

## Appendix 4D

### Half yearly report

Name of entity

**QRSciences Holdings Limited**

ABN or equivalent company reference

**27 009 259 876**

Half year ended ('current period')

**31 December 2003**

For announcement to the market

*Extracts from this report for announcement to the market.*

\$A'000

Revenues from ordinary activities	Up	83%	to	79
(Loss) from ordinary activities after tax attributable to members	Up	45%	to	(1,058)
Net (Loss) for the period attributable to members	Up	45%	to	(1,058)

<b>Dividends</b>	Amount per security	Franked amount per security
Interim dividend	Nil	Nil
Previous corresponding period	Nil	Nil

<sup>+</sup>Record date for determining entitlements to the dividend

No dividend has been declared or paid.

Brief explanation of any of the figures reported above and short details of any other item(s) of importance not previously released to the market:

Refer attached Half Year financial report

NTA backing

	Current period	Previous corresponding Period
Net tangible asset backing per <sup>+</sup> ordinary security	3¢	0¢

**Control gained over entities having material effect**

Name of entity (or group of entities)

No entities have been acquired during the half year

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was <sup>+</sup>acquired

Date from which such profit has been calculated

Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period

**Loss of control of entities having material effect**

Name of entity (or group of entities)

No entities were disposed of during the half year

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control

Date to which the profit (loss) in item 14.2 has been calculated

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period

Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control

**Details of dividends :**

No dividends have been declared or proposed.

**Details of associates and joint venture entities:**

N/A

**Foreign entities:**

N/A

**Details of audit disputes or audit qualifications :**

N/A

**Other significant information:**

Refer to the attached reviewed Half Year financial report.

**Audited accounts:**

The report is based on the attached Half Year financial report which has been reviewed.

**HALF YEAR FINANCIAL REPORT  
31 DECEMBER 2003  
ABN 27 009 259 876**



**Holdings Limited  
and controlled entities**

**QRSciences Holdings Limited  
is incorporated in Western Australia**

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

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**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**DIRECTORS:**

Kevin Lee Russeth  
Gregory John Devine  
William Robert Orr  
Timothy Hanley Koster

**SECRETARY:** William Robert Orr

**REGISTERED OFFICE:** Level 32  
2 The Esplanade  
Exchange Plaza  
Perth WA 6000  
Telephone: 618- 9358-5011  
Facsimile: 618-9358-5022

**SHARE REGISTRY:** ComputerShare Investor Services Pty Limited  
Level 2  
45 St George's Terrace  
Perth WA 6000

**AUDITORS:** Moore Stephens BG Chartered Accountants  
Level 3  
12 St George's Terrace  
Perth WA 6000

**BANKERS:** Commonwealth Bank of Australia Limited  
150 St George's Terrace  
Perth WA 6000

**PUBLIC RELATIONS:** Porter Novelli  
The Courtyard, 33 Broadway  
Nedlands WA 6009

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**CHAIRMANS REPORT**

Dear Shareholder

The last six months has been increasingly productive as we move our investment in QRSciences Limited closer to commercialisation.

During the period the Company changed its name from Clearwater Group Limited to QRSciences Holdings Limited (Holdings).

**QRSciences Investment**

The Company's primary focus is to actively fund and manage its investment in QRSciences Limited ("QRSciences"). QRSciences is a physical sciences research and development company headquartered in Perth, Western Australia. QRSciences is concentrating on commercialising applications based on a next generation technology known as Quadrupole Resonance ("QR") or Zero-field NMR. QR uses radio waves to inspect and identify materials by their unique molecular characteristics and QR signature. QR can detect a range of explosives, and potentially narcotics, biochemical agents and pharmaceuticals.

QRSciences' first product, the T3000 prototype, is an explosives screening device which was tested successfully in April 2002 as an "Advanced Technology Explosive Detection System" by the Transportation Security Administration (TSA), an agency of the U.S Department of Homeland Security.

QRSciences Holdings Limited is building its investment, funding and management QRSciences as it transitions from a Research & Development Company to a commercial licensing and product development company.

In August 2003 QRSciences Holdings Limited agreed to increase the existing Secured Loan Facility to QRSciences by \$1.0 m to approximately \$4.7 million and extend the repayment date from 31 July 2003 to 31 December 2003. In consideration QRSciences gave QRSciences Holdings Limited a Financiers Right to Acquire Shares.

