ADULTSHOP.COM
2008 ANNUAL REPORT

AdultShop.com Limited
ACN 009 147 924

Directors
Kimberley Heitman – Non-Executive Chairman
Malcolm Day – Managing Director
Hans-Rudolf Moser – Non-Executive Director
Bradley Moore – Non-Executive Director

Company Secretary
John Burness

Registered Office
118 Roe Street
Northbridge, Western Australia 6003
Telephone: (61 8) 9227 6777
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Principal Business Office
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Telephone: (61 8) 9227 6777
Facsimile: (61 8) 9227 6788
Web site: www.adultshop.com

Investor Information
Web site: http://investor.adultshop.com
Email: investor.relations@adultshop.com

Share Register
Advanced Share Registry Services
150 Stirling Highway
Nedlands, Western Australia 6009
Telephone: (61 8) 9389 8033

Auditors
Ernst & Young
11 Mounts Bay Road
Perth, Western Australia 6000

Quoted on
Australian Stock Exchange:
Code: ASC and ASCO
German Stock Exchange:
Code: WKN 873083

COMPANY VISION

AdultShop.com's vision is to be recognized as an innovative leader in the adult entertainment industry, providing high quality products and services to our customers and delivering superior and sustainable returns to our shareholders.

To achieve this vision, the Company will continually assess new and emerging technologies and mediums available for the provision of adult entertainment products and services, whilst at the same time continuing to actively promote and capitalise on the value of the AdultShop.com brand.

The company is committed to lobbying for changes in the regulations affecting the sale of adult films that have been classified by the Classification Board, in Australia. The Company also continues to fight to end the rampant and blatant infringement of its copyrights.

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Chairman's Report

The financial year 2007/8 was a period of reform and consolidation for AdultShop.com Limited, with the Company taking deliberate steps to contain losses and bring a number of legal disputes to a successful conclusion.

While the majority of the Company's Perth retail outlets are returning steady profits, nationally the retail sector is weak and adult stores continue to be exceptionally burdened with censorship and illegal piracy. This has adversely affected the Company's wholesale division, particularly in the aftermath of the closure of adult stores in Sydney's historic Kings Cross.

In this environment, the Company has decided not to fund any significant capital investment in the short term, and is currently looking into the possible disposal of non core operations. Following on from the sale of the Company's German division last year, the Company has in the current year closed under-performing stores in Darwin and Perth.

The Company's online adult entertainment division is still profitable, and provides much-needed capacity to offer new services on the rapidly-changing Internet. The Company has strong intellectual property and management understands online advertising and marketing. Within the boundaries of classification rules, the Company operates well in both online services and product sales through its award-winning website.

The incoming Rudd Labor Government has continued a tight clampdown on adult content available on mobile phones, the Internet and cable television – even restricting for the first time access to MA15+ content. The Company has launched a number of new services utilising mobile phones and the Internet, with the capacity to expand these into other classifications or markets as the law permits. In the meantime, the Company's ability to compete internationally and to build strong growth is inhibited by the regulatory environment and, to a lesser extent, the expense to consumers of downloading data content to mobile phones or video to consumers via broadband Internet.

A significant amount of the Company's losses in 2007/8 are directly attributable to legal costs paid in the challenge to the laws restricting the sale of X-rated DVDs in the states of Australia, several actions pursuing money claims and the funding of prosecutions of DVD pirates. These costs were considerable and necessary, but as those cases are all but concluded, similar costs will not be incurred in the year ahead.

In the past the Company has funded a number of successful legal actions against DVD pirates, but in straitened times the law's delays and expenses have become an unacceptable drag on the Company's balance sheet. As a result of firm negotiations and hard work by the Company's officers, most of the outstanding litigation has been resolved, and all on terms favourable to the Company. Similarly, two long-standing disputes were settled by the Company on favourable terms. The Company looks forward to finalising the remaining litigation on acceptable terms as soon as possible.

This year has also seen a renewal of the Company's management, with new divisional managers reducing costs and preparing the divisions for change. Staff are on notice that in the absence of an improved retail outlook, the Company must pursue other opportunities and divisions may be restructured or sold. The present focus on reducing costs, limiting capital expenditure and concluding litigation allows the Company to enter 2009 with all options available to maximise shareholder return on investment.

Kimberley Heitman, B.Juris, Llb, AACS, MAICD
Chairman

Managing Director's Report

The last year has been a year of consolidation for the Company. We have been able to settle and finalise a number of legal cases and close four loss making retail stores enabling the Company to refocus on our core business units.

The Company's continued inability to sell explicit adult films (currently classified X18+) in the states of Australia continues to hamper growth. To this end the Company challenged the OFLC and Federal Attorney General on the basis that the Company believed that most explicit adult films that are currently classified X18+ in Australia by the Classification Board (and previously the Office of Film and Literature Classification), should in fact be classified R18+. Had the Company won the legal challenge, it would have meant that such films could be legally sold from licensed adult premises in the states of Australia. Unfortunately the Company lost this legal challenge and the subsequent appeal.

> "the Company has continued to fund AICO in an effort to stamp out piracy."

During the year the Company negotiated a positive out of court settlement with the vendors of Today's Success. Whilst the settlement was substantial, it only covered the Company's legal costs. The Board of Directors thought it prudent to settle the action to reduce the group's exposure to ongoing legal costs.

Piracy of erotic films is a multimillion dollar business in Australia and has been out of control for many years. Organised crime has infiltrated the erotic DVD piracy business. The Company has continued to fund the Adult Industry Copyright Organisation (AICO) in an effort to stamp out piracy of the studios' films for which the Company owns the copyright. AICO has been very successful in winning a number of high profile cases last year.

The continued illegal importation of millions of unclassified adult DVDs into Australia is also still a major problem. We estimate that annually in excess of $200M of unclassified adult DVDs are imported into Australia by wholesale businesses and adult retailers for illegal on-sale to customers, flooding the states of Australia with illegal unclassified adult DVDs. The Company continues to discuss this problem with Customs as this illegal importation continues to hamper the Company's business.

The Company closed two loss making retail stores in Darwin and two in Perth during the year. The Retail division is currently enjoying above budget sales and this is expected to continue. Western Australian stores have however, faced staffing challenges over the year due to the burgeoning WA economy. This is an ongoing problem that the Company is addressing.

I am pleased to report that the adultshop.com website is continuing to grow its sales in Australia, albeit slowly. In spite of the current economic conditions in Australia we expect continued growth as the brand grows, particularly as consumer spending in general starts to increase again.

For the Company to significantly grow and prosper we need law reforms and policing of censorship laws in Australia. We need State and Federal police to stop the sale and supply of unclassified and pirated adult films throughout the country. And we need to be able to sell Classification Board approved X18+ adult films in the states of Australia.

Malcolm Day
Managing Director

2008

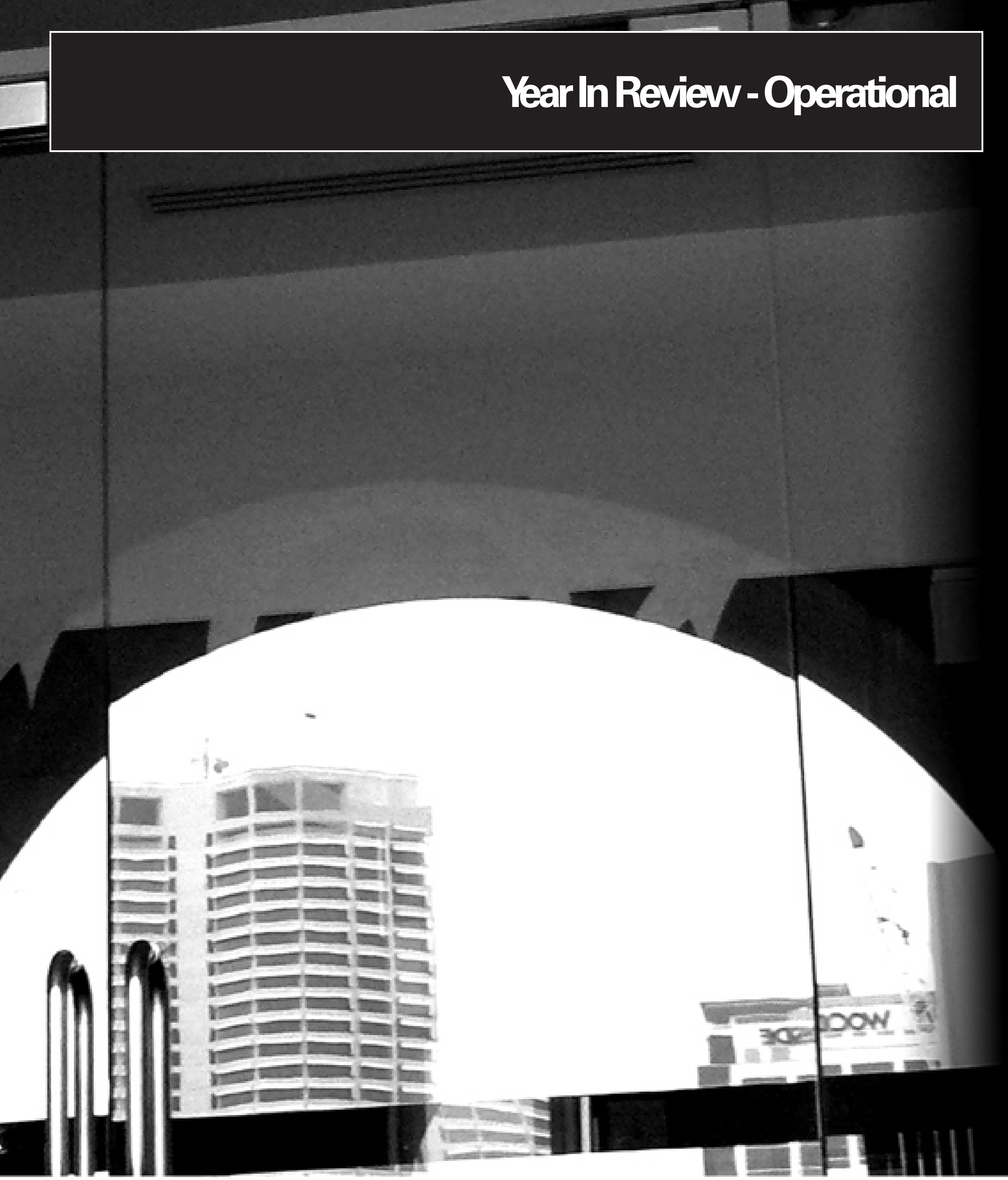
September 2007

A strategy is implemented on the adultshop.com retail website to comply with the Northern Territory National Emergency Response Act 2007, put in place by the Federal Government to reduce the prevalence of adult film material in indigenous communities in prescribed areas of the Northern Territory.

October 2007

Cassy Goodluck steps into the role of General Manager of the Retail division following seven years in Store Manager, Assistant Sales Manager and National Sales Manager roles within the Company.

Year In Review - Operational



January 2008

The Adult Factory Outlet retail store opens in Fyshwick, Canberra. Situated at the front of the warehouse premises the store capitalises on the existing available space, stock and staff provided by the warehouse operations.

February 2008

The Fremantle store is relocated to significantly larger premises in Fremantle with a new bright and modern fit out, planned to be the design template for any future store refurbishments.

February 2008

Michael Bassett steps into the role of Chief Executive Officer of the Calvista Wholesale division following four years in marketing and commercial operation roles within the German, European and Entertainment divisions of the Company.

August 2007

adultshop.com becomes a sponsor of the WA Aids Council's 10th annual StyleAid event at the Perth Convention Exhibition Centre.

September 2007

adultshop.com and ARTRAGE win the National Australia Bank Small to Medium Enterprise award at the 2007 WA Australian Business Arts Foundation Awards, at Government House for their partnership in bringing together the Erotic Art Prize Exhibition. The partnership was also a finalist in the City of Sydney Encouragement award at the National AbaF awards.

November 2007

adultshop.com takes part in the Great Fremantle Shopping Spree to celebrate the launch of Friday night trading in the Fremantle shopping precinct.

November 2007

adultshop.com joins forces with renowned Western Australian theatre artist John Michael Swinbank to present the critically acclaimed production of Two Old Queens starring theatre legend Edgar Metcalf AM and launched in conjunction with the Australian Gay and Lesbian Festival Circuit.

February 2008

Calvista hosts the annual AdultEx trade show in Melbourne attracting the world's leading manufacturers of adult novelties and international adult film studios to exhibit to delegates converging on the expo from across Australia.

February 2008

International adult film actress and director, Belladonna, appeared in Perth exclusively for adultshop.com with an appearance at the newly relocated Fremantle store to meet fans and raise the profile of production studio Belladonna Entertainment.

February 2008

adultshop.com takes part in the WA AIDS Council's Sexual Health Workshop for Women, promoting safe sex, contraception, breast screening, and pap smears to women aged between 20 and 40 years.

April 2008

adultshop.com joins forces with the Australian Red Cross to celebrate 105 years of service to the community by Lady Lawley Cottage by sponsoring its annual black tie dinner.

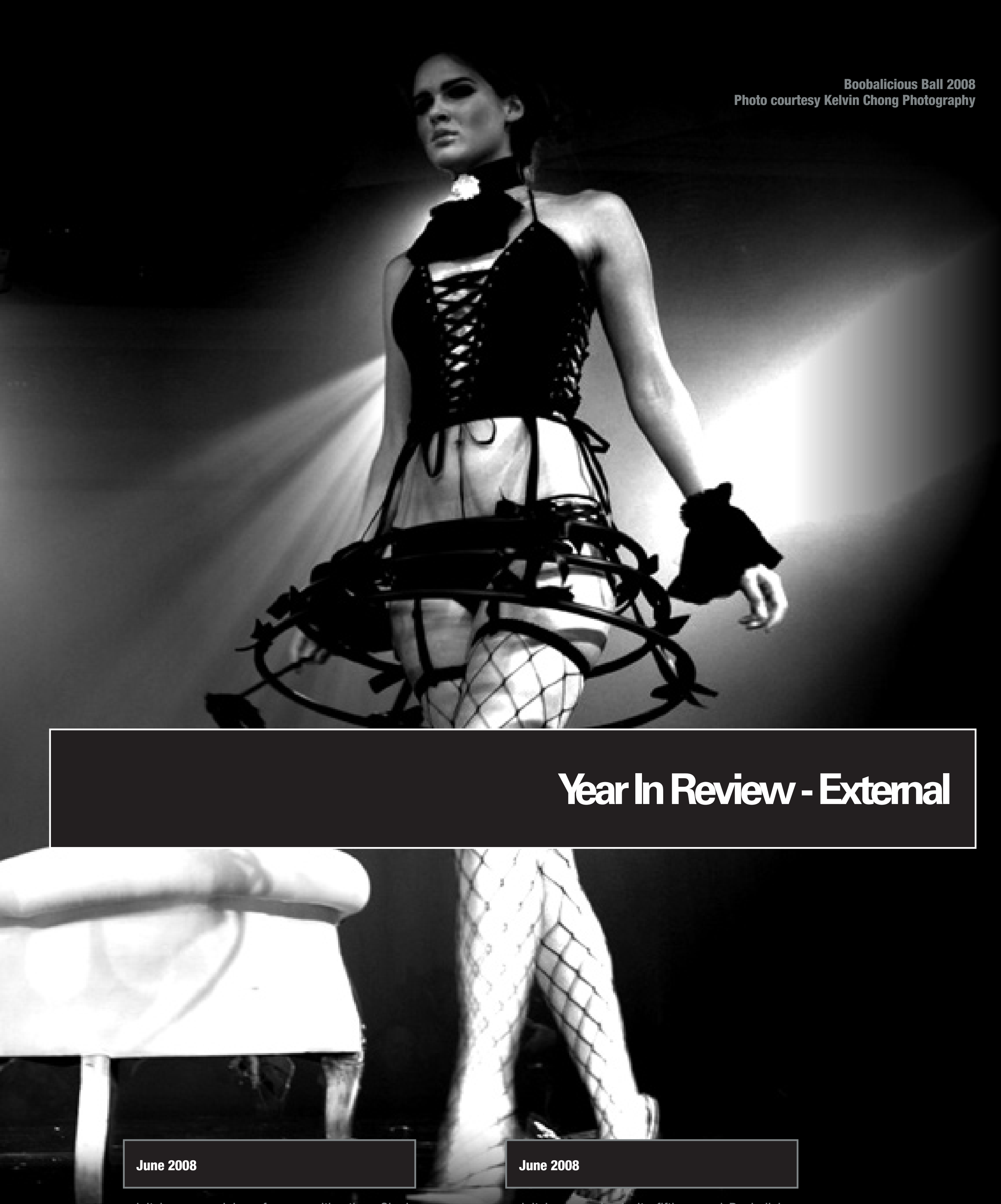
April 2008

adultshop.com hosts a Sexual Health Workshop for Women in conjunction with the Hobart Women's Health Centre in Moonah, Tasmania. In keeping with the cheeky adultshop.com brand, the workshop is a fun and informative session about safe sex practices.

