

Appendix 4D Half yearly report 31 December 2005

QRSciences Holdings Limited ABN 27 009 259 876

Results for announcement to the market

Extracts from this report for announcement to the market.

\$A'000

Revenues from ordinary activities	Up	242%	to	1,248
(Loss) from ordinary activities after tax attributable to members	Down	24%	to	(2,936)
Net (Loss) for the period attributable to members	Down	24%	to	(2,936)
Dividends		Amount per security		Franked amount per security
Interim dividend		Nil		Nil
Previous corresponding period		Nil		Nil
<p>⁺Record date for determining entitlements to the dividend</p>		<p>No dividend has been declared or paid.</p>		
<p>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:</p> <p>Refer attached Half Year financial report</p>				

Net Tangible Assets Backing	Current period	Previous corresponding Period
Net tangible asset backing per ⁺ ordinary security	1¢	2¢

**HALF YEAR FINANCIAL REPORT
31 DECEMBER 2005
ABN 27 009 259 876**



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

QRSCIENCES HOLDINGS LIMITED
ABN 27 009 259 876
AND CONTROLLED ENTITIES

DIRECTORS

Mr Kevin Russeth
Mr Gary Pennefather
Mr Simon Bedford
Dr Timothy Rayner
Mr Norman Shanks (Non- executive)
Mr Joseph Paresi (Non- executive)

AUDITORS

Moore Stephens
Chartered Accountants
Level 3, 12 St George's Terrace
Perth Western Australia 6000
Telephone: +61 8 9225 5355
Facsimile: +61 8 9225 6181

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Mr Darren Bromley

BANKERS

Commonwealth Bank of Australia Limited
150 St George's Terrace
Perth Western Australia 6000

REGISTERED OFFICE

8-10 Hamilton Street
Cannington Western Australia 6107
Telephone: +61 8 9358 5011
Facsimile: +61 8 9358 5022

SOLICITORS

Pullinger Readhead Lucas
Level 2, 50 Kings Park Road
West Perth Western Australia 6005
Telephone: +61 9320 4999
Facsimile: +61 9220 4900

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth Western Australia 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

STOCK EXCHANGE

Australian Stock Exchange
Exchange Plaza
2 The Esplanade
Perth Western Australia 6000

WEBSITES

www.qrsholdings.com
www.qrsciences.com

ASX CODE

QRS - Ordinary Shares
QRSHY.PK - U.S. ADR's

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

Directors' report

Your Directors present their report together with the financial report of QRSciences Holdings Limited and its controlled entities ("QRSciences" or "the Group") for the half-year ended 31 December 2005 and the Independent Review Report thereon.

Directors

The names of Directors who held office during or since the end of the half year:

Mr Kevin Lee Russeth	(Executive Chairman)
Mr Simon Peter Bedford	
Mr Gary Bruce Pennefather	
Dr Timothy Rayner	(Appointed 8 July 2005)
Mr Norman Shanks	(Appointed 22 August 2005)
Mr Joseph Paresi	(Appointed 8 September 2005)

Unless otherwise indicated, all Directors held their position as a Director throughout the entire half year and up to the date of this report.

Results from Operations

The consolidated operating loss of the economic entity after eliminating outside interests amounted to \$2,936,444.

Review of Operations and Principle Activities

QRSciences Holdings Limited through its wholly owned subsidiaries develop, design and sell advanced technology.

The principal activity of the economic entity is management of its 100% owned subsidiary QRSciences Pty Ltd and U.S. based subsidiary QRSciences Corporation.

The Company's primary focus is concentrated on commercialising two patented magnetic sensing applications that it has developed. Quadrupole Resonance (QR) is one of those technologies. QR is a substance detection technology that probes a target using radio waves to identify unique atomic characteristics of molecules through a signal response measurement. The process positively identifies the chemical fingerprint that has been targeted.

QR can detect a range of explosives and has potential applications in the detection of narcotics, biochemical agents and pharmaceuticals.