During the period 1 July 2003 – 31 December 2003 the Secured Loan Facility with QRSciences Limited increased by approximately \$1,909,000 and approximately \$1,500,000 was repaid. As at 31 December 2003 approximately \$4,324,000 was outstanding under the Facility.

**Acquisition of shares in QRSciences**

The Company further increased its shareholding by 3% creep in July 2003.

The Company participated in an entitlements issue in QRSciences Limited lifting its shareholding to 58% on 31 December 2003. The Company holds the investment in its controlled entity at cost \$15,948,656 as at 31 December 2003.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**CHAIRMANS REPORT (contd)**

**Material Contracts**

The last half of 2003 continued to be a busy period on the commercial front for QRSciences generating further revenues and continuing to develop relationships with the major suppliers of security equipment. In November, 2003 the Company entered into a License Agreement with L-3 Communications of New York (NYSE: LLL), one of the largest security screeners in the world.

**Business Model**

QRSciences announced further income in the half year period. Revenue is an important first step as we move the Company closer to commercial scale royalties and income. Our momentum continues to grow and we will continue to build on the commercial relationships that we have started over the past twelve months.

QRSciences' business model is to derive revenue from four areas – licensing, equipment sales, outsourced consulting and both government and privately sourced R&D funding. We expect further revenue to flow from all these areas going forward.

QRSciences is focused on key contracts, relationships and development projects that will underpin revenue for the company as we move into 2004 and the board continues to be excited by the long term prospects for the technology and the business.

I look forward to the challenges in front of us and will keep you informed as we continue to move the Company towards commercialisation.



Kevin Russeth  
Chairman

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**  
**DIRECTORS REPORT**

The names of Directors in office at any time during or since the end of the year are:

Kevin Lee Russeth (Chairman)

Timothy Hanley Koster

Gregory John Devine

William Robert Orr

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**PRINCIPAL ACTIVITIES**

The principal activities of the economic entity is management of QRSciences Limited.

There were no other significant changes in the nature of the economic entity's principal activities during the period.

**OPERATING RESULTS**

The consolidated operating loss of the economic entity after eliminating outside interests amounted to \$1,058,185.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

At a General Meeting held 24 September 2003, Clearwater Group Limited shareholders approved a change of name to QRSciences Holdings Limited. The Company's ASX code changed to "QRS".

The Company has continued to fund its investment in QRSciences via a secured loan. In August 2003 the Company agreed to increase the existing Secured Loan Facility by \$1.0 million to approximately \$4.7 million and extend the repayment date from 31 July 2003 to 31 December 2003. In consideration the QRSciences Limited gave QRSciences Holdings Limited a Financiers Right to Acquire Shares.

The Company further increased its shareholding by 3% creep in July 2003.

The Company participated in an entitlements issue in QRSciences Limited lifting its shareholding to 58% on 31 December 2003. The Company holds the investment in its controlled entity at cost \$15,948,656 as at 31 December 2003.

BTG, QRSciences Limited and Holdings completed negotiations for variations to the BTG License Agreement. As part of these negotiations BTG acquired Holdings shares as consideration for the variation and received 5.3 million fully paid ordinary shares. This issue was approved at General Meeting held 24 September 2003. It has been agreed between the Companies that QRSciences Limited was responsible for \$750,000 of the \$1 million payable to BTG as part of the variation. This amount has been capitalised to the Loan Facility with Holdings.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**DIRECTOR'S REPORT**

The Company's subsidiary QRSciences Limited finalised commercial arrangements with L3 Communications and is involved in ongoing negotiations and discussions with a number of other parties. This brings the total number of licensing agreements to three. These licensing arrangements and negotiations have the potential to significantly assist QRSciences Limited in the commercial development of its technology.

**AFTER BALANCE DATE EVENTS**

Since the end of the financial year, the Company has:

Continued to fund QRSciences by way of a drawdown loan facility secured by way of a fixed and floating charge over the intellectual property of QRSciences.

On 19 January 2004 QRSciences Holdings Limited announced that it had acquired a further 3% interest in QRSciences taking its shareholding to approximately 61%.