May 2008

adultshop.com becomes a sponsor of the Down Syndrome Association of WA's Butterfly Ball at the Perth Convention and Exhibition Centre promoting acceptance and inclusion of people with Down Syndrome.

"Boobalicious raises over $74,000 for the Breast Cancer Foundation of W.A."



Boobalicious Ball 2008
Photo courtesy Kelvin Chong Photography

Year In Review - External

June 2008

adultshop.com joins forces with the Gingin community in support of Purple Bra Day, raising funds for the Breast Cancer Foundation of Western Australia.

June 2008

adultshop.com hosts its fifth annual Boobalicious Ball at the Hyatt Regency Perth. The event attracts unprecedented public interest and the support of 130 local sponsors and contributors and raises over $74,000 for the Breast Cancer Foundation of Western Australia.

Entertainment Services Division

It has been demonstrated over the past financial year that demand for online subscription based content offerings have diminished when compared with the popularity and proliferation of online social networking environments.

Online social networks provide consumers with a platform from which to distribute and share user generated content at no or minimal cost and therefore the propensity for consumers to pay for content has diminished severely. The Entertainment division therefore continues to focus on developing business models that capitalise on this social networking trend.

The Company operates an online dating community, AdultsOnly.com.au. The web site has generated a member base of over fifty thousand members and is beginning to generate revenue. With a solid foundation now in place, the new financial year will see concentrated marketing efforts rolled out to steer this division toward profitability.

The Company is also developing an adults-only online environment. This will work as a tool to market the Company's entire online service offering (online content, mobile content, dating and shopping) as well as providing a forum for user generated discussion, networking and content sharing. It is planned for this project to launch before the end of 2008.

"AdultsOnly.com.au - 50,000 members ."

Mobile Entertainment Services Division

Performance of the Australian Mobile Entertainment division has improved steadily over the past several months, with noticeable growth experienced in the area of mobile content. In the second half of the financial year video content strengthened as a result of an increase in consumers using 3G mobile phones with higher video capabilities.

Profitability in this field is increasing on a monthly basis and it is a key area in which marketing and development are planned for the coming year.

During the 2008 financial year marketing initiatives were expanded to include the development of a number of websites appealing to an online audience wanting content delivered to their handset. These websites have been marketed online via tailored search campaigns as well as on television and in print. Careful post campaign analysis has shown television and Internet marketing to be effective and profitable. It is likely that with the uptake of new mobile content technologies and marketing opportunities, traditional print advertising will eventually be phased out.

Due to stringent phone bill capping regulations introduced in the United States early 2007, activity in this market has not been viable. Options for re-entering this market however are currently being reviewed for possible launch in late 2008.

Phone Services Division

The profitability of the Phone Services division continues to be hampered by the ever increasing popularity of online chat and contact services, as well as Australia's strict industry regulations concerning premium rate phone services.

Over the past year, advertising costs have been dramatically reduced and the range of services on offer reduced to only those demonstrating steady returns. The next year will involve careful assessment of the operation, marketing and profitability of those remaining services to maintain the division's position in its maturity phase.

Retail Division

Following the closure of four stores over the past financial year, the Retail division now operates a total of seventeen stores in Western Australia (13), the Northern Territory (3) and Tasmania (1).

The poor performance of the four now closed stores directly contributed to the division's failure to achieve its projected growth. The focus now is on ensuring the remaining stores sustain and exceed current growth rates.

The ongoing staff shortage in Western Australia remains significantly problematic to the adultshop.com Retail division. In an effort to attract motivated and experienced quality applicants, new advertising avenues are being explored with some positive results in early trials. Internally, the focus is on further strengthening the team culture among retail staff to encourage the longer term commitment of employees.

"Internally, the focus is on further strengthening the team culture..."

Australian Website Division

The 2008 financial year proved to be a rebuilding phase for the adultshop.com website both financially and strategically. The retail site generated a 25% increase in net profit over the previous financial year which can be directly attributed to diligent analysis and ongoing review of factors such as retail pricing, gross profit metrics and identifying product lines that were not contributing to a healthy turnover of stock.

Fraudulent online activity was also identified as a significant hindrance to profit growth and a robust strategy was implemented to reduce this. The result has been a 57% drop in transactions resulting in chargeback. This strategy continues to be developed to ensure further protection from fraudulent purchasing.

Marketing of the website remained constant during the financial year with emphasis placed on optimising current traffic deals rather than acquiring new channels. Search marketing continues to deliver significant revenue and traffic growth for the website.

Relationships with key online and offline publishers also continue to develop favourably. Meetings with key magazine publishers in early 2008 solidified adultshop.com's position in the mainstream arena and has generated significant ongoing exposure for the brand and the product range to a mass mainstream audience at little direct cost. This kind of promotional exposure will continue to remain a strong focus over the coming twelve months.

The retail website also continues to attract interest from major Australian online publishers such as GetPrice.com, a new shopping comparison site owned by the News Digital network. Identifying the growing popularity of comparative shopping sites as a pre-purchase research tool within Australia, this partnership represents a valuable opportunity for placement within a mainstream shopping environment and potential long term growth. This project went live in August 2008.

Over the course of 2007, the website underwent a comprehensive review which has culminated in a major redesign project. Numerous improvements will be introduced to the site which will result in a graphic interface reflecting a softer tone with consideration given to navigation, merchandising, promotion and overall user experience.

Back-end features have also been built in to give the marketing department the ability to perform regular updates and launch promotions in a timely fashion without requiring IT resources. Programming and development of the site's back-end has commenced and it is planned that the new site will launch in the first quarter of 2009.

Calvista Wholesale Division

Over the 2008 financial year, Calvista has maintained its position as the preferred distributor of overseas product to the Australian market, as well as remaining the predominant wholesale supplier to the Australian adult retail industry. During this time, Calvista's wholesale media sales (DVDs) increased by 10% whilst toy sales increased by 2%.

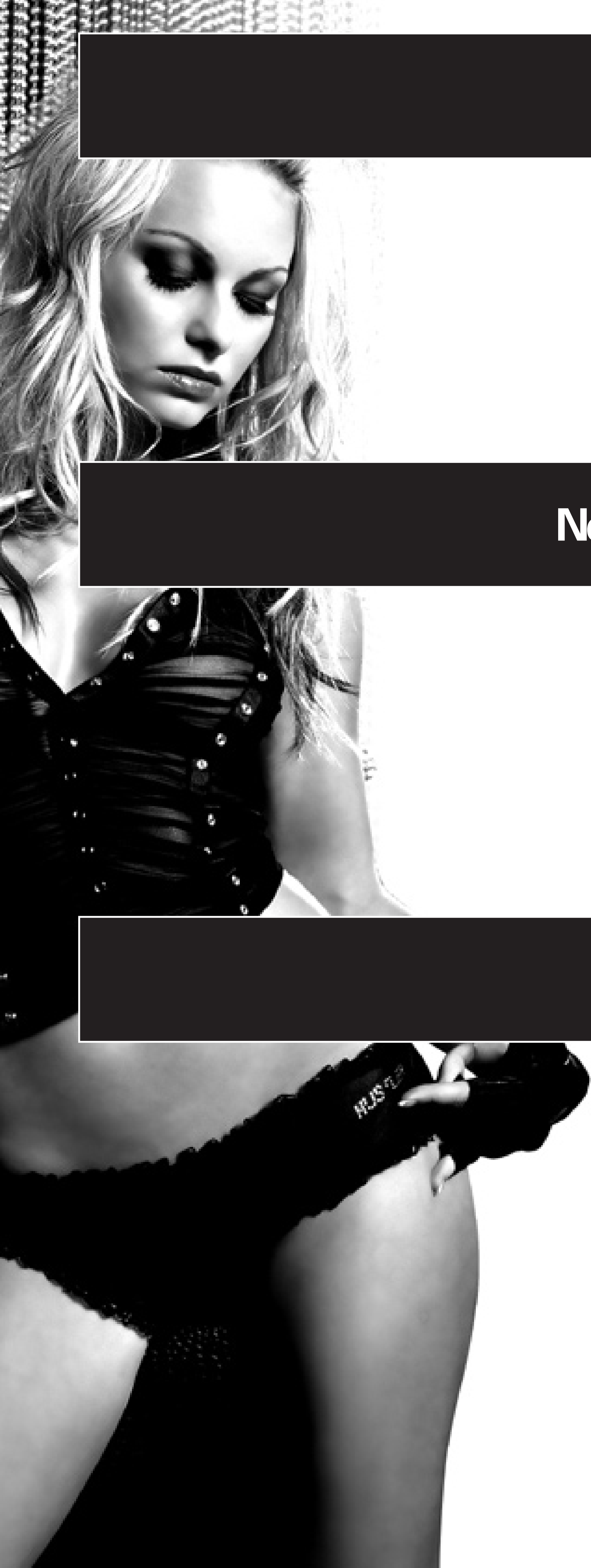
Legal actions against persons responsible for the infringement of the copyrights of Calvista exclusive studios continued throughout the year. However, although this resulted in legal costs increasing to $1.2 million, up from the previous year's $927,000, the litigation has resulted in settlements which are starting to have a marked impact on DVD piracy.

Calvista's annual industry trade show, Adultex, was held in February 2008 in Melbourne and was attended by all major international suppliers and local retailers. The event generated significant retail product orders and has become a 'must attend' event for the global adult industry.

Mail Order Division

The Axis mail order business experienced a further decline in revenue, down 19% when compared with the previous financial year. This decline illustrates the increasing trend toward online shopping. The mail order business is also directly affected by illegal competitors distributing pirated Calvista exclusive DVDs at greatly reduced prices.

The catalogue is considered to service a niche mail order customer base which continues to provide a significant income stream. It is expected that the past decline in revenue will stabilise into the new term while new subscribers continue to be sourced.



DVD Rental Division

The AdultFlix DVD rental operation continues to operate profitably and represents a small but steady income stream.

The division employs very few resources as it fully utilises the economies of scale available to the group. As such, it is intended that AdultFlix will continue to operate with sufficient marketing to continue growth of the subscription database.

New Zealand Operations

All of the eight New Zealand retail stores were renovated and rebranded as VideoExpo in the first half of the financial year. While this positioned the VideoExpo brand well, net revenues generated were affected by higher than expected operational and promotional costs to properly launch the brand.

With the brand now established promotional efforts will be tailored to generate maximum return for minimum expenditure, thus improving the profitability of the group.

Adult Factory Outlet

The Adult Factory Outlet which commenced operation in Canberra in January 2008, occupies a unique market position and is producing solid returns with few direct costs.

The store fully utilizes the advantages of the existing Canberra warehouse operation and has achieved significant recognition as a leading adult store in Canberra with the largest range at the best prices.

Entertainment Services Division

Through the completion and launch of a comprehensive adults-only networking environment, along with further development and increased marketing of the adultsonly.com.au dating platform, the Company intends to capitalise on the exponential growth in popularity of online social networking and content sharing in Australia.

Mobile Entertainment & Phone Services Division

Over the 2009 financial year the focus will be on re-entering the US market while capitalising on effective television and online marketing initiatives in Australia to further grow profits generated by the Company's mobile content services.

Additionally, traditional phone services will continue to be closely monitored to ensure maximum returns for minimum expenditure in a market slowing down in the face of growing online dating and content share environments.

Retail Division

Following a year of evaluation and consolidation, the emphasis now is on maximizing the benefits to be gained from a very experienced and dedicated management team while solidifying the retail sales team who staff the Company's seventeen stores in Western Australia, the Northern Territory and Tasmania.

Whilst expansion of the Retail division is always a consideration and potential new store locations continue to be evaluated, an emphasis will be placed on maximising the profitability of existing stores for the long term. The goal is to see stores performing above their key performance indicators, generating significant profitability for the Company.

Future Outlook

Australian Website Division

The major emphasis within the Online Retail division moving into a new financial year is the launch of the redesign project. The new site will be streamlined for operations and maintenance while providing the consumer with a superior online shopping experience through significant improvements and new additions, further ensuring that adultshop.com is considered an industry leader in online adult retailing.

Calvista Wholesale Division

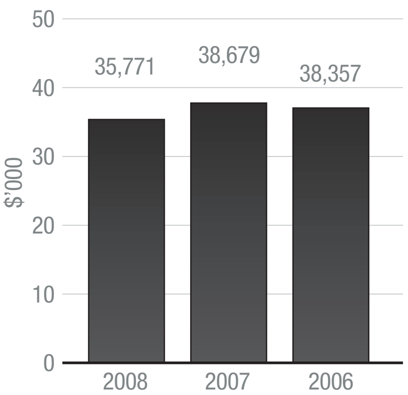
In order to gain increased market share in the face of growing competition, Calvista intends to develop and implement a series of programs designed to set Calvista apart from its competitors. It will ensure customers benefit from real added value and customer service.

Whilst strengthening its share of the adult toy market, Calvista will also continue to grow sales of adult DVDs through ongoing expansion of the range and by responding to market conditions. With many new and existing exclusive content agreements in place, Calvista is well positioned to service existing and emerging media channels.

Calvista intends to continue expanding the delivery of content to mobile, cable and in room hotel platforms both in Australia and New Zealand. The emergence of Blu-ray as a film medium will also see strategy developed to successfully bring the product to market.

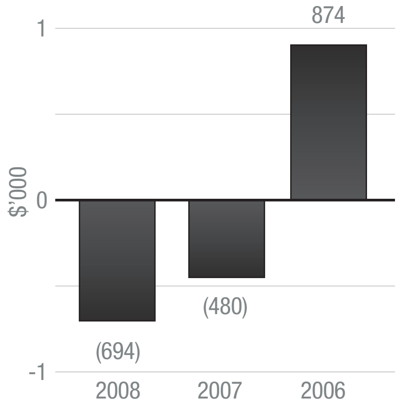
Financial Summary

REVENUE FROM CONTINUING OPERATIONS



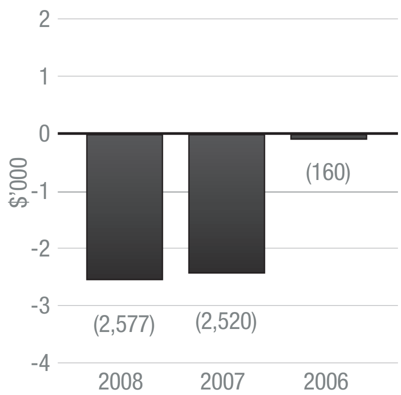
Revenue from continuing operations decreased to $35.77 million, down 7.5%.

EBITDA FROM CONTINUING OPERATIONS



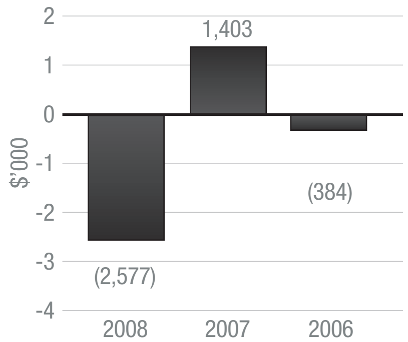
Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased to $(0.69) million loss up from $(0.48) million profit.

