

# **Cosmedics Australia Limited**

ABN 38 002 862 017

**FINANCIAL REPORT  
30 June 2004**

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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, 2004.

### ***Directors***

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

M. Boland (resigned)

V. Forge

B. Douglass

R. Mitchell

### ***Information of Directors***

Bronte Douglass  
MB,BS,DPH,DIH.

Dr Douglass, for some 30 years, was involved in the pathology industry. He was responsible for the establishment and growth of Douglass Laboratories which, under his management, became one of the largest pathology companies in Australia. Douglass Laboratories formed the core of the pathology operations of Sonic Healthcare Limited, a highly successful listed company. Subsequently he established a new pathology company, Diagnostic Pathology, which was sold to Alpha Healthcare Limited and on sold again to Sonic Healthcare. In the pathology industry, Dr. Douglass was responsible for hundreds of blood collection staff, collecting millions of blood samples. As such he was very aware of the problems associated with needle stick injuries both in terms of collection centre staff and the public, particularly in relation to the safe disposal of contaminated needles. Dr Douglass now has been responsible for the operation of a Cosmetic Clinic that has now for 3 years provided Intense Pulse Light, ELOS and other cosmetic procedures. He has also had more than 14 years experience in operating Medical Centres.

Vicki Forge

Mrs Forge has been involved in the day to day operations of medical companies for the past 18 years. She has been a Director, for 14 years, of a Medical Centre company and for the last 3 years has been responsible for the day to day operations of a Cosmetic Clinic. For 20 years she has been involved in the day to day operations of medical companies as Personal Assistant to the Managing Director

Robin Mitchell  
MB,BS,DIH,AFOM  
FACOM

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

Directors shareholdings and options – Refer Note 4.

***Meetings of Directors***

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

**Name**

M. Boland	2
B. Douglass	6
V. Forge	6
R. Mitchell	6

***Activities***

The principal activities of the Company consisted of the operation of a medical centre, laser cosmetic technology. A significant amount of effort was expended during the financial year in relation to the proposed acquisition of the Safety Syringe enterprise.

***Results***

The operating loss of the Company attributable to Members of Cosmedics Australia Limited for the period was \$724,435 (2003: \$21,985 loss) after income tax.

***Dividends***

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

***Significant Changes***

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

- (i) On 4<sup>th</sup> September, 2003 the company's shares and options were listed on the Newcastle Stock Exchange.
- (ii) Since March 2004, the Medical Centre operated by the company has been unable to obtain Doctors to work in the Centre. The company continues to seek Doctors to work in the Centre, but in common with other practices operating in this industry, has been unable to do so. As a result the Directors believe that it is prudent to write off all of the goodwill relating to this Centre in the current year. This amounted to \$347,890.
- (iii) In March 2004 the company entered into a Heads of Agreement in relation to a proposed reverse take-over, capital raising and Australian Stock Exchange Listing which involved the acquisition of the Safety Syringe Manufacturer Ensi-Med. That Heads of Agreement expired on 30<sup>th</sup> June, 2004 without that reverse take-over being concluded.

***Events Subsequent to Balance 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 2004.

- (i) Notwithstanding the expiry of the Heads of Agreement in relation to Ensi-Med, the Directors, in July 2004 decided that the company should pursue the acquisition of the intellectual property, plant and equipment, trade marks, FDA and TGA approvals relating to the Safety Syringe business. During July, Heads of Agreement were concluded with the owners of the intellectual property and with the owners of the other assets.

In August 2004 and September 2004 agreements were completed that reflected those Heads of Agreement that had been signed in the previous month. Those agreements involve, subject to shareholder approval, the issue of 41.95 million ordinary shares and 22.1 million options (exercisable prior 31 December 2007) and a cash component of \$2.95 million. The agreement with Ensi-Med is also subject to a capital raising in excess of \$6 million being completed prior to the end of December 2004.