There has been no significant change in the nature of the economic entity's principal activities during the period.

Equity Working Capital Facility

On 22 September 2005, the Company accepted a \$5 million working capital facility (Facility) from The At Call Equity Fund (ACE Fund). The ACE Fund is based in Melbourne, Australia.

The Facility will provide a working capital reserve for QRSciences to assist with business development and the implementation of the Company's strategy and product launches both in Australia and overseas.

Launch of QXR1000

In September 2005, QRSciences announced the QXR1000 (a device manufactured and distributed by Rapiscan Security Systems and embedded with QRSciences technology) was available for sale.

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The QXR1000, incorporating Rapiscan's X-ray system and QRSciences' proprietary hardware and software developed in Australia over the past several years, was presented before the United States House Committee on Homeland Security by development and manufacturing partner OSI Systems (OSIS:NASDAQ).

Pilot Program with Gilardoni in Italy

In October 2005, QRSciences announced that it was commencing a pilot program of combined QR & X-ray systems with Gilardoni SPA at an undisclosed primary airport in Italy.

Gilardoni is the dominant supplier of X-ray equipment for security purposes in Italy and supplies X-ray, components for X-ray and ultrasound equipment to an established client base throughout Europe, Asia and South America.

Working Trial with the Singaporean Immigration and Checkpoint Authority

In October, the Company commenced a working trial with the Singaporean Immigration and Checkpoint Authority taking place at a major checkpoint used by more than 100,000 people daily. QRSciences entered commercial discussions with Arrowcrest Technologies Pty Ltd and Singapore Technologies Electronics (ST Electronics) teaming with both parties to co-ordinate the trial of the T3-03 Explosive Detection System.

Technology Unveiled at Parliament House, Canberra

In December 2005, QRSciences' technology was unveiled for the Australian Government at Parliament House in Canberra. Two products were demonstrated, Rapiscan's QXR1000 and QRSciences' proprietary T3-03.

Singapore Stock Exchange (SGX)

The Company's shares commenced trading through the SGX-ASX linkage on the Singapore Stock Exchange (SGX) in late November 2005.

After Balance Date Events

Advanced Metal Detection Technology (AMDS)

QRSciences announced the development of an advanced metal detection technology (AMDS). The Company has contracted with Australian Customs Service for work on an advanced weapon detection system for international mail and package inspection.

The Company anticipates that the project, associated government sales and commercial sales will bring at least \$2.5 m in revenue to the Company over the next eighteen months. The system is a new revenue stream for the Company. In addition to selling in a stand-alone capacity the device will also enhance the existing QR product range.

QRSciences' Advanced Metal Detection System is capable of detecting metal shapes and metal characteristics in scanned objects. The technology has immediate applications in weapons and improvised explosive device (IED) detection for baggage, cargo, personnel and shoe screening and landmine detection. Other possible applications include industrial process control, covert personnel screening and improved location and inspection of buried objects. Weapon and weapon components have characteristics that are different from other metallic items normally found in cargo, mail and baggage. The AMDS device has a unique ability to discern these differences.

Option to Purchase 14 Quadrupole Resonance (QR) patent families

In February 2006, the Company took a major step in an effort to build upon its core asset by acquiring an option to purchase 14 patent families linked to the emerging technology Quadrupole Resonance (QR). The acquisition of the patents will position QRSciences to become a toll-booth for QR commercialisation efforts in several key markets around the world, including the United States, Canada, Israel, the United Kingdom, Western Europe, Australia and parts of Asia.

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The option agreement is with BTG International Limited (LSE: BGC), a London-based medical innovations Company and QRSciences' third largest shareholder. Under the agreement with BTG, QRSciences has made a payment of US \$0.5 million and the option can be exercised over a period of 90 days. Following the acquisition of the patents QRS would become the owner of the world's largest and most comprehensive IP portfolio in the field of QR.

