**BETTA STORES LTD ABN 44 009 710 605**
**AND CONTROLLED ENTITIES**

# DIRECTOR'S REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30th June 2004.

## Directors

The names of the Directors in office at any time during or since the end of the year are:-

Patrick John TYNAN
Everard Desmond JOHNSON
Neville John SUTHERLAND
Reginald Leslie CAIN
Graham John CURRINGTON
Dominic Charles MCCLELLAND (appointed 24 November 2003)

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

## Operating Results

The consolidated profit of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to $2,899,628 (2003 $2,952,596).

## Review of the Operations and Results

Franchisor Operations:

The franchisor operations increased gross revenues by 15% over 2003 to $65.6m driven by a 5% increase in rebate revenue derived from Group Purchases over the previous comparable period.

Central Accounting:

Central accounting returned a net operating profit after tax of $223,027 (loss of $115,197 in 2003) for financial year 2004 after increasing gross revenues by 118% over the previous period to $58.2m. The significant growth in central accounting reflects the growth in the technology areas of the electrical retail business and the expansion of the central accounting facility into the retail bedding category.

Retailing Operations:

Buy Rite Stores Pty Ltd, a wholly owned subsidiary of the economic entity, acquired the electrical appliance retailing business of Buy-Rite Discounts Pty Ltd on 5 August 2003. Further, Buy Rite Stores Pty Ltd acquired the electrical appliance retailing business of Cybelectrics Pty Ltd on 30 September 2003. The retail operations generated gross revenues of $44.6m for the economic entity and incurred a loss of ($293,650) over the first 11 months of trade under the control of the economic entity.

Principal Activities

The principal activities of the economic entity during the financial year were

- Franchisor, conducted by Betta Stores Ltd and Sleepy's Pty Ltd
- Central Accounting, conducted by BSL Finance Pty Ltd
- Retailing of consumer electronics conducted by Buy Rite Stores Pty Ltd following the acquisition of the electrical appliance retailing business of Buy-Rite Discounts Pty Ltd on 5 August 2003.

There were no other significant changes in the nature of the economic entity's principal activities during the year.

Issue of Shares and Debentures

During the financial year the parent entity issued 3,900 (0 in 2003) A Class Shares and 27,300 (0 in 2003) B Class Shares. The parent entity cancelled 800 (400 in 2003) A Class Shares and 5,600 (2,800 in 2003) B Class Shares of 16 Shareholders who had left the group.

The company did not issue any debentures.

Dividends

No dividends have been paid, or are recommended to be paid during the year. As detailed in Note 28, subsequent to reporting date a fully franked ordinary dividend of 2.2 cents per share franked at a tax rate of 30% was proposed and paid after balance date.

After Balance Date Events

On 11 June 2004, BSL shareholders approved a Restructure Proposal which included the following elements:

- The granting of additional 'veto' voting rights and the removal of the right to dividends for 'A' Class Shares and renaming 'A' Class Shares as Retailer Shares;
- The conversion of all 'B' Class Shares currently on issue to Ordinary Shares (on a 4:1 basis) with voting and dividend rights;
- Unstapling the linkage between 'A' Class Shares (new Retailer Shares) and 'B' Class Shares (new Ordinary Shares) so that Shareholders do not need to hold more than one class of share;

- The issue of Retailer Shares to all Current Retailers and future Retailers and buyback or redemption of Retailer Shares when a Retailer ceases to have a Licence Agreement or Services Agreement with the BSL Group;
- The issue of Ordinary Shares to all Current Retailers as at 13 July 2004; and
- Adoption of a revised Constitution

As a result of that shareholder approval, the following changes were made to Contributed Equity on 13 July 2004:

- 10,300 issued 'A' Class Shares at 13 July 2004 were renamed as Retailer Shares
- 72,100 issued 'B' Class shares at 13 July 2004 were converted to 288,400 Ordinary Shares
- An additional 46.53 million Ordinary Shares were issued for no consideration.

In addition to the above capital restructure, the shareholders of BSL voted on 11 June 2004 in favour of listing on the Newcastle Stock Exchange (NSX). On 23 August 2004, the parent entity listed 46,818,400 Ordinary Shares on the NSX.

The financial effect of these transactions has not been brought to account in the 2004 financial report.

Except for the above items, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years.

Future Developments

Commencing 1 July 2004, BSL's wholly owned subsidiary, Betta Electrical Pty Ltd (BE) will conduct all franchisee operations for the Betta Electrical and Chandlers brands and services for the Associate Retailer's (non group branded) service level agreement. These principal activities were previously associated with BSL.

Any other likely developments in the operations of the economic entity and the expected results of those operations have not been included in this report as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the economic entity.

