

natural

INTELLIGENCE

27 February 2004

Manager of Company Announcements
Australian Stock Exchange Limited
Level 6, 20 Bridge Street
SYDNEY NSW 2000

By E-lodgement

HALF YEARLY REPORT

Please find attached the Company's Half Yearly Report for the period ended 31 December 2003.

For and on behalf of the Board



MR DAVID RIEKIE
Director

NATURAL INTELLIGENCE LIMITED
ABN 30 000 386 685

**Half Yearly Report for the six months
ended 31 December 2003
given in accordance with ASX Listing Rule 4.2A.**

The Information provided in this Half Yearly Report should be read in conjunction with the Company's
2003 Annual Financial Report.

Results for Announcement to Market

Summary Results for the 6 Months to 31 December 2003

The following is a summary of the financial results for the 6 months ended 31 December 2003 (previous corresponding period 31 December 2002).

	Increase %	Six months ended 31 December 2003 \$	Six months ended 31 December 2002 \$
Sales Revenues	(45%)	683,094	1,239,478
Loss attributable to members	113%	(1,299,228)	(610,744)

Dividends

No interim dividend is declared for the reporting period.

Review of Operation and Earnings Results for the 6 Months Ended 31 December 2003

During the first half of the current financial year, the Company experienced has seen higher than expected expenditure due to unexpected staff movements and the relocation of the businesses to new offices. The new offices offer greater potential to support and accommodate the businesses of Natural Systems Intelligence (NSI) and Natural Resource Intelligence (NRI).

NSI continues to develop expert knowledge and a reputation as a quality provider of online business solutions. NSI's intellectual property continues to grow and provides the company with a reusable asset and a platform that can be applied to new opportunities. This ensures the potential for greater growth in revenue and profit into the future through reduced system development costs and time to market.

NRI has established a high profile as experts in value added data products in the areas of vegetation, climate, hydrology and regolith landform mapping. NRI are also sought after to provide expert environmental consulting services, including having been offered a position on the Pratt Water Project Committee. Notwithstanding this, the results of NRI have been disappointing and not up to the Company's expectations. The Board is presently assessing it's options in respect to NRI.

NSI has a number of clients for which it conducts ongoing repeat business. This business can take the form of extensions to existing solutions, expansion of support and/or hosting arrangements, integration with other business systems and new projects. NRI's salinity patent application and soil technology is undergoing further peer and internal reviews and will continue to do so, as radio-metrics is a complex science.

The staff movements have enabled further streamlining of business expenses. Increased workloads experienced in November and December 2003 are to continue during 2004. Further staff changes

are expected early 2004 with the addition of a Financial Manager and a Sales Executive to develop new business for NSI.

MAJOR PROJECTS

Major projects include:

- **Rego.ACT (ACT Department of Urban Services)**
- **Pratt Water**
- **Toyota New Zealand**
- **Department of Health**
- **Salinity Mapping, New South Wales**
- **Downing Teal**
- **National Heart Foundation**
- **Expert Witness on Land Clearing**
- **Murray Darling Basin Commission Proof Of Concept**

CORPORATE ACTIVITY

During the 6 month period the Company successfully completed a capital raising program of approximately \$3.95 million.

The results of this recapitalisation process ensured that the Company was adequately capitalised going forward and was able to continue to develop its existing businesses at that time and funding to assist with the acquisition and operation of Allgrove Holdings Pty Ltd.

During the same period, the Company completed the acquisition of all the issued capital in Allgrove Holdings Pty Ltd. Allgrove is building businesses in various segments of the telecommunications industry. It specializes in businesses relating to and operating in the Australian mobile telecommunications industry and the provision of both voice and data services to customers in those markets.

Allgrove was acquired through the issue of 90,000,000 options, 50,000,000 incentive based options and 200,000,000 incentive based shares. Conversion or exercise of these incentive based securities is based on the achievement of pre-determined milestones.

Earnings Per Share	Six months to 31 December 2003	Six months to 31 December 2002
Basic Loss Per Share (cents per share)	(1.5)	(2.1)
Diluted Loss Per Share (cents per share)	(1.5)	(2.1)

The weighted average number of ordinary shares used in the calculation of earnings per share was 85,046,916 (previous year 2002: 29,761,185)

Net Tangible Asset Backing Per Share	Six months to 31 December 2003	Six months to 31 December 2002
Net Tangible Assets Backing Per Share (cents per share)	2.2	1.7

Compliance Statement

The accounts (attached) are not subject to audit dispute or qualification. This report is based on accounts that have been subject to an audit review.