Placement of 68.75 Million Fully Paid Ordinary Shares

In February 2006, the Company finalised a placement of 68.75 million fully paid ordinary shares to raise \$5.5 million. The shares were issued at a price of 8 cents per share to a range of sophisticated and other wholesale investors. The funds raised will be used for the Company's investment in US-based Spectrum San Diego Inc. (as announced to ASX on 28 October 2005) and for general working capital purposes.

Acquisition of up to 27.4% of Spectrum San Diego Incorporated

On 21 February 2006, the Company announced that, through its wholly-owned subsidiary QRSciences Corporation, it had finalised a transaction for the acquisition of up to 27.4% of Spectrum San Diego Incorporated (Spectrum).

Terms of the agreement include the acquisition of preferred Spectrum stock for a combined cash and equity payment of US\$2.6 million (of which an amount of US\$916,000 has since been paid) with an option to buy all the outstanding common stock on or before February 18, 2009.

Spectrum is based in San Diego, California and specializes in the design and commercialisation of electronic imaging and instrumentation systems including X-ray devices for personnel and baggage screening and innovative ultra high resolution and wide field of view surveillance cameras. The group has expertise in X-ray physics, digital signal processing, X-ray sources and detectors, analogue and digital electronics and system integration.

Adoption of Australian Equivalents to IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous GAAP and Australian equivalents to IFRS has been included in Note 2 of this report.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 6 for the half year ended 31 December 2005.

This report is signed in accordance with a resolution of the Board of Directors.



Mr Kevin Lee Russeth
Director

Dated this 16th day of March 2006

QRSCIENCES HOLDINGS LIMITED
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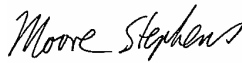
**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT
2001 TO THE DIRECTORS OF QRSCIENCES HOLDINGS LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2005 there has been:

- (a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



Neil Pace
Partner



Moore Stephens
Chartered Accountants

Dated this 16th day of March 2006 in Perth, Western Australia.

CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2005

	Note	Economic Entity	
		31 December 2005	31 December 2004
		\$	\$
Revenues from ordinary activities	3	1,248,217	365,085
Materials and consumables used		(355,227)	(393,298)
Employee benefits expense		(2,025,892)	(2,471,820)
Consulting expenses		(477,088)	(458,262)
Travel expense		(290,234)	(207,335)
Legal expenses		(223,987)	(988,853)
Rental expenses		(141,305)	(48,218)
Directors Fees		(101,638)	(278,781)
Patent Costs		(91,886)	(258,147)
Depreciation and amortisation expense		(71,868)	(41,683)
License Fees		(1,226)	(261,459)
Insurance Costs		(71,205)	(33,510)
ASX/ASIC & Share Registry Fees		(29,000)	(40,917)
Other expenses from ordinary activities		(304,105)	(230,286)
Loss before income tax		(2,936,444)	(5,347,484)
Income tax expense		-	-
Loss after income tax expense		(2,936,444)	(5,347,484)
Loss attributable to outside equity interests		-	(1,480,786)
Loss attributable to members of the parent entity		(2,936,444)	(3,866,698)
Total changes in equity other than those resulting from transactions with owners as owners		(2,936,444)	(3,866,698))
Basic earnings per share (cents per share)		-0.0134	-0.0243¢
Diluted earnings per share (cents per share)		-0.0099	-0.0193¢

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LIMITED
ABN 27 009 259 876
AND CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET
as at 31 December 2005

