

ASX AND MEDIA RELEASE

28 February 2007

Period of Significant Progress Places QRSciences on Track to Meet Full Year Revenue and Earnings Guidance

QRSciences (ASX:QRS) (QRSNY:PK) today announced its results for the six months ended 31 December 2006. A key feature of the result is an increase in revenue of over 500%, to \$7.67M, reflecting first-time consolidation of Baxall Australia and growth in income from the Company's proprietary technologies. The net operating loss of \$3.74M is lower than that recorded in the immediately preceding six months and is after inclusion of \$0.43M of intangible amortisation (vs. nil in the first half of FY06).

These results place QRSciences on track to attain full year revenue towards the upper end of the \$14-16M range originally provided to the market in July 2006, and to achieve a breakeven run-rate at the EBIT (earnings before interest and tax) level towards the end of the current financial year.

"This has been a period of significant activity and progress for the Company," said Kevin Russeth, Chief Executive Officer of QRSciences. "Not only have we augmented our business with the highly complementary and rapidly growing Baxall operation, but we have made notable strides with the commercialisation of our proprietary technologies".

Since the end of the previous financial year, QRSciences has announced:

- **Acquisition of Baxall Australia** – Baxall is a direct seller and distributor of surveillance and monitoring equipment, including closed circuit television (CCTV) security cameras and digital video recorders (DVR). Revenue is expected to double in FY07 to approximately \$10M, and the business is now EBITDA positive. Its well-established sales and distribution capability in Australia and network of contacts across the Southeast Asian region offers the means to accelerate the uptake of QRSciences' own proprietary technologies. Baxall has been consolidated from 1 May 2006 in the latest half.
- **Alliance with Singapore Technologies Electronics (ST Electronics)** - In September 2006 ST Electronics commenced sales and marketing of QRSciences' explosive detection technology in several countries in the Asian region and parts of the Middle East. As a result of this alliance, two T3-03 stand alone Explosive Detection System units have been sold to the United Arab Emirates (UAE) Government.
- **Collaboration to Develop Pharmaceutical Quality Control and Assurance Solution** - In September 2006 QRSciences entered into an agreement with AstraZeneca, Merck, Sharp and Dohme and King's College London to develop a QR-based pharmaceutical analysis instrument.
- **Spectrum San Diego, Inc. (Spectrum)** – QRSciences has continued to increase its investment in Spectrum, with its holding currently standing at approximately 22%. Spectrum has reported growing success with its SentryScope™ camera range in the U.S. and overseas, and more recently with its prosthetic and cast scanner, CastScope, which is undergoing airport pilot programs and trials in both the U.S. and the United Kingdom in calendar 2007.
- **GE ShoeScanner Roll-Out Under Clear® Program** – In December 2006 the Transportation Security Administration (TSA), the agency of the U.S. Government responsible for the nation's transportation security, approved Clear® as a Registered Traveller Service Provider for roll-out to the nation's airports. QRSciences' QR technology is an important component of the Clear® registered traveller kiosk through GE Security's ShoeScanner product. QRSciences receives royalty payments on sales of all GE QR products including the GE ShoeScanner.
- **Operational Trial of Narcotics Screening System** - In January 2007 QRSciences announced the first sale of its T3-02 screening system, developed to detect illicit narcotics, to the United Kingdom

Government. This follows collaboration with HM Revenue & Customs and the Australian Customs Service, as announced in June 2006.

- **Further Sales Under Agreement With Rapiscan Systems** – In January 2007 QRSciences announced the sale of a further two C3-03 subsystems, under its preferred pricing and licensing agreement with Rapiscan Systems, to meet a follow-on order for two additional QXR1000 units from the U.S. Federal Government. The C3-03 subsystem is an integral part of the QXR1000 baggage and package screening system co-developed with Rapiscan.

“Whilst we are extremely pleased to have concluded the Baxall transaction, given its strong growth outlook and the scope for leverage of its distribution capability, we are also very encouraged by the progress being made with our proprietary QR and AMDS technologies,” added Mr Russeth. “The growing level of field demonstrations and trials across the globe, in an increasingly wide range of applications, together with the strengthening of the relationships with our various strategic partners, are creating strong positive momentum in this portion of our broadened business base.”

