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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, 2003.

Directors

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

M. Bird (resigned)	M. Boland
B. Douglass	A. Kapel (resigned)
V. Forge	J. Irvin – Alternate Director (resigned)
M. Hall – Alternate Director (resigned)	R. Mitchell

Information of Directors

Bronte Douglass
MB,BS,DPH,DIH.

Dr Douglass has had more than 12 years experience in operating medical Centres and over 30 years experience in the pathology industry. In the past two years he has been directing the operation of a clinic providing Intense Pulsed Light and other cosmetic procedures. Dr Douglass was responsible for the creation and development of the multi-centred and hugely successful operations of nationally operating Douglass Laboratories group of pathology centres, now owned by Sonic Healthcare. He has also had extensive experience as a company director and as a company/business and property owner and investor.

Marcus Boland
B Com,LLB

issues,

Mr Boland is the Principal and Director of Resource Capital Australia Pty Limited, a boutique corporate advisory and merchant banking firm carrying out full range of company advisory and corporate facilitation services, including listings/back-door listings, acquisitions, capital-raising/new issues, all stock exchanges, proactive services, company workouts, equity/business matching/angels, proactive all industries, all resource categories, debt/asset and property financing, litigation support services, intellectual property development and support, idea/concept development. He has worked in Corporate Advisory for more than 15 years.

Vicki Forge

Mrs Forge has been involved in the day to day operations of medical companies as Personal Assistant to the Managing Director for the past 18 years. She is well-versed in all operating and administrative procedures of the group businesses and has held responsibility of ensuring their smooth performance and has been with the group from their earlier stages of development and is thereby a strong administering force in the general operating repertoire of the company. Ms Forge has also for the past two years been the manager of the Castle Hill Cosmedics clinic providing Intense Pulsed Light and a full range of cosmedical, cosmetic and associated procedures and services.

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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 13.

Meetings of Directors

During the financial year 4 meeting of directors was held. Attendances were:-

Name		Name	
M. Bird	1	M. Boland	4
B. Douglass	4	V. Forge	4
A. Kapel	1	J. Irvin	1
M.Hall	0	R. Mitchell	3

Activities

The principal activities of the Company consisted of the operation of a medical centre, laser cosmetic technology and share investments.

Results

The operating loss of the Company attributable to Members of Cosmedics Australia Limited for the period was \$21,985 (2002: \$19,202 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 the following significant changes in the state of affairs of the company occurred:

- (i) The company issued 1,100,005 shares and 1,100,005 options as a bonus issue to Shareholders.
- (ii) The company on 1 June, 2003 acquired a medical centre, a laser cosmetic business and intellectual property, for which 11,500,000 shares and 11,500,000 options were issued at a discount.
- (iii) The company issued 2,300,000 shares and 2,300,000 options at a discount to various persons for their role in the listing of the company on the Newcastle Exchange

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in financial years subsequent to the financial year ended 30 June.

Likely Developments in Operations

The company will continue to manage its investment portfolio and the operations of the medical centre and the laser cosmetic equipment.

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

The Directors believe the medical field offers a very attractive long term investment for the company, specifically in the area of cosmetic medicine, which is a rapidly growing and generally highly profitable business which should grow the asset and revenue base for the company and provide further potential for growth.

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 J. Irvin Company Secretary and Alternate Director whose firm receives fees from Accounting, Secretarial and Share Registry Services in the normal course of business.

Options

At the date of this report, there are 14,900,005 unissued ordinary shares under option of Cosmedics Australia Limited which 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 29th day of October, 2003
in accordance with a resolution of the directors.

..... (Director)

..... (Director)

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF COSMEDICS AUSTRALIA LIMITED

Scope

We have audited the financial report of Cosmedics Australia Limited, comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and Notes to the Accounts for the year ended 30 June 2003. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosure in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's position and performance as represented by the result of its operations, and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

The goodwill reported in the Statement of Financial Position represents the difference between the assets purchased 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 in Note 9 to the financial statements. We have not been supplied with adequate supporting documentation to enable us to form an opinion on the recoverable value of the goodwill arising from the acquisitions. 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 have been 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 has not been supplied. 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.

Qualified Audit Opinion

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

- a. the Corporations Act, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations
- b. other mandatory professional reporting requirements in Australia.