Note	Economic Entity	
	31 December 2005 \$	30 June 2005 \$
CURRENT ASSETS		
Cash assets	1,201,948	4,015,783
Prepayments	95,926	19,112
Receivables	290,980	285,437
TOTAL CURRENT ASSETS	1,588,854	4,320,332
NON-CURRENT ASSETS		
Receivables	-	-
Intellectual Property	27,184,330	27,184,330
Other financial assets	527,506	527,506
Property, plant and equipment	273,301	293,378
Other	4	4
TOTAL NON-CURRENT ASSETS	27,985,141	28,005,218
TOTAL ASSETS	29,573,995	32,325,550
CURRENT LIABILITIES		
Payables	291,426	618,176
Interest-bearing liabilities	-	-
Provisions	633,863	262,608
TOTAL CURRENT LIABILITIES	925,289	880,784
NON-CURRENT LIABILITIES		
Other	-	-
TOTAL NON-CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	925,289	880,784
NET ASSETS	28,648,706	31,444,766
EQUITY		
Contributed equity	44,014,470	43,874,085
Reserves	-	-
Retained Profit / (losses)	(15,365,764)	(12,429,319)
Parent entity interest	28,648,706	31,444,766
Outside equity interest	-	-
TOTAL EQUITY	28,648,706	31,444,766

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LIMITED
 ABN 27 009 259 876
 AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 For the half year ended 31 December 2005

	\$000	\$000	\$000	\$000
	Share Capital			
Note	Ordinary	Retained Profits	Asset Revaluation	Total
Balance at 1.7.2004	30,028,591	(6,319,847)	-	23,708,744
Shares issued during the half year	7,129,360	-	-	7,129,360
Loss attributable to members of parent entity	-	(3,866,698)	-	(3,866,698)
Loss attributable to minority shareholders	-	-	-	-
Sub-total	37,157,951	(10,186,545)	-	26,971,405
Dividends paid or provided for	-	-	-	-
Balance at 31.12.2004	37,157,951	(10,186,545)	-	26,971,405
Balance at 1.7.2005	43,874,085	(12,429,319)	-	31,444,766
Shares issued during the year	140,385	-	-	140,385
Loss attributable to members of parent entity	-	(2,936,444)	-	(2,936,444)
Loss attributable to minority shareholders	-	-	-	-
Revaluation increment	-	-	-	-
Sub-total	44,014,470	(15,365,764)	-	28,648,706
Dividends paid or provided for	-	-	-	-
Balance at 31.12.2005	44,014,470	(15,365,764)	-	28,648,706

QRSCIENCES HOLDINGS LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2005

Note	Economic Entity	
	31 December 2005	31 December 2004
	\$	\$
Receipts from customers	33,888	414,061
Payments to suppliers and employees	(4,287,442)	(4,276,921)
Interest received	84,983	72,738
Borrowing costs	-	-
Interest paid	(951)	-
Grant Receipts	974,969	-
Legal Costs Recovery	214,795	-
Net cash provided by (used in) operating activities	(2,979,758)	(3,790,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for investment in controlled entities	-	-
Purchase of property, plant and equipment	(20,077)	(15,773)
Purchase of investments	-	-
Loans to controlled entities	-	-
Net cash provided by (used in) investing activities	(20,077)	(15,773)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	186,000	5,985,361
Repayment of borrowings	-	-
Proceeds from borrowings	-	-
Net cash provided by (used in) financing activities	186,000	5,985,361
Net increase/(Decrease) in cash held	(2,813,835)	2,179,466
Cash at 1 July 2005	4,015,783	2,704,637
Cash at 31 Dec 2005	1,201,948	4,884,103

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by QRSciences Holdings Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is any entity controlled by QRSciences Holdings Limited whereby QRSciences Holdings Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Plant and equipment	5-33%
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(e) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and development

Research and development costs are charged to loss from ordinary activities before income tax as incurred . Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

Intellectual Property

Intellectual property consists of patents, licences and other technical know how and is included in the consolidated balance sheet at the cost of acquisition. Cost of acquisition comprises the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Equity instruments issued as consideration were recorded as at their market price at the date of acquisition which is considered to equate to fair value. The carrying amount of intellectual property is reviewed periodically by the Directors for impairment.

An external consultant was engaged during the half year to assess the carrying value of the Company's intellectual property in accordance with applicable accounting standards and concluded that there was no impairment as at 31 December 2005.