## Directors' Particulars

| Qualifications \ Experience | Meetings Attended: Board | Meetings Attended: F&A Committee | Shares Held: (A Class Voting) | Shares Held: (B Class Non-Voting) |
|---|---|---|---|---|
| P J TYNAN (B.Com Marketing)<br>Chairman (Non-executive)<br>26 Years Electrical Wholesale & Retailing | 9 | 5 | 50 | 350 |
| E D JOHNSON<br>Deputy Chairman (Non-executive)<br>33 Years Electrical Retailing & Service | 9 | - | 50 | 350 |
| N J SUTHERLAND<br>27 Years TV Repairs<br>25 Years Electrical Retailing | 9 | 5 | 50 | 350 |
| R L CAIN<br>40 Years Electrical Retailing & Service | 9 | - | 50 | 350 |
| G J CURRINGTON<br>27 Years Electrical Retailing & Service | 9 | - | 50 | 350 |
| D C MCCLELLAND<br>23 Years Electrical Retailing<br>(appointed 24 November 2003) | 6 | - | 50 | 350 |

There were nine Board Meetings held throughout the year and in addition to these meetings a Finance & Audit (F&A) committee of the Board has conducted five meetings during the year.

Directors and Auditors indemnification

During the financial year the economic entity has paid premiums to insure all of the directors and officers of the economic entity against liabilities for costs and expenses incurred by them or by the economic entity in defending any legal proceedings arising out of their conduct while acting as directors and officers of the economic entity, other than for conduct involving a wilful breach of duty in relation to the economic entity.

Other than the insurance premium detailed above the economic entity has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the economic entity or a related body corporate, indemnified or made any relevant agreement for indemnifying them against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Signed in accordance with a resolution of the Board of Directors.

..........................................................Director

..........................................................Director

**BRISBANE QLD**
**20 September, 2004**

## STATEMENT OF FINANCIAL PERFORMANCE
## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| Revenue from sale of goods | 2 | 100,191,003 | 31,670,481 | 51,221,438 | 30,291,860 |
| Revenue from rendering services | 2 | 64,067,687 | 56,149,584 | 61,448,434 | 55,933,601 |
| Other revenues from ordinary activities | 2 | 1,663,114 | 684,633 | 1,307,415 | 643,266 |
| Total revenue from ordinary activities | | 165,921,804 | 88,504,698 | 113,977,287 | 86,868,727 |
| Cost of sales | 3 | (92,404,900) | (31,578,820) | (51,072,701) | (30,189,828) |
| Administrative expenses | | (5,195,928) | (2,140,440) | (3,352,356) | (2,014,715) |
| Marketing & Promotional expenses | | (37,334,200) | (34,855,530) | (37,187,071) | (34,728,808) |
| Employment expenses | | (12,957,132) | (6,330,446) | (7,708,849) | (6,277,258) |
| Computer Development & Support expenses | | (2,633,139) | (2,445,634) | (2,544,411) | (2,443,785) |
| Occupancy expenses | | (3,242,157) | (986,910) | (797,068) | (948,508) |
| Retail Support expenses | | (7,731,317) | (5,866,823) | (6,451,993) | (5,852,998) |
| Borrowing costs expense | 3 | (231,534) | (147,765) | (225,940) | (147,197) |
| Total expenses from ordinary activities | | (161,730,307) | (84,352,368) | (109,340,389) | (82,603,097) |
| Profit from ordinary activities before income tax expense | | 4,191,497 | 4,152,330 | 4,636,898 | 4,265,630 |
| Income tax expense relating to ordinary activities | 4 | (1,284,587) | (1,239,421) | (1,417,401) | (1,273,348) |
| Profit from ordinary activities after related income tax expense | | 2,906,910 | 2,912,909 | 3,219,497 | 2,992,282 |
| Net Profit/loss attributable to outside equity interests | | (7,282) | 39,687 | - | - |
| Net profit attributable to members of the parent entity | | 2,899,628 | 2,952,596 | 3,219,497 | 2,992,282 |
| Increase in asset revaluation reserve | 19 | 871,328 | - | 871,328 | - |
| Total changes in equity other than those resulting from transactions with owners as owners. | | 3,770,956 | 2,952,596 | 4,090,825 | 2,992,282 |

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2004

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash assets | 29(b) | 331,791 | 3,712,898 | 66,812 | 3,685,219 |
| Receivables | 6 | 16,786,535 | 12,418,908 | 22,681,614 | 12,326,014 |
| Inventories | 9 | 9,722,838 | 160,538 | 165,629 | 160,538 |
| Current Tax Assets | 12 | 157,422 | - | 66,891 | - |
| Other financial assets | 7 | 339,944 | 441,713 | 339,944 | 441,713 |
| Other | 10 | 563,795 | 1,325,671 | 404,045 | 1,311,359 |
| **Total Current Assets** | | 27,902,325 | 18,059,728 | 23,724,935 | 17,924,843 |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment and vehicles | 11 | 7,835,201 | 5,420,734 | 6,906,696 | 5,382,159 |
| Other financial assets | 7 | - | - | 12 | 12 |
| Deferred tax assets | 12 | 303,762 | 67,131 | 26,369 | 33,204 |
| Intangible assets | 13 | 1,162,500 | 292,500 | - | - |
| **Total Non-Current Assets** | | 9,301,463 | 5,780,365 | 6,933,077 | 5,415,375 |
| **TOTAL ASSETS** | | 37,203,788 | 23,840,093 | 30,658,012 | 23,340,218 |
| **Current Liabilities** | | | | | |
| Payables | 14 | 17,279,578 | 10,447,948 | 11,556,101 | 9,893,829 |
| Interest bearing liabilities | 15 | 1,858,020 | 515,794 | 1,517,620 | 507,071 |
| Current tax liabilities | 16 | - | 270,153 | - | 270,153 |
| Provisions | 17 | 1,054,365 | 380,736 | 452,815 | 377,758 |
| **Total Current Liabilities** | | 20,191,963 | 11,614,631 | 13,526,536 | 11,048,811 |
| **Non-Current Liabilities** | | | | | |
| Payables | 14 | - | 102,520 | - | 102,520 |
| Interest bearing liabilities | 15 | 2,822,407 | 1,986,577 | 2,740,047 | 1,973,150 |
| Provisions | 17 | 311,327 | 80,095 | 121,379 | 80,095 |
| **Total Non-Current Liabilities** | | 3,133,734 | 2,169,192 | 2,861,426 | 2,155,765 |
| **TOTAL LIABILITIES** | | 23,325,697 | 13,783,823 | 16,387,962 | 13,204,576 |
| **NET ASSETS** | | 13,878,091 | 10,056,270 | 14,270,050 | 10,135,642 |
| **Equity** | | | | | |
| Contributed equity | 18 | 160,383 | 116,800 | 160,383 | 116,800 |
| Reserves | 19 | 1,469,240 | 597,912 | 1,469,240 | 597,912 |
| Retained profits | 20 | 12,280,872 | 9,381,244 | 12,640,427 | 9,420,930 |
| Parent equity interest | | 13,910,495 | 10,095,956 | 14,270,050 | 10,135,642 |
| Outside equity interest | 21 | (32,404) | (39,686) | - | - |
| **TOTAL EQUITY** | | 13,878,091 | 10,056,270 | 14,270,050 | 10,135,642 |