In February 2007, QRSciences completed a number of funding initiatives, comprising share placements and a secured Promissory Note issue, which raised a combined \$7.4M. These funds were applied to paying the balance owed in respect of Baxall, to fund the ongoing investment in Spectrum and general working capital requirements. The Company is seeking shareholder approval, at an Extraordinary General Meeting to be held in April 2007, to roll over the Promissory Note to a Convertible Note and to issue associated tranches of unlisted options. Full details will be provided in the Notice of Meeting.

“As we have already highlighted, these initiatives represent an important step in securing QRSciences’ long term finances. In the process, we have attracted a number of institutional investors, including several US-based investors that are recognised as leaders in the field of global micro cap investment. Their presence is testimony to the long term potential that QRSciences houses,” said Mr Russeth.

“The actions taken in the period since 30 June 2006 have provided QRSciences with a markedly stronger platform from which to realise the full value of the Company’s assets,” concluded Mr. Russeth.

About QRSciences

QRSciences Holdings Limited is a holding company based in Perth, Western Australia with investments in a number of security related technology companies. The company through its subsidiaries and investments designs, develops, builds, and sells advanced technology systems, sub-systems, components and software for security related applications. The applications include the detection of explosives and narcotics, metal detection and imaging for weapons and contraband screening, surveillance and monitoring, chemical manufacturing quality control and assurance, mineral and material assay, and lab instrumentation.

For more information on the Company please visit www.QRSciences.com or phone +61 8 9358-5011 in Perth, Western Australia or +1(858) 613-8755 in San Diego, California.

Appendix 4D Half yearly report 31 December 2006

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	514.6%	to	7,671
(Loss) from ordinary activities after tax attributable to members	Up	27.3%	to	(3,738)
Net (Loss) for the period attributable to members	Up	27.3%	to	(3,738)
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	34.20¢	10.89¢ (Adjusted to provide for 1:10 reconstruction of shares)

**HALF YEAR FINANCIAL REPORT
31 DECEMBER 2006
ABN 27 009 259 876**



QRSciences Holdings Limited
is incorporated in Western Australia

QRSCIENCES HOLDINGS LIMITED
ABN 27 009 259 876
AND CONTROLLED ENTITIES

CORPORATE DIRECTORY

This Half Year Report covers QRSciences Holdings Limited as a consolidated entity comprising QRSciences Pty Ltd and its subsidiary QRSciences Co. (USA) as well as QRSciences Security Pty Ltd (trading as Baxall Distribution Australia). The Group's functional presentation currency is AUD (\$).

DIRECTORS

Mr Kevin Russeth
Mr Simon Bedford
Mr Norman Shanks (Non- Executive)
Mr Joseph Paresi (Non- Executive)
Mr Robert Halverson (Non- Executive)
Mr Raymond Schoer (Non- Executive)

AUDITORS

Moore Stephens
Chartered Accountants
Level 3, 12 St George's Terrace
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CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Mr Darren Bromley

BANKERS

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Perth Western Australia 6000

REGISTERED OFFICE

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Cannington Western Australia 6107
Telephone: +61 8 9358 5011
Facsimile: +61 8 9358 5022

SOLICITORS

Pullinger Readhead Lucas
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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
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STOCK EXCHANGE

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

WEBSITE

www.qrsciences.com

ASX CODE

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

QRSCIENCES HOLDINGS LIMITED
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Directors' Report

The Directors present their report together with the consolidated financial report of QRSciences Holdings Limited and its controlled entities ("QRSciences" or "the Company") for the half-year ended 31 December 2006 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 Norman Shanks	
Mr Joseph Paresi	
Mr Simon Peter Bedford	
Mr Robert Halverson	(Appointed 21 August 2006)
Mr Raymond Schoer	(Appointed 11 September 2006)
Mr Gary Bruce Pennefather	(Resigned 14 August 2006)
Dr Timothy Rayner	(Resigned 14 August 2006)

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

Results from Operations

The consolidated operating loss of the economic entity amounted to \$3.738 million

Review of Operations and Principal Activities

QRSciences Holdings Limited through its wholly owned subsidiaries develops, designs and sells advanced technology.

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

The Company's primary focus is 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.

The opening half to the 2007 financial year has seen considerable progress in the commercialisation of QRSciences' proprietary technologies, as well as the acquisition of a substantial complementary business which will significantly assist the Company's overall move towards profitability. Notable events or announcements during the half are outlined below.