(f) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

(g) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(h) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(j) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

(m) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

Reconciliation of Equity at 1 July 2004	Note	Economic Entity		
	Previous GAAP at 1 July 2004 \$	Adjustments on introduction of Australian equivalents to IFRS \$	Australian equivalents to IFRS at 1 July 2004 \$	
CURRENT ASSETS				
Cash assets		2,704,637	-	2,704,637
Prepayments		19,852	-	19,852
Receivables		515,431	-	515,431
TOTAL CURRENT ASSETS		3,239,920	-	3,239,920
NON-CURRENT ASSETS				
Receivables		-	-	-
Intellectual Property		29,538,170	-	29,538,170
Other financial assets		527,506	-	527,506
Property, plant and equipment		313,133	-	313,133
Other		4	-	4
TOTAL NON-CURRENT ASSETS		30,378,813	-	30,378,813
TOTAL ASSETS		33,618,733	-	33,618,733
CURRENT LIABILITIES				
Payables		1,153,896	-	1,153,896
Interest-bearing liabilities		-	-	-
Provisions		208,807	-	208,807
TOTAL CURRENT LIABILITIES		1,362,703	-	1,362,703
NON-CURRENT LIABILITIES				
Other		-	-	-
TOTAL NON-CURRENT LIABILITIES		-	-	-
TOTAL LIABILITIES		1,362,703	-	1,362,703
NET ASSETS		32,256,030	-	32,256,030
EQUITY				
Contributed equity		30,028,591	-	30,028,591
Reserves		-	-	-
Retained Profit / (losses)		(6,319,847)	-	(6,319,847)
Parent entity interest		23,708,744	-	23,708,744
Outside equity interest		8,547,286	-	8,547,286
TOTAL EQUITY		32,256,030	-	32,256,030

QRSCIENCES HOLDINGS LIMITED
ABN 27 009 259 876
AND CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

Reconciliation of Equity at 31 December 2004	Note	Economic Entity		
		Adjustments on introduction of Australian equivalents to IFRS \$	Australian equivalents to IFRS at 31 December 2004 \$	
		Previous GAAP at 31 December 2004 \$		
CURRENT ASSETS				
Cash assets		4,884,103	-	4,884,103
Prepayments		-	-	-
Receivables		412,365	-	412,365
TOTAL CURRENT ASSETS		5,296,468	-	5,296,468
NON-CURRENT ASSETS				
Receivables		-	-	-
Intellectual Property		29,538,170	-	29,538,170
Other financial assets		527,506	-	527,506
Property, plant and equipment		287,223	-	287,223
Other		4	-	4
TOTAL NON-CURRENT ASSETS		30,352,903	-	30,352,903
TOTAL ASSETS		35,649,371	-	35,649,371
CURRENT LIABILITIES				
Payables		1,423,421	-	1,423,421
Interest-bearing liabilities		-	-	-
Provisions		188,045	-	188,045
TOTAL CURRENT LIABILITIES		1,611,466	-	1,611,466
NON-CURRENT LIABILITIES				
Other		-	-	-
TOTAL NON-CURRENT LIABILITIES		-	-	-
TOTAL LIABILITIES		1,611,466	-	1,611,466
NET ASSETS		34,037,905	-	34,037,905
EQUITY				
Contributed equity	2(a)	36,013,952	1,143,999	37,157,951
Reserves		-	-	-
Retained Profit / (losses)	2(a)	(9,042,547)	(1,143,999)	(10,186,546)
Parent entity interest		26,971,405	-	26,971,405
Outside equity interest		7,066,500	-	7,066,500
TOTAL EQUITY		34,037,905	-	34,037,905

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
 HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
 FINANCIAL REPORTING STANDARDS**