- (ii) A Strategic Alliance Framework Agreement was negotiated and signed in the United States at the end of August between Exelint International and Cosmedics Australia Limited, by the Directors. This agreement relates to the manufacture, marketing and distribution of the safety syringe. Exelint is a very large distributor and manufacturer of high quality medical products.
- (iii) On 8<sup>th</sup> August 2004 the company made placements of 5 million ordinary shares at 9c and 225,000 options at 1c that increased working capital by \$452,250
- (iv) In July 2004 the Directors negotiated the purchase of the MediPulse business that complements the Cosmetic business operated by the company. The MediPulse business currently operates from more than 20 beauty salons where it provides skin rejuvenation and hair removal treatments, using Intense Pulsed Light. Consideration for the business comprised 750,000 ordinary shares and 750,000 options exercisable prior 31 December 2005. The company has entered into an employment contract on a full time basis with one of the previous owners and 750,000 ordinary shares were issued as consideration for that employment contract.
- (v) In October 2004, the company was informed by its lawyers that fees for legal services that had been provided in relation to the acquisitions and capital raising amounted to \$596,177. The Directors believe that any payment is to be contingent on the completion of the capital raising and the directors also dispute the amount of those fees. The Company is in negotiations with those lawyers concerning these matters.

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

The company will continue to operate laser cosmetic equipment, and will continue to consider further purchases of various medical and health related businesses, similar to the acquisitions completed subsequent to year end, as well as opening further new cosmedic clinics both organically and through joint venture initiatives with other medical operators.

The Directors believe the medical field offers very attractive long term investment opportunities for the company, especially in the rapidly growing areas of the supply of safety syringes and cosmetic medicine, which are generally highly profitable businesses which should grow the asset and revenue base of the company, and providing further potential for growth.

### ***Corporate Governance***

The Board of Directors is responsible for directing the business and the strategy of the Company 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 2003/2004 financial year are set out on page 3. Procedures are in place to ensure that directors are able to meet either in person or by telephone to consider urgent matters as and when they arise. In addition, decisions of the Board may also be made by a written resolution.

The fees payable to directors has been set at \$2000 per annum per director.

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

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

### ***Environmental Issues***

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

### ***Indemnifying an Officer or Auditor***

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

***Directors Benefits***

No director of the Company 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 Australia Limited.

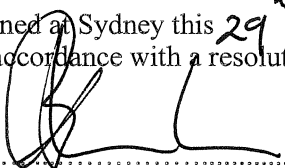
***Options***

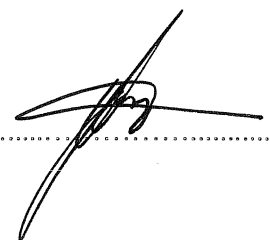
At the date of this report, there are 15,875,005 un-issued ordinary shares under option of Cosmedics Australia Limited that expire on 31 December, 2005 at an exercise price of \$0.20.

***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 29<sup>th</sup> day of October 2004  
in accordance with a resolution of the directors.

  
..... (Director)

  
..... (Director)

**INDEPENDENT AUDIT REPORT**

**TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED**

**Scope**

*The financial report and director's responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Cosmedics Australia Limited, for the year ended 30 June 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, 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 of the financial report in order to express an opinion on it 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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

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

## **Qualification**

The goodwill reported in the Statement of Financial Position represents the difference between assets purchased in 2003 and the value of the shares and options issued as consideration. Accounting standard AASB 1013 (Accounting for Goodwill) requires that any excess of the fair value of the assets acquired and the value of the consideration be expensed against the net profit to the extent that the amount does not represent future benefits to be derived. Details of the acquisitions are set out as comparatives in Note 14 to the financial statements. As reported in the 2003 independent audit report adequate supporting documentation was not available to enable an opinion to be formed on the recoverable value of the goodwill arising from the 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.

The existence and value of the Intellectual Property, Inventory and Fixed Assets as at the 30 June 2003 were based on the purchase agreement approved by the shareholders at the 2002 Annual General Meeting. Information adequate to support the existence and value of the Intellectual Property, Inventory and Fixed Assets at that date is not available. Accordingly we are unable to confirm the values acquired and stated in the financial statements are a fair value in accordance with the accounting policies for the Intellectual Property, Inventory and Fixed Assets.

During the year, funds were provided by Douglass Automated Laboratories and Allied Services Pty Limited (a major shareholder). The company's ability to meet its debts as and when they fall due is dependent upon the continued financial support by that company.

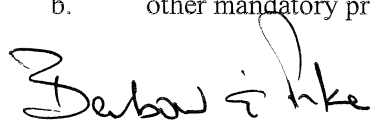
Subsequent to balance date, the company received a claim for liability in respect of legal services in the sum of \$596,177 provided in respect of the capital raising and business acquisitions. The Directors believe that any liability in respect thereof is contingent on the success of capital raising. The Directors also dispute the amount of the fees claimed and are in negotiations with those lawyers in relation thereto.