LOSS FROM CONTINUING OPERATIONS



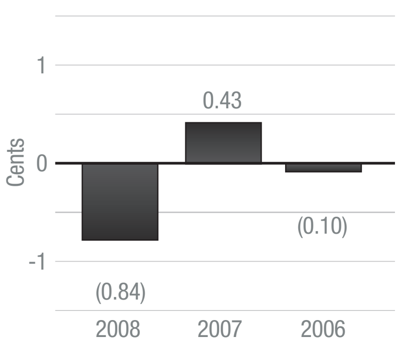
Loss from continuing operations increased to $(2.58) million from $(2.52) million.

NET (LOSS)/PROFIT FROM OPERATIONS



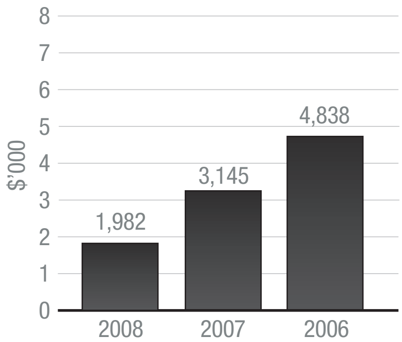
Net loss after tax increased to $(2.58) million, down from a profit of $1.40 million.

EARNINGS PER SHARE



Loss per share was (0.8) cents per share down from a profit of 0.4 cents per share.

CASH AT END OF PERIOD



Cash reserves at the end of the financial year decreased to $1.98 million, down from $3.15 million.

	2008 $'000	2007 $'000	2006 $'000
Revenue from continuing operations	35,771	38,679	38,357
EBITDA from continuing operations	(694)	(480)	874
Depreciation, amortisation and impairment	1,747	1,653	1,333
EBIT from continuing operations	(2,441)	(2,133)	(457)
Interest received	141	206	303
Interest paid	277	5	6
Income tax expense / (credit)	-	588	-
Net loss from continuing operations	(2,577)	(2,520)	(160)
Net income / (loss) from discontinued operations	-	3,923	(224)
Net income / (loss) for the year	(2,577)	1,403	(384)
Total assets	20,037	22,321	26,399
Total liabilities	4,877	4,191	4,294
Net assets	15,160	18,130	22,105
Return on equity	-17%	8%	-2%
Earnings/(loss) per share	(0.84) cents	0.4 cents	(0.1) cents
Net tangible asset backing per share	4.6 cents	5.5 cents	6.7 cents
Return of capital to shareholders per share	-	1.3 cents	-

ADULTSHOP.COM
2008 FINANCIALS

Directors' Report

The directors of AdultShop.com Limited ("the Company") submit their report for the year ended 30 June 2008.

DIRECTORS

The directors in office at the date of this report and at any time during the financial year are as follows. Directors were in office for the entire year unless otherwise stated.

Kimberley Heitman
Malcolm Day
Hans-Rudolf Moser
Bradley Moore

INFORMATION ON DIRECTORS

Kimberley Heitman (Non-Executive Chairman)

Mr Heitman is a senior barrister and solicitor, director and consultant. He was a founding director of iiNet Limited, a leading Australian Internet service provider listed on the ASX. Besides being Deputy Chairman of Internet domain name regulator, Australian Domain Administration Limited (auDA), he is a board member of Electronic Frontiers Australia Inc., a non-profit organisation concerned with civil liberties online, and the past President of the Western Australian Internet Association Inc..

Mr Heitman has specialised in Internet legal issues and regulatory compliance, lectured at several Australian universities and appeared before parliamentary inquiries and Courts as an expert witness.

Mr Heitman is an Associate of the Australian Computer Society and a Member of the Australian Institute of Company Directors.

Malcolm Day (Managing Director)

Mr Day worked in the civil construction industry for approximately ten years, six of which were spent in senior management roles, as a Licensed Surveyor and then later as a Civil Engineer.

In January 1996, Mr Day joined the Barbarellas group of companies as an executive director. At the same time Mr Day co-founded Adult Communication Services Pty Ltd ("ACS"), which grew to be one of Australia's largest providers of adult telephone services. Mr Day is a Member of the Australian Institute of Company Directors.

Bradley Moore (Non-Executive Director)

Mr Moore holds a Bachelor of Commerce in accounting and corporate administration and has in excess of ten years accounting, strategic analysis, financial management, general management and corporate experience. He is an associate member of the Australian Society of Certified Practising Accountants and is also a member of the Australian Chartered Institute of Company Secretaries.

Mr Moore spent seven years at News Limited's Western Australian newspaper, "The Sunday Times", following which he played an integral role in the management of several listed public companies for the next 8 years. Currently Mr Moore is the Western Australian State Manager for one of Australia's largest privately owned transport and logistics organisations. He is a director of Ontel Communications Pty Ltd and, during the past three years, has served as a director of listed companies Reefton Mining N.L. (October 2001 to November 2006) and IC2 Global Limited (January 2007 to February 2007).

Hans-Rudolf Moser (Non-Executive Director)

Mr Moser is a resident of Switzerland with over 20 years experience in the Swiss banking and finance industry. He is currently a principal of a European portfolio manager and, up until 31 December 2007, sat on the board of directors of both Grange Resources Limited and Oriel Communications Limited.

COMPANY SECRETARY

John Burness, B.Compt. (Hons), C.A.

Mr Burness is the Group's Chief Financial Officer and was appointed Company Secretary in November 2004. He is a Chartered Accountant with 20 years post qualification experience in public practice and commerce and industry. He has a total of 8 years experience acting as company secretary for publicly listed companies.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at the date of this report, the interests of the directors in shares and options of the Company were:

	Ordinary Shares Indirect	Unlisted Options Direct
K Heitman	-	3,000,000
M Day	30,309,984	5,000,000
H Moser	1,500,000	3,000,000
B Moore	-	3,000,000

The Unlisted Options are exercisable as follows:

Exercise Period	Exercise Price (1)	K Heitman	M Day	H Moser	B Moore
On or before 30 June 2009	5.7 cents	3,000,000	5,000,000	3,000,000	3,000,000

(1) The exercise price of the options were reduced from the original issue price of 7 cents to 5.7 cents as a result of the capital reduction of 1.3 cents per share approved by the members on 30 May 2007.

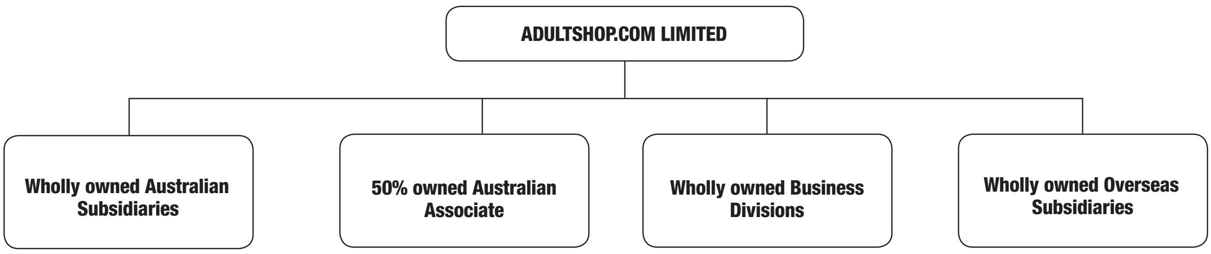
DIVIDENDS

No dividends have been paid or recommended during or since the end of the current financial year (2007: Nil)

CORPORATE INFORMATION

Corporate structure

AdultShop.com Limited is a company limited by shares that is incorporated and domiciled in Australia. AdultShop.com Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The principal subsidiaries are outlined in the following illustration of the Group's corporate structure:



Calvista Australia Pty Ltd (incorporating AXIS Australia, Internet Retail & DVD Rental divisions)
Today's Success Pty Ltd

Club X Internet Pty Ltd (Dormant)

AdultShop.com Retail
Phone Services
Adultsonly.com.au Dating Services

AdultShop.com Ltd (United States)
AdultShop.com (NZ) Limited (New Zealand)
Calvista New Zealand Limited (New Zealand)

Employees

The consolidated entity employed 186 employees as at 30 June 2008 (2007: 188 employees).

Nature of operations and principal activities

The principal activities during the year of entities within the consolidated entity have been:

- The sale of adult products via the Internet;
- The wholesale distribution of adult products;
- The sale of adult products through Company owned stores and mail order.
- The provision of online adult entertainment and dating sites; and
- The provision of adult telephone services.

There have been no significant changes in the nature of those activities during the year.

Directors' Report

GROUP OVERVIEW

In August 1999, Western Minerals NL, which was listed on the Australian Stock Exchange and which in June 1999 had acquired the internet rights to the Barbarellas name and trademark, divested itself of its mineral interests and changed its name to AdultShop.com Limited.

Retail

The Company's initial entry into the adult retail market occurred in January 2000 with the acquisition of the Barbarellas group of adult stores. Since then, the Company has rebranded all the stores as "adultshop.com" and invested heavily in brand awareness campaigns. The Group currently consists of 17 adult stores, with 13 in Western Australia, 3 in the Northern Territory and 1 in Tasmania.

In May 2005, the Company acquired the business and operations of Video Wholesalers in New Zealand. The acquisition included 7 adult retail stores in Auckland trading under the name Video Expo and concentrating on the sale of Adult DVD's and videos. One of the acquired stores which was performing poorly was closed during the current year.

Wholesale

In September 2000, the Company entered the adult products wholesale market with the acquisition of Calvista Australia Pty Ltd. Calvista, which has been in operation for over 20 years, operates from its head office in Melbourne, with additional warehouses in Sydney and Canberra.

The Company holds exclusive Australian rights to acquire the copyright to titles from a number of leading production studios in the adult industry which are classified and reproduced for sale in the Australian market.

It is the largest wholesaler of adult products in Australia with in excess of 50% of the market.

Internet Retail

On 25 January 2000, the Company officially launched its flagship Internet retail web site in Australia, www.adultshop.com.au. The web site launch corresponded with the launch of an Australia wide multi-million dollar marketing campaign. Sales and visitors numbers have grown strongly each year since the launch and the web site is now Australia's number one visited adult retail site. Marketing of the website is managed from the Group's head office in Perth with fulfilment of orders from its wholesale division in Melbourne and Canberra.

The Company operated a German language site, www.adultshop.de, through its wholly owned German subsidiary, AdultShop.com GmbH, from 15 September 2000 until the date of its sale on 31 January 2007.

Mail Order

On August 1, 2000, the Company acquired 100% of Canberra based business, Axis, Australia's largest adult DVD, video and erotic product mail order business. Sales are secured via the distribution to members of regular mail order catalogues and through its website at www.axisshop.com.

The acquisition of the business and operations of Video Wholesalers in New Zealand in May 2005, included the acquisition of the largest wholesaler of adult films under licence in New Zealand, and a small adult DVD / video mail order operation.

Online Entertainment and Dating Services

The Company entered the online adult entertainment business in June 2001 through its acquisition of Today's Success Pty Ltd. Today's Success Pty Ltd provides online adult entertainment through its websites to subscription only members, the majority of whom are resident outside of Australia.

Over the past financial year, the Company has invested in the development of an adult dating service, adultsonly.com.au, with a membership that had grown to over 40,000 members by year end.

Phone Services

The introduction of the Telecommunications Bill in 1999 severely restricted the operations of this once highly profitable division. The Company, however, still operates a small adult telephone service and continues to lobby for changes to the law. The Company also operates premium rate SMS chat services and content which generate revenues from both Australia and the United States.

RESULTS OF OPERATIONS

The net loss after tax of the consolidated entity for the year ended 30 June 2008 was $2,577,000 (2007: net profit of $1,403,000).
The loss per share for the year was 0.84 cents (2007: earnings per share 0.43 cents).

Summarised operating results are as follows:

Year ended 30 June 2008

Business Segment	Sales and services revenues to external customers	Other income	Earnings before interest, tax, depreciation, amortisation & impairment	Depreciation, amortisation & impairment	Interest received / (paid)	Profit / (loss) before income tax
	$'000	$'000	$'000	$'000	$'000	$'000
Online	5,986	1,202	1,782	(16)	-	1,766
Retail/Wholesale	28,374	1,706	963	(1,557)	-	(594)
Phone Services	1,270	-	184	(1)	-	183
Unallocated	141	-	(3,623)	(173)	(136)	(3,932)
	35,771	2,908	(694)	(1,747)	(136)	(2,577)
Discontinued operations	-	-	-	-	-	-
Total	35,771	2,908	(694)	(1,747)	(136)	(2,577)

Year ended 30 June 2007

Business Segment	Sales and services revenues to external customers	Other income	Earnings before interest, tax, depreciation, amortisation & impairment	Depreciation, amortisation & impairment	Interest received / (paid)	Profit / (loss) before income tax
	$'000	$'000	$'000	$'000	$'000	$'000
Online	7,048	129	1,532	(25)	-	1,507
Retail/Wholesale	28,912	477	1,176	(1,430)	-	(254)
Phone Services	2,356	-	755	(2)	-	753
Unallocated	347	-	(3,973)	(166)	201	(3,938)
	38,663	606	(510)	(1,623)	201	(1,932)
Discontinued operations	2,129	-	3,953	(30)	-	3,923
Total	40,792	606	3,443	(1,653)	201	1,991

REVIEW OF OPERATIONS AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant Items

The results for the current year include income of $1,939,000 arising from the settlement of various legal cases, $2,139,000 in expenses incurred in connection with legal actions, an impairment write down of $300,000 relating to the goodwill attributed the New Zealand operations, and an interest expense of $272,000 resulting from the revised tax assessment for the year ended 30 June 2003.

The prior year's results included a net profit of $3,923,000 from subsidiaries disposed of in that year, a provision for taxation of $555,000 in respect of the year ended 30 June 2003, and $1,813,000 in legal expenses.

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

Online

Total online sales and services revenues declined by 15% over the year. Online entertainment revenues decreased by 42% due to a continuing decrease in memberships, whilst the online retail operations sales revenues remained constant.

The increase in the segment's net profit before tax is due to a legal settlement. Excluding the legal settlement and legal costs, the division recorded a profit before tax for the year of $905,000. This significant decrease in net profit is directly attributable to the decreasing online entertainment revenues.

Online entertainment revenues are expected to continue to decline, though this will be partially offset by an increase in income from the dating website.

REVIEW OF OPERATIONS AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (continued)

Retail and Wholesale

Total retail and wholesale segment sales and services revenues were slightly up on the prior year. A 5% increase in Australian wholesale revenues and a 2% increase in Australian retail revenues were offset by a 19% decrease in mail order revenues and a 2% decrease in New Zealand wholesale/retail revenues.

Results for the year were negatively impacted by losses and costs of $454,000 relating to the operations and closure of loss making retail stores, two of which were situated in the Northern Territory and two situated in Western Australia, and an impairment write down of $300,000 relating to the New Zealand operations.

Phone Services

Revenues and profitability of the online phone services segment for the year were severely impacted by the monthly limits on user charges legislated in the latter part of the previous financial year. A 52% drop in segment sales and services revenues resulted in a $570,000 decrease in net profit before tax for the financial year to $183,000.

REVIEW OF FINANCIAL CONDITION

Capital Structure

There were no changes in the capital structure of the Company during the year.

Cash from Operations

The Group recorded a net operating cash outflow of $854,000 (2007: $1,153,000) for the year.

Liquidity and Funding

The Group has sufficient cash resources and forecast cash flows to fund its current and anticipated level of operations.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to focus on returning to profitability by disposing of or closing marginal non core operations and reducing the level of litigation. However, the Company is still committed to pursuing actions against persons and organisations pirating the copyrighted adult DVD material of the Group, though most of the funds are expected to come from the settlement of past actions.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matter or circumstance has arisen since the end of the financial year to the date of this report which 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 future financial years.