Baxall Distribution Australia

On 12 February 2007 QRSciences announced that it had completed the purchase of the business and key assets of Baxall Australia Pty Limited (Baxall). Consideration for the Baxall business comprises \$4.283 million in cash for the agreed value of the nominated assets, of which an initial deposit of \$1.97 million had already been paid, plus a subsequent goodwill payment. The goodwill payment is due on 28 February 2008 and will be satisfied in scrip (25%) and cash (75%), based on a 4 times multiple of audited EBIT for the 12 months to 31 December 2007.

QRSciences has consolidated the results of Baxall from 1 May 2006 into the half yearly results for the period ending 31 December 2006. The terms of the Business Sale Agreement stipulate that Baxall business is deemed to have been conducted for the benefit of QRSciences Holdings Ltd from 1 May 2006 and, as such, income and expenses incurred by the business from that date have been consolidated into QRSciences' results for the half year December 2006.

Baxall is a direct seller and distributor of surveillance and monitoring equipment, including closed circuit television (CCTV)

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security cameras, digital video recorders (DVR) and related components. Since its establishment in March 2005, the business has grown rapidly with revenue in FY06 of \$5 million and an expectation for year-on-year growth over the next two years of 100% per annum to approximately \$10 million in FY07 and \$ 20 million in FY08. The business is now EBITDA positive. The commitment from QRSciences allows Baxall to fully participate in the rapid growth being experienced by the Australian security products market, which is now estimated to exceed \$150 million per annum.

Baxall is a highly complementary acquisition for QRSciences, as it delivers a significantly enhanced presence in the broader security market and, through its well-established sales and distribution capability in Australia and across the Southeast Asian region, the means to accelerate the uptake of QRSciences' own proprietary technologies.

Spectrum San Diego

The Company continued to increase its investment in Spectrum San Diego, Inc. At 31 December 2006 QRSciences' holding in Spectrum stood at approximately 20%, but has subsequently increased to approximately 22%. Spectrum is continuing to have success with its SentryScope camera range in the U.S. and overseas, and more recently with inroads that it has made with its prosthetic and cast scanner, CastScope

The CastScope was developed through funding from the U.S. Transportation Security Administration (TSA) Falcon Program. CastScope utilises backscatter X-ray technology to detect security threats in casts, bandages and artificial limbs. A cornerstone application for CastScope is the screening of airline passengers. CastScope offers a faster, less invasive and more effective solution than existing procedures. Following the delivery of prototype units and testing in the U.S. during 2006, airport pilot programs and first stage roll-out will commence in 2007. Spectrum estimates that a full roll-out to U.S. airports over the next few years would entail the purchase of approximately US\$20 million of equipment. Including European and Asian airports and non-airport applications, such as prisons and courthouses, it is estimated that the total addressable market for CastScope is in excess of US\$60 million with additional maintenance contracts approaching a value of approximately US\$30 million.

On 4 July 2006 the Company completed an agreement with Spectrum to sell and distribute the SentryScope video surveillance system. Under the agreement, QRSciences will be the exclusive distributor of SentryScope equipment in Australia, New Zealand, Japan, Taiwan and India. In addition, QRSciences has acquired non-exclusive rights to sell and distribute the equipment to the U.S. Federal Government, including key customers at the U.S. Department of Defence and Department of Homeland Security.

Move to Majority Non-Executive Board

On 21 August 2006, the Company appointed Mr Robert Halverson and on 11 September 2006, Mr Raymond Schoer as Non-Executive Directors. Between them, Mr. Halverson and Mr Schoer bring considerable experience in the areas of government, international relations, business and corporate governance.

Alliance with Singapore Technologies Electronics

On 4 September 2006, the Company announced that after completing a successful working trial with the Singaporean Immigration and Checkpoint Authority, Singapore Technologies Electronics (ST Electronics) had commenced sales and marketing of QRSciences' explosive detection technology in several countries in the Asian region and parts of the Middle East. ST Electronics, a wholly owned subsidiary of Singapore Technologies Engineering, is currently marketing the QRSciences-developed T3-03 Explosive Detection System.

As a result of this alliance, on 3 January 2007 QRSciences announced it had sold two T3-03 stand alone Explosive Detection System units to the United Arab Emirates (UAE) Government.