If payment is required to be made without the benefit of the proceeds from the proposed capital raising, in our opinion, the company would not be a going concern unless alternative sources of funds were arranged.

## **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 financial position of Cosmedics Australia Limited as at 30 June 2004 and of its performance for the year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements in Australia.



Benbow & Pike  
Chartered Accountants  
North Sydney



G J Abrams  
Partner

Dated : 24th October, 2004

**DIRECTORS DECLARATION**

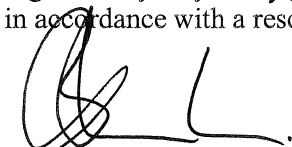
The directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 25, 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 2004 and of the performance for the year ended on that date of the company.
2. Subsequent to balance date, the company received a claim for liability in respect of legal services in the sum of \$596,177 provided in respect of the capital raising and business acquisitions. The Directors believe that any liability in respect thereof is contingent on the success of capital raising. The Directors also dispute the amount of the fees claimed and are in negotiations with those lawyers in relation thereto.

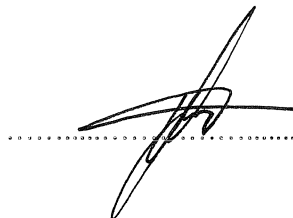
If payment is required to be made without the benefit of the proceeds from the proposed capital raising the company may not be a going concern unless alternative sources of funds were arranged.

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 29<sup>th</sup> day of October, 2004  
in accordance with a resolution of the directors.



..... (Director)



..... (Director)

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

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**STATEMENT OF FINANCIAL PERFORMANCE**

	<b>Note</b>	<b>2004</b> <b>\$</b>	<b>2003</b> <b>\$</b>
Revenues from ordinary activities	2	<u>360,247</u>	<u>32,874</u>
Depreciation and Amortisation Expense		60,071	4,987
Other expenses from ordinary activities		<u>1,024,611</u>	<u>49,872</u>
Total Expenses	3	<u>1,084,682</u>	<u>54,859</u>
<b>Loss from ordinary activities before income tax expense</b>		<b>(724,435)</b>	<b>(21,985)</b>
Income tax relating to ordinary activities	6	<u>-</u>	<u>-</u>
<b>Loss from ordinary activities after income tax expense</b>		<b><u>(724,435)</u></b>	<b><u>(21,985)</u></b>
<b>Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity</b>		<b><u>(724,435)</u></b>	<b><u>(21,985)</u></b>
Basic earnings per share (cents)	7	(4.53)	(0.49)
Diluted earnings per share (cents)	7	(3.51)	0.15

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

**STATEMENT OF FINANCIAL POSITION**

	<b>Note</b>	<b>2004 \$</b>	<b>2003 \$</b>
<b>CURRENT ASSETS</b>			
Cash Assets	8	2,060	11,770
Receivables	9	40,649	-
Inventories	10	5,000	7,000
Other	11	4,149	-
<b>TOTAL CURRENT ASSETS</b>		<u>51,858</u>	<u>18,770</u>
<b>NON-CURRENT ASSETS</b>			
Other Financial Assets	12	-	20,423
Property, Plant and Equipment	13	154,883	44,250
Intangibles	14	693,466	1,093,763
<b>TOTAL NON-CURRENT ASSETS</b>		<u>848,349</u>	<u>1,158,436</u>
<b>TOTAL ASSETS</b>		<u>900,207</u>	<u>1,177,206</u>
<b>CURRENT LIABILITIES</b>			
Payables	15	74,009	8,130
Interest Bearing Liabilities	16	18,939	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>92,948</u>	<u>8,130</u>
<b>NON CURRENT LIABILITIES</b>			
Payables	15	268,334	-
Interest Bearing Liabilities	16	94,284	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>362,618</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>455,566</u>	<u>8,130</u>
<b>NET ASSETS</b>		<u>444,641</u>	<u>1,169,076</u>
<b>SHAREHOLDERS' EQUITY</b>			
Contributed Equity	18	1,700,002	1,700,002
Accumulated Losses	19	(1,255,361)	(530,926)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>444,641</u>	<u>1,169,076</u>