TAX CONSOLIDATION LEGISLATION

For the purposes of income tax, AdultShop.com Ltd and its 100% owned subsidiaries have formed a tax consolidated group from 1 July 2003. The head entity of the tax consolidated group is AdultShop.com Limited.

CORPORATE GOVERNANCE

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of AdultShop.com Limited support and have endeavoured to adhere to the principles of corporate governance.

The Company's corporate governance statement is contained elsewhere in this annual report.

DIRECTORS' MEETINGS

The following table sets out the number of meetings of the Company's directors during the year ended 30 June 2008 and the number of meetings attended by each director.

	Maximum Possible	Number Attended
Mr K Heitman	11	11
Mr M Day	11	11
Mr H R Moser	11	9
Mr B Moore	11	10

Audit Committee

The following table sets out the members of the Audit Committee and the number of meetings of the Audit Committee during the year ended 30 June 2008 and the number of meetings attended by each member.

	Maximum Possible	Number Attended
Mr B Moore – Chairperson	2	2
Mr K Heitman	2	2

Remuneration Committee

One Remuneration Committee meeting was held during the year and was attended by Mr B Moore and Mr K Heitman. Mr H Moser was unable to attend the meeting.

SHARE OPTIONS

Unissued shares

At the date of this report, the following options over unissued ordinary shares are in existence:

Number	Exercise Price	Exercise Periods / Expiry Dates
Unlisted Options:		
14,000,000	$0.057	On or before 30 June 2009
2,040,000	$0.047	Between 4 January 2008 and 3 January 2012
2,040,000	$0.067	Between 4 January 2009 and 3 January 2012
2,040,000	$0.087	Between 4 January 2009 and 3 January 2012
20,120,000		

Full details of share options are disclosed in Note 16 of the financial statements.

Shares issued as a result of the exercise of options

During and subsequent to the current year, no options have been exercised to acquire ordinary shares in AdultShop.com Limited.

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent company, and includes the five executives (or all executives if there are less than five) in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the Parent and the Group.

Details of Key Management Personnel

(i) Directors	
K J Heitman	Chairman (non-executive)
M R Day	Managing Director
H R Moser	Director (non-executive)
B Moore	Director (non-executive)
(ii) Executives	
D Newnham	General Manager Calvista Division (resigned 30 May 2008)
M Basset	Chief Executive Officer Calvista Division (appointed 25 February 2008)
R McGinn	General Manager Retail Division (resigned 31 October 2007)
J Burness	Chief Financial Officer and Company Secretary

There were no changes in directors or key executives after reporting date and before the date the financial report was authorised for issue.

Remuneration Policy

The performance of the Company and the Group depends upon the quality of its directors and executives. To prosper, the consolidated entity must attract, motivate and retain appropriately skilled directors and executives. To this end, the consolidated entity embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre directors and executives
- Establish appropriate performance hurdles against which performance is measured in arriving at executives remuneration levels;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

There is a link between variable remuneration and Group performance. The Group performance over the past 5 years is as follows:

Year ended 30 June:	2008	2007	2006	2005	2004
Net (loss) / profit	(2,577)	1,403	(384)	(2,186)	2,820

Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for reviewing and recommending compensation arrangements of directors, the managing director and the executive team.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Non-Executive Director Remuneration

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 28 November 2006 when shareholders approved an aggregate remuneration of $300,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed from time to time. The board considers the time commitment and expertise of the individual directors and fees paid to non-executive directors of comparable companies when undertaking the review process.

Non-executive directors are not required to hold shares in the Company, nor are they encouraged or precluded from doing so. Non-executive directors may also be issued options from time to time as approved by shareholders in general meeting. There are no performance requirements attached to these options once issued as the exercise price of the options are set at a level in excess of the market value at date of issue. The share options vest over a period of 1 to 2 years, are forfeited on resignation, and expire 5 years from the date of issue.

Senior Manager and Executive Director Remuneration

It is the Remuneration Committee's policy that employment contracts are entered into with the Managing Director and key executives. Employment contracts have no set termination dates and require six months notice in the case of the Managing Director and three for the other executives. The employment contracts allow for payments in lieu of notice equal to the entitlements that the executive would have been entitled to had they remained employed for the notice period.

Senior Manager and Executive Director Remuneration (continued)

Remuneration of executives consists of fixed remuneration and variable remuneration. Variable remuneration consists of both long term incentives and predetermined short term incentives.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of the Company, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating an additional cost for the consolidated entity.

Variable Remuneration – Short Term Incentives

Short term incentives (STI) paid in the form of cash bonuses link the achievement of the consolidated entity's operational targets with the remuneration received by executives, other than the executive director, charged with meeting these targets. The potential incentive available is set at a level so as to provide sufficient incentive to the executive to achieve and then exceed operational targets and such that the cost to the Group is reasonable in the circumstances. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for delivering long term value.

Actual incentive payments granted to executives depends on the extent to which specific operating targets set at the beginning of the year are met. The operational target consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial performance such as contribution to financial results, utilisation of the Group resources and contribution to the development of new business units. The Group has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme, with due allowance to be made for unforseen events, or events outside of the executives control as approved by the Remuneration Committee.

Variable Remuneration – Long Term Incentives

An Employee Share Incentive Plan which allows for the issue of options to employees and for which senior executives qualify was established with the objective being to align this element of remuneration with the creation of shareholder wealth. There are no performance requirements attached to these options once issued as the exercise price of the options are set at a level in excess of the market value at date of issue. The share options vest over a period of 1 to 2 years, are forfeited on resignation, and expire 5 years from the date of issue.

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each director of the Company and each of the executive officers of the Company and the consolidated entity receiving the highest emoluments for the financial year are as follows:

Emoluments of Directors of AdultShop.com Limited

		Short-term	Post Employment	Share-based Payments	
Name	**Office during the year**	**Salary / Fees**	**Superannuation**	**Options**	**Total**
		$	**$**	**$**	**$**
30 June 2008					
K Heitman	Non-Executive Chairman	154,000	13,860	-	167,860
M R Day	Managing Director	371,160	33,404	-	404,564
H R Moser	Non-Executive Director	22,000	-	-	22,000
B Moore	Non-Executive Director	44,000	3,960	-	47,960
		591,160	51,224	-	642,384
30 June 2007					
K Heitman	Non-Executive Chairman	154,000	13,860	21,600	189,460
M R Day	Managing Director	360,000	32,400	41,000	433,400
H R Moser	Non-Executive Director	22,000	-	21,600	43,600
B Moore	Non-Executive Director	44,000	3,960	21,600	69,560
C Kennedy #	Non-Executive Director	33,331	3,000	21,600	57,931
		613,331	53,220	127,400	793,951

From 1 August 2007 to 23 April 2007.

No emoluments paid or payable to directors in respect of the 2008 year (2007: nil) were performance related and no short term incentive scheme is or was in place for directors.

Emoluments of other Key Management Personnel of the consolidated entity

Name	Office during the year	Short-term		Post Employment	Share-based Payments		% Remuneration Relating to Options
		Salary / Fees	Fringe Benefits	Super-annuation	Options	Total	
30 June 2008		$	$	$	$	$	%
D Newnham	General Manager Calvista Austalia	*323,375	34,445	19,707	8,627	386,154	2.2%
M Bassett	Chief Executive Officer Calvista Australia	#37,663	-	4,595	-	42,258	0%
R McGinn	General Manager Retail Division	^129,751	-	4,652	-	134,403	0%
J Burness	CFO / Company Secretary	173,208	-	15,589	25,025	213,822	11.7%
		663,997	34,445	44,543	33,652	776,637	-

* To 31 May 2008 and includes payments made on termination of employment.
^ To 31 October 2007 and include payments made on termination of employment.
# From 25 February 2008.

Name	Office during the year	Short-term		Post Employment	Share-based Payments	
		Salary / Fees	Fringe Benefits	Super-annuation	Options	Total
30 June 2007		$	$	$	$	$
D Newnham	General Manager Calvista Aust.	227,161	13,148	20,445	8,627	269,381
R McGinn	General Manager Retail Division	168,000	-	15,120	-	183,120
J Burness	CFO / Company Secretary	168,000	-	15,120	17,254	200,374
		563,161	13,148	50,685	25,881	652,875

No performance related emoluments were agreed on, or were paid or are payable to divisional general managers in respect of the 2008 financial year. Cash bonuses of up to 5% of divisional earnings before interest and tax in excess of targets were not paid to divisional managers in respect of the 2007 financial year as they failed to achieve predetermined targets.

No portion of emoluments paid or payable to Mr Burness during the 2008 (2007: nil) year were performance related and no short term incentive scheme is or were in place for him.

Compensation options: Granted and vested during the year

No options were granted during the year. The following options granted in prior periods vested during the year:

		Terms & Conditions for each Grant Vested					Vested
30 June 2008		Fair Value per Option at Grant Date Cents	Exercise Price per Option Cents	Expiry Date	First Exercise Date	Last Exercise Date	No
Executives	J Burness	1.90	4.7	3-Jan-12	4-Jan-08	3-Jan-12	1,000,000
	D Newnham	1.90	4.7	3-Jan-12	4-Jan-08	3-Jan-12	500,000

The following options were granted and vested during the prior year.

30 June 2007	Granted		Terms & Conditions for each Grant					Vested	
Directors	No	Grant Date	Fair Value per Option at Grant Date Cents	Exercise Price per Option # Cents	Expiry Date	First Exercise Date	Last Exercise Date	No	%
K Heitman	3,000,000	5-Aug-06	0.72	5.7	30-Jun-09	5-Aug-06	30-Jun-09	3,000,000	100
M Day	5,000,000	29-Nov-06	0.72	5.7	30-Jun-09	29-Nov-06	30-Jun-09	5,000,000	100
H R Moser	3,000,000	5-Aug-06	0.72	5.7	30-Jun-09	5-Aug-06	30-Jun-09	3,000,000	100
B Moore	3,000,000	5-Aug-06	0.72	5.7	30-Jun-09	5-Aug-06	30-Jun-09	3,000,000	100
C Kennedy	3,000,000	5-Aug-06	0.72	5.7	30-Jun-09	5-Aug-06	30-Jun-09	3,000,000	100
Executives									
J Burness	1,000,000	4-Jan-07	1.90	4.7	3-Jan-12	4-Jan-08	3-Jan-12	-	-
	1,000,000	4-Jan-07	1.65	6.7	3-Jan-12	4-Jan-09	3-Jan-12	-	-
	1,000,000	4-Jan-07	1.46	8.7	3-Jan-12	4-Jan-09	3-Jan-12	-	-
D Newnham	500,000	4-Jan-07	1.90	4.7	3-Jan-12	4-Jan-08	3-Jan-12	-	-
	500,000	4-Jan-07	1.65	6.7	3-Jan-12	4-Jan-09	3-Jan-12	-	-
	500,000	4-Jan-07	1.46	8.7	3-Jan-12	4-Jan-09	3-Jan-12	-	-

During the 2007 year the exercise price of each compensation option was reduced by 1.3 cents per share as a result of the capital reduction. The share price of the Company at this date was 1.92 cents.

Value of Options granted to Key Management Personnel (consolidated)

No options were granted during the year. The value of options cancelled during the year in respect of Mr D Newnham was $25,025. The value of options granted in the prior year is as follows:

30 June 2007		Value of Options Granted during the Year $	Value of Options Forfeited during the Year $	% of Remuneration Consisting of Options
Directors	K Heitman	21,600	-	11.4
	M Day	41,000	-	9.5
	HR Moser	21,600	-	49.5
	B Moore	21,600	-	31.1
	C Kennedy	21,600	-	37.3
Executives	J Burness	50,050	-	8.6
	D Newnham	23,706	-	3.2
		201,156	-	

No compensation options were exercised during the current or prior year. The options issued to D Newnham that vested during the year were cancelled on the cessation of employment.

ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company indemnifies all directors and officers of the Company against liability for costs and expenses incurred in defending proceedings brought against them in their role as a director or officer of the Company to the extent permitted under the law. In the current and prior years no insurance policies were taken out to cover these costs.

The Company has taken out a Keyman insurance policy on Mr Day.

ROUNDING

The amounts contained in this report and the 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.

Directors' Report

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Auditor Independence

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of AdultShop.com Limited with an Independence Declaration in relation to the audit of the full year financial report. The Independence Declaration is attached to and forms part of this Directors' Report (see page 29).

Non Audit Services

No non audit services were provided by the entity's auditor, Ernst & Young, during the year under review or up until the date of this report

Signed in accordance with a resolution of the directors.

M R Day
Director

Perth, Western Australia
26 September 2008

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

In relation to our audit of the financial report of AdultShop.com Limited for the year ended 30 June 2008, 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

C B Pavlovich
Partner
Perth
26 September 2008

Income Statement

for the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
Continuing operations					
Revenue					
Sale of goods		**32,303**	32,593	**10,585**	10,659
Rendering of services		**3,127**	5,587	**1,338**	2,550
Rental income		**200**	293	**-**	-
Finance income		**141**	206	**163**	156
Revenue	4(a)	**35,771**	38,679	**12,086**	13,365
Cost of sales		**(17,955)**	(18,836)	**(4,101)**	(4,661)
Gross profit		**17,816**	19,843	**7,985**	8,704
Other income	4(b)	**2,908**	593	**33**	4,121
Distribution expenses		**(692)**	(581)	**(487)**	(536)
Marketing expenses		**(2,790)**	(2,896)	**(1,566)**	(1,902)
Administrative expenses		**(13,287)**	(13,081)	**(6,214)**	(6,438)
Occupancy expenses		**(2,827)**	(2,626)	**(1,660)**	(1,528)
Other expenses		**(3,428)**	(3,179)	**(2,811)**	(2,029)
(Loss) / profit from continuing operations before tax and finance costs		**(2,300)**	(1,927)	**(4,720)**	392
Finance costs	4(c)	**(277)**	(5)	**-**	-
(Loss) / profit from continuing operations before income tax		**(2,577)**	(1,932)	**(4,720)**	392
Income tax expense	5	**-**	(588)	**-**	-
(Loss) / profit from continuing operations after income tax		**(2,577)**	(2,520)	**(4,720)**	392
Discontinued operations					
Profit / (loss) from discontinued operations after tax	6	**-**	3,923	**-**	-
Net (loss) /profit for the period attributable to members of AdultShop.com Limited		**(2,577)**	1,403	**(4,720)**	392
Loss per share from continuing operations attributable to ordinary equity holders of the company:					
Basic loss per share	7	**(0.84) cents**	(0.78) cents		
Diluted loss per share	7	**(0.84) cents**	(0.78) cents		
(Loss) / earnings per share attributable to ordinary equity holders of the company:					
Basic (loss) /earnings per share	7	**(0.84) cents**	0.43 cents		
Diluted (loss) /earnings per share	7	**(0.84) cents**	0.43 cents		

Balance Sheet

for the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
ASSETS					
Current Assets					
Cash and cash equivalents	8	**1,982**	3,145	**364**	365
Trade and other receivables	9	**4,275**	4,783	**186**	1,024
Inventories	10	**8,268**	8,205	**1,568**	1,534
Prepayments and deposits		**1,116**	1,263	**454**	479
Total Current Assets		**15,641**	17,396	**2,572**	3,402
Non-current Assets					
Investment is subsidiaries	11	**-**	-	**3,378**	3,378
Other receivables	9	**-**	-	**7,406**	11,354
Property, plant and equipment	13	**3,386**	3,536	**838**	1,202
Intangible assets and goodwill	14	**1,010**	1,389	**100**	100
Total non-current assets		**4,396**	4,925	**11,722**	16,034
TOTAL ASSETS		**20,037**	22,321	**14,294**	19,436
LIABILITIES					
Current Liabilities					
Trade and other payables	17	**3,515**	2,271	**1,227**	877
Current tax payable		**-**	561	**-**	-
Interest-bearing loans and borrowings	18	**50**	14	**-**	-
Provisions	19	**679**	622	**405**	358
Total Current Liabilities		**4,244**	3,468	**1,632**	1,235
Non-current Liabilities					
Trade and other payables	17	**-**	-	**2,236**	2,904
Interest-bearing loans and borrowings	18	**21**	48	**-**	-
Provisions	19	**612**	675	**398**	455
Total non-current Liabilities		**633**	723	**2,634**	3,359
TOTAL LIABILITIES		**4,877**	4,191	**4,266**	4,594
NET ASSETS		**15,160**	18,130	**10,028**	14,842
EQUITY					
Equity attributable to equity holders of the Parent					
Contributed equity	20	**68,217**	68,217	**68,217**	68,217
Accumulated losses	20	**(51,836)**	(49,259)	**(58,514)**	(53,794)
Reserves	20	**(1,221)**	(828)	**325**	419
TOTAL EQUITY		**15,160**	18,130	**10,028**	14,842

