BETTA STORES LIMITED (BSZ)

Supplementary Sheet - Preliminary Full Year 06

Review of operations

The financial year ended 30 June 2006 saw a lot of change for Betta Stores Limited and its controlled entities as a result of the Boards strategic decision to focus on its core business of franchising and to, over a period of time, either sell or franchise a number of its corporate stores and reduce its working capital investment in central accounting. As a consequence, the consolidated entity has sold a number of its non core assets including its investment in an interest-free debtor book, a number of corporate retail stores and reduced its investment in its central accounting business unit.

Total revenue was $356.99 million for the twelve months to 30 June 2006 an increase of 43.8% compared to the corresponding period of last year. Profit after tax and outside equity interests (Profit) however decreased to a loss of $6.03 million. This was made up a loss of $4.95 million in the first 6 months and a loss of $1.08 million in the second six months. Earnings before interest and tax and outside equity interests (EBIT) was a loss of $8.37 million. However the corresponding years Profit and EBIT need to be considered in light of prior period errors discussed further below.

These losses also include the one off losses incurred as a result of both the selling and closing down of loss making businesses as a result of the implementation of the strategy (discussed further below)

Consistent with the first half result both the Central Accounting operations and the Retail operations of the business performed poorly with a combined EBIT loss of $10.38 million (first half - $5.74 million loss). The franchise business unit operations performed strongly contributing $6.45 million (first half - $1.29 million profit).

The working capital investment of the consolidated entity decreased from $36.9 million at 30 June 2005 to $26.5 million at 31 December 2005 and $4.6 million at 30 June, 2006 (before correcting any prior period errors).

The comparative figures presented below exclude the effect of International Accounting Standards.

<u>Restructure</u>

In the release to the market of the company's half year results on 1 September 2006, the Board outlined its restructuring initiatives to address the losses it is sustaining in both the central accounting operations and the retail operations, that is, the Board has resolved to reduce the investment in these assets by either sale or reduction in the turnover of the assets. Proceeds from the sale of these non-core assets and the reduction in the investment in central accounting has been, and will be, used to retire borrowings.

Franchise Operations

During the year, Betta Electrical Pty Ltd operated the Betta Electrical, Betta Electrical Superstore and Chandlers franchises. On 30 September 2005, the consolidated entity sold its 50% interest in Sleepy's Pty Ltd.

The performance from the core business of the consolidated entity was pleasing given the competitive environment and poor retail conditions that existed during the year. Total revenue decreased by 0.7% to $69.93 million, however profit before interest and income tax increased by 68.5% over the comparable period to $6.45 million.

The coming year will see the business refocus its resources on enhancing the franchise operations.

Central Accounting Operations

BSL Finance Pty Ltd operates the central accounting operations of the consolidated entity. This involves financing inventory purchases for franchisees and the consolidated entity's own retail operations for a number of suppliers under a single account.

The central accounting operations increased revenue by 125.3% to $240.52 million compared to $106.74 million for the corresponding period. This reflected the increase in the number of suppliers who traded through the central accounting operations. The segment result was a loss of $0.05 million compared to a loss of $0.65 million for the corresponding period to 30 June 2005.

As a result of the restructure, from the beginning of April 2006, BSL Finance Pty Ltd started to conclude central accounting services for some of the consolidated entity suppliers. From 1 July 2006, BSL Finance Pty Ltd has only provided central accounting services where the margin supports the cost of operation and the terms are sufficient for working capital purposes. This central accounting operation has not been successful for the consolidated entity, its franchisees or the suppliers for a number of reasons.

Firstly, the consolidated entity was not generating sufficient margin to offset the costs of the operations. Secondly, credit limits provided by suppliers were, in most cases, not large enough to trade in normal industry terms. Finally, a small but material number of franchisees failed to pay within terms.

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Retail Operations

The retail operations consist of the retail stores owned and operated by the consolidated entity. Betta Stores (Southern) Pty Ltd, previously Buy Rite Stores Pty Ltd, operated five stores in Victoria and one store in the Northern Territory. Truscott Electronics Pty Ltd operated eight stores in South Australia. Betta Stores (Northern) Pty Ltd, previously Buy Rite Stores (Northern) Pty Ltd, operated four stores in Queensland.

The retail operations continued to perform poorly during the period. A poor retail environment together with margin pressure from competitors saw the segment result drop to a loss of $10.33 million for the twelve months to 30 June 2006 from a loss of $2.60 million for the previous corresponding period.

The Board has resolved to reduce the consolidated entity's investment in its retail operations by either franchising or selling a number of its stores.

On 6 February 2006, the consolidated entity announced that it was going to seek buyers or franchisees for its company-owned stores.

On 10 February 2006, the consolidated entity increased its shareholding in Betta Stores (Northern) Pty Ltd by acquiring a further 32.66% from 2 of the joint venture partners, taking its interest to 83.66%. Under the terms of the agreement, Betta Stores (Southern) Pty Ltd purchased 16.33% of the issued capital held by Blonhan Pty Ltd as trustee for the Hanlon Family Trust for $1 and 16.33% of the issued capital held by Tiroa Pty Ltd as trustee of Roati Family Trust for $1. The purchase price took into consideration the release and discharge of the joint venture parties from any obligation to repay loans to Betta Stores (Northern) Pty Ltd or contribute to the capital of the company as required by the Shareholders Agreement. The agreement also provided for Blonhan Pty Ltd and Tiroa Pty Ltd and their associates to cease their involvement in Betta Stores (Northern) Pty Ltd in exchange for mutual indemnification between the joint venture parties for any actions taken while the relevant joint venture party was a shareholder.