Collaboration to Develop Pharmaceutical Quality Control and Assurance Solution

On 6 September 2006, QRSciences announced that it had entered into an agreement with AstraZeneca, Merck, Sharp and Dohme and King's College London to develop a QR-based pharmaceutical analysis instrument. QR can be used in the quantification of pharmaceuticals and the identification of polymorphs, as well as detection, analysis and quality control of pharmaceuticals at all stages of the manufacturing and distribution chain. The two main objectives of the collaborative project are to develop a prototype pulsed radio frequency QR spectrometer suitable for use in pharmaceutical analysis, and to extend the range of substances that can be detected by focusing on higher frequencies.

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Operational Trial of Narcotics Screening System

In January 2007 QRSciences announced the first sale of its T3-02 screening system, developed to detect illicit narcotics, to the United Kingdom Government. This follows collaboration with HM Revenue & Customs and the Australian Customs Service, as announced in June 2006.

GE ShoeScanner Roll-Out Under Clear® Program

On 20 December 2006 QRSciences reported that the Transportation Security Administration (TSA), the agency of the U.S. Government responsible for the nation's transportation security, had approved Clear® as a Registered Traveller Service Provider for roll-out to the nation's airports. QRSciences' QR technology is an important component of the Clear® registered traveller kiosk through GE Security's ShoeScanner product. QRSciences established a cross-licence agreement with GE Security in 2006 under which QRSciences receives royalty payments on sales of all GE QR products including the GE ShoeScanner.

Clear® has constructed Registered Traveller lanes at New York's JFK, San José, Indianapolis and Cincinnati airports as the first phase of a national rollout beginning in December 2006 and intends to extend this service across up to 20 U.S. airports over the course of the ensuing 12 months. The Clear® program embraces a verification and passenger screening kiosk, co-developed with GE, that incorporates the GE ShoeScanner product alongside explosive trace detection technology. The combined technologies' ability to assess registered program members without removal of shoes and jackets facilitates significantly reduced and more consistent passenger screening times with improved security. When completed it is estimated that there will be approximately 1000 Registered Traveller lanes established at U.S. airports.

Outlook

Following the conclusion of the Baxall transaction and increased uptake of the Company's proprietary technologies, QRSciences is on track to achieve full year revenue at the upper end of the \$14-16 million range previously indicated. It remains the Company's expectation that it will reach a breakeven run-rate at the EBIT (earnings before interest and tax) level towards the end of the current financial year.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 18 for the half year ended 31 December 2006.

Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1996 and, in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Mr Kevin Lee Russeth
Director
Dated this 28th day of February 2007

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CONSOLIDATED INTERIM INCOME STATEMENT
for the half year ended 31 December 2006

	Note	Economic Entity	
		31 December 2006	31 December 2005
		\$'000	\$'000
Revenues from ordinary activities	2	7,671	1,248
Cost of goods sold (Baxall)		(5,209)	-
Materials and consumables used (QRS)		(134)	(355)
Employee benefits expense		(2,937)	(2,026)
Consulting expenses		(488)	(398)
Borrowing expense		(4)	-
Travel expense		(285)	(290)
Legal expenses		(186)	(224)
Rental expenses		(285)	(141)
Directors Fees		(84)	(102)
Patent Costs		(270)	(92)
Depreciation and amortisation expense		(535)	(72)
Bad & doubtful debts		(206)	-
Advertising		(131)	(79)
Insurance Costs		(84)	(71)
Accounting & secretarial		(88)	(2)
Other expenses from ordinary activities		(483)	(332)
Loss before income tax		(3,738)	(2,936)
Income tax expense		-	-
Loss after income tax expense		(3,738)	(2,936)
Loss attributable to members of the parent entity		(3,738)	(2,936)
Total changes in equity other than those resulting from transactions with owners as owners		(3,738)	(2,936)
Basic earnings per share (cents per share)		-0.1198	-0.0134
Diluted earnings per share (cents per share)		-0.1114	-0.0099

The accompanying notes form part of these financial statements.

