Appendix 4D

Half year report

Name of entity

AdultShop.com Limited

ABN or equivalent company reference

92 009 147 924

Financial year ended ('current period')

31 December 2005

Results for announcement to the market

				$'000
Revenues from ordinary activities	Up	4.2%	to	20,164
Profit from ordinary activities after tax attributable to members				167
Net profit for the period attributable to members				167

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend Interim dividend	None	- ¢
Previous corresponding period	None	- ¢

Record date for determining entitlements to the dividend	N/A

A brief explanation of the figures reported above necessary to enable the figures to be understood is contained under the heading "Review and Results of Operations" in the Directors' Report included in the attached Half Year Financial Report.

The above results should be read in conjunction with the notes and commentary contained in the attached Half Year Financial Report and the most recent Annual Financial Report.

	31 December 2005	31 December 2004
Net tangible assets per security	6.4 cents	6.8 cents

AdultShop.com Limited
ABN 92 009 147 924

HALF-YEAR FINANCIAL REPORT

For the half-year ended 31 December 2005

Directors' Report

Your directors submit their report for the half-year ended 31 December 2005.

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 (Chairman)
Malcolm Day (Managing Director)
Hans-Rudolf Moser
Bradley Moore

Review and Results of Operations

The group recorded an increase in both revenues and profits for the half-year. Sales revenue for the half year was $19,997,000 (2004: $19,011,000) representing an increase of 5% on the corresponding period in the prior year. An increase of $1,781,000 in revenues resulting from the acquisition of the New Zealand operations in May 2005, was largely offset by a decrease of $1,003,000 in Online Entertainment revenues, a decrease of $479,000 in German Online Retail sales revenues and a decrease of $212,000 in Mail Order revenues. All other divisions recorded increased revenues in comparison to the corresponding prior period.

Although the net profit before tax of $167,000 for the half year was a significant improvement on the 2004 half year, the net loss of $1,457,000 before tax in 2004 included a provision of $1,924,000 for the settlement of the legal claim brought against the company by a United States based credit card processor (which was settled in January 2005), and related legal fees of $386,000.

Results for the half year were adversely affected by higher than expected once off costs associated with the integration of the New Zealand business and also reduced Wholesale margins which are expected to improve in the second half of the financial year. As a result, it is now forecast that the net profit after tax for the full year from current operations will be approximately $500,000.

Auditor Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of AdultShop.com Limited with an independence declaration in relation to the review of the half-year financial report. This independence declaration is attached to this report.

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, 14 March 2006

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Auditor's Independence Declaration to the Directors of AdultShop.com Limited

In relation to our review of the financial report of AdultShop.com Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
14 March 2006

Condensed Balance Sheet
As at 31 December 2005

	Notes	Consolidated as at 31 December 2005 $'000	Consolidated as at 30 June 2005 $'000
Current assets			
Cash and cash equivalents		5,846	6,505
Trade and other receivables		4,950	3,554
Current tax receivable		75	73
Inventories		7,463	7,325
Other financial assets		-	530
Other – Prepayments and Security Deposits		1,413	755
Total current assets		**19,747**	**18,742**
Non-current assets			
Other financial assets		76	-
Plant and equipment		4,423	4,483
Goodwill		1,268	1,268
Copyright, website costs and mail order lists		1,908	2,020
Total non-current assets		**7,675**	**7,771**
Total assets		**27,422**	**26,513**
Current liabilities			
Trade and other payables		3,493	2,946
Interest-bearing loans and borrowings		14	14
Provisions		516	498
Total current liabilities		**4,023**	**3,458**
Non-current liabilities			
Interest-bearing loans and borrowings		70	78
Provisions		568	512
Total non-current liabilities		**638**	**590**
Total liabilities		**4,661**	**4,048**
Net assets		**22,761**	**22,465**
Equity			
Issued capital	**4**	72,403	72,402
Reserves		(610)	(738)
Accumulated losses		(49,032)	(49,199)
Total equity		**22,761**	**22,465**