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

**STATEMENT OF CASH FLOWS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
Cash Flow from Operating Activities			
Receipts from Customers		285,695	32,858
Rent Received		5,822	-
Interest Received		67	8
Payments to Suppliers and Employees		(556,751)	(43,977)
Finance Charges		(28,227)	-
Net Cash used in Operating Activities	24	<u>(293,394)</u>	<u>(11,111)</u>
Cash Flow from Investing Activities			
Purchase of Property, Plant and Equipment		(2,104)	(44,870)
Purchase of Goodwill		-	(1,098,130)
Proceeds from Sale of Property, Plant and Equipment		1,281	-
Proceeds from Sale of Investments		30,160	12,403
Finance Charges		(14,050)	-
Net Cash used in Investing Activities		<u>15,287</u>	<u>(1,130,597)</u>
Cash Flow from Financing Activities			
Proceeds from issue of shares		-	1,150,000
Proceeds from Borrowings from Related Entities		268,397	-
Net Cash provided by Financing Activities		<u>268,397</u>	<u>1,150,000</u>
Net (Decrease) in Cash Held		<u>(9,710)</u>	<u>8,292</u>
Cash at 30th June 2003		<u>11,770</u>	<u>3,478</u>
Cash at 30th June 2004		<u>2,060</u>	<u>11,770</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basic Accounting Principles***

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

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

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

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

***Investments***

Investments are stated at the lower of the cost and realisable value. Realisable value is reflected by the market value as at the balance date. Dividend income is taken into revenue as it is received. Gains on investments are only recognised when realised.

***Income Tax***

Tax effect accounting procedures are followed whereby the income tax expense in the Profit and Loss Statement is matched with the accounting profit (after allowing for permanent differences). Future income tax benefits are not recognised unless realisation is virtually certain.

***Inventories***

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

***Plant and Equipment***

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

***Depreciation***

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

***Intangibles - Goodwill***

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. It is to be amortised over the period that the future benefits are to be derived, which period shall not exceed 20 years. Goodwill is completely written off when it is considered its future value has been extinguished.

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

***Revenue***

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

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

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

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

***Adoption of Australian Equivalents to International Financial Reporting Standards***

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. An IFRS committee has been established to oversee and manage the economic entity's transition to IFRS. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of IFRS are:

**- *Impairment of Assets***

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of pending AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>2. REVENUE</b>			
Interest Received		67	8
Medical Fees Received		342,386	28,791
Profit on Sale of Investments		9,737	-
Other		8,057	4,075
<b>TOTAL REVENUE</b>		<u>360,247</u>	<u>32,874</u>
<b>3. PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>a. Expenses</b>			
<b>Ordinary Activities</b>			
Audit fees		3,950	1,045
Amortisation of Goodwill		52,406	4,367
Amortisation of Leased Assets		9,983	-
Depreciation		7,655	620
Write down of listed shares		-	3,960
Finance Charges		28,227	-
Loss on sale of Investments		-	797
Accounting and Secretarial		21,500	1,400
Other Administration Costs		613,071	42,670
		<u>736,792</u>	<u>54,859</u>
<b>b. Significant Expenses</b>			
Write-off of Goodwill Purchased		347,890	-
<b>TOTAL EXPENSES</b>		<u>1,084,682</u>	<u>54,859</u>

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2004 \$	2003 \$
4. <b>DIRECTORS and EXECUTIVES' REMUNERATION</b>			
a. Directors Remuneration			
Dr B Douglass - Other		1,000	-
Ms V Forge - Salary		48,292	-
- Superannuation Contributions		4,346	-
- Other		1,000	-
		53,638	-
Mr M Boland - Other		1,000	-

## b. Shareholdings

Directors	Balance 01.07.03	Received as Remuneration	Net Change <sup>3</sup> Other	Balance 30.06.04
Dr B Douglass	10,093,002 <sup>1</sup>	-	-	10,093,002
Ms V Forge	250,000	-	-	250,000
Dr R Mitchell	250,000	-	-	250,000
Mr M Boland <sup>2</sup>	500,000 <sup>1</sup>	-	-	500,000
Total	11,093,002	-	-	11,093,002

## c. Options and Rights Holdings

Directors	Balance 01.07.03	Granted as Remun- eration	Options Exercised	Net Change <sup>4</sup> Other	Balance 30.06.04	Total Vested 30.06.04	Total Excer- cisable 30.06.04
Dr B Douglass	10,046,501	-	-	-	10,046,501	-	-
Ms V Forge	-	-	-	-	-	-	-
Dr R Mitchell	-	-	-	-	-	-	-
Mr M Boland	2,000,000	-	-	-	2,000,000	-	-
Total	12,046,501	-	-	-	12,046,501	-	-