The accompanying notes form part of the financial statements

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2004

| | Notes | Economic Entity | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2004 | 2003 | 2004 | 2003 |
| **Cash Flows from Operating Activities** | | | | | |
| Revenue from operations | | 173,861,412 | 91,990,165 | 120,378,812 | 90,447,088 |
| Payments to retailers, suppliers and employees | | (173,430,102) | (88,392,823) | (113,870,261) | (87,199,017) |
| Interest received | | 144,257 | 214,689 | 509,835 | 214,689 |
| Dividends received | | 19,413 | 18,512 | 19,413 | 18,512 |
| Borrowing costs | | (231,534) | (147,765) | (225,940) | (147,197) |
| Income tax paid | | (1,747,609) | (1,313,404) | (1,747,609) | (1,313,404) |
| Net cash provided by (used in) operating activities | 29(a) | (1,384,163) | 2,369,374 | 5,064,250 | 2,020,671 |
| **Cash Flows from Investing Activities** | | | | | |
| Proceeds from sale of property, plant and equipment and vehicles | | 208,879 | 21,000 | 164,582 | 21,000 |
| Proceeds from sale of investments | | 134,749 | - | 134,749 | - |
| Purchase of property, plant and equipment and vehicles | | (2,648,963) | (1,722,014) | (1,646,256) | (1,700,975) |
| Purchase of other non-current assets | | (1,000,000) | (300,000) | - | - |
| Payment for subsidiary, net of cash acquired | | - | (1) | - | (1) |
| Proceeds from repayments of loans to subsidiaries | | - | - | 2,332,643 | - |
| Advances of loans to subsidiaries | | - | - | (10,669,439) | - |
| Net cash provided by (used in) investing activities | | (3,305,335) | (2,001,015) | (9,683,721) | (1,679,976) |
| **Cash Flows from Financing Activities** | | | | | |
| Proceeds from borrowings | | 1,307,328 | - | 1,000,000 | - |
| Repayment of borrowings | | (42,520) | (1,112,577) | (42,519) | (1,112,579) |
| Proceeds from Share Issue | | 56,383 | 2 | 56,383 | - |
| Payment for Share Buy Back | | (12,800) | (6,400) | (12,800) | (6,400) |
| Net cash provided by (used in) financing activities | | 1,308,391 | (1,118,975) | 1,001,064 | (1,118,979) |
| Net increase (decrease) in cash held | | (3,381,107) | (750,616) | (3,618,407) | (778,284) |
| Cash at 1 July 2003 | | 3,712,898 | 4,463,514 | 3,685,219 | 4,463,503 |
| Cash at 30 June 2004 | 29(b) | 331,791 | 3,712,898 | 66,812 | 3,685,219 |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 1: Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Betta Stores Limited (BSL) and controlled entities, and BSL as an individual parent entity. As at balance date, BSL was an unlisted public company, incorporated and domiciled in Australia. The Director's Report notes that the parent entity became a listed public company by listing its Ordinary Shares on the Newcastle Stock Exchange on 23 August 2004.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Principles of Consolidation**

A controlled entity is any entity controlled by BSL. Control exists where BSL has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with BSL to achieve the objectives of BSL. A list of controlled entities is contained in Note 8 to the financial statements.

All inter-company balances and transactions between entities in the economic entity have been eliminated on consolidation.

Where entities have entered the economic entity during the year, their operating results have been included from the date control was obtained.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

**(b) Income Tax**

The economic entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of profit from ordinary activities before income tax and taxable income are brought to account as either provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

BSL and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. BSL is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the ATO that it had formed an income tax consolidated group to apply from 1 July 2003. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(c) Property, Plant and Equipment, Vehicles and Leasehold Improvements**
Each class of property, plant and equipment and vehicles is carried at cost or fair value less, where applicable, any accumulated depreciation.

