



NSX Announcement

1 September, 2006

BETTA STORES LIMITED HALF YEAR FINANCIAL REPORT

Retailer Betta Stores Limited (BSL – NSX Code: BSZ) has today released its financial results for the half-year to 31 December, 2005.

As explained in the company's previous announcements to the NSX a number of issues have caused BSL to delay the release of its audited half year financial report.

These issues included inconsistencies in accounting data relating to the corporate retail stores that relate back to previous financial reporting periods. Australian Accounting Standards require any accounting errors that relate to previous accounting periods to be corrected in the comparative information or, should it be impracticable to quantify which prior periods the errors relate to, restate the opening balances of assets, liabilities and equity presented in the report.

The financial results announced today detail the prior period accounting errors by restating the opening balances that have been affected.

As indicated in the company's 18 August, 2006 announcement, the company has used estimates to calculate the prior period accounting errors. To proceed to quantify rather than estimate the prior period accounting errors would place an excessive and unreasonable burden on the company.

The results for the half year to 31 December, 2005 are as follows:

- Total revenues of \$192.8 million, up from \$97.4 million in the previous corresponding period.
- Net loss after tax and outside equity interests of -\$4.95 million down from a profit of \$0.8 million in the previous corresponding period.

The core business of the company's consolidated group, the franchise operations, made \$1.3 million before interest and tax.

However, the group's performance includes losses incurred in the corporate retail business unit as well as the central accounting business unit. As previously announced to the market, the company has resolved, and has commenced, to reduce its investment in both the corporate retail business unit and the central accounting business unit. Consequently,

a number of retail stores have been sold and the number of suppliers centrally accounted within the company's consolidated reporting entities has dramatically reduced.

For the six months to 31 December 2005, the central accounting business unit lost \$0.1 million before interest and tax. The corporate retail business unit lost \$5.6 million before interest and tax. This includes a provision for the losses incurred on selling the corporate stores, although the corporate stores were sold after the end of the reported financial period. These equate to \$1.2 million before tax.

The result is also impacted by impairment of goodwill and the write off of a deferred tax asset relating to carried forward tax losses in the corporate store entities. It is no longer considered probable that a taxable profit will be available in the future to offset these losses, on the basis that some of the stores have been sold or are for sale. These adjustments equate to \$0.49 million.

The substantial work undertaken as part of the integrity review identified accounting errors that affected prior year periods, as discussed above. Our ability to quantify the financial result for the six months to 31 December 2005 was dependent upon our ability to separate the prior year errors from the current period data. As this was not possible until the completion of the integrity review last night, the company has not been in a position to quantify the final losses for the six months to 31 December 2005 until now.

The total value of prior year errors that have been adjusted against opening retained earnings is \$1.03 million after tax. While it is impracticable to definitively attribute the errors to specific prior periods, it is evident that some of the errors relate to the previous corresponding period and would impact the previously reported results.

The results incorporate the effects to changes in accounting policy as required by the introduction of Australian Equivalents to International Financial Reporting Standards.

BSL Chairman Patrick Tynan said the results reflected the need for ongoing structural changes at the company to improve its future performance and ongoing risk management review to reduce the likelihood of similar issues arising in the future.

In relation to the systems and accounting errors, Mr Tynan reported that there was no evidence of fraud, however the company is investigating whether it has any rights of recourse against advisers and service providers.

He noted the results were adversely affected by two major issues within the company's structure, which are being addressed by the Board and management of BSL including

- BSL's operation of company-owned stores, which performed below expectations and;
- BSL's operation of a central accounting function, which increased revenues but had a negative effect on profitability.

"The process of rectifying these issues by the Board and management of BSL is part of an ongoing restructuring program to once again refocus BSL on its core business of franchising. The process is almost complete" Mr Tynan said.

“Franchising is what we do best and has been our core business for 45 years. We are good at it, we have proven systems and brands and we are refocusing the entire business on it in line with our future vision and growth strategies for the company.”

BSL Chief Executive Officer Guy Houghton stated “The company is committed to renewing its focus on its core business of franchising as the key component of its platform for future growth and profitability”.

“Our ultimate goal is to be a highly focused franchisor with superior systems and brands that give us a competitive advantage in the marketplace.”

“We are committed to that ultimate goal and appreciate that to achieve the company’s objectives there may be some adjustments, including the loss of some retailers, in implementing the rigour required to support the ultimate goal”

Lodgment of full year and cash flow information

The company confirms that by adopting the same approach for the full year financial report, it will meet its reporting obligations with the lodgement of its preliminary unaudited full year financial report for the 12 months to 30 June 2006 by 13 September 2006 with the audited full year financial report to be lodged by 30 September 2006.

It is expected that the company’s auditor, KPMG, will provide a qualified opinion on the opening balance sheet, the profit and loss statement and the statement of cash flows for both the half year and full year reports.

In addition, the company notes that the Compliance Committee of the NSX has requested that the company provide quarterly cash flow information for the period ending 30 June, 2006. Having completed its half year results the company is now working to provide cash flow information for the 6 months to 30 June, 2006 by no later than 4 September, 2006.

Trading Halt

The company is not in a position to give an indicative date for the lifting of the trading halt on the company’s securities. It is expected the trading halt will be reviewed by the NSX Compliance Committee now that the half year results have been received.

All enquiries to:

Guy Houghton
Chief Executive Officer
BSL

Tel: (07) 3222 3999

Email: guy.houghton@bsl.com.au

Scott McLennan
Chief Financial Officer
BSL

Tel: (07) 3222 3999

Email: scott.mclennan@bsl.com.au