Cash Flow Statement

for the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008	2007	**2008**	2007
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Receipts from customers		**38,609**	44,226	**9,515**	10,733
Payments to suppliers and employees		**(39,730)**	(45,486)	**(11,821)**	(12,626)
Legal settlements		**939**	-	**-**	-
Interest received		**108**	178	**30**	47
Income tax paid		**(555)**	(71)	**-**	-
Interest on tax		**(225)**	-	**-**	-
Net cash flows used in operating activities	**8**	**(854)**	(1,153)	**(2,276)**	(1,846)
Cash flows from investing activities					
Payment for purchase of property, plant and equipment		**(1,507)**	(401)	**(306)**	(166)
Loan to Loop Mobile Limited repaid		**715**	-	**715**	-
Loan to Loop Mobile Limited advanced		**-**	-	**-**	(1,500)
Decrease / (increase) in loans to associated companies		**608**	(545)	**-**	(340)
Net proceeds on disposal of subsidiaries	**6**	**-**	98	**-**	165
Cash available/ (costs incurred) on acquisition of subsidiary		**-**	126	**-**	(36)
Payment for acquisition of trademark		**(18)**	-	**-**	-
Proceeds from disposal of available-for-sale investments		**-**	243	**-**	-
Decrease in loans to subsidiary companies		**-**	-	**2,532**	907
Decrease / (increase) in loan from subsidiary company		**-**	-	**(668)**	1,099
Net cash flows from / (used in) investing activities		**(202)**	(479)	**2,273**	129
Cash flows from financing activities					
Repayment of borrowings		**(43)**	(54)	**-**	-
Net cash flows used in financing activities		**(43)**	(54)	**-**	-
Net decrease in cash and cash equivalents		**(1,099)**	(1,686)	**(3)**	(1,717)
Net foreign exchange differences		**(64)**	(7)	**2**	(16)
Cash and cash equivalents at beginning of period		**3,145**	4,838	**365**	2,098
Cash and cash equivalents at end of period	**8**	**1,982**	3,145	**364**	365

Statement of Changes in Equity
for the year ended 30 June 2008

	Attributable to equity holders of the Parent			
	Issued capital	**Accumulated losses**	**Other reserves**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
CONSOLIDATED				
At 1 July 2006	**72,445**	**(49,583)**	**(757)**	**22,105**
Currency translation differences	-	-	(237)	(237)
Total net expense recognised directly in equity	-	-	(237)	(237)
Issue of share capital	693	-	-	693
Capital reduction	(660)	(1,079)	-	(1,739))
In specie distribution	(4,261)	-	-	(4,261)
Share based payments	-	-	166	166
Profit for the year	-	1,403	-	1,403
At 30 June 2007	**68,217**	**(49,259)**	**(828)**	**18,130**
Currency translation differences	-	-	(437)	(437)
Total net expense recognised directly in equity	-	-	(437)	(437)
Share based payments	-	-	44	44
Loss for the year	-	(2,577)	-	(2,577)
At 30 June 2008	**68,217**	**(51,836)**	**(1,221)**	**15,160**
PARENT				
At 30 June 2006	**72,445**	**(53,107)**	**115**	**19,453**
Capital reduction	-	(1,079)	-	(1,079)
Currency translation differences	-	-	138	138
Total net (expense) / income recognised directly in equity	-	(1,079)	138	(941)
Issue of share capital	693	-	-	693
Capital reduction	(660)	-	-	(660)
In specie distribution	(4,261)	-	-	(4,261)
Share based payments	-	-	166	166
Profit for the year	-	392	-	392
At 30 June 2007	**68,217**	**(53,794)**	**419**	**14,842**
Currency translation differences	-	-	(138)	(138)
Total net (expense) / income recognised directly in equity	-	-	(138)	(138)
Share based payments	-	-	44	44
Loss for the year	-	(4,720)	-	(4,720)
At 30 June 2008	**68,217**	**(58,514)**	**325**	**10,028**

1. CORPORATE INFORMATION

The financial report of AdultShop.com Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 26 September 2008. AdultShop.com Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian and German stock exchanges.

The nature of the operations and principal activities of the Group are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis and has been prepared using the same accounting policies as used in the previous year.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Adoption of new Accounting standards

The company has adopted AASB7: Financial Instruments; Disclosures and AASB 2008-4, and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosures in these financial statements. There has been no effect on profit and loss or the financial position of the Company.

The following Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been applied by AdultShop.com Limited:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

(c) Adoption of new Accounting standards (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009

(c) Adoption of new Accounting standards (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

(c) Adoption of new Accounting standards (continued)

The following amendments are not applicable to the Group and therefore have no impact:

Reference	Title
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of AdultShop.com Limited and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(e) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(f) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(g) Foreign currency translation

Both the functional and presentation currency of AdultShop.com Limited and its Australian subsidiaries is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying 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 arising from the above stated procedures are taken to profit or loss.

The functional currency of the foreign operations, AdultShop.com Ltd (United States) is United States dollars (US$), and AdultShop.com (NZ) Limited (New Zealand) and Calvista New Zealand (New Zealand) is New Zealand Dollars (NZD$).

(g) Foreign currency translation (continued)

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of AdultShop.com Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rate for the year.

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

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(h) 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.

(i) 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.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to estimated future cash flows.

(j) 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 and work-in-progress – cost of direct materials (including where applicable film copyright and classification costs), direct labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

(k) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately on the face of the income statement.

(l) Investments and other financial assets

Financial assets are classified as either financial assets held for trading, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value held for trading, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(l) Investments and other financial assets (continued)

(i) Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

(m) Investment in associates

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. The associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(n) Property, plant and equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 15 years
Leasehold improvements – the lease term

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement.

(n) Property, plant and equipment (continued)

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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 asset) is included in profit or loss in the year the asset is derecognised.

(o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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 recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(p) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(q) Goodwill and intangibles

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an 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 manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(q) Goodwill and intangibles (continued)

(ii) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(iii) Research costs

Research costs are expensed as incurred.

A summary of the policies applied to the Group's intangible assets is as follows:

Mail order lists and domain names:
Useful lives – 5 years (2007: 5 years)
Amortisation method used – straight line (2007: straight line)
Internally generated or acquired - acquired
Impairment testing - annually (2007: annually)

Website acquisition and development costs:
Amortisation method used – straight line (2007: straight line)
Internally generated or acquired - both
Impairment testing - annually (2007: annually)

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 profit or loss when the asset is derecognised.

(r) 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.

(s) 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.

(t) 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.

When 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 discounted using a current pre-tax rate that reflects the risks specific to the liability.

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

(u) Employee leave benefits

(i) 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.

(ii) 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 currencies that match, as closely as possible, the estimated future cash outflows.

(v) Share-based payment transactions

Equity settled transactions
The Group provides benefits to employees (including senior executives) and directors of the Group in the form of share-based payments, whereby employees and directors render services in exchange for shares or options over shares (equity-settled transactions).

The Employee Share Option Plan (ESOP) provides benefits to employees, other than directors, whilst the issue of options is as approved from time to time by the members in general meeting. The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes Option Pricing Model, further details of which are given in note 16.

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) if applicable.

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

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 Group's best estimate of the number of equity instruments that will ultimately vest. 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. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If 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 modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If 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 (see note 7).

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Significant accounting estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgments

Impairment of non-financial assets other than goodwill
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. An impairment loss of $300,000 (2007: $200,350) was recognised in the current year in respect of goodwill. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 14.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black- Scholes formula taking into account the terms and conditions upon which the instruments were granted. See note 16.

Make good provisions
Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with returning the premises to their original condition, fair wear and tear excepted. These future cost estimates are discounted to their present value. The calculation of this provision requires assumptions such as cost estimates and vacation dates. The related carrying amounts are disclosed in Note 19.

(y) Revenue recognition

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:

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

(ii) Rendering of services
Revenue is recognised when the contract outcome can be reliably measured 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 services is processed by the consolidated entity's credit card service providers.

(iii) Interest income
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Rental income
Rental income from DVD rental is received monthly in advance and is accounted for on receipt.

(v) Dividends
Revenue is recognised when the Group's right to receive the payment is established.

(z) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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.

(z) Income tax (continued)

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference 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 credits and unused tax losses can be utilised, except:

- when 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; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference 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. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax balances in the tax consolidated group are allocated using the group allocation method.

(aa) Other taxes

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

- when 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, which 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.

(ab) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Parent, adjusted for:

- costs of servicing equity (other than dividends);

- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SEGMENT INFORMATION

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically.

The operating divisions are organised and managed separately according to the nature of the products and services provided, with each segment offering different products and serving different markets.

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

Transfer prices between business segments are set at an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Business segments

The following tables present revenue and profit and loss information, and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007:

	Continuing Operations				Discontinued Operations	Total Operations
Year ended 30 June 2008	**Online**	**Retail and Wholesale**	**Phone Services**	**Total**	**Phone Services / Online**	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
Sales to external customers	5,986	28,374	1,270	35,630	-	35,630
Other income from external customers	1,202	1,706	-	2,908	-	2,908
Inter segment sales	-	3,708	-	3,708	-	3,708
Total segment revenue	7,188	33,788	1,270	42,246	-	42,246
Non segment revenue						-
Finance income						141
Inter-segment elimination						(3,708)
Total consolidated revenue (including other income)						38,679
Result						
Segment results	1,766	(594)	183	1,355	-	1,355
Unallocated expenses						(3,796)
Profit / (loss) before tax and finance costs						(2,441)
Net finance costs						(136)
Income tax						-
Net loss for year						(2,577)
Assets and liabilities						
Segment assets	1,635	17,367	153	19,155	-	19,155
Unallocated assets						882
Total assets						20,037
Segment liabilities	264	3,446	-	3,710	-	3,710
Unallocated liabilities						1,167
Total liabilities						4,877
Other segment information						
Capital expenditure	2	415	-	417	-	417
Depreciation	14	1,332	2	1,348	-	1,348
Amortisation	-	99	-	99	-	99
Impairment of intangibles	-	300	-	300	-	300
Other non-cash expenses	-	88	-	88	-	88

3. SEGMENT INFORMATION (continued)

	Continuing Operations				Discontinued Operations	Total Operations
Year ended 30 June 2007	**Online**	**Retail and Wholesale**	**Phone Services**	**Total**	**Phone Services / Online**	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
Sales to external customers	7,048	28,912	2,356	38,316	2,129	40,445
Other income from external customers	129	477	-	606	-	606
Inter segment sales	-	3,905	-	3,905	-	3,905
Total segment revenue	7,177	33,294	2,356	42,827	2,129	44,956
Non segment revenue						141
Finance income						206
Inter-segment elimination						(3,905)
Total consolidated revenue (including other income)						41,398
Result						
Segment results	1,507	(254)	753	2,006	3,923	5,929
Unallocated expenses						(4,144)
Profit / (loss) before tax and finance costs						1,785
Finance income						206
Income tax						(588)
Net profit / (loss) for year						1,403
Assets and liabilities						
Segment assets	689	19,640	238	20,567	-	20,567
Unallocated assets						1,754
Total assets						22,321
Segment liabilities	249	2,255	-	2,504	-	2,504
Unallocated liabilities						1,687
Total liabilities						4,191
Other segment information						
Capital expenditure	3	1,558	-	1,561	-	1,561
Depreciation	26	1,296	30	1,322	30	1,352
Amortisation	-	101	-	101	-	101
Impairment of intangibles	-	200	-	200	-	200
Other non-cash expenses	59	213	-	272	76	348

Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets. A significant portion of the Group's revenue however consists of entertainment revenue which is produced on the worldwide web and it is therefore not possible to determine with any accuracy the country of origin for that revenue. The Group is aware that a significant portion of this revenue attributed to the online segment originates from North America.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2008 and 30 June 2007.

	Continuing Operations				Discontinued Operations	Total Operations
Year ended 30 June 2008	**Australia $'000**	**New Zealand $'000**	**Other $'000**	**Total $'000**	**$'000**	**$'000**
Revenue						
Sales to external customers	31,167	2,673	1,790	35,630	-	35,630
Other income from external customers	3,029	12	8	3,049	-	3,049
Inter segment sales	2,318	-	-	2,318	-	2,318
	36,514	2,685	1,798	40,997	-	40,997
Inter segment sales	(2,318)	-	-	(2,318)	-	(2,318)
Total segment revenue (including other income)	34,196	2,685	1,798	38,679	-	38,679
Other segment information						
Segment assets	17,415	2,613	9	20,037	-	20,037
Capital expenditure	953	608	-	1,561	-	1,561

	Continuing Operations				Discontinued Operations	Total Operations
Year ended 30 June 2007	**Australia $'000**	**New Zealand $'000**	**Other $'000**	**Total $'000**	**Germany $'000**	**$'000**
Revenue						
Sales to external customers	32,681	2,755	3,037	38,473	2,129	40,602
Other income from external customers	713	49	34	796	-	796
Inter segment sales	1,917	-	-	1,917	-	1,917
	35,311	2,804	3,071	41,186	2,129	43,315
Inter segment sales	(1,917)	-	-	(1,917)	-	(1,917)
Total segment revenue (including other income)	33,394	2,804	3,071	39,269	2,129	41,398
Other segment information						
Segment assets	19,094	3,211	16	22,321	-	22,321
Capital expenditure	369	76	-	445	61	506

4. REVENUE AND EXPENSES

Revenue and expenses from continuing operations

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(a) Revenue				
Sale of goods	**32,303**	32,593	**10,585**	10,659
Rendering of services	**3,127**	5,587	**1,338**	2,550
Rental revenue	**200**	293	**-**	-
Finance revenue – bank interest	**141**	206	**30**	49
– related party loans	**-**	-	**133**	107
	35,771	38,679	**12,086**	13,365
(b) Other Income				
Net gain on disposal of available for sale investments	**-**	140	**-**	-
Net gain on disposal of controlled entities	**-**	-	**-**	3,961
Legal settlements	**1,939**	-	**-**	-
Sundry income	**969**	453	**33**	160
	2,908	593	**33**	4,121
(c) Finance costs				
Included in other expenses:				
Finance charges payable under finance leases and hire purchase contracts	**5**	5	**-**	-
On income tax re-assessment	**272**	-	**-**	-
	277	5	**-**	-
(d) Depreciation, impairment, and amortisation included in income statement:				
Depreciation (note 13)	**1,348**	1,352	**436**	462
Amortisation of copyright (note 14)	**99**	101	**-**	-
Impairment of goodwill (note 14)	**300**	200	**-**	200
Impairment of loan to subsidiary	**-**	-	**1,415**	672
(e) Lease payments and other expenses included in income statement				
Included in occupancy expenses:				
Minimum operating lease payments	**2,369**	2,016	**1,365**	1,190
(f) Employee benefit expense				
Included in administration expenses:				
Wages and salaries	**8,184**	7,969	**4,098**	4,104
Share based payments	**44**	166	**44**	166
Workers compensation costs	**64**	129	**36**	46
Superannuation expense	**656**	664	**338**	335
	8,948	8,928	**4,516**	4,651
(g) Foreign exchange gain				
Included in other expenses:				
Realised foreign exchange (gain) / loss	**(48)**	(65)	**198**	(9)

4. REVENUE AND EXPENSES (continued)

Revenue and expenses from continuing operations (continued)

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(h) Other				
(Decrease) / increase in impairment allowance for doubtful debts	**(38)**	(127)	**-**	47
Increase in provision for annual and long service leave	**42**	132	**29**	71
Increase in impairment allowance for inventory obsolescence	**576**	823	**-**	-
(Decrease) / increase in provision for restoration of leased premises	**(48)**	3	**(39)**	3
Loss on disposal / write off of fixed assets	**263**	3	**233**	-

5. INCOME TAX

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(a) Income tax expense				
The major components of income tax expense are:				
Current income tax charge	**-**	33	**-**	-
Adjustment to prior years	**-**	555	**-**	-
	-	588	**-**	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting (loss) / profit before tax from continuing operations	**(2,577)**	(1,932)	**(4,720)**	392
Accounting profit before tax from discontinued operations	**-**	3,923	**-**	-
Total accounting profit / (loss) before tax	**(2,577)**	1,991	**(4,720)**	392
At the Group's statutory income tax rate of 30% (2007: 30%)	**(773)**	597	**(1,416)**	118
Write down of loan to subsidiary	**-**	-	**425**	201
Amortisation / impairment of intangibles	**144**	114	**-**	60
Other non-deductible items	**3**	79	**-**	1
Non-assessable capital gain	**-**	(1,726)	**-**	(1,188)
Current years pre acquisition loss of subsidiary on joining the tax group	**-**	(39)	**-**	-
Utilisation of foreign tax loss	**(3)**	(13)	**-**	-
Adjustments relating to prior years	**-**	588	**-**	-
Net future income tax benefits not booked	**629**	988	**991**	808
Income tax expenses / (credit) reported in the consolidated income statement	**-**	588	**-**	-

5. INCOME TAX (continued)

The Group has tax losses arising in Australia of $8,138,000 (2007: $7,422,000) that are available indefinitely for offset against future taxable profits.