Dated, 29 October, 2003
North Parramatta

KENDALLS LMJ
Chartered Accountants
N.E. SINCLAIR
(Partner)

DIRECTORS DECLARATION

The directors of the company declare that:

1. The financial statements and notes, 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 2003 and performance for the year ended on that date of the company.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 29th day of October, 2003
in accordance with a resolution of the directors.

..... (Director)

..... (Director)

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2003 \$	2002 \$
Revenues from ordinary activities	2a	<u>32,874</u>	<u>-</u>
Depreciation		620	-
Amortisation of Goodwill		4,367	-
Other expenses from ordinary activities		<u>49,872</u>	<u>19,202</u>
Total Expenses	2b	<u>54,859</u>	<u>19,202</u>
Profit (loss) from ordinary activities before income tax expense		(21,985)	(19,202)
Income tax relating to ordinary activities	3	<u>-</u>	<u>-</u>
Profit (loss) from ordinary activities after income tax expense		<u>(21,985)</u>	<u>(19,202)</u>
Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity		<u>(21,985)</u>	<u>(19,202)</u>
Basic earnings per share (cents)	4	(0.49)	(1.75)
Diluted earnings per share (cents)	4	0.15	(1.75)

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STATEMENT OF FINANCIAL POSITION

	Note	2003	2002
		\$	\$
CURRENT ASSETS			
Cash Assets	5	11,770	3,478
Inventories	6	7,000	-
TOTAL CURRENT ASSETS		<u>18,770</u>	<u>3,478</u>
NON-CURRENT ASSETS			
Other Financial Assets	7	20,423	37,583
Property, Plant and Equipment	8	44,250	-
Intangibles	9	1,093,763	-
TOTAL NON-CURRENT ASSETS		<u>1,158,436</u>	<u>37,583</u>
TOTAL ASSETS		<u>1,177,206</u>	<u>41,061</u>
CURRENT LIABILITIES			
Sundry Creditors	10	8,130	-
TOTAL CURRENT LIABILITIES		<u>8,130</u>	<u>-</u>
TOTAL LIABILITIES		<u>8,130</u>	<u>-</u>
NET ASSETS		<u>1,169,076</u>	<u>41,061</u>
SHAREHOLDERS' EQUITY			
Contributed Equity	11	1,700,002	550,002
Retained Profits/(Losses)	12	(530,926)	(508,941)
TOTAL SHAREHOLDERS' EQUITY		<u>1,169,076</u>	<u>41,061</u>

STATEMENT OF CASH FLOWS

	Note	2003	2002
		\$	\$
Cash Flow from Operating Activities			
Receipts		32,858	240
Payments to Suppliers and Employees		(43,977)	(2,024)
Interest Received		8	-
Net Cash used in Operating Activities	17	<u>(11,111)</u>	<u>(1,784)</u>
Cash Flow from Investing Activities			
Purchase of property, plant and equipment		(44,870)	-
Purchase of Goodwill		(1,098,130)	-
Proceeds from Sale of Investments		12,403	-
Net Cash used in Investing Activities		<u>(1,130,597)</u>	<u>-</u>
Cash Flow from Financing Activities			
Proceeds from issue of shares		1,150,000	-
Net Cash provided by Investing Activities		<u>1,150,000</u>	<u>-</u>
Net Increase (Decrease) in Cash Held		<u>8,292</u>	<u>(1,784)</u>
Cash at 30th June 2002		<u>3,478</u>	<u>5,262</u>
Cash at 30th June 2003		<u><u>11,770</u></u>	<u><u>3,478</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic Accounting Principles

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

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

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

The following is a summary of the significant 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.

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 value of any intellectual property are not able to be 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 a service is recognised upon the delivery of the service to the customers.

2. OPERATING PROFIT

	Note	2003 \$	2002 \$
a. REVENUE			
Interest Received		8	-
Medical Fees Received (from June 1, 2003)		28,791	-
Other		4,075	-
TOTAL REVENUE		32,874	-
b. EXPENSES			
Ordinary Activities			
Audit fees – Audit Services		1,045	850
Audit fees – Other Services		-	-
Depreciation		620	-
Amortisation of Goodwill		4,367	-
Write down of listed shares		3,960	14,538
Loss on disposal of fixed assets		-	1,740
Loss on sale of Investments		797	-
Accounting and Secretarial		1,400	850
Other Administration Costs		42,670	1,224
TOTAL EXPENSES		54,859	19,202

NOTES TO THE FINANCIAL STATEMENTS

3. INCOME TAX

The company has available tax losses amounting to \$299,812 (2002 \$290,101) 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.