Any queries please contact David Riekie on (08) 9322 7600



David Riekie
Chairman
Date :27 February 2004

NATURAL INTELLIGENCE LIMITED

ABN: 30 000 386 685

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2003

Provided in accordance with Section 320 of The Corporations Act.

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

		Consolidated	
		31 December 2003	31 December 2002
	Note	\$	\$
Revenue from rendering of services		683,094	1,239,478
Other revenue from ordinary activities		52,726	26,172
Total revenue		735,820	1,265,650
Cost of services rendered		(570,694)	(301,729)
Administration expenses		(678,316)	(1,461,837)
Borrowing costs expense		(3,873)	-
Other expenses from ordinary activities	2	(782,165)	(112,828)
Loss from ordinary activities before income tax expense		(1,299,228)	(610,744)
Income tax expense		-	-
Net loss attributable to members of Natural Intelligence Limited		(1,299,228)	(610,744)
Share issue expenses recognised directly in equity		(61,691)	-
Total changes in equity other than those resulting from transactions with owners as owners.		(1,360,919)	(610,744)
Basic loss per share (cents per share)		(1.5)	(2.1)
Diluted loss per share (cents per share)		(1.5)	(2.1)

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 9 to 11.

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

		Consolidated	
	Note	31 December 2003 \$	30 June 2003 \$
Current Assets			
Cash assets		3,265,993	107,003
Receivables		209,834	382,044
Other		41,652	-
Total Current Assets		3,517,479	489,047
Non-Current Assets			
Receivables		-	25,118
Intangible Assets		3,839,652	1,567,910
Plant and equipment		267,096	319,386
Total Non-Current Assets		4,106,748	1,912,414
TOTAL ASSETS		7,624,227	2,401,461
Current Liabilities			
Payables		234,849	450,717
Interest-bearing liabilities		225,584	309,623
Provisions		45,349	83,044
Total Current Liabilities		505,782	843,384
Non-Current Liabilities			
Interest-bearing liabilities		-	25,830
Provisions		23,077	23,077
Total Non-Current Liabilities		23,077	48,907
TOTAL LIABILITIES		528,859	892,291
NET ASSETS		7,095,368	1,509,170
Equity			
Contributed equity	3	47,356,769	43,198,343
Reserve	7	2,727,000	-
Accumulated losses	4	(42,988,401)	(41,689,173)
Total Equity		7,095,368	1,509,170

This statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 9 to 11.

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

	Note	Consolidated	
		31 December 2003	31 December 2002
		\$	\$
Cash flows from operating activities			
Receipts from customers		823,901	953,555
Cash payments in the course of operations		(1,365,989)	(1,421,481)
Interest received		18,235	6,132
Borrowing costs paid		(3,873)	-
Other		-	(2,774)
Net cash outflow from operating activities		<u>(527,726)</u>	<u>(464,568)</u>
Cash flows from investing activities			
Payments for acquisition of controlled entity	7	(166,806)	-
Payments for property, plant and equipment		-	(101,789)
Proceeds on disposal of non-current assets		4,966	397
Other		-	(194,235)
Net cash used in investing activities		<u>(161,840)</u>	<u>(295,627)</u>
Cash flows from financing activities			
Proceeds from issues of shares		4,020,116	-
Transaction costs from issue of shares		(61,692)	-
Proceeds from borrowings		-	120,000
Repayment of borrowings		(279,119)	-
Finance lease payments		(11,835)	-
Other		-	(30,085)
Net cash used in/provided by financing activities		<u>3,667,470</u>	<u>89,915</u>
Net increase / (decrease) in cash held		2,977,904	(670,280)
Cash at beginning of the financial period		101,698	843,529
Cash at the end of the financial period		<u>3,079,602</u>	<u>173,249</u>

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 9 to 11.

**NATURAL INTELLIGENCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS**

1 Statement Of Significant Accounting Policies

(a) Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard 1029 "Interim Financial Reporting", other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group Consensus Views. This half-year financial report is to be read in conjunction with the 30 June 2003 Annual Financial Report and any public announcements by the company and its controlled entities during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The half-year report has been prepared in accordance with the historical cost convention.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those applied in the 30 June 2003 Annual Financial Report.