Condensed Cash Flow Statement
For the Half-Year ended 31 December 2005

	Consolidated	
	for the half-year ended 31 December 2005 $'000	for the half-year ended 31 December 2004 $'000
Cash flows from operating activities		
Receipts from customers	21,499	19,678
Payments to suppliers and employees	(21,920)	(20,361)
Interest received	159	335
Income taxes paid	-	(1,132)
Net cash flows from operating activities	**(262)**	**(1,480)**
Cash flows from investing activities		
Payment for purchases of property, plant and equipment	(380)	(863)
Advances repaid by associated entities	-	3
Short term equity investment	(11)	(546)
Proceeds from sale of short term equity investment	802	-
Other - Payment for copyright and domain Names	(850)	(591)
Net cash flows used in investing activities	**(439)**	**(1,997)**
Cash flows from financing activities		
Proceeds from issue of ordinary shares	2	2
Finance lease payments	(24)	(19)
Net cash flows used in financing activities	**(22)**	**(17)**
Net decrease in cash held	**(723)**	**(3,494)**
Cash and cash equivalents at beginning of period	6,505	14,662
Net foreign exchange difference	64	(58)
Cash and cash equivalents at end of period	**5,846**	**11,110**

Condensed Statement of Changes in Equity
Half-Year ended 31 December 2005

Consolidated	Issued Capital $'000	Accumulated losses $'000	Other reserves $'000	Total equity $'000
At 1 July 2004	72,400	(47,868)	(431)	24,101
Currency translation differences	-	-	(117)	(117)
Loss for the period	-	(1,358)	-	(1,358)
Exercise of options	2	-	-	2
At 31 December 2004	**72,402**	**(49,226)**	**(548)**	**22,628**
At 1 July 2005	72,402	(49,199)	(738)	22,465
Impact on transition on available for sale financial assets			171	171
Realised gain on sale of available for sale financial assets	-	-	(171)	(171)
Currency translation differences			128	128
Profit for the period	-	167	-	167
Exercise of options	1	-	-	1
At 31 December 2005	**72,403**	**(49,032)**	**(610)**	**22,761**

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 2005, which was prepared based on Australian Accounting Standards applicable to financial years beginning before 1 January 2005 ('AGAAP').

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 2005 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, AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis except for available for sale financial assets that have been measured at fair value.

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

(b) Statement of compliance

Compliance with AASB 134 ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This is the first half-year financial report prepared based on Australian Equivalents to International Financial reporting Standards ('AIFRS') and, except for financial instruments, comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly.

The consolidated entity has not restated comparative information for financial instruments as permitted under the first-time adoption transitional provisions of AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards". The accounting policies for financial instruments applicable to the comparative period are consistent with those disclosed in the 2005 Financial Report.

A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of AdultShop.com Limited and its subsidiaries ('the Group'). Acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which AdultShop.com Limited had control.

(ii) Foreign currency translation

With the exception of Today's Success Pty Limited whose functional currency is the United States dollar (US$), the functional and presentation currency of AdultShop.com Limited and it's Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report arising from the above procedures are taken to the income statement.

As at the reporting date, the assets and liabilities of subsidiaries with functional currencies other than Australian dollars, are translated into the presentation currency of AdultShop.com Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on translation are taken to a separate component of equity.

(iii) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:
Plant and equipment – over 3 to 15 years
Leasehold improvements – the term of the lease

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(iv) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(v) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(vi) Intangible assets

Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to all intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Copyright, classification costs, website costs, mail order lists and domain names are externally acquired assets with a finite useful life and are amortised on a straight line basis over two years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(vii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(viii) Investments

All investments are initially recognised at the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

(ix) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods – Purchase cost on a weighted average cost basis

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs and the estimated costs necessary to make the sale.

(x) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(xi) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(xii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xiii) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(xiv) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xv) Share-based payment transactions

The Group operates an Employee Share Option Plan. The plan provides benefits to directors and employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of AdultShop.com Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xvi) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xvii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer on the receipt of payment in respect of cash sales and on the delivery of the goods to the customer in the case of credit sales.

Rendering of services
Where the contract outcome can be measured reliably and control of a right to be compensated for the services has been attained. This is taken to be the date on which the payment for the services is processed by the Group's credit card service providers.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends
Revenue is recognised when the shareholders' right to receive the payment is established.

(xiii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xix) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xx) Employee benefits

Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields
at the reporting date on national government bonds with terms to maturity and maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations
AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments
Financial instruments are designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale from 1 July 2005.