Reconciliation of Equity at 30 June 2005	Note	Economic Entity		
		Previous GAAP at 30 June 2005 \$	Adjustments on introduction of Australian equivalents to IFRS \$	Australian equivalents to IFRS at 30 June 2005 \$
CURRENT ASSETS				
Cash assets		4,015,783	-	4,015,783
Prepayments		19,112	-	19,112
Receivables		285,437	-	285,437
TOTAL CURRENT ASSETS		4,320,332	-	4,320,332
NON-CURRENT ASSETS				
Receivables		-	-	-
Intellectual Property		27,184,330	-	27,184,330
Other financial assets		527,506	-	527,506
Property, plant and equipment		293,378	-	293,378
Other		4	-	4
TOTAL NON-CURRENT ASSETS		28,005,218	-	28,005,218
TOTAL ASSETS		32,325,550	-	32,325,550
CURRENT LIABILITIES				
Payables		618,176	-	618,176
Interest-bearing liabilities		-	-	-
Provisions		262,608	-	262,608
TOTAL CURRENT LIABILITIES		880,784	-	880,784
NON-CURRENT LIABILITIES				
Other		-	-	-
TOTAL NON-CURRENT LIABILITIES		-	-	-
TOTAL LIABILITIES		880,784	-	880,784
NET ASSETS		31,444,766	-	31,444,766
EQUITY				
Contributed equity	2(a)	42,730,086	1,143,999	43,874,085
Reserves		-	-	-
Retained Profit / (losses)	2(a)	(11,285,320)	(1,143,999)	(12,429,319)
Parent entity interest		31,444,766	-	31,444,766
Outside equity interest		-	-	-
TOTAL EQUITY		31,444,766	-	31,444,766

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
 HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
 FINANCIAL REPORTING STANDARDS**

**Reconciliation of Profit or Loss for the
 half-year 31 December 2004**

	Note	Previous GAAP \$	Effect of transition to Australian equivalents to IFRS \$	Australian equivalents to IFRS \$
Revenues from ordinary activities		365,085	-	365,085
Materials and consumables used		(393,298)	-	(393,298)
Employee benefits expense	2(a)	(1,327,821)	(1,143,999)	(2,471,820)
Consulting expenses		(458,262)	-	(458,262)
Travel expense		(207,335)	-	(207,335)
Legal expenses		(988,853)	-	(988,853)
Rental expenses		(48,218)	-	(48,218)
Directors Fees		(278,781)	-	(278,781)
Patent Costs		(258,147)	-	(258,147)
Depreciation and amortisation expense		(41,683)	-	(41,683)
License Fees		(261,459)	-	(261,459)
Insurance Costs		(33,510)	-	(33,510)
ASX/ASIC & Share Registry Fees		(40,917)	-	(40,917)
Other expenses from ordinary activities		(230,286)	-	(230,286)
Loss before income tax		(4,203,485)	(1,143,999)	(5,347,998)
Income tax expense		-	-	-
Loss after income tax expense		(4,203,485)	(1,143,999)	(5,347,998)
Loss attributable to outside equity interests		(1,480,786)	-	(1,480,786)
Loss attributable to members of the parent entity		(2,722,699)	(1,143,999)	(3,866,698)
Total changes in equity other than those resulting from transactions with owners as owners		(2,722,699)	(1,143,999)	(3,866,698)