*Property*
Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable parties in an arm's length transaction. It is the policy of the economic entity to have an independent valuation every three years. The revaluation of freehold land and buildings has not taken account of the potential capital gains tax on assets acquired after the introduction of capital gains tax.

*Plant, Equipment, Vehicles and Leasehold Improvements*
The carrying amount of plant, equipment, vehicles and leasehold improvements is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

*Depreciation*
Items of property, plant and equipment, vehicles and leasehold improvements, including buildings but excluding freehold land, are depreciated over their expected useful economic life. The diminishing value method is used for buildings, plant and equipment and vehicles owned by the economic entity. The straight line method is used for leased assets.

Assets are depreciated from the date of acquisition and where they have been revalued, depreciation is charged on the revalued amount.

The depreciation/amortisation rates used for each class of depreciable asset are:

| Class | Rate |
|---|---|
| Freehold Buildings | 1% - 4% |
| Plant, Equipment, Vehicles & Leasehold Improvements | 7.5% - 40% |
| Leased Assets | 25% - 33% |

*Disposal of Assets*
The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in profit from ordinary activities before income tax of the economic entity in the year of disposal. Any related balance in the asset revaluation reserve is transferred to retained profits on disposal.

**(d) Employee Benefits**
Provision is made for the company’s liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

**(e) Leases**
Leases of assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The capitalised leased assets are amortised over the leased term of the asset. The straight line method is used.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**(f) Inventories**
Inventories are measured at the lower of cost and net realisable value. Cost is based on the specific identification principle.

**(g) Retailers Unsecured Deposits**
Retailer's Unsecured Deposits are treated as non-current liabilities as they are only repayable on a retailer's resignation from the economic entity.

**(h) Revenue Recognition**
The economic entity has adopted the following revenue recognition principles:

i) Sale of or the right to collect a debt in relation to goods supplied and fixed assets - recognised upon the delivery of the goods to the customer
ii) Promotional revenue - includes funds provided by members and funds generated from manufacturer support. All promotional funds are recognised at a time when they are earned and can be reliably measured.
iii) Service revenue - includes member levies and fees for service. This revenue is recorded when earned and can be reliably measured.
iv) Interest revenue - recognised on a proportional basis taking into account the interest rates as applicable to the financial assets.
v) Dividend revenue - recognised when the dividend is received.

**(i) Comparative Figures**
When required by Accounting Standards or when accounts are changed for presentation purposes or disclosed differently to the prior period, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

**(j) Investments**
Investments are brought to account at cost. The carrying value of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. Where recoverable amount is less than the carrying value, the loss or provision is included in profit from ordinary activities before tax as an expense. Dividends are brought to account in the profit from ordinary activities when received.

**(k) Software Development Costs**
The costs of ongoing software development, upgrades and maintenance are expensed as incurred.

In the opinion of the Directors, changes in information technology, legislative requirements, and rapidly changing demands being placed on software all result in a continuing need to make modifications to the software in order for the software to maintain its service potential. Therefore the Directors have considered it prudent to expense software development costs as they are incurred because of their recurring nature.

**(l) Intangible Assets, Trademarks, Brands, and Intellectual Property**
The cost of developing brands and other intellectual property associated with the economic entity are generally expensed because of the recurring cost required to maintain these brands and intellectual property.

Where an asset is recognised by the economic entity it has been valued in the accounts at the cost of acquisition from a third party and amortised over the period in which its benefits are expected to be realised. The brands acquired during the year will be amortised on a straight line basis over the period of 10 years.

**(m) Goods and Services Tax (GST)**
Revenues, expenses and assets are recognised net of GST except where GST is incurred but not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

**(n) Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions and investments in money market instruments maturing within less than two months.

### (o) Impacts of adopting the Australian equivalents to International Financial Reporting Standards

**Management of the transition to A-IFRS**
In accordance with the Financial Reporting Council's strategic directive, BSL will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, BSL's first half-year report prepared under A-IFRS will be for the half-year reporting period ended 31 December 2005, and its first annual financial report prepared under A-IFRS will be for the year ended 30 June 2006.

At the date of this report, the directors of BSL have not yet finalised a high-level assessment of the impact of A-IFRS on the consolidated entity, and consequently have not yet determined how they are going to manage the transition to A-IFRS. However, the directors are monitoring the developments in A-IFRS and the potential impact it will have on the consolidated entity, and expect to complete an impact study and commence a plan to prepare the consolidated entity to be A-IFRS compliant shortly.

While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the consolidated entity, the directors of BSL have identified the following as being the key accounting policy differences expected to arise on transitioning to A-IFRSs:

**Key differences from current accounting policies**

BSL has identified the following as being the significant areas of differences affecting the consolidated entity on adoption of A-IFRS. This does not represent an exhaustive list of the differences that will arise, and further analysis may change the consolidated entity's assessment of the importance or otherwise of the various differences.

**First-time adoption of A-IFRS**
On first-time adoption of A-IFRS, the consolidated entity will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that will be presented in the financial report for the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be derecognised. As most adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 30 June 2004 presented in the 2005 financial report and the 2006 financial report available to be paid out as dividends may differ significantly.

