AdultShop.com Limited
ABN 92 009 147 924

HALF-YEAR FINANCIAL REPORT

For the half-year ended 31 December 2003

Directors' Report

Your directors submit their report for the half-year ended 31 December 2003.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Kimberley Heitman
Malcolm Day
Hans-Rudolf Moser
Bradley Moore (appointed 15 October 2003)

Review and Results of Operations

The net profit after tax of the consolidated entity for the half-year ended 31 December 2003 was $2.2 million (2002: net loss of $1.4 million).

The earnings per share for the year was 0.73 cents (2002: loss per share 0.47 cents).

Business Segment	Revenues	Operating profit / (loss) prior to amortisation and depreciation	Amortisation of intangibles	Depreciation	Operating profit / (loss)before income tax
	$'000	$'000	$'000	$'000	$'000
On line	8,892	4,070	(77)	(25)	3,968
Retail/Wholesale	10,093	1,034	(661)	(469)	(96)
Phone services	1,427	(33)	-	(1)	(34)
Unallocated	295	(1,001)	-	(98)	(1,099)
Total	20,707	4,070	(738)	(593)	2,739

Entertainment Division

The significant improvement in profitability for the half-year has occurred because of changes to the operating environment for the online erotic entertainment division.

The stabilisation of this divisions credit card processing and the minimisation of outstanding charges associated with credit card processing has enabled the division to report an increased net profit compared to the previous corresponding period.

The changes to the Credit Card Associations' regulations have significantly affected the online erotic entertainment division. The division has remained profitable and cash flow positive due to major changes to the business made throughout the half-year.

The division is currently complying with the Credit Card Associations regulations, including acceptable level of disputed transactions. New opportunities are expected to arise in the next 12 months as the industry continues to stabilize.

Directors' Report

Wholesale and Mail Order Operations

Calvista Australia Pty Ltd (Calvista) remains the pre-eminent wholesale distributor to the Australian and New Zealand adult retail industries. To take advantage of interdivision synergies, Calvista merged with AXIS (mail order operations). The integration will create significant cost savings, improved marketing channels and improved management effectiveness.

During the half-year, the Company has invested considerably in this operation. A new showroom was built to satisfy the needs of its wholesale customers. The Company has also invested in new Plant and Equipment, including modifications and further improvements to the computer system enabling greater efficiencies to be realised in the future with regards to stock control and customer relations management. With the growth of the wholesale DVD business, the Company purchased a state of the art DVD authoring machine to further improve efficiencies and reduce costs associated with the production of DVD's.

The combined operation of Calvista has warehouses in Melbourne, Sydney and Canberra. Calvista is now considered the largest adult wholesale company in Australia with the distribution and sale of recognised adult brands including Private, California Exotic Novelties, Wicked Pictures, Evil Empire Productions, Doc Johnson, Hustler, Penthouse and many more.

Australian Retail Operations

The re-branding of the retail stores to adultshop.com (from Barbarellas) has been completed during the half-year. The re-branding, together with the investment in staff training, increased advertising and marketing, increased product lines, and improved product fulfilment and supply systems, have set the foundations for future sales growth.

The retail operation has launched a party plan sales initiative that enables consumers to purchase adult products in the comfort of their own homes with family and friends. Management believe that this initiative could significantly grow sales into the future.

ASIC Investigation

The Australian Securities and Investment Commission (ASIC) has recently advised the Company that it had concluded its investigation, which commenced on 17 September 2002. ASIC has also advised that it intends to take no further action against the Company in respect of this matter.

Rounding

The amounts contained in this report and in the half-year financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

Malcolm Day
Managing Director

Perth, 26 February 2004

Condensed Statement of Financial Performance
Half-Year Ended 31 December 2003

	Notes	Consolidated for the half-year ended 31 December 2003 $A'000	Consolidated for the half-year ended 31 December 2002 $A'000
Revenues from ordinary activities	2	20,707	57,743
Expenses from ordinary activities	2	(17,968)	(59,235)
Profit/(loss) from ordinary activities before tax		**2,739**	**(1,492)**
Income tax (expense) / benefit on ordinary activities	8	(514)	42
Profit/(loss) from ordinary activities after tax		**2,225**	**(1,450)**
Net profit/(loss) for the period attributable to members of AdultShop.com Limited		**2,225**	**(1,450)**

Earnings / (Loss) per security	for the half-year ended 31 December 2003	for the half-year ended 31 December 2002
Basic Earnings / (Loss) per share	0.73 cents	(0.47) cents
Diluted Earnings / (Loss) per share	0.73 cents	(0.47) cents