QRSCIENCES HOLDINGS LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

Reconciliation of Profit or Loss for the - year 30 June 2005	Note	Previous GAAP \$	Effect of transition to Australian equivalents to IFRS \$	Australian equivalents to IFRS \$
Revenues from ordinary activities		2,257,257	-	2,257,257
Raw materials and consumables used		(830,082)	-	(830,082)
Employee benefits expense	2(a)	(3,127,583)	(1,143,999)	(4,271,582)
Depreciation and amortisation expense		(123,115)	-	(123,115)
Rental Expense		(107,182)	-	(107,182)
Consulting Expense		(1,180,633)	-	(1,180,633)
Travel Expense		(348,677)	-	(348,677)
License Fees		(272,410)	-	(272,410)
Legal Expense		(1,264,575)	-	(1,264,575)
Patent Costs		(335,465)	-	(335,465)
Insurance Expense		(86,036)	-	(86,036)
Directors Fees		(432,712)	-	(432,712)
ASX / ASIC & Share Register Fees		(70,887)	-	(70,887)
Other expenses from ordinary activities		(524,159)	-	(524,159)
Profit from ordinary activities before income tax expense		(6,446,259)	(1,143,999)	(7,590,258)
Income tax expense relating to ordinary activities		-	-	-
Profit (loss) from ordinary activities after related income tax expense		(6,446,259)	(1,143,999)	(7,590,258)
Profit (loss) from extraordinary item after related income tax expense/(revenue)		-	-	-
Net profit (loss)		(6,446,259)	(1,143,999)	(7,590,258)
Net profit (loss) attributable to outside equity interests		1,480,786	-	1,480,786
Net profit attributable to members of the parent entity		(4,965,473)	(1,143,999)	(6,109,472)
Total changes in equity other than those resulting from transactions with owners as owners		(4,965,473)	(1,143,999)	(6,109,472)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
 HALF YEAR ENDED 31 DECEMBER 2005**

**NOTE 2 FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
 FINANCIAL REPORTING STANDARDS**

(a) For the financial year ended 30 June 2005, employee benefits expenses increased by \$1,143,999 in both the consolidated entity and the Company representing the share-based remuneration expense for the period. Similarly, Share Capital has also increased in the both the consolidated entity and the Company by \$1,143,999.

	Economic Entity	
	31 December 2005	31 December 2004
	\$	\$

NOTE 3 OPERATING REVENUE

Operating Activities:

Interest received	84,983	72,738
Trading income	948,439	291,143
Other revenue	214,795	1,204
Total Revenue	1,248,217	365,085

NOTE 4 OPERATING PROFIT BEFORE INCOME TAX

**Operating profit has been arrived at after including:
 Income**

Sales revenue	948,439	291,143
Interest received/receivable from Other entities	84,983	72,738
	1,033,422	363,881

Expenses

Borrowing costs paid/due and payable to: — Other persons	-	-
Depreciation of property, plant and equipment	71,868	41,683
Total amount charged for depreciation, Amortisation or diminution in value of assets	71,868	41,683
Auditors remuneration	10,400	10,400
Lease rental expenses — operating leases	141,305	48,218

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

NOTE 5 SEGMENT INFORMATION

The economic entity operates as an investment development capitalist in the geographical area of Australia.

NOTE 6 CONTINGENT LIABILITIES

Contingent Liability of controlled entity QRSciences Pty Ltd

QRSciences Pty Limited licenses a portfolio of patents from BTG International Limited. The license is currently exclusive and has no contingent liability associated with it provided that QRSciences exercises its option to purchase the 14 patent families by the option expiry date of March 31, 2006.

If the option expires the license with BTG continues in force in each country where BTG have lodged patents until all of the patents of that country have expired and includes termination provisions which are customary in a contract of this nature. The agreement carries with it an obligation for minimum guaranteed annual royalty payments. The 2005 royalty payment in the amount of £150,000 is due if QRSciences declines to exercise its option to purchase the patent portfolio. The year 2006 royalty payment due will be £200,000 if QRSciences declines to exercise its option to purchase the patent portfolio. In addition, QRSciences may be responsible for additional royalty payment to BTG in certain territories dictated by quantity of sales. These amounts are payable if QRSciences declines to exercise its option to purchase 14 patent families from BTG. In exercising its option to purchase the 14 patent families under terms which are commercially sensitive, this contingent liability will be extinguished.

There are no other material contingent liabilities existing at balance date or at the date of completion of these financial statements.

NOTE 7 EVENTS SUBSEQUENT TO REPORTING DATE

Advanced Metal Detection Technology (AMDS)

QRSciences announced the development of an advanced metal detection technology (AMDS). The Company has contracted with Australian Customs Service for work on an advanced weapon detection system for international mail and package inspection.