Notes:

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

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>5. AUDITORS' REMUNERATION</b>			
Remuneration of the auditor of the parent entity for:			
- auditing or reviewing the financial report		<u>3,950</u>	<u>1,045</u>
<b>6. INCOME TAX</b>			
The company has available tax losses amounting to \$320,837 (2003 \$12,861) 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>7. EARNINGS PER SHARE</b>			
Net profit and earnings used in the calculation of dilutive EPS		<u>(724,435)</u>	<u>(21,985)</u>
Weighted average number of ordinary shares		16,000,010	16,000,010
Weighted average number of options outstanding		14,900,005	14,900,005
<b>8. CASH ASSETS</b>			
Cash at Bank		<u>2,060</u>	<u>11,770</u>
<b>9. RECEIVABLES</b>			
GST Receivable		<u>40,649</u>	<u>-</u>
<b>10. INVENTORIES</b>			
Medical Supplies (at cost)		<u>5,000</u>	<u>7,000</u>
<b>11. OTHER CURRENT ASSETS</b>			
Security Deposits		<u>4,149</u>	<u>-</u>
<b>12. OTHER FINANCIAL ASSETS</b>			
<b>Non Current</b>			
Shares in listed corporations at market value		<u>-</u>	<u>20,423</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>13. PROPERTY, PLANT &amp; EQUIPMENT</b>			
Office Equipment and Furniture - at cost		45,574	44,870
Accumulated Depreciation		(7,981)	(620)
Total Fixed Assets		<u>37,593</u>	<u>44,250</u>
Movements in Fixed Assets			
Opening written down value		44,250	-
Plus: additions		2,094	44,870
Less: depreciation		(7,655)	(620)
disposal of assets		(1,096)	-
Closing written down value		<u>37,593</u>	<u>44,250</u>
Leased Assets – at cost		127,273	-
Accumulated Amortisation		(9,983)	-
Total Leased Assets		<u>117,290</u>	<u>-</u>
Movements in Leased Assets			
Opening written down value		-	-
Plus: additions		127,273	-
Less: amortisation		(9,983)	-
disposal of leased assets		-	-
Closing written down value		<u>117,290</u>	<u>-</u>
Total Property, Plant and Equipment		<u>154,883</u>	<u>44,250</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>14. INTANGIBLE ASSETS</b>			
Goodwill at cost		681,200	1,048,130
Accumulated amortisation		37,734	4,367
		<u>643,466</u>	<u>1,043,763</u>
Intellectual property, including rights and domains		50,000	50,000
		<u>693,466</u>	<u>1,093,763</u>
On the 1 June 2003 the company acquired the medical centre business a laser cosmetic business and intellectual property. The consideration for the purchase was the issue of shares and options at a discount.			
Purchase Consideration			
Shares issued: 11,500,000 shares at a value of 10c,		-	1,150,000
Options Issued: 11,500,000 options issued at nil.		-	-
Total Consideration		<u>-</u>	<u>1,150,000</u>
Assets Acquired			
Plant and Equipment		-	44,870
Inventory		-	7,000
Intellectual Property at directors valuation		-	50,000
Total assets		<u>-</u>	<u>101,870</u>
Excess of cost over assets acquired		<u>-</u>	<u>1,048,130</u>

During the year, goodwill attributable to the acquisition of the medical centre business was completely written off as no medical professionals are currently employed and it is uncertain if they will be employed in the future.