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2008 because directors do not believe it is appropriate to regard realisation of the future tax benefit as probable. These benefits will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;

(ii) the consolidated entity continues to comply with the conditions for the deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deduction for the loss.

	Balance Sheet		Income Statement	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(b) Deferred Income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Finance lease expenses	**(12)**	(14)	**2**	3
Classification fees	**-**	-	**-**	163
Unrealised profit in inventory	**(144)**	(138)	**(6)**	(83)
	(156)	(152)		
Deferred tax assets				
Provisions for employee entitlements	**249**	285	**(36)**	69
Allowance for stock obsolescence	**467**	320	**147**	159
Allowance for doubtful debts	**37**	39	**(2)**	(35)
Other provisions	**93**	92	**1**	56
Copyright and domain names	**123**	258	**(135)**	(18)
Depreciation of plant and equipment	**45**	116	**(71)**	7
	1,014	1,110		
Net unrecognised deferred tax assets	**(858)**	(958)	**100**	(321)
Net deferred tax asset /(liability)	**-**	-		
Deferred tax expense			**-**	-
PARENT				
Deferred tax liabilities				
Finance lease expenses	**-**	-	**-**	-
	-	-		
Deferred tax assets				
Provisions for employee entitlements	**157**	188	**(31)**	46
Other provisions	**67**	74	**(7)**	62
Unrealised foreign exchange losses	**60**	-	**60**	-
Domain names	**17**	23	**(6)**	(6)
Depreciation of plant and equipment	**35**	70	**(35)**	1
	276	355		
Net unrecognised deferred tax assets	**(276)**	(355)	**19**	(103)
Net deferred tax asset / (liability)	**-**	-		
Deferred tax expense			**-**	-

5. INCOME TAX (continued)

Tax Consolidation Legislation

AdultShop.com Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect 1 from July 2003. AdultShop.com Limited is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis based on the taxable income of each entity. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

Members of the tax consolidation group have entered into a tax funding arrangement. Tax balances are allocated to members of the tax consolidation group using the group allocation method. No amounts have been recognised during the period (2007: nil) as tax consolidation contributions by, or distributions to, equity participants.

6. DISCONTINUED OPERATIONS

(i) Details of operations disposed of

No components of the entity were disposed of or discontinued or classified as held for sale during the current financial year.

In the prior period, AdultShop.com GmbH was disposed of with effect from 31 January 2007 and Loop Mobile Limited was disposed of via an in-specie distribution to members of AdultShop.com Limited in June 2007.

(ii) Financial performance of disposed of operations

The results of the prior year discontinued operations from the date of acquisition until disposal are presented below:

CONSOLIDATED	2007 Total
Revenue	2,129
Expenses	(3,818)
Gross loss	(1,689)
Gain on disposal	5,612
Profit / (loss) before tax on disposal	3,923
Tax on profit / (loss)	-
Profit / (loss) from discontinued operations	3,923

(iii) Assets and liabilities of disposed of entities

	2007 Total
Property, plant & equipment	36
Intangibles	1,147
Cash and cash equivalents	67
Inventories	33
Trade receivables	462
Prepayments	356
	2,101
Trade payables	(396)
Provisions	(139)
Loan	(715)
	(1,250)
Net assets attributable to discontinued operations	851

6. DISCONTINUED OPERATIONS (continued)

(iv) Net cash inflow on disposal

	2007 Total
Cash and cash equivalents consideration	338
Less: Cash costs incurred in disposal of operations	(173)
Cash and cash equivalents balance disposed of	(67)
Reflected in the consolidated cash flow statement	98

(v) Earnings per share

	2007 Total
Basic earnings per share from discontinued operations	1.21 cents
Diluted earnings per share from discontinued operations	1.21 cents

7. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share amounts are calculated by dividing net earnings / (loss) for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the net earnings / (loss) attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	Consolidated	
	2008	2007
	$'000	$'000
Net loss attributable to ordinary equity holders of the Parent from continuing operations	**(2,577)**	(2,520)
Profit attributable to discontinued operations	**-**	3,923
Net (loss) / profit attributable to ordinary equity holders of the Parent	**(2,577)**	1,403

	2008	2007
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic loss per share	**306,796,528**	324,347,213

None of the 20,120,000 options to acquire ordinary shares in the company on issue at year end are considered to be dilutive.

No ordinary shares or potential ordinary shares have been issued subsequent to the year end.

8. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**1,976**	2,096	**364**	354
Short-term deposits	**6**	1,049	**-**	11
	1,982	3,145	**364**	365

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for a period of 1 month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is $1,982,000 (2007: $3,145,000).

8. CASH AND CASH EQUIVALENTS (continued)

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Reconciliation of net (loss) / profit after tax to net cash flows from operations				
Net (loss) / profit	**(2,577)**	1,403	**(4,721)**	392
Adjustments for:				
Depreciation	**1,348**	1,352	**436**	462
Amortisation / impairment of intangibles	**399**	301	**-**	200
Loss on disposal / write off of fixed assets	**263**	-	**233**	-
Profit on sale of subsidiaries	**-**	(5,612)	**-**	(3,961)
Net gain on disposal of available-for sale investments	**-**	(140)	**-**	-
Increase in impairment allowance for loan to subsidiaries	**-**	-	**1,415**	672
Net exchange differences	**(12)**	7	**-**	-
Changes in assets and liabilities				
(Decrease) / increase in inventories	**(639)**	613	**(34)**	315
(Increase)/decrease in trade and other receivables	**(777)**	58	**125**	(224)
Increase in prepayments	**147**	(345)	**25**	74
Increase /(decrease) in current tax liability	**(539)**	562	**-**	-
Increase/(decrease) in trade and other payables	**1,393**	(180)	**349**	(104)
(Increase) / decrease in reserves	**(393)**	(71)	**(93)**	304
Increase / (decrease) in provisions	**533**	899	**(11)**	24
Net cash from/(used in) operating activities	**(854)**	(1,153)	**(2,276)**	(1,846)

Disclosure of non-cash financing and investing activities - refer to note 13.

9. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Current				
Trade receivables (i) (ii)	**3,232**	3,581	**118**	99
Allowance for doubtful debts	**(128)**	(166)	**-**	-
	3,104	3,415	**118**	99
Loan to Loop Mobile Limited (iii)	**-**	715	**-**	715
Other debtors (ii) (v)	**1,171**	653	**68**	210
	4,275	4,783	**186**	1,024
Non-Current				
Loans to associate	**78**	78	**78**	78
Impairment allowance for loans to associate	**(78)**	(78)	**(78)**	(78)
Loans to controlled entities (iv)	**-**	-	**9,077**	11,610
Impairment allowance loans to controlled entities	**-**	-	**(1,671)**	(256)
	-	-	**7,406**	11,354

(i) Receivables are non-interest bearing and are generally on 30-180 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(ii) Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

9. TRADE AND OTHER RECEIVABLES (continued)

(iii) A 100% interest in Loop Mobile Limited was disposed of via an in-specie distribution on 20 June 2007.

(iv) For terms and conditions relating to related party receivables refer to note 23.

(v) Balance represents items that are neither past due nor impaired.

Details regarding the effective interest rate and credit risk of current receivables are disclosed in note 21.

At 30 June, the ageing of trade receivables was as follows:

2008	0-30 days IT*	31-60 days IT*	61-90 days PDNI*	+91 days IT*	+91 days PDNI*	+91 days CI*	Total
Consolidated	**1,383**	**895**	**362**	**327**	**137**	**128**	**3,232**
Parent	**78**	**40**	**-**	**-**	**-**	**-**	**118**
2007							
Consolidated	1,939	743	275	366	92	166	3,581
Parent	75	24	-	-	-	-	99

* PDNI = Past due not impaired   CI = Considered Impaired   IT = Inside terms

10. INVENTORIES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Finished goods (at net realisable value)	**8,268**	8,205	**1,568**	1,534

Inventory write-downs recognised as an expense totalled $576,000 (2007: $989,000) for the Group and nil (2007: $79,692) for the Company. This expense is included in the cost of sales.

11. INVESTMENT IN SUBSIDIARIES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Investments in controlled entities (note 23)	-	-	3,378	3,378

12. INVESTMENT IN ASSOCIATE

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Investment in associate	**500**	500	**500**	500
Impairment losses	**(500)**	(500)	**(500)**	(500)
	-	-	**-**	-

50% interest in Club X Internet Pty Ltd, which had the exclusive right to use the trademark and brand name 'Club X' to distribute adult products and entertainment on the internet, ceased trading in May 2004.

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Plant and Equipment				
At beginning of the year net of accumulated depreciation and impairment	**3,536**	4,483	**1,202**	1,497
Additions	**1,541**	446	**305**	167
Disposals	**(263)**	(41)	**(233)**	-
Exchange adjustment	**(80)**	-	**-**	-
Depreciation charge for the year	**(1,348)**	(1,352)	**(436)**	(462)
At end of the year net of accumulated depreciation	**3,386**	3,536	**838**	1,202
At cost	**10,636**	10,182	**3,836**	4,367
Accumulated depreciation	**(7,250)**	(6,646)	**(2,998)**	(3,165)
Net carrying amount	**3,386**	3,536	**838**	1,202

Assets acquired under hire purchase contracts are pledged as security for the related hire purchase liability.

There were no additions during the year (2007: $nil) to plant and equipment acquired under hire purchase contracts.

Plant and equipment with a carrying amount of $68,000 (2007: $60,000) for the Group and $ nil (2006: $ nil) for the Parent are pledged as securities for the current and non-current liabilities as disclosed in note 18.

14. INTANGIBLE ASSETS AND GOODWILL

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Web site acquisition and development costs				
At cost (gross carrying amount)	**1,486**	1,486	**1,476**	1,476
Accumulated amortisation and impairment	**(1,486)**	(1,486)	**(1,476)**	(1,476)
Net carrying amount	**-**	-	**-**	-
Mail order lists, domain names and trade marks				
At cost (gross carrying amount)	**570**	550	**46**	46
Accumulated amortisation at beginning of the year	**(229)**	(128)	**(46)**	(46)
Amortisation charge for the year	**(99)**	(101)	**-**	-
Accumulated amortisation at end of the year	**(328)**	(229)	**(46)**	(46)
Net carrying amount	**242**	321	**-**	-
Goodwill				
At cost (gross carrying amount)	**11,156**	11,156	**957**	957
Accumulated impairment at beginning of the year	**(10,088)**	(9,888)	**(857)**	(657)
Impairment current year	**(300)**	(200)	**-**	(200)
Accumulated impairment at end of year	**(10,388)**	(10,088)	**(857)**	(857)
Net carrying amount	**768**	1,068	**100**	100
Total net carrying value of intangible assets and goodwill	**1,010**	1,389	**100**	100

14. INTANGIBLE ASSETS AND GOODWILL (continued)

Web site acquisition and development costs, mail order lists and domain names have been capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Goodwill is not amortised but is subject to annual impairment testing (see note 15). An impairment loss of $300,000 on goodwill was recognised for continuing operations in the 2008 financial year (2007: $200,350).

The impaired goodwill related to the New Zealand retail operations which did not achieve a satisfactory rate of return. The impairment loss has been recognised in the income statement in the line item 'other expenses'.

15. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to the individual cash generating units to which the goodwill relates for impairment testing.

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management.

The discount rate applied to cash flow projections is 10% (2007: 10%).

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Carrying amount of goodwill allocated to each of the cash generating units				
Northern Territory retail store	**100**	100	**100**	100
Wholesale division	**442**	442	**-**	-
New Zealand operations	**226**	526	**-**	-
	768	1,068	**100**	100

The following describes each key assumption on which management has based its cash flow projections when determining the value in use:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year and as such reflect past experience.

No changes in assumptions are likely to have a significant impact on the recoverable amount of goodwill.

16. SHARE BASED PAYMENT PLANS

Recognised share-based payment expenses

The expense recognised for the employee services received during the year is shown in the table below:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Expense arising from issue of:				
Employee share options	**44**	39	**44**	39
Director share options	**-**	127	**-**	127
	44	166	**44**	166

Employee share options incentive scheme

The Group operates an employee share options incentive scheme. Under the scheme, options to purchase shares in the Parent company are able to be offered to managers, executive officers or full or part time staff members of the Group. The offer of options is at the discretion of the directors.

It is a term of each option that any unexercised option shall lapse on the day that the option holder ceases to be employed by the Group.

16. SHARE BASED PAYMENT PLANS (continued)

Director options

From time to time options to purchase shares in the Company are offered to the company's directors following approval of members in general meeting.

Summary of employee and Director share options granted

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in employee and director share options during the year:

	2008		2007	
	No.	**WAEP**	**No.**	**WAEP**
Outstanding at the beginning of the year	22,580,000	$0.05	6,768,000	$0.22
Cancelled during the year on cessation of employment	(2,460,000)	$0.07	(3,345,000)	$0.06
Expired during the year	-	-	(6,768,000)	$0.22
Issued during the year	-	-	25,925,000	$0.05
Outstanding at the end of the year	20,120,000	$0.06	22,580,000	$0.05

The outstanding balance as at 30 June 2008 is represented by:

- 14,000,000 options over ordinary shares with an exercise price 5.7 cents each, exercisable on or before 30 June 2009.
- 2,040,000 options over ordinary shares with an exercise price of 4.7 cents each, exercisable between 4 January 2008 and 3 January 2012.
- 2,040,000 options over ordinary shares with an exercise price of 6.7 cents each, exercisable between 4 January 2009 and 3 January 2012
- 2,040,000 options over ordinary shares with an exercise price of 8.7 cents each, exercisable between 4 January 2009 and 3 January 2012.

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 was 1.5 years (2007: 2.9 years).

Range of exercise price

The range of exercise price for the options outstanding at the end of the year was $0.047 - $0.087 (2007: $0.047 to $0.087).

Weighted average fair value

The weighted average fair value of options granted during the year was nil (2007: $0.011).