Condensed Statement of Financial Position
Half-Year Ended 31 December 2003

	Notes	Consolidated	
		as at 31 December 2003 $A'000	as at 30 June 2003 $A'000
Current assets			
Cash assets		13,752	12,465
Receivables		3,594	4,008
Inventories		5,038	4,588
Other – Prepayments and Security Deposits		841	91
Total current assets		**23,225**	**21,152**
Non-current assets			
Property, plant and equipment		3,515	3,134
Intangible assets		2,009	2,217
Total non-current assets		**5,524**	**5,351**
Total assets		**28,749**	**26,503**
Current liabilities			
Payables		3,314	3,446
Interest-bearing liabilities		65	72
Tax liabilities		972	720
Provisions		424	507
Total current liabilities		**4,775**	**4,745**
Non-current liabilities			
Interest-bearing liabilities		14	25
Other		180	178
Total non-current liabilities		**194**	**203**
Total liabilities		**4,969**	**4,948**
Net assets		**23,780**	**21,555**
Equity			
Contributed equity		72,396	72,396
Reserves		115	115
(Accumulated losses)		(48,731)	(50,956)
Total equity		**23,780**	**21,555**

Condensed Statement of Cash Flows
Half-Year Ended 31 December 2003

	Notes	Consolidated for the half-year ended 31 December 2003 $A'000	Consolidated for the half-year ended 31 December 2002 $A'000
Cash flows related to operating activities			
Receipts from customers		21,774	47,539
Payments to suppliers and employees		(18,490)	(52,273)
Interest received		278	177
Interest paid		(6)	(7)
Income taxes paid		(215)	(2,100)
Net operating cash flows		**3,341**	**(6,664)**
Cash flows related to investing activities			
Payment for purchases of property, plant and equipment		(1,127)	(801)
Proceeds from sale of property, plant and equipment		130	8
Payment for purchases of equity investments and businesses		-	(100)
Proceeds from disposal of businesses		-	106
Advances repaid by associated entities		30	58
Other - Payment for Copyright and Domain Names		(614)	(461)
Other - Security Deposits	**	(405)	-
Net investing cash flows		**(1,986)**	**(1,190)**
Cash flows related to financing activities			
Finance Lease principal payments		(15)	(48)
Net financing cash flows		**(15)**	**(48)**
Net increase/(decrease) in cash held		**1,340**	**(7,902)**
Cash at beginning of period		12,465	17,490
Effects of exchange rate on cash		(53)	-
Cash at end of period		**13,752**	**9,588**

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Following an assessment of the Company's bank accounts, deposits with certain restrictions on their day to day use have been reclassified as security deposits. These security deposits are in the Company's name and earn interest at term deposit rates.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

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

The half-year financial report should be read in conjunction with the Annual Financial Report of AdultShop.com Limited as at 30 June 2003. It is also recommended that the half-year financial report be considered together with any public announcements made by AdultShop.com Limited and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of accounting

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

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

b) Changes in accounting policies and estimation methods

The accounting policies and estimation methods adopted are consistent with those applied in the 30 June 2003 Annual Financial Report.

2 PROFIT FROM ORDINARY ACTIVITIES

	Consolidated	
	for the half-year ended 31 December 2003 $A'000	**for the half-year ended 31 December 2002 $A'000**
Revenues from ordinary activities		
Sales revenue	20,275	57,508
Interest Revenue	261	155
Other relevant revenue	34	80
Proceeds from sale of property, plant and equipment	137	-
Total Revenues from ordinary activities	20,707	57,743
Expenses		
Cost of Goods sold and services rendered	8,053	47,622
Distribution expenses	132	489
Marketing expenses	1,882	1,602
Occupancy expenses	1,003	989
Administrative expenses	4,715	4,811
Other expenses from ordinary activities	846	788
Other expenses – amortisation of intangibles	738	2,527
Borrowing expenses	6	7
Depreciation	593	400
Total Expenses	17,968	59,235
Significant Items		
During the period ended 31 December 2003, provisions made in prior financial periods against credit card chargebacks and fines were reduced as a result of better statistical information and actual experience regarding these matters. A reduction of $882,000 was recorded against "Cost of Goods sold and services rendered", with a consequential increase in the net profit before tax recorded for the six months ended 31 December 2003.		

3 Dividends Paid or provided on ordinary shares

No amounts have been paid, declared or recommended by AdultShop.com Limited by way of dividend since the commencement of the half-year

4 Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

5 Subsequent Events

No matter or circumstance has arisen since the end of the half-year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in subsequent financial years.