Share-based payment transactions
AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The Group has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

Restoration Liabilities
The group elected to apply the exemption relating to changes in restoration liabilities that are to be added to or deducted from the cost of an asset.

(e) Impact of adopting AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under GAAP to that under AIFRS

	Notes	30 Jun 2005 $'000	31 Dec 2004 $'000	1 Jul 2004 $'000
Total equity under GAAP		22,195	22,635	24,379
Adjustments to equity:				
Write-back of goodwill amortisation	(a)	554	272	-
Amortisation of leasehold improvements	(b)	(284)	(279)	(278)
Total equity under AIFRS		22,465	22,628	24,101

(a) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(b) Under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', provision has been made for the estimated costs to remove improvements to leased premises and make restorations at the end of the lease term. These costs were previously not recognised under AGAAP. Under AASB 116 Property, Plant and Equipment, the provision has been included as part of the cost of the leasehold improvements based on the cost that would have been incurred when the liability first arose and has been amortised over the period of the leases.

(ii) Reconciliation of profit after tax under GAAP to that under AIFRS

	Notes	30 Jun 2005 $'000	31 Dec 2004 $'000
Net loss under AGAAP		(2,184)	(1,746)
Write-back of goodwill amortisation	(a)	554	272
Amortisation of leasehold improvements	(b)	(5)	(1)
Translation of entities with functional currencies other than A$	(c)	307	117
Net profit / (loss) under AIFRS		(1,328)	(1,358)

(a) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(b) Under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', provision has been made for the estimated costs to remove improvements to leased premises and make restorations at the end of the lease term. These costs were previously not recognised under AGAAP. Under AASB 116 Property, Plant and Equipment, the provision has been included as part of the cost of the leasehold improvements and has been amortised over the period of the leases.

(c) Under AASB 121 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on translation of subsidiaries with a functional currency other than Australian dollars are taken to a separate component of equity. Under AGAAP the group recognised all exchange differences in the income statement.

(iii) Explanation of material adjustments to the Statement of Cash Flows

There are no material differences between the cash flows presented under AIFRS and those presented under AGAAP.

2 REVENUE AND EXPENSES

	Consolidated	
	for the half-year ended 31 December 2005 $A'000	**for the half-year ended 31 December 2004 $A'000**
Revenue		
Sales and services revenue	19,997	19,011
Finance income	167	341
	20,164	19,352
Other Income		
Gain on disposal of plant and equipment	5	122
Gain on disposal of investments	271	-
	276	122
Expenses		
Depreciation	552	507
Amortisation of intangibles	784	563
Settlement of legal claim	-	2,310

3 DIVIDENDS PAID AND PROPOSED

No dividends have been paid or proposed during the half-year.

4 ISSUED CAPITAL

Ordinary shares	for the half-year ended 31 December 2005 $A'000	for the half-year ended 31 December 2004 $A'000
Issued and fully paid	72,403	72,402
	Number of shares	**$'000**
Movements in ordinary share on issue		
At 1 July 2005	305,365,924	72,402
Issued for cash on exercise of share options	15,000	1
	305,380,924	72,403

5 SEGMENT REPORTING

Business Segments

The following table presents the revenue and profit information regarding segments for the half-year periods ended 31 December 2005 and 31 December 2004.

	Online $'000	Retail / Wholesale/ Party Plan $'000	Phone Services $'000	Inter Group Revenue / Unallocated Expenses $'000	Total $'000
31 December 2005					
Segment Revenue	4,661	15,741	794	(1,199)	19,997
Segment result	837	427	145	(1,242)	167
31 December 2004					
Segment Revenue	6,006	13,094	770	(859)	19,011
Segment result	(808)	577	(12)	(1,115)	(1,358)

6 CONTINGENT ASSETS AND LIABILITIES

There has been no material change in any contingent liabilities or contingent assets since the last annual reporting date.

7 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.

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 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134: "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, 14 March 2006

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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 balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both AdultShop.com Limited (the company) and the entities it controlled during the six months, and the directors' declaration for the company, for the half-year ended 31 December 2005.

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 consolidated entity, and that complies with Accounting Standard AASB 134 "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 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 the consolidated entity, comprising AdultShop.com Limited and the entities it controlled during the half-year ended 31 December 2005 is not in accordance with:

(a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
   (ii) complying with Accounting Standard AASB 134 "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
14 March 2006