QRSciences Holdings Limited held a \$2.17 million Convertible Loan Note Facility from a group of sophisticated investors as at 31 December 2003. This loan has been largely converted into ordinary shares. In February The Company issued 16,213,141 fully paid ordinary shares to Convertible Loan Note holders on conversion of approximately \$2.165 million of the facility. The balance of the Loan Note Facility expired on 31 January 2004.

In February 2004, the company completed a capital raising via a placement raising approximately \$2.795 million dollars issuing 19,882,669 fully paid ordinary shares.

QRSciences Holdings Limited has extended the repayment date of the Loan Facility to its subsidiary QRSciences Limited to 30 June 2004.

Except for the above no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity; the results of those operations; or the state of affairs of the economic entity in future financial years.

**FUTURE DEVELOPMENTS**

The likely developments in the operations of the economic entity are dealt with in the above note and Chairman's Report.

Signed in accordance with a resolution of the directors.



K L Russeth  
DIRECTOR

Dated at Perth this 26th day of February 2004

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	Note	Economic Entity	
		31 December 2003 \$	31 December 2002 \$
Revenues from ordinary activities	2	79,738	43,661
Materials and consumables used		(53,991)	-
Gain relating to acquisition of additional interest in controlled entity		709,230	-
Employee benefits expense		(1,011,714)	(173,295)
Depreciation and amortisation expense		(50,635)	(1,756)
Loan note facility fee		-	(312,500)
Rental expenses		(73,397)	(24,448)
Consulting expenses		(90,505)	(65,277)
Travel expense		(81,959)	(8,568)
License Fees		(1,000,000)	-
Legal expenses		(293,886)	(81,812)
Insurance Costs		(31,425)	(1,626)
Directors Fees		(77,995)	(18,750)
ASX/ASIC & Share Registry Fees		(41,839)	(20,031)
Other expenses from ordinary activities		(280,224)	(67,099)
Profit (loss) from ordinary activities before income tax expense		(2,298,602)	(731,501)
Income tax expense relating to ordinary activities	4	-	-
Profit (loss) from ordinary activities after related income tax expense		(2,298,602)	(731,501)
Profit (loss) from extraordinary item after related income tax expense/(revenue)		-	-
Net profit (loss)		(2,298,602)	(731,501)
Net profit (loss) attributable to outside equity interests		(1,240,417)	-
Net profit (loss) attributable to members of the parent entity		(1,058,185)	(731,501)
Total changes in equity other than those resulting from transactions with owners as owners		(1,058,185)	(731,501)
Basic earnings per share (cents per share)	5	-0.02¢	-0.05¢
Diluted earnings per share (cents per share)	5	-0.02¢	-0.05¢

The accompanying notes form part of these financial statements.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2003**

	Note	Economic Entity	
		31 December 2003 \$	30 June 2003 \$
<b>CURRENT ASSETS</b>			
Cash assets	6	3,080,663	4,221,755
Receivables		29,197	42,916
<b>TOTAL CURRENT ASSETS</b>		<b>3,109,860</b>	<b>4,264,671</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		-	-
Intellectual Property		29,538,170	29,538,170
Other financial assets		527,506	527,506
Property, plant and equipment		314,318	338,841
Other		4	4
<b>TOTAL NON-CURRENT ASSETS</b>		<b>30,379,998</b>	<b>30,404,521</b>
<b>TOTAL ASSETS</b>		<b>33,489,858</b>	<b>34,669,192</b>
<b>CURRENT LIABILITIES</b>			
Payables		1,207,921	1,616,648
Interest-bearing liabilities		2,192,855	3,817,850
Provisions		151,262	186,698
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,552,038</b>	<b>5,621,196</b>
<b>NON-CURRENT LIABILITIES</b>			
Other		-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>3,552,038</b>	<b>5,621,196</b>
<b>NET ASSETS</b>		<b>29,937,820</b>	<b>29,047,996</b>
<b>EQUITY</b>			
Contributed equity	7	25,072,692	20,681,477
Reserves		-	-
Retained losses		(5,388,448)	(4,330,268)
Parent entity interest		19,684,244	16,351,209
Outside equity interest		10,253,576	12,696,787
<b>TOTAL EQUITY</b>		<b>29,937,820</b>	<b>29,047,996</b>