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>15. PAYABLES</b>			
<b>Current</b>			
Trade Creditors		40,482	-
Sundry Creditors		33,527	8,130
		<u>74,009</u>	<u>8,130</u>
<b>Non Current</b>			
Other Amounts Payable – Related Company		<u>268,334</u>	<u>-</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>18,939</u>	<u>-</u>
<b>Non Current</b>			
Lease Liability	17	<u>94,284</u>	<u>-</u>
<b>17. CAPITAL AND LEASING COMMITMENTS</b>			
Finance Lease Commitments			
Payable			
- not later than 1 year		31,891	-
- later than 1 year but not later than 5 years		117,645	-
- later than 5 years		-	-
Minimum lease payments		<u>149,536</u>	<u>-</u>
Less future finance charges		<u>36,313</u>	<u>-</u>
Total Lease Liability		<u>113,223</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b> <b>\$</b>	<b>2003</b> <b>\$</b>
<b>18. CONTRIBUTED EQUITY</b>			
16,000,010 (2003: 16,000,010) Ordinary Shares fully paid		<u>1,700,002</u>	<u>1,700,002</u>
At the beginning of the reporting period		1,700,002	550,002
Shares issued for goodwill purchased (June 2003)		-	1,150,000
At reporting date		<u>1,700,002</u>	<u>1,700,002</u>
At the beginning of the reporting period		16,000,010	1,100,005
Shares issued: Bonus (1:1)		-	1,100,005
Purchased businesses and goodwill	14	-	11,500,000
Other		-	2,300,000
At reporting date		<u>16,000,010</u>	<u>16,000,010</u>
Share Options Issued			
14,900,005 options were issued during the 2003 financial year. These options are exercisable at \$0.20 per share and exercisable up to December 31, 2005. Details of the options are set in the Directors' Remuneration note.			
Acquired business assets	14	-	11,500,000
Professional Services		-	2,300,000
Existing shareholders		-	1,100,005
		<u>-</u>	<u>14,900,005</u>
<b>19. RETAINED EARNINGS</b>			
Balance at beginning of year		(530,926)	(508,941)
Operating Loss for the year net of income tax		<u>(724,435)</u>	<u>(21,985)</u>
Balance at the end of the year		<u>(1,255,361)</u>	<u>(530,926)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**20. RELATED PARTY TRANSACTIONS**

(i) During the year, \$112,583 was paid to Douglass Automated Laboratories and Allied Services Pty Limited (a major shareholder) for management services rendered as agreed to by the Board of Directors on 4/12/03.

(ii) No other remuneration is paid to any director of the company other than that disclosed above and in Note 4.

(iii) During the year, Douglass Automated Laboratories and Allied Services Pty Limited provided funds to assist cash flow, and at the end of the year \$268,334 remains payable to that company. To date no interest has been paid on these funds.

(iv) During the year, \$12,982 was paid to Douglass Automated Laboratories and Allied Services Pty Limited for rent of premises at Ryde.

**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, other than a claim for legal expenses referred to in Note 25.

**23. SEGMENT REPORTING**

The company continued to operate in the health industry.

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<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>2,060</u>	<u>11,770</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>(724,435)</u>	<u>(21,985)</u>
Non-cash flows in profit from ordinary activities			
Depreciation and Amortisation		70,055	4,987
Provision for Diminution		-	3,960
Intangibles Written Off		347,890	-
(Profit)/loss on disposal of investments		(9,737)	797
(Profit)/loss on disposal of plant and equipment		<u>(185)</u>	<u>-</u>
		<u>408,023</u>	<u>9,744</u>
Changes in assets and liabilities			
(Increase)/decrease in receivables		(40,649)	-
(Increase)/decrease in prepayments		(4,149)	-
(Increase)/decrease in inventories		2,000	(7,000)
Increase/(decrease) in other creditors		<u>65,816</u>	<u>8,130</u>
		<u>23,018</u>	<u>1,130</u>
<u>Cash flows from operations</u>		<u>(293,394)</u>	<u>(11,111)</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 2004.

- (i) Notwithstanding the expiry of the Heads of Agreement in relation to Ensi- Med, the Directors, in July 2004 decided that the company should pursue the acquisition of the intellectual property, plant and equipment, trade marks, FDA and TGA approvals relating to the Safety Syringe business. During July, Heads of Agreement were concluded with the owners of the intellectual property and with the owners of the other assets.

In August 2004 and September 2004 agreements were completed that reflected those Heads of Agreement that had been signed in the previous month. Those agreements involve, subject to shareholder approval, the issue of 41.95 million ordinary shares and 22.1 million options (exercisable prior 31 December 2007) and a cash component of \$2.95 million. The agreement with Ensi-Med is also subject to a capital raising in excess of \$6 million being completed prior to the end of December 2004.