The Company anticipates that the project, associated government sales and commercial sales will bring at least \$ 2.5 m in revenue to the Company over the next eighteen months. The system is a new revenue stream for the Company. In addition to selling in a stand-alone capacity the device will also enhance the existing QR product range.

QRSciences' Advanced Metal Detection System is capable of detecting metal shapes and metal characteristics in scanned objects. The technology has immediate applications in weapons and improvised explosive device (IED) detection for baggage, cargo, personnel and shoe screening and landmine detection. Other possible applications include industrial process control, covert personnel screening and improved location and inspection of buried objects. Weapon and weapon components have characteristics that are different from other metallic items normally found in cargo, mail and baggage. The AMDS device has a unique ability to discern these differences.

Option to Purchase 14 Quadrupole Resonance (QR) patent families

In February 2006, the Company took a major step in an effort to build upon its core asset by acquiring an option to purchase 14 patent families linked to the emerging technology Quadrupole Resonance (QR). The acquisition of the patents will position QRSciences to become a toll-booth for QR commercialisation efforts in several key markets around the world, including the United States, Canada, Israel, the United Kingdom, Western Europe, Australia and parts of Asia.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF YEAR ENDED 31 DECEMBER 2005**

The option agreement is with BTG International Limited (LSE: BGC), a London-based medical innovations Company and QRSciences' third largest shareholder. Under the agreement with BTG, QRSciences has made a payment of US \$0.5 million and the option can be exercised over a period of 90 days. Following the acquisition of the patents QRS would become the owner of the world's largest and most comprehensive IP portfolio in the field of QR.

Placement of 68.75 Million Fully Paid Ordinary Shares

In February 2006, the Company finalised a placement of 68.75 million fully paid ordinary shares to raise \$5.5 million. The shares were issued at a price of 8 cents per share to a range of sophisticated and other wholesale investors. The funds raised will be used for the Company's investment in US-based Spectrum San Diego Inc. (as announced to ASX on 28 October 2005) and for general working capital purposes.

Acquisition of up to 27.4% of Spectrum San Diego Incorporated

On 21 February 2006, the Company announced that, through its wholly-owned subsidiary QRSciences Corporation, it has finalised a transaction for the acquisition of up to 27.4% of Spectrum San Diego Incorporated (Spectrum).

Terms of the agreement include the acquisition of preferred Spectrum stock for a combined cash and equity payment of US\$2.6 million (of which an amount of US\$916,000 has since been paid) with an option to buy all the outstanding common stock on or before February 18, 2009.

Spectrum is based in San Diego, California and specializes in the design and commercialisation of electronic imaging and instrumentation systems including X-ray devices for personnel and baggage screening and innovative ultra high resolution and wide field of view surveillance cameras. The group has expertise in X-ray physics, digital signal processing, X-ray sources and detectors, analogue and digital electronics and system integration.

QRSCIENCES HOLDINGS LIMITED
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DIRECTORS' DECLARATION

In the opinion of the Directors of QRSciences Holdings Limited:

1. The financial statements and notes, as set out on pages 7 to 24:
 - (a) comply with the Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date.
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 16th day of March 2006 at Perth, Western Australia.



K Russeth
DIRECTOR

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF QRSCIENCES HOLDINGS LTD

SCOPE

The financial report and Directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements for the consolidated entity comprising both QRSciences Holdings Ltd (the Company) and the entities it controlled during the half year, and the Directors' declaration, for the Company, for the half year ended 31 December 2005.

The Directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

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

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of Company personnel, and
- analytical procedures applied to financial data.

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls. Our review did not involve an analysis of the prudence of business decisions made by Directors or management.

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration.

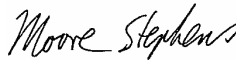
Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity QRSciences Holdings Ltd and the entities it controlled during the for the half year ended 31 December 2005 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



NEIL PACE
PARTNER



MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 16th day of March 2006