QRSCIENCES HOLDINGS LIMITED
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CONSOLIDATED INTERIM BALANCE SHEET
 as at 31 December 2006

	Note	Economic Entity	
		31 December 2006 \$'000	30 June 2006 \$'000
CURRENT ASSETS			
Cash assets		1,180	1,986
Prepayments		140	318
Inventories		2,866	-
Trade and other receivables		3,095	292
TOTAL CURRENT ASSETS		7,281	2,596
NON-CURRENT ASSETS			
Intellectual property	5	34,286	39,822
Other financial assets		2,563	2,340
Property, plant and equipment		495	302
Other Intangibles		329	-
TOTAL NON-CURRENT ASSETS		37,673	42,464
TOTAL ASSETS		44,954	45,060
CURRENT LIABILITIES			
Trade and other payables		3,068	872
Interest-bearing liabilities		239	-
Provisions		562	248
Other Payables	6	2,770	2,763
TOTAL CURRENT LIABILITIES		6,639	3,883
NON-CURRENT LIABILITIES			
Interest-bearing liabilities		34	-
Other Payables	6	6,549	9,532
TOTAL NON-CURRENT LIABILITIES		6,583	9,532
TOTAL LIABILITIES		13,222	13,415
NET ASSETS		31,732	31,645
EQUITY			
Contributed equity	8	54,689	50,864
Retained Profit / (losses)		(22,957)	(19,219)
TOTAL EQUITY		31,732	31,645

The accompanying notes form part of these financial statements.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
 For the half year ended 31 December 2006

	\$000	\$000	\$000	\$000	\$000
	Contributed Equity			Retained Profits	
	Ordinary	Pref B	Options		Total
Balance at 1.7.2005	41,630	2,139	105	(12,429)	31,445
Shares issued during the year	140	-	-	-	140
Loss attributable to members of parent entity	-	-	-	(2,936)	(2,936)
Sub-total	41,770	2,139	105	(15,365)	28,649
Dividends paid or provided for	-	-	-	-	-
Balance at 31.12.2005	41,770	2,139	105	(15,365)	28,649
Balance at 1.7.2006	48,725	2,139	-	(19,219)	31,645
Conversion of Pref B to Ordinary	2,139	(2,139)	-	-	-
Shares issued during the year	3,825	-	-	-	3,825
Loss attributable to members of parent entity	-	-	-	(3,738)	(3,738)
Sub-total	54,689	-	-	(22,957)	31,732
Dividends paid or provided for	-	-	-	-	-
Balance at 31.12.2006	54,689	-	-	(22,957)	31,732

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
for the half year ended 31 December 2006

Note	Economic Entity	
	31 December 2006 \$'000	31 December 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	6,780	34
Payments to suppliers and employees	(9,687)	(4,288)
Interest received	35	85
Borrowing costs	-	-
Interest paid	(4)	(1)
Grant Receipts	152	975
Legal Costs Recovery	-	215
Net cash provided by (used in) operating activities	(2,724)	(2,980)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for controlled entity (net of cash acquired)	(1,887)	-
Purchase of property, plant and equipment	(20)	(20)
Purchase of investments	-	-
Loans to controlled entities	-	-
Net cash provided by (used in) investing activities	(1,907)	(20)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,825	186
Repayment of borrowings	-	-
Proceeds from borrowings	-	-
Net cash provided by (used in) financing activities	3,825	186
Net increase/(Decrease) in cash held	(806)	(2,814)
Cash at 1 July 2006	1,986	4,016
Cash at 31 Dec 2006	1,180	1,202

The accompanying notes form part of these financial statements.

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NOTE 1 STATEMENT OF ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian 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 2006 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*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

Reporting Basis and Conventions

The half year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The half-year financial report is prepared in Australian dollars.

Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006,

a. Basis of Consolidation

The half-year consolidated financial statements comprise the financial statements of QRSciences Holdings Limited and its subsidiaries as at 31 December 2006 ('the Group').

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	Economic Entity	
	31 December 2006 \$'000	31 December 2005 \$'000

NOTE 2 OPERATING REVENUE

Operating Activities:

Interest received	35	85
Trading income	7,221	948
Other revenue	415	215
Total Revenue	7,671	1,248

NOTE 3 OPERATING PROFIT BEFORE INCOME TAX

Operating profit has been arrived at after including:

Income

Sales revenue	7,221	948
Interest received/receivable from Other entities	35	85
	7,256	1,033

Expenses

Borrowing costs paid/due and payable to: — Other persons	-	-
Depreciation of property, plant and equipment	107	72
Amortisation of Intellectual Property	428	-
Total amount charged for depreciation, Amortisation or diminution in value of assets	535	72
Auditors remuneration	25	10
Lease rental expenses — operating leases	285	141

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	Economic Entity	
	31 December 2006 \$'000	30 June 2006 \$'000

NOTE 4 ACQUISITION OF SUBSIDIARIES

During the half year, the economic entity acquired the business of Baxall Australia Pty Ltd.