- (ii) A Strategic Alliance Framework Agreement was negotiated and signed in the United States at the end of August between Exelint International and Cosmedics Australia Limited, by the Directors. This agreement relates to the manufacture, marketing and distribution of the safety syringe. Exelint is a very large distributor and manufacturer of high quality medical products.
- (iii) On 8<sup>th</sup> August 2004 the company made placements of 5 million ordinary shares at 9c and 225,000 options at 1c that increased working capital by \$452,250.
- (iv) In July 2004 the Directors negotiated the purchase of the MediPulse business that complements the Cosmetic business operated by the company. The MediPulse business currently operates from more than 20 beauty salons where it provides skin rejuvenation and hair removal treatments, using Intense Pulsed Light. Consideration for the business comprised 750,000 ordinary shares and 750,000 options exercisable prior 31 December 2005. The company has entered into an employment contract on a fulltime basis with one of the previous owners and 750,000 ordinary shares were issued as consideration for that employment contract.
- (v) In October 2004, the company was informed by its lawyers that fees for legal services that had been provided in relation to the acquisitions and capital raising amounted to \$596,177. The Directors believe that any payment is to be contingent on capital raising and the directors also dispute the amount of those fees. The Company is in negotiations with those lawyers concerning these matters.

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

(Incorporated in New South Wales)

Financial Statements for the Year Ended 30 June 2004

**NOTES TO THE FINANCIAL STATEMENTS****26. FINANCIAL INSTRUMENTS**

2004	Floating Interest Rate	Fixed interest Rate Maturing In:		Non Interest Bearing	Total	Average Interest Rate:	
		1 Year or Less	Over 1 to 5 Years			Floating %	Fixed %
Financial Assets							
Cash	-	-	-	2,060	2,060	-	-
Receivables <sup>1</sup>	-	-	-	40,649	40,649	-	-
	-	-	-	42,709	42,709		
Financial Liabilities							
Trade Creditors <sup>2</sup>	-	-	-	40,482	40,482	-	-
Sundry Creditors <sup>2</sup>	-	-	-	33,527	33,527	-	-
Finance Lease	-	-	-	113,223	113,223	-	9.59
	-	-	-	187,232	187,232	-	

2003	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	-	-	-	11,770	11,770	-	-
Receivables <sup>1</sup>	-	-	-	-	-	-	-
	-	-	-	11,770	11,770		
Financial Liabilities							
Trade Creditors <sup>2</sup>	-	-	-	-	-	-	-
Sundry Creditors <sup>2</sup>	-	-	-	8,130	8,130	-	-
Finance Lease	-	-	-	-	-	-	-
	-	-	-	8,130	8,130		

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 2004

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**COMPANY DIRECTORY****Directors:**

Bronte Douglass  
Marcus Boland - Resigned 1/12/03  
Robin Mitchell  
Vicki Forge

**Bankers:**

Commonwealth Bank of Australia  
70-74, Top Ryde Shopping Centre  
Ryde 2112

**Company Secretary:**

Marcus Boland: Resigned 1/12/03  
Bronte Douglass: 1/12/03-5/10/04  
Anil Sharma: 5/10/04-

**Auditors:**

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

**Registered Office:**

Cosmedics Australia Limited  
Level 1, 219 Blaxland Road  
Ryde 2112

**Share Register:**

Newcastle Capital Markets  
Registries Pty Limited  
P.O. Box 402  
Hamilton 2303

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

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Financial Statements for the Year Ended 30 June 2004

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

<b>Ranges</b>	<b>Investors</b>	<b>Securities</b>	<b>% Issued Capital</b>
1 – 1,000	5	3,400	.02
1,001,-5,000	69	208,000	.92
5,001 – 10,000	27	223,136	.99
10,001 – 100,000	66	2,452,270	10.90
100,001 – and over	<u>18</u>	<u>19,613,204</u>	<u>87.17</u>
<b>Total</b>	<b><u>185</u></b>	<b><u>22,500,010</u></b>	<b><u>100.00</u></b>

The number of security investors holding less than a marketable parcel of 5,000 securities (\$100 on 25/10/2004) is 74 and they hold 211,400 securities.

**OPTIONS (DEC 2005)**

<b>Ranges</b>	<b>Investors</b>	<b>Securities</b>	<b>% Issued Capital</b>
1 – 1,000	38	34,700	.22
1,001-5,000	62	177,568	1.12
5,001 – 10,000	30	251,868	1.59
10,001 – 100,000	25	938,367	5.91
100,001 – and over	<u>10</u>	<u>14,472,502</u>	<u>91.17</u>
<b>Total</b>	<b><u>165</u></b>	<b><u>15,875,005</u></b>	<b><u>100.00</u></b>

The number of security investors holding less than a marketable parcel of 50,000 securities (\$010 on 25/10/2004) is 151 and they hold 1,103,403 securities.