Fair value of options issued

The fair value of options issued during the year was nil (2007: 0.7 cents to 1.9 cents).

Option pricing model

The fair value of the equity settled share options is estimated at the date of the grant using the Black-Scholes Option Pricing Model which takes into account the underlying share price, the exercise period, share price volatility and a risk free rate of return.

No options were issued during the current year. The following table lists the inputs to the model used in arriving at the fair value of the equity settled share options for the year ended 30 June 2007:

Dividend yield	Nil
Expected volatility	67.9
Historical volatility	67.9
Risk free rate	6 %
Expected life of option	3-5 years

17. TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Current				
Trade payables (i)	**2,585**	1,160	**773**	455
Goods and services tax	**141**	204	**19**	46
Other creditors and accruals	**789**	907	**435**	376
	3,515	2,271	**1,227**	877
Non-current				
Related party payables (ii)	**-**	-	**2,236**	2,904
	-	-	**2,236**	2,904

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

(ii) For terms and conditions relating to related party payables refer to note 23.

Information regarding the credit risk of current payables is set out in note 21.

18. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Current				
Obligations under finance leases and hire purchase contracts (note 22)	**50**	14	**-**	-
Non-current				
Obligations under finance leases and hire purchase contracts (note 22)	**21**	48	**-**	-
	71	62	**-**	-

The carrying amount of plant and equipment pledged as security for current and non-current finance leases and hire purchase contracts is $68,000 (2007: $60,000).

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

19. PROVISIONS

	Leave entitlements	Make good provisions	Total
	$'000	$'000	$'000
CONSOLIDATED			
Current 2008	**679**	**-**	**679**
Non-current 2008	**253**	**359**	**612**
	932	**359**	**1,291**
Current 2007	622	-	622
Non-current 2007	268	407	675
	890	407	1,297
PARENT			
Current 2008	**405**	**-**	**405**
Non-current 2008	**166**	**232**	**398**
	571	**232**	**803**
Current 2007	358	-	358
Non-current 2007	184	271	455
	542	271	813

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Consolidated		Parent	
	2008	2007	**2008**	2007
Make good provisions	**$'000**	$'000	**$'000**	$'000
At 1 July	**407**	404	**271**	269
Arising during the year	**-**	5	**-**	5
Utilised	**(48)**	(2)	**(39)**	(3)
At 30 June	**359**	407	**232**	271

(b) Nature and timing of provisions

Make good provision

In accordance with the various lease agreements for retails stores and offices premises, the Group must restore the leased premises to their original condition on vacating such premises. Provision for make good is made at the commencement of the lease based on the estimated current cost of the make good, and is reviewed biannually and adjusted where necessary.

Because of the long term nature of the liability, the greatest uncertainty in estimating the provision is in estimating the costs that will ultimately be incurred.

20. CONTRIBUTED EQUITY AND RESERVES

(a) Ordinary shares

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Ordinary shares - issued and fully paid	**68,217**	68,217	**68,217**	68,217

	Number	$'000	Number	$'000
At 1 July 2006	305,796,528	72,445	305,796,528	72,445
Issued during the year on acquisition of Loop Mobile Ltd				
- Consideration	20,000,000	660	20,000,000	660
- Commission	1,000,000	33	1,000,000	33
Share cancellation on disposal of Loop Mobile Ltd	(20,000,000)	(660)	(20,000,000)	(660)
In specie distribution of Loop Mobile Ltd	-	(4,261)	-	(4,261)
At 30 June 2007	306,796,528	68,217	306,796,528	68,217
Movements during the year	-	-	-	-
At 30 June 2008	306,796,528	68,217	306,796,528	68,217

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Options

	Consolidated Number	Parent Number
Movement in options on issue		
At 1 July 2006	6,768,000	6,768,000
Issued during the year	35,925,000	35,925,000
Expired during the year	(6,768,000)	(6,768,000)
Cancelled during the year on cessation of employment	(3,345,000)	(3,345,000)
At 30 June 2007	32,580,000	32,580,000
Expired during the year	(10,000,000)	(10,000,000)
Cancelled during the year on cessation of employment	(2,460,000)	(2,460,000)
At 30 June 2008	20,120,000	20,120,000
Employee options (note 16)	6,120,000	6,120,000
Director options (note 16)	14,000,000	14,000,000
At 30 June 2008	20,120,000	20,120,000

20. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Accumulated losses

Retained Income	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Movements in accumulated losses were as follows:				
Balance 1 July	**(49,259)**	(49,583)	**(53,794)**	(53,107)
Capital reduction on disposal of Loop Mobile Limited	**-**	(1,079)	**-**	(1,079)
Net (loss) / profit for the year	**(2,577)**	1,403	**(4,720)**	392
Balance 30 June	**(51,836)**	(49,259)	**(58,514)**	(53,794)

Consolidated

Reserves	Share premium $'000	Foreign currency translation $'000	Share based payments $'000	Total $'000
At 30 June 2006	115	(872)	-	(757)
Currency translation differences	-	(237)	-	(237)
Share based payments	-	-	166	166
At 30 June 2007	115	(1,109)	166	(828)
Currency translation differences	-	(437)	-	(437)
Share based payments	-	-	44	44
At 30 June 2008	115	(1,546)	210	(1,221)

Parent

Reserves	Share premium $'000	Foreign currency translation $'000	Share based payments $'000	Total $'000
At 30 June 2006	115	-	-	115
Currency translation differences	-	138	-	138
Share based payments	-	-	166	166
At 30 June 2007	115	138	166	419
Currency translation differences	-	(138)	-	138)
Share based payments	-	-	44	44
At 30 June 2008	115	-	210	325

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Share based payments reserve

The share based payments reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 16 for further details of these plans.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, hire purchase / lease contracts, cash and short-term deposits.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, while liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Managing Director and Chief Financial Officer under the authority of the Board.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash deposits.

At balance date, the Group had the following financial assets exposed to Australian Variable interest rate risks:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash	**1,982**	3,145	**364**	365
Security deposits	**406**	406	**406**	406

At balance date, the Group did not have any financial liabilities exposed to Australian variable interest rate risks. During the year, interest was paid on a tax liability relating to prior years. The Groups only borrowings at year end were in respect of a fixed rate hire purchase and finance lease contracts.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonable possible movements:	**Post Tax Profit / Equity Higher / (Lower)**	
	2008	2007
	$'000	$'000
Consolidated		
+1% (100 basis points)	**23**	36
-.5% (50 basis points)	**(12)**	(18)
Parent		
+1% (100 basis points)	**8**	8
-.5% (50 basis points)	**(4)**	(4)

The movements in profit are due to higher/lower interest income from variable rate cash and deposit balances. The sensitivity is lower in 2008 than in 2007 because of a reduction in cash balances.

Foreign currency risk

As a result of operations in the United States and New Zealand, and purchases of inventory denominated in United States Dollars and Euros, the Group's balance sheet can be affected by movements in the United States Dollar and the Euro to Australian Dollar exchange rates.

The Group does not have a significant transactional currency exposures arising from sales or purchases by an operating entity in currencies other than the functional currency.

It is the Group's policy not to enter into forward currency contracts to eliminate the currency exposures on any individual transactions, as the majority of imported product is either pre paid or paid for on delivery, and no product is pre-sold prior to receipt, so the majority of the price fluctuations can be passed on to the group's customers.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses (continued)

At 30 June 2008, the Group had the following exposure to foreign currency:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Financial Assets				
Cash and cash equivalents	**6**	13	**-**	-
Trade and other receivables	**23**	141	**20**	138
	29	154	**20**	138
Financial Liabilities				
Trade and other payables	**(110)**	(79)	**-**	-
	(110)	(79)	**-**	-
Net exposure	**(81)**	75	**20**	138

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2008, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonable possible movements:	**Post Tax Profit Higher / (Lower)**		**Equity Higher / (Lower)**	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Consolidated				
AUD/USD +10%	**(7)**	11	**(7)**	11
AUD/EURO + 10%	**(1)**	(4)	**(1)**	(4)
AUD/USD -10%	**7**	(11)	**7**	(11)
AUD/EURO - 10%	**1**	4	**1**	4
Parent				
AUD/USD +10%	**2**	14	**2**	14
AUD/USD -10%	**(2)**	(14)	**(2)**	(14)

The movements in profit in 2007 are more sensitive than in 2008 due to the higher level of foreign currency exposure at prior year balance date.

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group only extends credit to creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with set parameters. These risk limits are regularly monitored.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses (continued)

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group and financial instruments are only deposited with one of the major financial institutions in Australia and New Zealand.

Liquidity risk

The Group's objective is to maintain sufficient cash resources to fund its ongoing operations and capital expenditure, although from time to time use is made of hire purchase loans / finance leases for the acquisition of motor vehicles.

The table below reflects the undiscounted cash flows for the respective upcoming fiscal years for all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2008.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
6 months or less	**3,530**	2,336	**1,227**	877
6 -12 months	**40**	-	**-**	-
1-5 years	**22**	-	**-**	-
	3,592	2,336	**1,227**	877

Maturity analysis of financial assets and liability based on management's expectation.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital eg inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. The Group monitors existing financial assets and liabilities to enable an effective controlling of future risks.

Year ended 30 June 2008	**< 6 months $'000**	**6-12months $'000**	**1-5 years $'000**	**Total $000**
CONSOLIDATED				
FINANCIAL ASSETS				
Cash and cash equivalents	1,982	-	-	1,982
Trade and other receivables	4,275	-	-	4,275
Security deposits	-	-	406	406
FINANCIAL LIABILITIES				
Hire purchase / finance lease contracts	(46)	(2)	(23)	(71)
Trade and other payables	(3,515)	-	-	(3,515)
Net maturity	2,696	(2)	383	3,077

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Year ended 30 June 2008	< 6 months $'000	6-12months $'000	1-5 years $'000	Total $000
PARENT				
FINANCIAL ASSETS				
Cash and cash equivalents	364	-	-	364
Trade and other receivables	185	-	-	185
Security deposits	-		406	406
Loans to subsidiaries	-	-	7,406	7,406
FINANCIAL LIABILITIES				
Trade and other payables	(1,227)	-	-	(1,227)
Loans from subsidiaries	-	-	(2,236)	(2,236)
Net maturity	(678)	-	5,576	4,898

Year ended 30 June 2007	< 6 months $'000	6-12months $'000	1-5 years $'000	Total $000
CONSOLIDATED				
FINANCIAL ASSETS				
Cash and cash equivalents	3,145	-	-	3,145
Trade and other receivables	4,783	-	-	4,783
Security deposits	-		406	406
FINANCIAL LIABILITIES				
Hire purchase / finance lease contracts	(62)	-	-	(62)
Trade and other payables	(2,271)	-	-	(2,271)
Net maturity	5,595	-	406	6,001

Year ended 30 June 2007	< 6 months $'000	6-12months $'000	1-5 years $'000	Total $000
PARENT				
FINANCIAL ASSETS				
Cash and cash equivalents	365	-	-	365
Trade and other receivables	1,024	-	-	1,024
Security deposits	-		406	406
Loans to subsidiaries	-	-	11,354	11,354
FINANCIAL LIABILITIES				
Trade and other payables	(877)	-	-	(877)
Loans from subsidiaries	-	-	(2,904)	(2,904)
Net maturity	512	-	8,856	9,368

The Group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

22. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases and leases of various items of plant and equipment. The property leases have a life of between 1 and 8 years and the majority have renewal options. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under operating leases contracts together with the present value of the net minimum lease payments are as follows:

	2008	2007
	Minimum lease payments	Minimum lease payments
CONSOLIDATED	**$'000**	$'000
Within 1 year	**1,807**	2,039
After 1 year but not more than 5	**3,687**	2,780
Later than 5 years	**1,243**	571
Total minimum lease payments	**6,737**	5,390
Less amounts representing finance charges	**-**	-
Present value of minimum lease payments	**6,737**	5,390
PARENT		
Within 1 year	**830**	1,146
After 1 year but not more than 5	**1,535**	1,454
Later than 5 years	**553**	332
Total minimum lease payments	**2,918**	2,932
Less amounts representing finance charges	**-**	-
Present value of minimum lease payments	**2,918**	2,932

Hire purchase and finance lease liabilities

Future payments under hire purchase and finance lease contracts together with the present value of the payments are as follows:

	2008		2007	
CONSOLIDATED	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
	$'000	**$'000**	$'000	$'000
Within 1 year	**55**	**71**	65	62
After 1 year but not more than 5	**22**	**-**	-	-
Total minimum lease payments	**77**	**71**	65	62
Less amounts representing finance charges	**(6)**	**-**	(3)	-
Present value of minimum lease payments	**71**	**71**	62	62

The weighted average interest rate impact of the hire purchase and lease agreements for the Group is 11.6% (2007: 7.2%).

The Parent has no finance lease or hire purchase commitments.

Capital commitments

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	Consolidated		**Parent**	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Property, plant and equipment				
Within 1 year	-	-	-	-

Contingent Liabilities

No known contingent liabilities which have not been provided for exist at year end nor have any arisen between the year end and the date of this report.

ASIC Class Order

The Parent company has guaranteed under the terms of an ASIC Class Order any deficiency of funds if Today's Success Pty Ltd, Calvista Australia Pty Ltd or Stell Bay Pty Ltd are wound up. No such deficiency currently exists.

Guarantees

Cross guarantees given by AdultShop.com Limited, Today's Success Pty Ltd, Calvista Australia Pty Ltd and Stell Bay Pty Ltd are described in note 23.

23. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of AdultShop.com Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest 2008	% Equity interest 2007	Investment ($'000) 2008	Investment ($'000) 2007
Adultshop.com (NZ) Limited	New Zealand	**100**	100	-	-
AdultShop.com Inc	USA	**100**	100	-	-
Beta Creek Diamonds Pty Ltd	Australia	**100**	100	-	-
Calvista Australia Pty Ltd	Australia	**100**	100	**1,828**	1,828
Calvista New Zealand Limited	New Zealand	**100**	100	-	-
Stell Bay Pty Ltd	Australia	**100**	100	-	-
Today's Success Pty Ltd	Australia	**100**	100	**1,550**	1,550
				3,378	3,378

AdultShop.com Limited is the ultimate Australian Parent entity and ultimate Parent of the Group.

Entities subject to class order

Pursuant to Class Order 98/1418, relief has been granted to Today's Success Pty Ltd, Calvista Australia Pty Ltd and Stell Bay Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, AdultShop.com Limited, Today's Success Pty Ltd, Calvista Australia Pty Ltd and Stell Bay Pty Ltd (the "Closed Group") entered into a Deed of Cross Guarantee on 27 March 2002. The effect of the deed is that AdultShop.com Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that AdultShop.com Limited is wound up or if it does not meet its obligation under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The consolidated income statement and balance sheet of the entities that are members of the "Closed Group" are as follows:

	CLOSED GROUP	
	2008	2007
Consolidated Income Statement	**$'000**	$'000
(Loss) / profit from operations before income tax	**(2,762)**	1,790
Income tax expense	**-**	(555)
(Loss) / profit after tax from continuing operations	**(2,762)**	1,235
Accumulated loss at the beginning of the period	**(49,544)**	(49,700)
Loss in value - share cancellation	**-**	(1,079)
Accumulated loss at the end of the period	**(52,306)**	(49,544)

23. RELATED PARTY DISCLOSURE (continued)

	CLOSED GROUP	
Consolidated Balance Sheet	**2008**	2007
	$'000	$'000
ASSETS		
Current Assets		
Cash and cash equivalents	**1,830**	2,601
Trade and other receivables	**4,192**	4,680
Inventories	**6,864**	6,794
Prepayments	**1,036**	957
Total Current Assets	**13,922**	15,032
Non-current Assets		
Other financial assets	**2,613**	3,203
Property , plant and equipment	**2,802**	3,209
Intangible assets	**541**	541
Total Non-current assets	**5,956**	6,953
TOTAL ASSETS	**19,878**	21,985
LIABILITIES		
Current Liabilities		
Trade and other payables	**3,451**	2,063
Interest bearing loans and borrowings	**45**	14
Current tax payable	**-**	561
Provisions	**652**	595
Total Current Liabilities	**4,148**	3,233
Non-current Liabilities		
Interest-bearing loans and borrowings	**-**	48
Provisions	**547**	601
Total non-current Liabilities	**547**	649
TOTAL LIABILITIES	**4,695**	3,882
NET ASSETS	**15,183**	18,103
EQUITY		
Equity attributable to equity holders of the Parent		
Issued capital	**68,217**	68,217
Retained earnings	**(52,306)**	(49,544)
Other reserves	**(728)**	(570)
TOTAL EQUITY	**15,183**	18,103

The total amount of transactions that were entered into with related parties for the relevant financial year is as follows (for information regarding outstanding balances at year-end, refer to note 9 and note 17):

23. RELATED PARTY DISCLOSURE (continued)

Wholly-owned group transactions

Loans have been made to and from wholly owned entities during the year at no interest charge, except in the case of AdultShop.com NZ Ltd and Calvista New Zealand Limited which have been charged interest at a rate of 7% (2007: 7%) per annum by the Parent entity generating interest income of $133,031 (2006: $107,411), and have no fixed date for repayment. However, repayment of the loans payable will not be called upon, and the repayment of the loans receivable is not expected to take place, within the next year.