4. EARNINGS PER SHARE

Net profit and earnings used in the calculation of dilutive EPS	(21,985)	(19,202)
Weighted average number of ordinary shares	16,000,010	1,100,004
Weighted average number of options outstanding	14,900,005	-

5. CASH ASSETS

Cash at Bank	11,770	3,478
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6. INVENTORIES

Medical Supplies (at cost)	7,000	-
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7. OTHER FINANCIAL ASSETS

Non Current

Shares in listed corporations at market value	20,423	37,583
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8. PROPERTY, PLANT & EQUIPMENT

Office Equipment and Furniture - at cost	44,870	-
Less Accumulated Depreciation	620	-
Total Fixed Assets	44,250	-

Movements in Fixed Assets

Opening written down value	-	1,740
Plus: additions	44,870	-
Less: depreciation	(620)	-
disposal of assets	-	(1,740)
Closing written down value	44,250	-

NOTES TO THE FINANCIAL STATEMENTS

	Note	2003 \$	2002 \$
9. INTANGIBLE ASSETS			
Goodwill at cost		1,048,130	-
Accumulated amortisation		4,367	-
		<u>1,043,763</u>	<u>-</u>
Intellectual property, including rights and domains		50,000	-
		<u>1,093,763</u>	<u>-</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: 1,500,000 options issued at \$0.		-	-
Total Consideration		<u>1,150,000</u>	<u>-</u>
Assets Acquired			
Plant and Equipment		44,870	-
Inventory		7,000	-
Intellectual Property at directors valuation		50,000	-
Total assets		<u>101,870</u>	<u>-</u>
Excess of cost over assets acquired		<u>1,048,130</u>	<u>-</u>

Vendor	Assets acquired	Share Issue	Options Issue	Cash Payment
BD Cosmedics – associated with Dr Bronte Douglass	IPL Laser and appearance medicine	6,000,000	6,000,000	Nil
Aushealth Medical Centres Pty Limited– associated with Dr Bronte Douglass	General Medical and practice clinic	4,000,000	4,000,000	Nil
Cosmedics IP - RCA	Intellectual Property	1,500,000	1,500,000	Nil
		11,500,000	11,500,000	Nil

The following is a summary of the consideration to be issued for professional services in the promotion and listing of the company on the Newcastle Stock Exchange:

	Share Issue	Options Issue	Cash Payment
RCA	1,500,000	1,500,000	Nil
Reynolds & Co	500,000	500,000	Nil
Malcolm Bird - Director	300,000	300,000	Nil
	2,300,000	2,300,000	Nil

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Total Issued	13,800,000	13,800,000	Nil
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NOTES TO THE FINANCIAL STATEMENTS

10. PAYABLES

Current

Sundry creditors and accrued expenses	8,130	-
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11. CONTRIBUTED EQUITY

16,000,010 (2002: 1,100,005) ordinary Shares of 50 cents each fully paid	1,700,002	550,002
At the beginning of the reporting period	550,002	550,002
Shares issued for goodwill purchased (June 2003)	1,150,000	-
At reporting date	1,700,002	550,002
At the beginning of the reporting period	1,100,005	1,100,005
Shares issued: Bonus (1:1)	1,100,005	-
Purchased businesses and goodwill	9 11,500,000	-
Other	9 2,300,000	-
At reporting date	16,000,010	1,100,005

Share Options Issued

14,900,005 options were issued during the financial year. These options are exercisable at \$0.20 per share and exercisable up to December 31, 2005. Details of the options are set out below

Acquired business assets	9 11,500,000	-
Professional Services	9 2,300,000	-
Existing shareholders	1,100,005	-
	14,900,005	-

12. RETAINED EARNINGS

Balance at beginning of year	(508,941)	(489,739)
Operating Profit/(Loss) for the year net of income tax	(21,985)	(19,202)
Balance at the end of the year	(530,926)	(508,941)

NOTES TO THE FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

a. Mr J Irvin received fees for professional accounting, secretarial and share registry services to the company amounting to \$1,400 (2002 \$850).

b. No other remuneration is paid to any director of the company other than that disclosed above.

c. Director's Interests:

The interests of current directors in the share capital of the company and options as at 30 June 2003 are as follows:-

Director	Shares Held Directly	Shares Held Indirectly
V. Forge	250,000	
R. Mitchell	250,000	
B. Douglass		10,093,002
M. Boland		500,000

Director	Options Held Directly	Options Held Indirectly
V. Forge	250,000	
R. Mitchell	250,000	
B. Douglass		10,093,002
M. Boland		2,000,000

In addition Mr Bird while as a director received 300,000 ordinary shares and 300,000 Options. All shares and options held by the directors were issued during the financial year.