Various voluntary and mandatory exemptions are available to the consolidated entity on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS, and includes relief from having to restate past business combinations, and permits the identification of a 'deemed cost' for property, plant and equipment.

The impact on BSL of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The consolidated entity is evaluating the effect of the options available on first-time adoption in order to determine the best possible outcome for the consolidated entity.

**Income tax**
The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. In particular, significant increases in deferred tax liabilities are anticipated in relation to deferred taxes associated with fair value adjustments and intangibles arising in relation to pre-transition business combinations, revaluations of land and buildings and investments in associates.

**Property, plant and equipment**
On transition to A-IFRS, the entity has several options in the determination of the cost of each tangible asset, and can also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the entity has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

The consolidated entity measures its land and buildings at fair value. Under current Australian GAAP, revaluation increments and decrements within a class of assets must be set-off, however, A-IFRS requires revaluations to be tracked on an individual asset-by-asset basis. This change in accounting policy may result in the recognition of impairment losses in the profit and loss even though the class of assets has increased in value.

**Impairment of assets**
Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount. Historically, although not mandated, BSL has discounted cash flows in determining the recoverable amount of its non-current assets.

Under A-IFRS, both current and non-current assets, including property, plant and equipment previously excluded as they were measured on the fair value basis, are tested for impairment. In addition, A-IFRS has a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amount of assets – the consolidated entity has not yet determined the impact, if any, of any further impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.

**Impairment of financial assets**
The consolidated entity provides for doubtful debts using an estimate based on historical trends. Under A-IFRS, the entity will no longer be able to provide for doubtful debts on this basis, as a financial asset or group of financial assets is impaired only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset – that is, an incurred but not yet reported model rather than an expected loss model must be applied. Consequently, on adoption of A-IFRS, and on an ongoing basis, general provisions and expected loss models may no longer be appropriate, which may cause the carrying amount of various financial assets to increase.

**Goodwill**
As disclosed in note 1, goodwill is currently amortised over a 10 year period. A-IFRS does not permit goodwill to be amortised, but instead requires the carrying amount to be tested for impairment at least annually. Goodwill currently recognised in the balance sheet, adjusted if necessary on the optional restatement of business combinations, must be allocated to individual cash-generating units (or groups of cash-generating units) and tested for impairment at the allocated level. This change in policy may result in increased volatility in the profit and loss, where impairment losses are likely to occur.

**Business combinations**
Historically, the acquisition of an entity or operation is accounted for under the purchase method of accounting by the legal acquirer. Where consolidated accounts are prepared, the assets and liabilities purchased are initially recognised at their fair values in the consolidated accounts.

Under A-IFRS, the purchase method of accounting must be applied where there is a business combination, however, not all acquisitions will qualify as a business combination, and as such the purchase method of accounting for these acquisitions will no longer be appropriate. In addition, the legal acquirer may not be the 'acquirer' per A-IFRS, and the consolidated accounts may consequently reflect the fair values of the legal acquirer's assets and liabilities rather than the fair value of the assets and liabilities of the entity legally acquired.

Furthermore, there are a number of recognition and measurement differences that result in relation to assets and liabilities acquired in a business combination, particularly in relation to intangible assets and restructuring provisions. Acquired contingent liabilities must also be recognised at their fair values where acquired in a business combination.

The impact of these changes in accounting policy on first-time adoption will depend on whether the consolidated entity will elect to adopt the exemption available to it to not reopen past acquisitions and retrospectively account for them. On an ongoing basis, this change in policy may significantly affect the profit and loss and balance sheet, as the accounting going forward significantly differs from the manner in which such transactions are treated under current Australian GAAP.

**Revaluation of purchased intangible assets other than goodwill**
The consolidated entity has acquired one intangible asset as a result of a past acquisition. This asset has been measured at cost and amortised over a 10 year useful life. The revaluation of an intangible asset is only permitted under A-IFRS where an active market exists for the asset. The consolidated entity's initial evaluation suggests that no active market exists for its acquired intangible assets and consequently the consolidated entity will be required to

change its policy in relation to the treatment of such intangibles on transition to A-IFRS. The consolidated entity will be required to recognise these assets at their original cost at the date of acquisition. Opening retained earnings will also be increased by an amount equivalent to the amortisation previously expensed in relation to revaluation increments.

Should the consolidated entity elect to reopen past acquisitions, the consolidated entity will be required to assess the appropriateness of recognising the intangible assets that originally arose from each combination, and it may result in different intangible assets being recognised. Where these intangible assets have limited useful lives, adjustments may also be made to reflect amortisation since the original acquisition date.

If past business combinations are not restated, certain intangible assets may need to be derecognised on transition to A-IFRS where they do not satisfy the relevant recognition criteria. In these cases, the carrying amounts of these intangible assets at the date of transition will be subsumed into the carrying amount of goodwill.

**Inventories**
The consolidated entity applies the specific identification method in determining the cost of its inventory. Under current Australian GAAP, the discount rate applied excludes markdowns for seasonal and slow-moving inventories. Under A-IFRS, the consolidated entity will take the markdowns into account in determining the cost of inventory. Accordingly, inventory will be carried at a higher value under A-IFRS – the effect of this will be to increase net assets, but decrease subsequent gross profit. On initial transition to A-IFRS, the effect of the change will be recognised by increasing inventory and decreasing opening retained earnings.

