Rules 4.3A

Appendix 4E

Preliminary final report

Name of entity

AdultShop.com Limited

ABN or equivalent company reference	Financial year ended ('current period')
92 009 147 924	30 June 2006

For announcement to the market

				$A'000
Revenues from continuing operations	Up	6.3%	to	40,253
(Loss) / profit from ordinary activities after tax attributable to members				(384)
Net (loss) / profit for the period attributable to members				(384)

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, (in the case of a trust, distribution)	N/A

The above results should be read in conjunction with the notes and commentary contained in this report.

Management Discussion and Analysis

Overview

The net loss after tax of the consolidated entity for the year ended 30 June 2006 was $0.4 million (2005: net loss of $1.3 million).

The loss per share for the year was 0.1 cents (2005: loss per share 0.4 cents).

Summarised operating results are as follows:

Year ended 30 June 2006

Business Segment	Revenues	Operating profit/ (loss) prior to depreciation and amortisation of intangibles	Depreciation	Amortisation of intangibles	Profit / (loss) before income tax
	$'000	$'000	$'000	$'000	$'000
Online	9,512	1,648	(23)	(13)	1,612
Retail/Wholesale and Party Plan	29,371	2,935	(878)	(1,693)	364
Phone Services	1,828	374	(2)	-	372
Unallocated	490	(2,600)	(132)	-	(2,732)
Total	41,201	2,357	(1,035)	(1,706)	(384)

Year ended 30 June 2005

Business Segment	Revenues	Operating profit/ (loss) prior to depreciation and amortisation of intangibles	Depreciation	Amortisation of intangibles	Profit / (loss) before income tax
	$'000	$'000	$'000	$'000	$'000
Online	11,294	565	(30)	(21)	514
Retail/Wholesale and Party Plan	24,845	2,843	(826)	(1,230)	787
Phone Services	1,556	19	(2)	-	17
Unallocated	676	(2,595)	(154)	-	(2,749)
Total	38,371	832	(1,012)	(1,251)	(1,431)

Significant Items

There were no significant items affecting the current year's financial results.

The online segment's operating profit before tax for the 2005 financial year included an amount of $2,310,000 relating to the settlement of the claim brought against the company by a United States based credit card processor.

Online

Online revenues continued to decline during the year, albeit at a slower rate than in the prior year, with total online revenues down 16% (2005: 27%) for the year. The online entertainment revenues continued to decline as did the German online retail operations, whilst the Australian online retail operations continued to grow with a 19% increase in revenue for the year.

After excluding the once off significant expense of $2,310,000, the online segments net profit after tax for the year decreased by $1,212,000. This decrease is almost entirely due to the entertainment division which continues to be affected by declining revenues and legal fees incurred in bringing to court the claim against the vendors of the company's subsidiary, Today's Success Pty Ltd.

Retail / Wholesale and Party Plan

The total retail/wholesale and party plan revenues increased by 18% in comparison to the prior year. The majority of the increase came about from the inclusion of the first full year revenues for the New Zealand operations which were acquired in May 2005. The segments other revenues (excluding New Zealand) increased by 2% on the prior year, with the majority of this coming from a 6% increase in the retail division sales.

The decrease in the segments net profit after tax of $423,000 is largely attributable to the continuing decline in the groups mail order business, where net profit after tax decreased by $399,000. The profitability of the segment for the year was also negatively affected by continuing losses in the Party Plan division (which was discontinued in July 2006), legal costs incurred in the pursuit of the vendors of pirated material belonging to the group, and the relocation of the Canberra operations in the last week of the financial year.

Phone Services

Online phone services revenues increased by 17% in the current year, after declining 42% over the previous financial year, on the back of increased SMS activity. These increased revenues without a corresponding increase in costs, resulted in the $355,000 increase in the segment's net profit before tax for the year.

Contingencies

As previously disclosed, during the financial year ended 30 June 2003, the Company's wholly owned subsidiary, Today's Success Pty Ltd, was served with a summons to appear before the Supreme Court of Queensland by one of its former suppliers of Internet traffic, Pageseeker.com Pty Ltd, a subsidiary of ASX listed company, Dark Blue Sea Limited. Pageseeker.com Pty Ltd is seeking to recover an amount of US$69,304 for the supply of Internet traffic.