The accompanying notes form part of these financial statements.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	Note	Economic Entity	
		31 December 2003	31 December 2002
		\$	\$
Receipts from customers		82,656	-
Payments to suppliers and employees		(2,422,963)	(553,155)
Interest received		10,801	43,661
Borrowing costs		-	-
Interest paid		(1,556)	-
Net cash provided by (used in) operating activities		(2,331,062)	(509,494)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for investment in controlled entities		-	(100,000)
Purchase of property, plant and equipment		(27,365)	-
Purchase of investments		-	(2,299)
Loans to controlled entities		-	(1,177,667)
Net cash provided by (used in) investing activities		(27,365)	(1,279,966)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		2,842,330	2,130,267
Repayment of borrowings		(1,624,995)	-
Proceeds from borrowings		-	3,125,000
Net cash provided by (used in) financing activities		1,217,335	5,255,267
Net increase in cash held		(1,141,092)	3,465,808
Cash at 1 July 2003		4,221,755	419,721
Cash at 31 Dec 2003	6	3,080,663	3,885,529

The accompanying notes form part of these financial statements.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**NOTE 1 STATEMENT OF ACCOUNTING POLICIES**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard 1029 "Interim Financial Reporting", Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of QRSciences Holdings Limited and controlled entities, and QRSciences Holdings Limited as an individual parent entity. QRSciences Holdings Limited is a listed public company, incorporated and domiciled in Australia.

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

<b>Economic Entity</b>	
<b>31 December</b>	<b>31 December</b>
<b>2003</b>	<b>2002</b>
<b>\$</b>	<b>\$</b>

**NOTE 2 OPERATING REVENUE**

**Operating Activities:**

Interest received	10,801	43,661
Trading income	68,937	-
Other revenue	-	-
Total Revenue	<u>79,738</u>	<u>43,661</u>

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>

**NOTE 3 OPERATING PROFIT BEFORE INCOME TAX**

**(A) Operating Revenue and Expenses**  
**Operating profit has been arrived at after including:**  
**Income**

Sales revenue	68,937	-
Interest received/receivable from Other entities	10,801	43,661
	<u>79,738</u>	<u>43,661</u>

**Expenses**

Borrowing costs paid/due and payable to: — Other persons	-	-
Depreciation of property, plant and equipment	50,635	1,756
Total amount charged for depreciation, Amortisation or diminution in value of assets	<u>50,635</u>	<u>1,756</u>
Auditors remuneration	<u>9,993</u>	<u>6,161</u>
Lease rental expenses — operating leases	<u>-</u>	<u>31,582</u>

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>

**NOTE 4 INCOME TAX**

At 31 December 2003, the directors estimate that the potential future income tax benefit in respect of tax losses not brought to account is as follows:

Revenue losses	7,444,610	6,542,260
Capital losses	-	-

This benefit for tax losses will only be obtained if:

- (i) The relevant entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) The relevant entity continues to comply with the conditions for deductibility imposed by tax legislation;  
and
- (iii) No changes in tax legislation adversely affect the relevant entity in realising the benefit from the deductions for the losses.

The prima facie tax expense on the operating profit before tax differs from the income tax provided in the accounts due primarily to the tax effect of prior year tax losses not previously brought to account.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>

**NOTE 5 EARNINGS PER SHARE**

Basic earnings per share	-2¢	-5¢
<hr/>		
Reconciliation of Weighted Average Numbers of Ordinary Shares used in the Calculation of Earnings per Share		
Weighted average numbers of ordinary shares used in the calculation of the basic earnings per share	112,063,432	57,385,828
Reconciliation of Earnings used in the Calculation of Earnings per Share		
Operating profit/(loss) after income tax	(2,298,602)	(731,501)
Adjustment for preference shares — potential dividends		
Earnings used in the Calculation of Basic Earnings per Share	(2,298,602)	(731,501)
<hr/>		

Diluted earnings per share is not materially different from basic earnings per share and is not disclosed.

Conversion, Call, Subscription or Issue after 31 December 2003.

Issues since 31 December 2003:

- (a) On 19 February 2004 the Company issued 16,213,141 ordinary shares.
- (b) On 20 February 2004 the Company issued 19,882,669 ordinary shares.