The purchase price was allocated as follows:

- Cash consideration paid at 31 Dec 2006	1,970	-
- Consideration paid after 31 Dec 2006 (Note 6)	2,263	-
Total consideration	4,233	-

Assets and liabilities acquired at acquisition date:

Receivables	2,903	-
Inventories	2,866	-
Property Plant and Equipment	181	-
Payables	(2,125)	-
	3,825	-

Initial Goodwill	408	-
Less: Operating Loss for the 8 month period to 31 Dec 2006	(79)	-
Adjusted Goodwill on acquisition	329	-

NOTE 5 INTANGIBLE ASSETS - INTELLECTUAL PROPERTY

Intellectual property at cost (a)	35,039	40,146
Less: Accumulated amortisation	(753)	(324)
	34,286	39,822

(a) Movements during the year

Opening balance	40,146	27,184
Acquisition of patent portfolio from BTG International – at discounted (present value) cost		12,962
Renegotiation of payment terms with BTG International – amendment to discounted (present value) cost	(5,107)	
	35,039	40,146

NOTE 6 OTHER PAYABLES

Current

Payables - BTG International	507	2,763
Payables – Residual of Baxall consideration (Note 4)	2,263	-
	2,770	2,763

The \$0.507 million carried on the balance sheet as a current liability relates to discretionary payments required by QRS to maintain its ownership rights over the BTG patent portfolio. This liability has been settled via the issue of shares after balance date.

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		Economic Entity	
		31 December 2006 \$'000	30 June 2006 \$'000
NOTE 6	OTHER PAYABLES		
	Non-Current		
	Payables - BTG International	6,549	9,532

The \$6.549 million carried on the balance sheet as a non-current liability relates to discretionary payments required by QRS to maintain its ownership rights over the BTG patent portfolio calculated as a NPV and payable over the next 13 years. The Company successfully renegotiated the terms of the discretionary payments resulting in an amendment to the present value of the Intellectual Property as illustrated in Note 5.

NOTE 7 **SEGMENT INFORMATION**

	CCTV Equipment Sales		QRS Sales & Services		Consolidated	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Segment Revenue	6,694	-	527	54	7,221	54
Unallocated other income	-	-	450	1,194	450	1,194
Total Revenue	6,694	-	977	1,248	7,671	1,248
Segment Result	(79)	-	(3,659)	(2,936)	(3,738)	(2,936)

NOTE 8 **CONTRIBUTED EQUITY**

	31 December 2006 \$'000
a) 39,766,752 Ordinary Shares Fully Paid	54,689
b) Nil Preference B Shares	-
	54,689

(a) Movements During the Period

Ordinary Issued and fully paid Share Capital

Opening balance at the beginning of the reporting period	48,725
• Issue of 2,992,000 fully paid ordinary shares - Share Purchase Plan	1,497
• Issue of 4,000,000 fully paid ordinary shares - September 2006	2,000
• Issue of 400,000 fully paid ordinary shares - December 2006	200
• Issue of 507,100 fully paid ordinary shares - December 2006	255
• Conversion of Preference B Shares	2,139
• Transaction Costs relating to Share Issues	(127)
Closing balance at the end of the reporting period 39,766,752	54,689

QRSCIENCES HOLDINGS LIMITED
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NOTE 8 CONTRIBUTED EQUITY

	31 December
(b) Movements During the Period	2006
Unquoted Preference Shares pursuant to acquisition of QRSciences Pty Ltd	\$'000
Opening balance at the beginning of the reporting period	2,139
<ul style="list-style-type: none"> • Issue of Preference shares pursuant to acquisition of QRSciences Pty Ltd 	
23,686,217 Preference A	
23,686,282 Preference B	
<ul style="list-style-type: none"> • Conversion of Preference B Shares to Ordinary Shares - January 2006 	(2,139)
Closing balance at the end of the reporting period	-

Please refer to the June 2006 Annual Report for details of contributed equity for the previous two years.

NOTE 9 CONTINGENT LIABILITIES

The goodwill payment in relation to the purchase of Baxall Australia Pty Ltd is due on 28 February 2008 and will be satisfied in scrip (25%) and cash (75%), based on a 4 times multiple of audited EBIT of the Baxall-related operations for the 12 months to 31 December 2007.