All share options held by the directors were issued during the financial year, and are exercisable at \$0.20 per share and up to December 31 2005.

d. Following the sale of the medical centre business from Aushealth Medical Centres Pty Limited to Cosmedics Australia Limited, there was a number of commercial and contractual arrangements in the name of Aushealth Medical Centres Pty Limited which had not been renegotiated into the name of Cosmedics Australia Limited by 30 June. Cosmedics Australia Limited reimburses Aushealth Medical Centres Pty Limited at cost until these arrangements are finalised.

14. 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..

15. CONTINGENT LIABILITIES

There are no contingent liabilities

16. SEGMENT REPORTING

The company previously operated as an investment company holding shares in listed companies. Since the 1 June 2003, the company commenced to operate in the health industry.

NOTES TO THE FINANCIAL STATEMENTS

	Note	2003	2002
		\$	\$
17. 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>11,770</u>	<u>3,478</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>(21,985)</u>	<u>(19,202)</u>
Non-cash flows in profit from ordinary activities			
Depreciation and Amortisation		4,987	-
Provision for diminution		3,960	14,538
(Profit)/loss on disposal of investments		797	-
(Profit)/loss on disposal of plant and equipment		-	1,740
		<u>9,744</u>	<u>16,278</u>
Changes in assets and liabilities			
(Increase)/decrease in receivables		-	240
(Increase)/decrease in prepayments		-	900
(Increase)/decrease in inventories		(7,000)	-
Increase/(decrease) in other creditors		8,130	-
		<u>1,130</u>	<u>1,140</u>
<u>Cash flows from operations</u>		<u>(11,111)</u>	<u>(1,784)</u>

COMPANY DIRECTORY

Directors:

Bronte Douglass
Marcus Boland
Vicki Forge
Robin Mitchell

Bankers:

National Australia Bank Limited
Castlereagh & Hunter Streets
SYDNEY

Company Secretary:

Marcus Boland

Auditors:

Kendalls LMJ
Chartered Accountants
Level 5, 460 Church Street
North Parramatta 2151

Registered Office and Share Register:

C/- Central West Gold
4th Floor,
20 Loftus Street
SYDNEY

SHAREHOLDERS INFORMATION

Distribution of Shareholders Number

Category

1 – 1,000	5
1,001,-5,000	69
5,001 – 10,000	26
10,001 – 100,000	54
100,001 – and over	<u>11</u>
	<u>165</u>

The number of shareholdings held in less than marketable parcels is 112

The names of the substantial shareholders listed in the holding company's register as at 15 October, 2003 are:

Douglass Automated Laboratories and Allied Services Pty Limited	10,093,002
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SHAREHOLDERS INFORMATION

The voting rights attached to the ordinary shares is each is entitled to one vote when a poll is called, otherwise each member present at the meeting or by proxy has one vote on a show of hands.

The 20 largest shareholders are: %	Number	
Douglass Automated Laboratories and Allied Services Pty Limited	10,093,002	63.1
Reynolds Nominees Pty Limited	502,000	3.1
Resource Capital Australia Pty Limited	500,000	3.1
Paul Williams	500,000	3.1
Jonathan Shakes 2.5	400,000	
Port Macquarie Biotech	300,000	1.9
Pure White	300,000	1.9
Vicki Forge	250,000	1.5
Robin Mitchell	250,000	1.5
Fit Investments	128,000	0.8
Barry Gracey	110,200	0.7
Dominique Ogilvie	100,000	0.6
Tim Olsen	100,000	0.6
Tambrey Holdings Pty Limited	90,000	0.6
Derek Rumbles	86,000	0.5
Paul Edward Caughlin	80,002	0.5
Richard Cox	80,002	0.5
Adrian Kapel	80,002	0.5
John Boland	80,000	0.5
John Leigh Brown	<u>80,000</u>	<u>0.5</u>
	<u>14,109,208</u>	<u>88.2</u>

Options over Unissued Shares

A total of 14,900,005 options are on issue to 165 holders of ordinary securities.

COSMEDICS AUSTRALIA LIMITED

A.B.N. 38 002 862 017

ANNUAL REPORT

2003