**SHAREHOLDERS INFORMATION**

**The 20 largest shareholders (26/10/2004):**

**ORDINARY & ESCROW SHARES**

<b>Rank</b>	<b>Investor</b>	<b>Current Balance</b>	<b>% Issued Capital</b>
1	Douglass Automated Laboratories and Allied Services Pty Limited	10,093,002	44.86%
2	Stomar PTY Limited <Malachi A/C>	3,750,000	16.67%
3	David Peter Hawley + Jenny Ree Hawley	1,500,000	6.67%
4	Reynolds Nominees Pty Limited	502,000	2.23%
5	Tony Del Gigante + Christine May Del Gigante <Crestvale Super Fund A/C>	500,000	2.22%
6	Paul Williams	500,000	2.22%
7	Resource Capital Australia Pty Limited	450,000	2.00%
8	Malcolm Bird	400,002	1.78%
9	Mr James Crawford	300,000	1.33%
10	Jonathan Shakes	300,000	1.33%
11	Vicki Forge	250,000	1.11%
12	Robin Mitchell	250,000	1.11%
13	John Frederick Boland	180,000	.80%
14	John Patrick Kerrigan + Bonita Yvonne Russell	170,000	.76%
15	Mr Michael Hall	128,000	.57%
16	Mrs Samantha Jane Harrington	125,000	.56%
17	Barry Gracey	110,200	.49%
18	Mr Peter John Gee	105,000	.47%
19	Margaret Ruth Collier	100,000	.44%
20	Christine May Del Gigante	100,000	.44%
<b>TOTAL FOR TOP 20:</b>		<b>19,813,204</b>	<b>88.06%</b>
<hr/>			
		<b>Investors</b>	
<b>TOTAL IN THIS REPORT:</b>		<b>20</b>	<b>19,813,204 88.06%</b>
<b>TOTAL OTHER INVESTORS:</b>		<b>165</b>	<b>2,686,806 11.94%</b>
<b>GRAND TOTAL:</b>		<b>185</b>	<b>22,500,010 100.00%</b>

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

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Financial Statements for the Year Ended 30 June 2004

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**OPTIONS**

<b>Rank</b>	<b>Investor</b>	<b>Current Balance</b>	<b>% Issued Capital</b>
1	Douglass Automated Laboratories and Allied Services Pty Limited	10,046,501	<b>63.29%</b>
2	Resource Capital Australia Pty Limited	2,000,000	<b>12.60%</b>
3	David Peter Hawley + Jenny Ree Hawley	750,000	<b>4.72%</b>
4	Reynolds Nominees Pty Limited	501,000	<b>3.16%</b>
5	Malcolm Bird	350,001	<b>2.20%</b>
6	Paul Williams	250,000	<b>1.57%</b>
7	Mr James Crawford	150,000	<b>.94%</b>
8	Teresa Mitry	150,000	<b>.94%</b>
9	Jonathan Shakes	150,000	<b>.94%</b>
10	Mrs Samantha Jane Harrington	125,000	<b>.79%</b>
11	Mr Richard James Flynn	100,000	<b>.63%</b>
12	John Frederick Boland	80,000	<b>.50%</b>
13	Mr Michael Hall	64,000	<b>.40%</b>
14	Barry Gracey	55,100	<b>.35%</b>
15	Braypack International Pty Limited	50,000	<b>.31%</b>
16	Teresa Mitry	50,000	<b>.31%</b>
17	Mrs Dominique Ogilvie	50,000	<b>.31%</b>
18	Tim Olsen	50,000	<b>.31%</b>
19	Tambrey Holdings Pty Ltd	45,000	<b>.28%</b>
20	Derrick Rumbles	43,000	<b>.27%</b>
<b>TOTAL FOR TOP 20:</b>		<b>15,059,602</b>	<b>94.86%</b>
<hr/>			
		<b>Investors</b>	
<b>TOTAL IN THIS REPORT:</b>		<b>20</b>	<b>15,059,602 94.86%</b>
<b>TOTAL OTHER INVESTORS:</b>		<b>145</b>	<b>815,403 5.14%</b>
<b>GRAND TOTAL:</b>		<b>165</b>	<b>15,875,005 100.00%</b>

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