Today's Success Pty Ltd has lodged a Defence and Counterclaim for amounts overpaid to the supplier as a result of a discount previously agreed by both parties and not allowed for in the invoices issued by the supplier. The amount of the Counterclaim is US$747,395, though this is expected to increase.

This Counterclaim is a contingent asset of AdultShop.com Limited, dependent upon successful legal action for recovery and there is no guarantee of success.

Subsequent Events

Effective from 1 August 2006, the Company acquired a 100% interest in Loop Creative Pty Ltd through the issue of 20,000,000 ordinary shares and 80,000,000 performance shares. The performance shares will be converted into a maximum of 80,000,000 ordinary shares on Loop Creative Pty Ltd achieving a minimum net profit after tax of $1,000,000 for the year ended 30 June 2007 and $2,000,000 for the year ended 30 June 2008, or a total of $3,000,000 for the two years ended 30 June 2008.

No other material fact or circumstance has occurred between the financial year end and the date of this report which has significantly effected or may effect the operations of the consolidated entity, the results of operations, or the state of affairs of the consolidated entity in future years.

Condensed Income Statement
For the Year ended 30 June 2006

	Notes	Consolidated	
		for the year ended 30 June 2006 $'000	for the year ended 30 June 2005 $'000
Continuing Operations			
Revenue	2	40,253	37,873
Cost of sales		(17,320)	(16,640)
Gross Profit		22,933	21,233
Other income	2	948	498
Other expenses	2	(24,259)	(23,155)
Profit / (loss) from continuing operations before tax and finance costs		**(378)**	**(1,424)**
Finance costs		(6)	(7)
Profit / (loss) before income tax		**(384)**	**(1,431)**
Income tax benefit		-	(100)
Net profit / (loss) attributable to members of AdultShop.com Limited		**(384)**	**(1,331)**

Earnings per share	for the year ended 30 June 2006	for the year ended 30 June 2005
Basic earnings / (loss) per share from continuing operations	(0.1) cents	(0.4) cents
Diluted earnings / (loss) per share from continuing operations	(0.1) cents	(0.4) cents

Condensed Balance Sheet
As at 30 June 2006

Consolidated	Notes	as at 30 June 2006 $'000	as at 30 June 2005 $'000
Current assets			
Cash and cash equivalents		4,838	6,505
Trade and other receivables		3,984	3,554
Current tax receivable		-	73
Inventories		8,173	7,325
Available for sale investments		105	530
Prepayments		869	350
Security Deposits		405	405
Total current assets		**18,374**	**18,742**
Non-current assets			
Receivables		351	-
Plant and equipment		4,483	4,483
Goodwill		1,268	1,268
Copyright, website costs and mail order lists		1,923	2,020
Total non-current assets		**8,025**	**7,771**
Total assets		**26,399**	**26,513**
Current liabilities			
Trade and other payables		3,055	2,946
Interest-bearing loans and borrowings		14	14
Provisions		576	498
Total current liabilities		**3,645**	**3,458**
Non-current liabilities			
Interest-bearing loans and borrowings		63	78
Provisions		586	512
Total non-current liabilities		**649**	**590**
Total liabilities		**4,294**	**4,048**
Net assets		**22,105**	**22,465**
Equity			
Contributed equity	**4**	72,445	72,402
Reserves		(757)	(738)
Accumulated losses		(49,583)	(49,199)
Total equity		**22,105**	**22,465**

Condensed Cash Flow Statement
For the Year ended 30 June 2006

Consolidated	for the year ended 30 June 2006 $'000	for the year ended 30 June 2005 $'000
Cash flows from operating activities		
Receipts from customers	43,613	39,317
Payments to suppliers and employees	(43,375)	(39,610)
Settlement of legal claim	-	(1,934)
Interest received	284	549
Income taxes paid	-	(1,117)
Net cash flows from / (used) in operating activities	**522**	**(2,795)**
Cash flows from investing activities		
Payment for purchases of property, plant and equipment	(1,176)	(1,326)
Payment for purchase of business and operations	-	(1,966)
Payment for purchase of available-for-sale investments	(10)	(546)
Proceeds from disposal of investment in associate	-	34
Proceeds from disposal of available-for-sale investments	804	-
Advances repaid by associated entity	-	16
Secured loan – Loop Creative Pty Ltd	(350)	-
Other - Payment for copyright and domain names	(1,450)	(1,438)
Net cash flows used in investing activities	**(2,182)**	**(5,226)**
Cash flows from financing activities		
Proceeds from issue of ordinary shares	20	2
Repayment of borrowings	(47)	(81)
Net cash flows used in financing activities	**(27)**	**(79)**
Net decrease in cash held	**(1,687)**	**(8,100)**
Cash and cash equivalents at beginning of period	6,505	14,662
Net foreign exchange difference	20	(57)
Cash and cash equivalents at end of period	**4,838**	**6,505**