**Depreciation**
Under current Australian GAAP, the consolidated entity's property, plant and equipment is depreciated to the extent of its depreciable amount, determined as the difference between carrying amount and residual value. The residual amount used in the determination of recoverable amount is estimated at the date of acquisition and is not subsequently increased for changes in prices, except where the asset had been revalued. Under A-IFRS, the residual amount is reviewed at each balance date and revised to the current net amount expected from the disposal of the asset if it were already at the age and condition expected at the end of its useful life. Accordingly, changes to the residual value may introduce additional volatility in the profit or loss.

**Borrowing costs**
The consolidated entity currently capitalises borrowing costs related to qualifying assets. Under A-IFRS, the consolidated entity can continue to capitalise such costs, or choose to immediately expense all borrowing costs, even where they relate to qualifying assets. The consolidated entity has not yet made a decision as to which accounting policy it will elect to adopt under A-IFRS. However, the impact of the consolidated entity changing its policy may be to cause a write-off of capitalised borrowing costs on transition (depending on first-time adoption choices around deemed cost), and on an ongoing basis, to cause a reduction in future asset values and immediate expensing of borrowing costs in net profit.

**Employee benefits**
Under A-IFRS, the consolidated entity will no longer be able to recognise provisions for annual leave on a nominal basis, regardless of when the leave is expected to be taken, but will instead be required to discount the portion of annual leave liabilities expected to be taken more than twelve months from the reporting date. This change in accounting policy is likely to reduce the aggregate provision for annual leave, but is unlikely to significantly affect the income statement.

**Proceeds from sale of assets**
The current definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of 'grossing up' the statement of financial performance. Under A-IFRS, only the net gain or loss from the sale will be recognised in profit or loss. Consequently, there will be no net impact on the income statement.

**Correction of errors**
An error made in a prior reporting period is presently corrected in the reporting period in which the error is discovered by recognising the effect of the error in the current financial statements. In future financial periods, any material prior period errors are to be accounted for retrospectively, i.e. by adjusting the opening balance of retained earnings of the comparative period. Accordingly, the identification of a material prior period error will no longer give rise to volatility in the current period income statement.

**NOTE 2: Revenue**

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **(i) Operating activities:** | | | | | |
| Sale of product | | | | | |
| - Sale of product - centrally ordered | | 57,238,961 | 31,037,780 | 50,654,789 | 29,659,159 |
| - Sale of product - retail sales | | 42,322,367 | - | - | |
| - Sale of product - BSL merchandise, fuel etc | | 629,675 | 632,701 | 566,649 | 632,701 |
| | | 100,191,003 | 31,670,481 | 51,221,438 | 30,291,860 |
| Revenue from rendering services | | | | | |
| - Revenue from services | | 17,085,545 | 12,773,787 | 15,389,821 | 12,667,531 |
| - Revenue for promotional services | | 46,982,142 | 43,375,797 | 46,058,613 | 43,266,070 |
| | | 64,067,687 | 56,149,584 | 61,448,434 | 55,933,601 |
| Other revenues from ordinary activities | | | | | |
| - Dividends received | 2(a) | 19,413 | 18,512 | 19,413 | 18,512 |
| - Interest received | 2(b) | 144,257 | 214,689 | 509,835 | 214,689 |
| - Proceeds on disposal of assets | | 343,628 | 21,000 | 299,331 | 21,000 |
| - Other revenues | | 1,155,816 | 430,432 | 478,836 | 389,065 |
| | | 1,663,114 | 684,633 | 1,307,415 | 643,266 |
| **Total Revenue** | | 165,921,804 | 88,504,698 | 113,977,287 | 86,868,727 |
| (a) Dividend revenue from: | | | | | |
| - Other corporations | | 19,413 | 18,512 | 19,413 | 18,512 |
| (b) Interest revenue from: | | | | | |
| - Wholly-owned controlled entities | | - | - | 360,589 | - |
| - Partly owned subsidiaries | | - | - | 48,303 | - |
| - Other persons | | 144,257 | 214,689 | 100,943 | 214,689 |
| | | 144,257 | 214,689 | 509,835 | 214,689 |