There have been no other:

- (a) conversions to, calls of, or subscriptions for ordinary shares; or
- (b) issues of potential ordinary shares;

since the reporting date and before the completion of these accounts.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2003</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 6</b>		
<b>CASH ASSETS</b>		
Cash assets	3,080,663	4,221,755
	3,080,663	4,221,755
<b>NOTE 7</b>		
<b>CONTRIBUTED EQUITY</b>		
(31 December 2003: 132,520,726) ordinary shares fully paid	24,972,692	20,581,477
(31 December 2003: 46,422,586) options	100,000	100,000
	25,072,692	20,681,477

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

**NOTE 7 CONTRIBUTED EQUITY (contd)**

**Movements During The Period:**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2003</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
Ordinary Issued and Paid Up Share Capital		
Opening balance at the beginning of the reporting period	20,581,477	5,379,471
Issue of 4,690,429 fully paid ordinary shares On 18 July 2002	-	1,313,320
Issue of 500,000 fully paid ordinary shares October 2002	-	140,000
Issue of 4,332,500 fully paid ordinary shares December 2002	-	866,500
Issue of 10,000,000 fully paid ordinary shares January 2003	-	2,000,000
Issue of 51,677,930 fully paid ordinary shares January 2003	-	10,342,253
Issue of 6,245,000 fully paid ordinary shares January and March 2003	-	1,249,000
Issue of 4,385,000 fully paid ordinary shares As consideration for 3% creep July 2003	548,885	-
Issue of 6,569,413 fully paid ordinary shares August 2003	1,111,700	-
Issue of 12,340,454 fully paid ordinary shares Sept – Nov 2003	1,732,995	-
Issue of 5,300,000 fully paid ordinary shares To BTG September 2003	1,000,000	-
Transaction costs relating to share issues	(2,365)	(709,067)
At reporting date	24,972,692	20,581,477

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

**NOTE 7 CONTRIBUTED EQUITY (contd)**  
**Movements During The Period:**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2003</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>\$0.20 Options to Subscribe for Ordinary Shares</b>		
Opening balance at the beginning of the reporting period 21,160,000 exercisable at 20 cents before 12 January 2005	100,000	100000
Issue of 2,450,000 options issued July 2002 exercisable at 20 cents before 12 January 2005	-	-
Issue of 600,000 options issued October 2003 exercisable at 20 cents before 12 January 2005	-	-
At reporting date 21,760,000 options exercisable at 20 cents before 12 January 2005	100,000	100,000
<b>\$0.40 Options to Subscribe for Ordinary Shares</b>		
Opening balance at the beginning of the reporting period 13,942,253 exercisable at 40 cents before 12 January 2006	-	-
Issue of 3,600,000 options on July 2002 exercisable at 40 cents before 12 January 2006	-	-
Issue of 10,342,253 options on February 2003 exercisable at 40 cents before 12 January 2006	-	-
Issue of 4,727,000 options on November 2003 exercisable at 40 cents before 12 January 2006	-	-
At reporting date 18,669,253 options exercisable at 40 cents before 12 January 2006	-	-

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

**NOTE 7 CONTRIBUTED EQUITY (contd)**  
**Movements During The Period:**

	<b>Economic Entity</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2003</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>\$0.60 Options to Subscribe for Ordinary Shares</b>		
Opening balance at the beginning of the reporting period 3,000,000 exercisable at 60 cents before 12 January 2006	-	-
At reporting date 3,000,000 options exercisable at 60 cents before 12 January 2006	-	-
<b>\$1.00 Options to Subscribe for Ordinary Shares</b>		
Opening balance at the beginning of the reporting period 3,600,000 exercisable at \$1.00 before 12 January 2006	-	-
At reporting date 3,600,000 options exercisable at \$1.00 before 12 January 2006	-	-

**NOTE 8 CONTINGENT LIABILITIES**

**Contingent liabilities of parent entity**

On 13 May 2002 the Company entered into a five year employment contract with Mr K Russeth. The contract provides for payment of a salary of \$150,000 per annum plus superannuation plus a car allowance of \$20,000. In the event of termination the Company is required to pay six months salary in lieu of termination.