Calvista Australia Pty Ltd charged Calvista New Zealand Pty Ltd $36,000 (2007: $36,000) and AdultShop NZ Pty Ltd $144,000 (2007: $144,000) management fees for work done on their behalf.

Sales and purchases between entities within the wholly owned group are made under normal commercial terms and conditions.

Associate

The Group has a 50% interest in Club X Internet Pty Ltd which had the exclusive right to use the trademark and brand name ‘Club X’ to distribute adult products and entertainment on the Internet. This right expired on 31 May 2004 and the company subsequently ceased trading and the investment has been written off.

Loans owing by associates total $77,957 (2007: $77,957) at no interest charge. During the year no advances (2007: $nil) were made, and no (2007: $nil) repayments were received. This loan is deemed to be irrecoverable and has been provided for in full.

24. EVENTS AFTER THE BALANCE SHEET DATE

No 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 or Parent entity, the results of operations, or the state of affairs of the consolidated entity or Parent entity in future years.

25. AUDITORS’ REMUNERATION

The auditor of AdultShop.com Limited is Ernst & Young.

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	**175,000**	165,000	**175,000**	165,000
	175,000	165,000	**175,000**	165,000

26. KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Short-term	**1,289,602**	1,189,640	**894,119**	949,331
Post employment	**95,767**	103,905	**71,465**	83,460
Other long term benefits	**33,652**	153,281	**25,025**	144,654
	1,419,021	1,446,826	**990,609**	1,177,445

(b) Option holdings of Key Management Personnel (consolidated)

30 June 2008	Balance 1 July 2007	Issued	Expired / Forfeited	Balance 30 June 2008	Vested at 30 June 2008 Total	Not Exercisable	Exercisable
Directors							
M Day	5,000,000	-	-	5,000,000	5,000,000	-	5,000,000
H Moser	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
K Heitman	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
B Moore	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
Executives							
J Burness	3,000,000	-	-	3,000,000	1,000,000	-	1,000,000
D Newnham	1,500,000	-	1,500,000	-	-	-	-
M Bassett	165,000	-	-	165,000	55,000	-	55,000
Total	18,665,000	-	1,500,000	17,165,000	15,055,000	-	15,055,000

30 June 2007	Balance 1 July 2006	Issued	Expired / Forfeited	Balance 30 June 2007	Vested at 30 June 2007 Total	Not Exercisable	Exercisable
Directors							
M Day	2,200,000	5,000,000	2,200,000	5,000,000	5,000,000	-	5,000,000
H Moser	1,400,000	3,000,000	1,400,000	3,000,000	3,000,000	-	3,000,000
K Heitman	750,000	3,000,000	750,000	3,000,000	3,000,000	-	3,000,000
B Moore	-	3,000,000	-	3,000,000	3,000,000	-	3,000,000
C Kennedy	-	3,000,000	3,000,000	-	-	-	-
Executives							
J Burness	-	3,000,000	-	3,000,000	-	-	-
D Newnham	180,000	1,500,000	180,000	1,500,000	-	-	-
R McGinn	120,000	-	120,000	-	-	-	-
Total	4,650,000	21,500,000	7,650,000	18,500,000	17,000,000	-	17,000,000

26. KEY MANAGEMENT PERSONNEL (continued)

(c) Shareholdings of Key Management Personnel (Consolidated)

Shares held in AdultShop.com Limited (number)

	Balance 1 July 2007	Net change	Balance 30 June 2008
Directors			
M Day	30,309,984	-	30,309,984
H Moser	1,500,000	-	1,500,000
Executives			
R McGinn	39,000	*39,000	-
D Newnham	4,000	*4,000	-
Total	31,852,984	-	31,809,984

* Ceased employment during the current financial year

	Balance 1 July 2006	Net change	Balance 30 June 2007
Directors			
M Day	30,309,984	-	30,309,984
H Moser	1,500,000	-	1,500,000
Executives			
R McGinn	39,000	-	39,000
D Newnham	4,000	-	4,000
Total	31,852,984	-	31,852,984

Messrs Heitman, Moore and Burness did not hold any shares in AdultShop.com Limited during the periods.

(d) Other transactions with Key Management Personnel (Consolidated)

Services

Ontel Communications Pty Ltd, a company related to Mr Moore, earned total fees of $33,645 (2007: $23,203) for the provision of phone dating services. At year end, $2,429 (2007: $2,913) was owed to Ontel Communications Pty Ltd and $236 (2007: $781) was owing to AdultShop.com Limited by Ontel Communications Pty Ltd for monies received by then on the Company's behalf.

An amount of $126,010 (2007: $3,834) was paid to Goldshore Investments Pty Ltd, a company related to Mr Day, for rent and outgoings in respect of premises occupied by of one of the Groups retail stores.

Director's Declaration

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

(1) In the opinion of the directors:

(a) the financial report of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and 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.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

(3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

M R Day
Director

Perth, Western Australia
26 September 2008

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Independent audit report to members of AdultShop.com Limited

Report on the Financial Report

We have audited the accompanying financial report of AdultShop.com Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of 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.

Auditor's Opinion

In our opinion:

1. the financial report of AdultShop.com Limited is in accordance with 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 30 June 2008 and of their performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of AdultShop.com Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

Ernst & Young

C B Pavlovich
Partner
Perth
26 September 2008

Corporate Governance Statement

The Board of Directors of AdultShop.com Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of AdultShop.com Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed together with the reasons for the departure.

AdultShop.com Limited's corporate governance practices were in place throughout the financial year ended 30 June 2008 and were compliant, unless otherwise stated, with the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1.	Lay a solid foundation for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

Structure and Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall comprise at least 3 directors, increasing where additional expertise is considered desirable in certain areas.
- The Board should comprise a majority of independent non-executive directors.
- The Chairperson should be a non-executive director.
- Directors should bring characteristics, which allow a mix of qualifications, skills and experience both nationally and internationally.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

The Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers that the Company and the Board are currently not of sufficient size to warrant the establishment of a Nomination Committee.

The terms and conditions of the appointment and retirement of directors is set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory will be asked to retire.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Director's Report. Directors of AdultShop.com Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with - the exercise of their unfettered judgement.

The following directors of AdultShop.com Limited are considered to be independent:

Name	Position
K Heitman	Chairman, Non-Executive Director
H R Moser	Non-Executive Director
B Moore	Non-Executive Director

Each director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman will be required, which will not be unreasonably withheld.

Corporate Governance Statement

The term in office of each director in office at the date of this report is as follows:

Name	Term in Office
K Heitman	8 years
M Day	10 years
H R Moser	10 years
B Moore	5 years

Responsibilities of the Board

The Board is responsible for:

- Overseeing the Company, including its control and accountability systems.
- Appointing and removing the Managing Director and Company Secretary.
- Ratifying the appointment or removal of the Chief Financial Officer.
- Input into and approving the Group strategy, ensuring sufficient resources are available to implement the strategy and assessing managements performance against the strategy.
- Reviewing and ratifying systems of risk management and internal compliance and controls, codes of conduct and legal compliance.
- Approving and monitoring the progress of major capital expenditure, capital management, business acquisitions and disposals.
- Approving and monitoring financial and other reporting.

Code of Conduct and Trading Policy for Directors and Executives

The Company has introduced a Code of Conduct and a Trading Policy to guide the directors and key executives to the practices necessary to maintain confidence in the Company's integrity.

The principles of the Code of Conduct are:

- To act honestly, in good faith and in the best interest of the Company.
- Not use property, information or position, or opportunities arising from these, for personal gain or to compete with the Company.
- To keep confidential non-public information except where disclosure is authorised or legally mandated.
- To deal fairly with all Company's customers, suppliers, competitors and employees.
- Protect and ensure the proper and efficient use of the Company's assets for legitimate business purposes.
- To actively comply with and promote compliance with laws and regulations.
- Encourage the reporting of unlawful or unethical behaviour.

The Company's policy for trading in its securities requires that any director wishing to buy or sell Company securities shall consult with either the Chief Executive Officer or the Chief Financial Officer of the Company, and the Chairman of the Board (or one other non-executive member of the board in the case of the Chairman himself), prior to transacting.

The above policy is not mandatory for other executives, however they are encouraged to adopt it.

The Company expects all employees to act appropriately at work and has introduced "Standards of Conduct' which provides guidelines aimed at attaining high ethical standards and appropriate corporate behaviour.

Audit Committee

The role of the Audit Committee is documented in a Charter, which is approved by the Board of Directors and is available to members on request. In accordance with this Charter, a majority of the members of the Committee must be independent non-executive directors. The Chairman should not be the Chairman of the Board of Directors. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The Audit Committee also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee during the year were:

Mr B Moore (Chairperson)
Mr K Heitman

The external auditors are invited to Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year.
The responsibilities of the Audit Committee include:

- Reviewing the financial report and other financial information distributed externally.
- Reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles.
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management.
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence.
- Review the nomination and performance of the auditor. The external auditors were appointed on 17 November 1993. The lead external audit engagement partner was last rotated in 2007 and will be rotated off in compliance with legislative requirements in 2012.
- Liaising with the external auditors and ensuring that the annual and half-year statutory audit and review are conducted in an effective manner.
- Monitoring the completeness and accuracy of the corporate governance practices reported by the Company.
- Monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and Stock Exchange Listing Rules for the purposes of financial reporting.
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission, Australian Stock Exchange and financial institutions.
- Reviewing reports on any major defalcations, frauds and thefts from the Company.
- Improving the quality of the accounting function.

Continuous Disclosure and Communication with Shareholders

The Chief Executive Officer is responsible, in consultation with the Board, for interpreting and monitoring the Company's compliance with the continuous disclosure requirements of the Australian Stock Exchange whilst the Company Secretary is responsible for all communications with Australian Stock Exchange.

Communication with shareholders is conducted through the following mechanisms:

- Announcements lodged with Australian Stock Exchange
- Australian Stock Exchange Quarterly Cashflow Reports
- Half Yearly and Preliminary Final Reports
- Annual Reports
- Annual general meetings

The Company also posts corporate information in the investor section of its Company website.

Remuneration

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Chief Executive Officer and the executive team. In November 2003, the Board established a Remuneration Committee comprising the following three non-executive directors:

Mr B Moore (Chairperson)
Mr K Heitman
Mr H R Moser

One meeting was held during the current financial year and this meeting was attended by Mr B Moore and Mr K Heitman.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives.
- Attraction of quality management to the Company.
- Performance incentives which allow executives to share the rewards of the success of the Company.

Details on the amount of remuneration and all monetary and non-monetary components for each of the directors and executives are provided in the Directors' Report. In relation to the payments of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of AdultShop.com Limited and the performance of the individual during the period.

There were no loans made to directors or executives during the period and there are no amounts owing by directors and executives at the year end.

Risk Management

The Board monitors and receives advice on areas of operational and financial risk and the control framework, and considers strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and which are regularly considered at Board Meetings include compliance with credit card regulations and regulations covering the Company's operating activities, foreign currency fluctuations, performance of activities, human resources, the environment and continuous disclosure obligations.

The shareholder information set out below was applicable as at 23 September 2008.

Fully Paid Ordinary Shares

1. Distribution of shareholders

(a) Analysis of number of shareholders by size of holding.

Category of Holding	Number
1 - 1,000 shares	652
1,001 - 5,000 shares	758
5,001 - 10,000 shares	385
10,001 - 100,000 shares	763
100,001 shares and over	194
	2,752

(b) There were 2,452 shareholders with less than a marketable parcel of ordinary shares.

2. Twenty Largest Shareholders

The names of the twenty largest shareholders are:

	Name	Number of Shares Held	% of Fully Paid Shares Held
1	ANZ Nominees Limited	103,491,769	33.73
2	Hollywood Marketing Pty Ltd	23,223,984	7.57
3	Merrill Lynch (Australia) Nominees Pty Limited	13,968,875	4.55
4	D & D Nominees Pty Ltd	12,672,486	4.13
5	Prof Manfred Klupsch & Mrs Helga Klupsch	12,000,000	3.91
6	Adult Communication Services Pty Ltd	6,836,000	2.23
7	AA Lam Pty Ltd	6,281,414	2.05
8	Noble Investments Pty Ltd <Noble Investments S/F A/C>	6,060,089	1.98
9	HSBC Custody Nominees	5,628,613	1.83
10	Mr Antonius Clemans Maria Bohnenn	3,018,560	0.98
11	Mr Paul Menahem	2,459,514	0.80
12	National Nominees Pty Ltd	2,212,703	0.72
13	Kangsav Pty Limited	1,853,884	0.60
14	Mrs Yingjing Li & Mr Kai Zhang	1,818,888	0.59
15	Tre Pty Ltd <Tre Super Fund A/C>	1,770,000	0.58
16	WWW Cricket Com Au Pty Ltd	1,742,486	0.57
17	Bujo Pty Ltd	1,650,000	0.54
18	Dor Nominees Pty Ltd	1,527,862	0.50
19	Mr Wayne Bajenoff	1,507,900	0.49
20	Mr David Paul Goulding	1,500,000	0.49
		211,225,027	68.84
	Total Shares on Issue	306,796 528	

ASX Additional Information

3. Voting Rights

At a general meeting of shareholders:
(a) On a show of hands, each person who is a member or sole proxy has one vote.
(b) On a poll, each shareholder is entitled to one vote for each fully paid share.

4. Audit Committee

Details of the Audit Committee members during the year are detailed in the Directors' Report.

5. Substantial Shareholders

There was one substantial shareholders in the Company as disclosed in the substantial shareholder notices given to the Company as follows:

Name	Shares Entitlement
Hollywood Marketing Pty Ltd, Adult Communication Services Pty Ltd and Barbarellas NZ Pty Ltd	30,309,984

7. Option holder Information

UNQUOTED OPTIONS

There are a total of 20,225,000 unquoted options over unissued ordinary shares as follows:

Refer Note	# of Options	Exercise Price	Exercise Periods / Expiry Dates	# of Holders
1	2,040,000	$0.047	January 2008 to January 2012	35
1	2,040,000	$0.067	January 2009 to January 2012	35
1	2,040,000	$0.087	January 2009 to January 2012	35
2	14,000,000	$0.057	On or before 30 June 2009	4

The names of the holders of 20% or more options in these unquoted securities are listed below:

Note	Name	Number of Options Held	% of Options Held
1	These options are on issue pursuant to an Employee Option Plan.		
	J Burness	3,000,000	49.02
2	M Day	5,000,000	35.71
	K Heitman	3,000,000	21.43
	B Moore	3,000,000	21.43
	H R Moser	3,000,000	21.43

- END OF STATEMENT -

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