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

Consolidated	
31 December 2003	31 December 2002
\$	\$

2 Individually significant items

Individually significant items included in loss from ordinary activities before income tax expense:

Write off of goodwill associated with Natural Resource Intelligence Pty Ltd

(782,165)	-
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Consolidated	
31 December 2003	30 June 2003
\$	\$

3 Contributed Equity

Issued and paid-up capital

151,028,534 (June 2003 : 30,691,348) ordinary shares, fully paid	47,156,769	43,198,343
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200,000,000 incentive based shares (June 2003: nil)	200,000	-
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NATURAL INTELLIGENCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Consolidated
31 December **30 June**
2003 **2003**
\$ **\$**

4 Accumulated Losses

Accumulated losses at the beginning of the period	41,689,173	40,451,204
Net loss attributable to members of the parent entity	1,299,228	1,237,969
	42,988,401	41,689,173

5. Segment Information

The Consolidated Entity operates predominantly in two business segments, being the provision of internet based technologies and the provision of environmental technologies, predominantly in one geographical segment, being Australia.

(a) Industry Segments	Internet Based Technology	Environmental Technology	Other	Consolidated
	2003	2003	2003	2003
	\$	\$	\$	\$
Segment Revenue	527,049	156,045	-	683,094
Unallocated Revenue	34,491	-	18,235	52,726
Total segment revenue	561,540	156,045	18,235	735,820
Segment result	18,137	(207,924)	(1,109,441)	(1,299,228)
Loss from ordinary activities before related income tax expense	18,137	(207,924)	(1,109,441)	(1,299,228)
	2002	2002	2002	2002
	\$	\$	\$	\$
Segment Revenue	1,239,478	-	-	1,239,478
Unallocated Revenue	4,658	-	21,514	26,172
Total segment revenue	1,244,136	-	21,514	1,265,650
Segment result	(470,821)	-	(139,923)	(610,744)
Loss from ordinary activities before related income tax expense	(470,821)	-	(139,923)	(610,744)

5. Contingent Liabilities

There has been no change in contingent liabilities since the last annual report date.

6. Subsequent Events

There have been no events subsequent to the reporting date that would have an effect on the financial report.

**NATURAL INTELLIGENCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS**

7. Controlled Entities

During the period the Consolidated Entity gained control over the following entity:

**Acquisition
2003**

Name	Date Acquired	Consolidated Entity Interest	Consideration (including non-cash And cash items)	Contribution to net result
Allgrove Holdings Pty Ltd	23/12/03	100%	\$3,098,906*	-

* Consideration includes \$171,906 of capitalised costs in relation to the acquisition (cash item), 200,000,000 incentive based shares valued at \$200,000 (non-cash item) and 90,000,000 options independently valued at \$2,727,000 (non-cash item). In addition, 50,000,000 incentive based options were issued but no value has been attributed to them. The incentive based securities are all subject to the achievement of pre-determined milestones.

8. Tax Consolidation

At the date of signing the financial report, the Group has not yet formally elected to form a tax consolidated group under the Tax Consolidation Regime ("TCR"), and thus the half-year financial report does not include any impact of entry into the TCR. Any decision to enter the TCR will not have a significant impact on the half-year financial report.

**NATURAL INTELLIGENCE LIMITED
DIRECTORS' REPORT**

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2003 and the audit review report thereon.

Directors

The directors of the company during or since the end of the half-year are:

David Riekie	Director	Director since 7 August 2003
David Paganin	Director	Director since 24 December 2003
David Kiggins	Director	Director since 24 December 2003
Ian Macliver	Director	Resigned 24 December 2003
Roger Steinepreis	Director	Resigned 24 December 2003

Review of Operations

The review of operations is set out on page 1 of the Company's Half Yearly Report given in accordance with ASX Listing Rule 4.2A.

Signed in accordance with a resolution of the directors:



David Riekie
Chairman

Perth WA,
Dated this 27th day of February 2004

**NATURAL INTELLIGENCE LIMITED
DIRECTORS' DECLARATION**

In the opinion of the Directors of Natural Intelligence Limited:

1. the financial statements and notes set out on pages 8 to 11 are in accordance with the Corporations Act 2001, including :
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 27th day of February 2004

Signed in accordance with a resolution of the Directors:



David Riekie
Chairman

Independent review report to members of Natural Intelligence Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Natural Intelligence Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2003.

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 1029 "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 Australian Stock Exchange 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 1029 "Interim Financial Reporting" and other mandatory financial 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.

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.

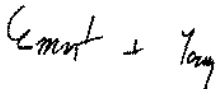
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

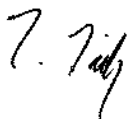
Statement

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 of the consolidated entity, comprising Natural Intelligence Limited and the entities it controlled during the half year 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 2003 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



V W Tidy
Partner
Perth

Date: 27 February 2004

CORPORATE DIRECTORY

DIRECTORS

David Riekie
David Paganin
David Kiggins

COMPANY SECRETARY

Nicki Telfer

REGISTERED OFFICE

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