On 1 November 2001 the Company entered into a five year employment contract with Mr R Orr. The contract provides for payment of a salary of \$100,000 per annum plus superannuation. In the event of termination the Company is required to pay six months salary in lieu of termination.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003 (contd.)**

**Contingent liability of controlled entity QRSciences Limited.**

Keenfern Pty Ltd, a company associated with Olga Sawtell, a former director of QRSciences made a statutory demand for \$55,000 against QRSciences. QRSciences responded to the statutory demand by commencing proceedings in the Supreme Court of Western Australia against Ms Olga Sawtell, and Keenfern Pty Ltd. QRSciences is claiming damages against Ms Sawtell for alleged breaches of her duties as a director, breach of fiduciary duties and duty of care and also for misleading and deceptive conduct. The damages claimed by QRSciences are yet to be quantified.

Ms Sawtell and Keenfern Pty Ltd have filed a counterclaim in these proceedings in the sum of approximately \$450,000 in respect of alleged unpaid consulting fees and expenses. QRSciences has been advised by its lawyers that it has good prospects of setting aside the statutory demand, of prosecuting the action against and defending the counterclaim made by Ms Sawtell and Keenfern Pty Ltd. QRSciences intends to continue to defend these actions.

QRSciences terminated a consultancy agreement with Mr. Grayem Forrest. Mr. Forrest is claiming unpaid expenses and consultancy amounting to approximately \$26,000 per month for a period of two years to 26 September 2003. Mr. Forrest has commenced proceedings in the Supreme Court of Western Australia against the QRSciences. The damages claimed by Mr. Forrest are yet to be quantified. QRSciences intends to defend the action.

Except for the above no other material contingent liabilities exist at balance date or at the date of completion of these financial statements.

**NOTE 9       EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the financial year, the Company has:

The Company continued to fund QRSciences by way of a drawdown loan facility secured by way of a fixed and floating charge over the intellectual property of QRSciences.

On 19 January 2004 QRSciences Holdings Limited announced that it had acquired a further 3% interest in QRSciences taking its shareholding to approximately 61%.

QRSciences Holdings Limited held a \$2.17 million Convertible Loan Note Facility from a group of sophisticated investors as at 31 December 2003. This loan has been largely converted into ordinary shares. In February The Company issued 16,213,141 fully paid ordinary shares to Convertible Loan Note holders on conversion of approximately \$2.165 million of the facility. The balance of the Loan Note Facility expiring 31 January 2004.

In February 2004, the company completed a capital raising via a placement raising approximately \$2.795 million issuing 19,882,669 fully paid ordinary shares.

QRSciences Holdings Limited has extended the repayment date of the Loan Facility to its subsidiary QRSciences Limited to 30 June 2004.

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Except for the above no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity; the results of those operations; or the state of affairs of the economic entity in future financial years.

**NOTE 10      NON CASH FINANCING AND INVESTMENT ACTIVITIES**

There were no other transactions or events during the half year which affected assets and liabilities and did not result in cash flows.

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the opinion of the Directors of QRSciences Holdings Limited:

1. the financial statements and notes, as set out on pages 8 to 20:
  - (a) comply with the Accounting Standards and the Corporations Act 2001; and
  - (b) give a true and fair view of the financial position as at 31 December 2003 and performance for the half year ended on that date, of the economic entity.
2. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated this 26th day of February 2004 at Perth, Western Australia.



K L Russeth  
DIRECTOR

**QRSCIENCES HOLDINGS LIMITED**  
**ABN 27 009 259 876**  
**AND CONTROLLED ENTITIES**

**INDEPENDENT REVIEW REPORT TO THE MEMBERS**

**MOORE STEPHENS BG**  
CHARTERED ACCOUNTANTS

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**Scope**

We have reviewed the financial report of QRSciences Holdings Limited and controlled entities comprising the Directors' Declaration, Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and notes to and forming part of the financial statements for the half year ended 31 December 2003.

The financial report includes the consolidated financial report 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. The Company's directors are responsible for the financial report. We have conducted an independent review of this financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 Interim Financial Reporting and other mandatory professional reporting requirements and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to meet its obligations to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report, as defined in the scope section of this review report, of QRSciences Holdings Limited and controlled entities is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



MOORE STEPHENS BG                      NEIL PACE  
CHARTERED ACCOUNTANTS              PARTNER  
Dated this 26th day of February 2004 at Perth, Western Australia