Condensed Statement of Changes in Equity
Year ended 30 June 2006

	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	-	-	(307)	(307)
Loss for the period	-	(1,331)	-	(1,331)
Exercise of options	2	-	-	2
At 30 June 2005	**72,402**	**(49,199)**	**(738)**	**22,465**
Impact of transition on available for sale financial assets	-	-	171	171
Realised gain on sale of available for sale financial assets	-	-	(171)	(171)
Currency translation differences	-	-	(19)	(19)
Loss for the period	-	(384)	-	(384)
Exercise of options	43	-	-	43
At 30 June 2006	**72,445**	**(49,583)**	**(757)**	**22,105**

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows:	**As at 30 June 2006 $A'000**	**As at 30 June 2005 $A'000**
Cash on hand and at bank	3,093	2,561
Deposits at call	1,745	3,944
Total cash at end of period	**4,838**	**6,505**

Non-cash financing and investing activities

During the financial year the consolidated entity acquired plant and equipment with an aggregate value of $nil (2005: $72,425) by means of finance leases.

NTA backing

	30/06/06 $A'000	**30/06/05 $A'000**
Net tangible asset backing per ordinary security	6.19 cents	6.28 cents

Notes to the Preliminary Final Report

1. 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 July 2005 ('AGAAP') are illustrated below.

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

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

	Notes	30 Jun 2005 $'000
Net loss under AGAAP		(2,184)
Write-back of goodwill amortisation	(a)	554
Amortisation of leasehold improvements	(b)	(5)
Translation of entities with functional currencies other than A$	(c)	304
Net loss under AIFRS		(1,331)

(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 Cash Flow Statement

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

2 REVENUE AND EXPENSES

Consolidated	**for the year ended 30 June 2006 $A'000**	**for the year ended 30 June 2005 $A'000**
Revenue		
Sales and services revenue	39,950	37,310
Finance revenue	303	563
	40,253	37,873
Other Income		
(Loss) / Gain on disposal of plant and equipment	(3)	121
Gain on disposal of investments	272	107
Other Income	679	270
	948	498
Expenses		
Administration expenses	12,647	13,552
Distribution expenses	815	681
Marketing expenses	3,643	3,203
Occupancy expenses	2,661	1,954
Other	4,493	3,765
	24,259	23,155
Depreciation	1,035	1,012
Amortisation of intangibles	1,706	1,251

3 DIVIDENDS PAID AND PROPOSED

No dividends have been paid or proposed during the year.

4 ISSUED CAPITAL

Ordinary shares	for the year ended 30 June 2006 $A'000	for the year ended 30 June 2005 $A'000
Issued and fully paid	72,445	72,402
	Number of shares	**$'000**
Movements in ordinary share on issue		
At 1 July 2005	305,365,924	72,402
Issued for cash on exercise of share options	430,604	43
	305,796,528	72,445

5 SEGMENT REPORTING

Business Segments

The following table presents the revenue and profit information regarding segments for the years ended 30 June 2006 and 30 June 2005.

	Online $'000	Retail / Wholesale/ Party Plan $'000	Phone Services $'000	Inter Group Revenue / Unallocated Expenses $'000	Total $'000
30 June 2006					
Segment Revenue	9,512	29,371	1,828	490	41,201
Segment result	1,612	364	372	(2,732)	(384)
30 June 2005					
Segment Revenue	11,294	24,845	1,556	676	38,371
Segment result	514	787	17	(2,749)	(1,431)

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	Parmelia Hilton, 14 Mill Street, Perth
Date	28 November 2006
Time	11 am
Approximate date the +annual report will be available	20 October 2006

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

2 This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on +accounts to which one of the following applies.

(Tick one)

☐	The +accounts have been audited.	☐	The +accounts have been subject to review.
☐	The +accounts are in the process of being audited or subject to review.	√	The +accounts have *not* yet been audited or reviewed.

Sign here: .. (Director) Date: 4 September 2006

Print name: Malcolm Day