
Changes in assets and liabilities				
(Increase)/decrease in receivables	-	-	-	-
(Increase)/decrease in other receivables & prepayments	-	4,149	-	4,149
(Increase)/decrease in inventories	-	44,649	-	44,649
Increase/(decrease) in trade creditors	(107,446)	55,357	(107,446)	55,357
Increase/(decrease) in other creditors	-	5,951	-	5,951
Increase/(decrease) in provisions	(93,303)	88,788	(93,303)	88,788
	<u>(200,749)</u>	<u>198,894</u>	<u>(200,749)</u>	<u>198,894</u>
<u>Cash flows from operations</u>	<u>(263,985)</u>	<u>(397,646)</u>	<u>(263,985)</u>	<u>(397,646)</u>

NOTES TO THE FINANCIAL STATEMENTS
23. FINANCIAL INSTRUMENTS
Consolidated Entity

Consolidated Entity						Average Interest Rate:	
2008	Floating Interest Rate	Fixed interest Rate Maturing In: 1 Year or Less	Over 1 to 5 Years	Non Interest Bearing	Total	Floating %	Fixed %
Financial Assets							
Cash	-	-	-	2,309	2,309	-	-
Financial Liabilities							
Trade Creditors ¹	-	-	-	62,511	62,511	-	-
Sundry Creditors	-	-	-	5,859	5,859	14.69	-
Sundry Creditors ¹	-	-	-	724,683	724,683	-	-
Finance Lease	-	-	-	5,252	5,252	-	9.59
	-	-	-	798,305	798,305		
2007	Floating Interest Rate	Fixed interest Rate Maturing In: 1 Year or Less	Over 1 to 5 Years	Non Interest Bearing	Total	Floating %	Fixed %
Financial Assets							
Cash	-	-	-	1,910	1,910	-	-
Financial Liabilities							
Trade Creditors ¹	-	-	-	170,580	170,580	-	-
Sundry Creditors	-	-	-	99,208	99,208	13.37	-
Sundry Creditors ¹	-	-	-	149,598	149,598	-	-
Finance Lease	-	-	-	35,067	35,067	-	9.59
	-	-	-	454,453	454,453		

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS
23. FINANCIAL INSTRUMENTS (cont.)
Parent Entity

2008	Floating Interest Rate	Fixed interest Rate Maturing In:		Non Interest Bearing	Total	Average Interest Rate:	
		1 Year or Less	Over 1 to 5 Years			Floating %	Fixed %
Financial Assets							
Cash	-	-	-	2,309	2,309	-	-
Financial Liabilities							
Trade Creditors ¹	-	-	-	62,511	62,511	-	-
Sundry Creditors				5,859	5,859	14.69	-
Sundry Creditors ¹	-	-	-	724,683	724,683	-	-
Finance Lease	-	-	-	5,252	5,252	-	9.59
	-	-	-	798,305	798,305		

2007	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	-	-	-	1,910	1,910	-	-
Financial Liabilities							
Trade Creditors ¹	-	-	-	170,580	170,580	-	-
Sundry Creditors	-	-	-	99,208	99,208	13.37	-
Sundry Creditors ¹	-	-	-	149,598	149,598	-	-
Finance Lease	-	-	-	35,067	35,067	-	9.59
	-	-	-	454,453	454,453		

Notes:

1. 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 2008

COMPANY DIRECTORY

Directors:

Bronte Douglass
Robin Mitchell
Vicki Forge

Bankers:

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

Company Secretary:

Ms Vicki Forge

Auditors:

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

Registered Office:

Cosmedics Australia Limited
29 Australia Street
Camperdown NSW 2050

Share Register:

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

SHAREHOLDER DISTRIBUTION INFORMATION**ORDINARY SHARES**

Ranges	Investors	Securities	% Issued Capital
1 – 1,000	592	590,100	0.77
1,001,-5,000	52	153,633	0.20
5,001 – 10,000	105	751,283	0.98
10,001 – 100,000	116	4,230,479	5.52
100,001 – and over	<u>50</u>	<u>70,939,023</u>	<u>92.53</u>
Total	<u>915</u>	<u>76,664,518</u>	<u>100.00</u>

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	19.75%
2	SSH Medical Limited	11,813,000	15.41%
3	Tantric Ecstasy Pty Ltd <The Afterglow A/C>	7,500,000	9.78%
4	ANZ Nominees Limited	7,471,739	9.75%
5	Stomar Pty Limited <Malachi A/C>	5,625,000	7.34%
6	D & G Mason Nominees Pty Ltd	1,875,000	2.45%
6	N & V Curie Pty Ltd	1,875,000	2.45%
7	Clark & Bradly Computer Services Pty Limited <Braddon Central Discretionary A/C>	1,858,498	2.42%
8	Send Judah First Pty Limited <Marsh Family A/C>	1,509,073	1.97%
9	Mr Terence Michael Dunn + Mrs Judith Ann Dunn <Four D Nominees S/F A/C>	1,500,000	1.96%
10	David Peter Hawley + Jenny Ree Hawley	1,217,500	1.59%
11	Geoff Cowan & Associates Pty Limited <Cowan Discretionary A/C>	1,144,473	1.49%
12	LAH Securities Pty Ltd	798,719	1.04%
13	Reynolds Nominees Pty Limited	753,000	0.98%
14	Tony Del Gigante + Christine May Del Gigante <Crestvale Super Fund A/C>	750,000	0.98%
14	Paul Williams	750,000	0.98%
15	Mr Bruce Harvey	730,000	0.95%
16	Malcom Lobb + Jean Lobb <M & J Lobb S/F A/C>	625,000	0.82%
17	Malcolm Bird	600,003	0.78%
18	Resource Capital Australia Pty Limited	550,000	0.72%
19	Four D Nominees Superannuation Pty Ltd <TM & JA Dunn A/C>	500,000	0.65%
19	Mrs Anne Marie Leaver	500,000	0.65%
20	Mr James Crawford	450,000	0.59%
TOTAL FOR TOP 20:		65,535,508	85.48%
Investors			
TOTAL IN THIS REPORT:		23	65,535,508 85.50%
TOTAL OTHER INVESTORS:		892	11,129,010 14.50%
GRAND TOTAL:		915	76,664,518 100.00%