Other than the Baxall goodwill payment, there are no material contingent liabilities at balance date or at the date of completion of these financial statements.

NOTE 10 EVENTS SUBSEQUENT TO REPORTING DATE

On 3 January 2007 QRSciences announced it has sold two T3-03 stand alone Explosive Detection System units to the United Arab Emirates (UAE) Government. The sale was coordinated by Singapore Technologies Electronics (ST Electronics). This transaction is the first sale struck under the sales and marketing alliance with ST Electronics which was announced in September 2006 and which is concentrating on several countries in the Asian region and parts of the Middle East.

On 9 January 2007 QRSciences announced the first sale of its T3-02 screening system, developed to detect illicit narcotics to the United Kingdom Government. This follows collaboration with HM Revenue & Customs and the Australian Customs Service as announced to the market in June 2006. HM Revenue & Customs has been field testing the system at an undisclosed location in the United Kingdom.

On 24 January 2007 QRSciences announced that it had been notified that Rapiscan Systems, a wholly-owned subsidiary of OSI Systems (NASDAQ:OSIS), had received a follow on order for two additional QXR1000 units from the United States Government. QRS Sciences will supply two C3-03 subsystems to Rapiscan to fulfil the order. The C3-03 is an integral part of the co-developed QXR100 baggage and package screening system.

On 30 January 2007 QRSciences announced that Spectrum San Diego which is partially owned by QRSciences is working with the United Kingdom Department for Transport to supply a CastScope screening system for laboratory and airport trials. These trials will occur in phases during the first half of calendar year 2007.

In February 2007, QRSciences completed two funding initiatives as follows. A placement of shares at 50 cents each to raise \$3.57 million; and a \$3.8 million secured Promissory Note Issue, carrying a 4% coupon (12% annualised) and 120 day term to maturity with conversion rights at 50 cents per share.

**QRSCIENCES HOLDINGS LIMITED
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NOTE 10 EVENTS SUBSEQUENT TO REPORTING DATE

It is proposed that the Promissory Note is rolled over to a Convertible Note issue, which shareholders will be asked to approve at an Extraordinary General Meeting to be held in April 2007. In addition to the conversion rights at 50 cents per share, approval will be sought for the issue of 3.8 million unlisted 60 cent options and 3.8 million unlisted 81 cent options to the Convertible Note holders. Both tranches of options will have an expiry date of 5 February 2014. The proposed Convertible Note carries with it terms and conditions customary for an instrument of this nature including anti-dilute provisions, acceleration clauses in the event of default and a bridge fee. The details and form of the note will be outlined in detail in the Notice of Meeting.

On 12 February 2007 QRSciences announced that it had completed the purchase of the business and key assets of Baxall Australia Pty Limited (Baxall). Consideration for the Baxall business comprises \$4.283 million in cash for the agreed value of the nominated assets, of which an initial deposit of \$1.97 million had already been paid, plus a subsequent goodwill payment. The goodwill payment is due on 28 February 2008 and will be satisfied in script (25%) and cash (75%), based on a 4 times multiple of audited EBIT for the 12 months to 31 December 2007. The residual \$2.31 million due in respect to the Baxall assets was paid from the proceeds of the funding initiatives identified above.

QRSciences has consolidated the results from Baxall from 1 May 2006 into the half yearly results for the period ending 31 December 2006.

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 6 to 15:
 - (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 2006 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 28th day of February 2007.



K Russeth
DIRECTOR

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF QRSCIENCES HOLDINGS LTD

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of QRSciences Holdings Limited and controlled entities, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and the cash flow statement for the half-year ended on that date, a summary of significant accounting policies, selected explanatory notes and the directors' declaration .

Directors' Responsibility for the Half-Year Financial Report

The company's and controlled entities' directors are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that it 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "Review of an Interim Financial Report Performed by the Independent Auditor of the Entity", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporation Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001. As the auditor of QRSciences Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out in the financial report has not changed as at the date of providing our audit report.

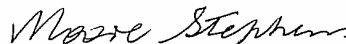
Conclusion

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 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 2006 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 professional reporting requirements in Australia.



PAUL RENGEL
PARTNER



MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 28th day of February 2007.

**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 2006 there have 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.



**PAUL RENGEL
PARTNER**



**MOORE STEPHENS
CHARTERED ACCOUNTANTS**

Signed at Perth this 28th day of February 2007.