



3 July, 2006

Mr Scott Evans  
General Manager  
Stock Exchange of Newcastle Limited  
Ground Floor  
384 Hunter Street  
NEWCASTLE NSW 2300

Dear Sir,

**Betta Stores Limited (BSL – NSX Code: BSZ)**

BSL is providing a further update on the completion of its Half Year Financial Report for the six months to 31 December 2005.

As explained in the company's previous announcements a number of issues have caused BSL to delay the release of its audit reviewed Half Year Financial Report.

BSL has performed an integrity review of its accounting systems, which has highlighted a number of issues, particularly in relation to inconsistent data. It has now been determined that this inconsistency is also evident in previous financial years.

It has taken considerable time and extra resources, including the assistance of IBM and Professional Advantage, to reconcile data underlying the accounts from previous years to assist in finalising the Half Year Financial Report.

A number of inconsistencies in data have been identified relating to the corporate retail stores. These inconsistencies revealed system errors in the financial accounting system within the entities operating the corporate stores. These system errors have produced accounting errors and we have now been able to determine that the errors also relate to prior periods.

Under Australian Accounting Standards, accounting errors that are discovered in a subsequent financial period that relate to previous financial periods need to be corrected in the comparative information presented in the report for that subsequent period, being for the six months to 31 December 2005.

The current data and systems do not allow BSL to simply, quantify the amount that relates to the current period or that to prior periods. Without doing so, the financial report for the period ended 31 December 2005 would be inaccurate and not represent a true and fair view, as the directors are unable to confirm the opening balances for the six months to 31 December 2005.

With the work that has been done to date, we are able to provide a draft closing balance sheet as at 31 December 2005. This balance sheet is attached at Appendix A. This balance sheet is unaudited and is subject to any final adjustments that may result from the review by the auditors. It includes substantial adjustments as a result of IFRS.

Therefore, further work needs to be undertaken to be able to quantify the errors that relate to prior periods. Again, the amount of work that has been undertaken to date as well as the amount of work to that needs to be undertaken was and is beyond any expectations of the company.

It is unknown at this stage what time it will take to quantify the errors. However should the deficiencies in the accounting system that caused the errors in the first place not allow the company to quantify the errors in a reasonable timeframe or at a reasonable cost, the directors may consider applying to ASIC for relief under the Corporations Act.

The balance sheet shows total equity attributable to equity holders of the parent entity of \$4.8 million. It takes into account adjustments made as a result of errors detected, adjustments resulting from the implementation of IFRS including the write-off of all goodwill. Further, the attached balance sheet includes adjustments reflecting provisions for the losses incurred on the recent sale of the three company owned stores in Melbourne and two company owned stores in Brisbane.

We will continue to provide regular updates on our progress in quantifying the effect of prior year errors as and when they become available.

Yours sincerely



Scott McLennan  
Chief Financial Officer  
BSL

## APPENDIX A

### Betta Stores Limited and its controlled entities Condensed consolidated interim balance sheet

As at 31 December 2005

#### Current Assets

Cash and cash equivalents  
Trade and other receivables  
Inventories  
Other investments  
Income tax receivable

Total current assets

#### Non-current assets

Receivables  
Deferred tax assets  
Property, plant and equipment  
Intangible assets

Total non-current assets

Total assets

#### Current Liabilities

Trade and other payables  
Interest-bearing loans and borrowings  
Provisions

Total current liabilities

#### Non-current Liabilities

Interest-bearing loans and borrowings  
Provisions

Total non-current liabilities

Total liabilities

Net assets

#### Equity

Issued capital  
Reserves  
Retained earnings

Total equity attributable to equity holders of the parent

Minority interest

Total equity

\$'000

7,489  
52,523  
19,263  
197  
2,485

81,957

1,588  
2,331  
11,590  
-

15,509

97,466

45,332  
28,819  
1,356

75,507

17,192  
-

17,192

92,699

4,767

340  
1,469  
4,642

6,451

(1,684)

4,767