Subsequently, Betta Stores (Northern) Pty Ltd has sold three stores in Brisbane including the superstores at Aspley and Morayfield and the Chandlers store at Kippa-ring. Betta Stores (Southern) Pty Ltd has sold three company-owned stores in Melbourne including two in Richmond and one in Greensborough and closed down its store at Greythorn. Negotiations are continuing for the sale of a number of other stores.

A loss of $1.82 million has been recognised in the accounts to reflect the loss on sale of the stores.

On 20 April 2006 the consolidated entity disposed of its investment in an interest-free debtor book to GE Capital Finance Pty Ltd (GECF) for $8.5 million. The funds were used to retire debt. BSL has treated a sum of $1.0 million of the $8.5 million paid by GECF under agreement dated 5 April 2006 as income received by it for the year ended 30 June 2006. BSL considers the amount to be a one-off revenue receipt for the year ended 30 June 2006.

On 31 July 2006 Betta Stores (Southern) Pty Ltd agreed to a surrender of a lease it held of approximately 3,000 m2 in Campbelltown in exchange for the grant of a new lease of approximately 1,100 m2 by the same landlord. The new lease is for a period of 10 years with Betta Stores (Southern) Pty Ltd being under no obligation to trade from the premises and having a right to sublet the premises with the landlord's approval. The rent payable under the lease is considered to be above the current market rate, with annual CPI increases and an increase of $22,294 plus CPI at the commencement of year 6. The remaining terms and conditions of the lease are standard lease terms. Given the amount of the rental payments, Australian Accounting Standards treats the lease as an onerous contract as the unavoidable costs of meeting the obligations under the contract exceed the expected benefits to be derived. Under the Standards the present value of the obligation needs to be recognised as a provision. A net cost $0.66 million has been recognised as a provision in the accounts.

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Working Capital

As a result of the restructure, our investment in working capital further decreased to $4.6 million as at 30 June 2006 from $26.5 million as at 31 December 2005.

The investment in working capital has been funded predominantly through borrowings. Total borrowings decreased by $18.2 million from $47.5 million at 30 June 2005 and $46.0 million at 31 December 2005 to $29.3 million at 30 June 2006. This level of borrowings was also considered above the level the consolidated entity would ordinarily borrow to maintain its ordinary trading operations.

Going Concern

This full year report has been prepared on the basis that the consolidated entity is a going concern and will remain in existence for the foreseeable future.

For the period ended 30 June 2006, the consolidated entity incurred a loss after tax and outside equity interests of $4.95 million, had working capital invested of $26.5 million and had net assets of $4.8 million. It also experienced a net cash decrease of $1.6 million.

Management has undertaken to significantly reduce the consolidated entity's working capital investment, borrowings and costs through a series of actions that include, but are not limited to, reducing operational costs and selling non-core assets.

Although there is no assurance that the consolidated entity will be successful in these actions, the Board is confident that it will be able to secure the necessary improvement in operating cash flow to enable it to continue as a going concern. Accordingly, this report does not reflect adjustments to the carrying value of assets and liabilities, the reported revenue and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Having reviewed the consolidated entity's assets and borrowing facilities, the operating performance through to 31 July 2006, the results of successful asset sales, the reduction in borrowings through to 31 July 2006 and the cash flow forecasts contained in the budget for financial year ended 30 June 2007, the directors believe that the consolidated entity has adequate resources to continue as a going concern for the foreseeable future.

Prior Year Errors

A number of issues had caused the delay in the release of the consolidated entity's half yearly report, in particular the identification of inconsistencies in accounting data that relates back to previous financial reporting periods. These inconsistencies revealed system errors in the financial accounting system within Betta Stores (Southern) Pty Ltd, Betta Stores (Northern) Pty Ltd and Truscott Electronics Pty Ltd. These system errors have produced accounting errors that relate to prior periods.

Under Australian Accounting Standards, accounting errors that are discovered in a subsequent financial period that relate to previous financial periods should be corrected in the comparative information presented in the report for that subsequent period, being for the twelve months to 30 June 2005. When it is impracticable to determine the period-specific effects of the errors in prior financial periods the cumulative effect of the prior period errors should be reflected by restating the opening balances of assets, liabilities and equity for the earliest period for which restatement is practicable which may be the current period. Consequently, this report details the prior period accounting errors by restating the opening balances for the current period of assets, liabilities and equity that have been affected.

Due to the inconsistencies in accounting data that caused the errors, reasonable estimates have been used to determine the value of the prior period errors. The financial statements are in the process of being audited. It is possible that on the audit of the financial statements, some changes may occur to the accounting treatment given to some entries made. No assurances can be given that these financial statements will resemble the audited financial statements.