**NOTE 3: Profit from Ordinary Activities**

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| **(a) Expenses:** | | | | |
| Cost of Sales | | | | |
| - Cost of sales - centrally ordered | 57,117,286 | 30,948,310 | 50,528,853 | 29,572,998 |
| - Cost of sales - retail sales | 34,689,166 | - | - | - |
| - Cost of sales - BSL merchandise, fuel etc | 598,448 | 630,510 | 543,848 | 616,830 |
| | 92,404,900 | 31,578,820 | 51,072,701 | 30,189,828 |
| Borrowing Costs | | | | |
| - other persons | 231,534 | 147,765 | 225,940 | 147,197 |
| Depreciation of non-current assets | | | | |
| - Buildings | 78,288 | 26,870 | 27,673 | 26,870 |
| - Plant, equipment and motor vehicles | 868,407 | 467,614 | 769,455 | 465,097 |
| - Leased plant, equipment and motor vehicles | 651,271 | 389,324 | 628,026 | 387,230 |
| | 1,597,966 | 883,808 | 1,425,154 | 879,197 |
| Amortisation of current assets | | | | |
| - Capitalised Borrowing costs | 1,800 | - | 1,800 | - |
| Amortisation of non-current assets | | | | |
| - Goodwill | 100,000 | - | - | - |
| - Brands | 30,000 | 7,500 | - | - |
| | 130,000 | 7,500 | - | - |
| Rental expense on operating leases | | | | |
| - Minimum lease payments | 2,153,118 | 651,469 | 243,813 | 650,050 |
| Bad and doubtful debts | | | | |
| - Trade debtors | 81,236 | 49,294 | 81,236 | 49,294 |
| **(b) Revenue and Net Gains:** | | | | |
| Net gain/(loss) on disposal of non-current assets: | | | | |
| - Investments | (14,939) | - | (14,939) | - |
| - Property, plant, equipment and vehicles | (212,225) | (95,325) | (223,275) | (95,325) |
| | (227,164) | (95,325) | (238,214) | (95,325) |
| **(c) Significant Revenues and Expenses:** | | | | |
| The following significant revenue and expense items are relevant in explaining the financial performance: | | | | |
| - Retailer Bonus | - | (1,750,000) | - | (1,750,000) |

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **NOTE 4: Income tax expense** | | | | | |
| **(a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:** | | | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2003: 30%) | | | | | |
| - economic entity | | 1,257,448 | 1,245,699 | - | - |
| - parent entity | | - | - | 1,391,068 | 1,279,689 |
| Add: | | | | | |
| Tax effect of items not allowable for tax for this or future periods | | 32,024 | (8,580) | 31,218 | (8,643) |
| Less: | | | | | |
| - rebateable fully franked dividends | | (4,885) | (5,270) | (4,885) | (5,270) |
| Under provision for income tax in prior year | | - | 7,572 | - | 7,572 |
| Income tax expense attributable to operating profit | | 1,284,587 | 1,239,421 | 1,417,401 | 1,273,348 |
| **(b) Income tax expense comprises amounts set aside as:** | | | | | |
| Provision for income tax attributable to the current year | | | | | |
| - Income tax payable on profit from ordinary activities | | 1,320,035 | 1,300,496 | 1,410,566 | 1,300,496 |
| Provision for income tax attributable to future years | | | | | |
| - Future income tax benefit | | (35,448) | (67,131) | 6,835 | (33,204) |
| - Provision for deferred income tax | | - | (1,516) | - | (1,516) |
| Payment of prior year income tax | | - | 7,572 | - | 7,572 |
| | | 1,284,587 | 1,239,421 | 1,417,401 | 1,273,348 |
| **NOTE 5: Franking Credits** | | | | | |
| Balance of franking account at year end adjusted for franking credits arising from payment of income tax payable. | | 5,734,101 | 3,970,207 | 5,734,101 | 3,970,207 |
| **NOTE 6: Receivables** | | | | | |
| **Current** | | | | | |
| Trade debtors | | 14,137,847 | 11,849,437 | 12,238,335 | 10,750,554 |
| Provision for doubtful debts | | (184,665) | (107,704) | (124,665) | (107,704) |
| | | 13,953,182 | 11,741,733 | 12,113,670 | 10,642,850 |
| Amounts receivable from: | | | | | |
| - Wholly-owned subsidiaries | | - | - | 8,183,463 | |
| - Partly-owned subsidiaries | | - | - | 880,524 | 502,182 |
| | | - | - | 9,063,987 | 502,182 |
| Amounts receivable from CBA for equipment financing | | 67,128 | 400,656 | 67,128 | 400,656 |
| Other debtors | | 2,766,225 | 276,519 | 1,436,829 | 780,326 |
| | | 16,786,535 | 12,418,908 | 22,681,614 | 12,326,014 |
| **NOTE 7: Other Financial Assets** | | | | | |
| **Current** | | | | | |
| Shares in listed corporations, at cost | | 381,225 | 510,913 | 381,225 | 510,913 |
| Provision for Diminution | | (41,281) | (69,200) | (41,281) | (69,200) |
| | | 339,944 | 441,713 | 339,944 | 441,713 |
| **Non-Current** | | | | | |
| Shares in controlled entities | 8 | - | - | 12 | 12 |

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|

**NOTE 8: Controlled Entities**

**(a) Controlled Entities**

| | Country of Incorporation | Percentage Owned (%) 2004 | Percentage Owned (%) 2003 |
|---|---|---|---|
| Parent Entity: | | | |
| Betta Stores Ltd | Aust | - | - |
| Subsidiaries of Betta Stores Ltd: | | | |
| Betta Electrical Pty Ltd | Aust | 100 | 100 |
| Betta Stores Pty Limited (incorporated in New Zealand) | NZ | 100 | 100 |
| Betta Buying Associates Pty Ltd | Aust | 100 | 100 |
| BSL Rental Pty Ltd | Aust | 100 | 100 |
| BSL Finance Pty Ltd (formerly Betta Appliance Centres Pty Ltd) | Aust | 100 | 100 |
| Betta Management Services Pty Ltd | Aust | 100 | 100 |
| Buy Rite Stores Pty Ltd (formerly Betta Electronics Pty Ltd) | Aust | 100 | 100 |
| Sleepy's Pty Ltd | Aust | 50 | 50 |

**(b) Controlled Entities with Ownership Interest of 50% or Less**
The parent entity holds 50% of the ordinary shares of Sleepy's Pty Ltd. Under the Sleepy's Pty Ltd Shareholders Agreement BSL has the capacity to appoint 3 of the 5 board members, which enables the financial and operating policies of Sleepy's Pty Ltd to be consistent in pursuing the objectives of BSL.