6 Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, AdultShop.com Limited and its wholly owned subsidiaries have formed a tax consolidated group. Members of the group have agreed to enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on an appropriate basis. The agreement will also provide for the allocation of income tax liabilities between the entities should the head entity default on its payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is AdultShop.com Limited. There has been no impact on the financial statements from entering into the tax consolidated group.

7 Segment Information

Segment products and locations

The consolidated entity's operating divisions are organised and managed separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets.

The on-line segment provides online erotic entertainment services and the retailing of erotic products to internet users. The Retail/Wholesale segment is comprised of a chain of erotic retail stores, a mail order company selling adult videos and DVDs to consumers and a wholesale business which sells products to erotic retail outlets. The phone services division operates telephone dating and chat services.

Geographically, the majority of the group revenue is produced on the worldwide web and therefore it is not possible to determine with any accuracy the country of origin for that revenue. The group is aware that a significant portion of revenue attributed to the on-line segment originates from North America. The retail/wholesale and phone services segments operate predominantly in Australia and New Zealand.

Segment accounting policies

The group generally accounts for intersegment sales and transfers as if the sale or transfers were to third parties at current market prices.

SEGMENT INFORMATION – PRIMARY SEGMENT

Business segments	On-Line		Retail/Wholesale		Phone Services		Eliminations/Other		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue										
Sales to customers outside the consolidated entity	8,892	45,364	9,956	11,075	1,427	1,069	-	-	20,275	57,508
Other revenues	-	-	137	29	-	-	-	-	137	29
Intersegment revenues	-	-	560	1,066	-	-	(560)	(1,066)	-	-
Total segment revenue	8,892	45,364	10,653	12,170	1,427	1,069	(560)	(1,066)	20,412	57,537
Unallocated revenue									295	206
Total consolidated revenue									20,707	57,743

SEGMENT INFORMATION – PRIMARY SEGMENT (cont'd)

	On-Line		Retail/Wholesale		Phone Services		Eliminations/Other		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Results										
Earnings before tax, depreciation, amortisation and write-offs	4,070	639	1,034	1,529	(33)	201	-	-	5,071	2,369
Depreciation	(25)	(67)	(469)	(330)	(1)	(3)	(98)	-	(593)	(400)
Amortisation	(77)	(1,308)	(661)	(1,112)	-	(107)	-	--	(738)	(2,527)
Segment result	3,968	(736)	(96)	87	(34)	91	(98)	-	3,740	(558)
Unallocated corporate expenses									(1,001)	(934)
Consolidated entity profit / (loss) from ordinary activities before income tax expense									2,739	(1,492)
Income tax (expense) / benefit									(514)	42
Net profit / (loss)									2,225	(1,450)

SEGMENT INFORMATION – SECONDARY SEGMENT

Geographic Segments

Segment revenue

The majority of the group revenue is produced on the worldwide web and therefore it is not possible to determine with any accuracy the country of origin for that revenue. The group is aware that a significant portion of group revenue originates from North America.

Segment Assets

The group has no significant assets outside Australia.

8 Income Tax

	Consolidated	
INCOME TAX	**as at 31 December 2003 $A'000**	**as at 31 December 2002 $A'000**
(a) The prima facie benefit at 30% (2002: 30%) on operating profit / (loss) is reconciled to the income tax provided in the accounts as follows:		
Operating profit / (loss)	2,739	(1,492)
Prima facie income tax (expense)/ benefit	(822)	447
Tax effect of permanent differences		
Foreign losses not taken up as a benefit	-	(4)
Amortisation of goodwill	(53)	(476)
Goodwill written off	-	-
Amortisation of other intangibles	(32)	(67)
Other non-deductible items	(4)	(12)
Other non-assessable items	-	40
Overprovision of previous year	-	114
Income tax benefit of tax losses and future income tax benefits from prior years not brought to account in prior years profit	397	-
Income tax (expense) / benefit attributable to operating profit	(514)	42

Directors' Declaration

In accordance with a resolution of the directors of AdultShop.com Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

- (i) give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and
- (ii) comply with Accounting Standard AASB 1029: "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Malcolm Day
Managing Director

Perth, 26 February 2004

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Independent review report to members of AdultShop.com Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for AdultShop.com Limited (the company) and the consolidated entity, for the half-year ended 31 December 2003. The consolidated entity comprises both the company and the entities it controlled during that half-year.

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 the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

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

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

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

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

- (i) giving a true and fair view of the financial position of AdultShop.com Limited and the consolidated entity at 31 December 2003 and of their performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
Date: 26 February 2004