**NOTE 9: Inventories**

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| Finished goods at lower of cost or net realisable value | 9,722,838 | 160,538 | 165,629 | 160,538 |

**NOTE 10: Other Assets**

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| **Current** | | | | |
| Prepayments | 546,382 | 1,304,458 | 386,632 | 1,290,146 |
| Security deposits | 1,213 | 1,213 | 1,213 | 1,213 |
| Deposit held by associate | - | 20,000 | - | 20,000 |
| Capitalised finance costs | 18,000 | - | 18,000 | - |
| Amortisation of capitalised finance costs | (1,800) | - | (1,800) | - |
| | 563,795 | 1,325,671 | 404,045 | 1,311,359 |

**NOTE 11: Property, Plant and Equipment, Vehicles and Leasehold Improvements**

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| Freehold land at fair value | 1,500,000 | 1,050,000 | 1,500,000 | 1,050,000 |
| Freehold buildings at fair value | 3,000,000 | 2,530,000 | 3,000,000 | 2,530,000 |
| Subsequent additions at cost | - | 36,960 | - | 36,960 |
| Accumulated depreciation | - | (51,460) | - | (51,460) |
| | 3,000,000 | 2,515,500 | 3,000,000 | 2,515,500 |
| Leasehold improvements at cost | 587,800 | 35,027 | 35,027 | 35,027 |
| Accumulated depreciation | (52,580) | (1,254) | (1,965) | (1,254) |
| | 535,220 | 33,773 | 33,062 | 33,773 |
| Plant, equipment and vehicles at cost | 2,929,372 | 2,473,008 | 2,519,366 | 2,453,967 |
| Accumulated depreciation | (1,731,382) | (1,346,577) | (1,632,498) | (1,344,059) |
| | 1,197,990 | 1,126,431 | 886,868 | 1,109,908 |
| Capitalised leased plant, equipment and vehicles at cost | 2,057,857 | 1,498,283 | 1,921,960 | 1,474,138 |
| Accumulated amortisation | (455,866) | (803,253) | (435,194) | (801,160) |
| | 1,601,991 | 695,030 | 1,486,766 | 672,978 |
| Total property, plant and equipment and vehicles | 7,835,201 | 5,420,734 | 6,906,696 | 5,382,159 |

**(a) Movements in Carrying Value**
Movements in the carrying value for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Note | Freehold Land | Freehold Buildings | Leasehold Improvements | Plant, Equipment and Vehicles | Leased Plant Equipment and Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Economic Entity** | | | | | | | |
| Balance at the beginning of year | | 1,050,000 | 2,515,500 | 33,773 | 1,126,431 | 695,030 | 5,420,734 |
| Additions | | - | 90,133 | 22,491 | 776,554 | 1,844,048 | 2,733,226 |
| Additions on acquisition of operations | | - | - | 530,283 | 406,809 | - | 937,092 |
| Disposals | | - | - | - | (243,397) | (285,816) | (529,213) |
| Depreciation expense | 3(a) | - | (26,961) | (51,327) | (868,407) | (651,271) | (1,597,966) |
| Revaluation Increments | 19 | 450,000 | 421,328 | - | - | - | 871,328 |
| Carrying amount at the end of year | | 1,500,000 | 3,000,000 | 535,220 | 1,197,990 | 1,601,991 | 7,835,201 |
| **Parent Entity** | | | | | | | |
| Balance at the beginning of year | | 1,050,000 | 2,515,500 | 33,773 | 1,109,908 | 672,978 | 5,382,159 |
| Additions | | - | 90,134 | - | 762,266 | 1,723,702 | 2,576,102 |
| Disposals | | - | - | - | (215,851) | (281,888) | (497,739) |
| Depreciation expense | 3(a) | - | (26,962) | (711) | (769,455) | (628,026) | (1,425,154) |
| Revaluation Increments | 19 | 450,000 | 421,328 | | | | 871,328 |
| Carrying amount at the end of year | | 1,500,000 | 3,000,000 | 33,062 | 886,868 | 1,486,766 | 6,906,696 |

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **NOTE 12: Tax Assets** | | | | | |
| **Current Tax Assets** | | | | | |
| Income Tax receivable | | 157,422 | - | 66,891 | - |
| **Deferred Tax Assets** | | | | | |
| Future income tax benefit | | 303,762 | 67,131 | 26,369 | 33,204 |
| (a) The future income tax benefit is made up of the following estimated tax benefits: | | | | | |
| - tax losses | | 26,529 | 32,347 | - | - |
| - timing differences | | 277,233 | 34,784 | 26,369 | 33,204 |
| | | 303,762 | 67,131 | 26,369 | 33,204 |
| **NOTE 13: Intangible Assets** | | | | | |
| Brands at cost | | 300,000 | 300,000 | - | - |
| Less accumulated amortisation | | (37,500) | (7,500) | - | - |
| | | 262,500 | 292,500 | - | - |
| Goodwill at cost | | 1,000,000 | - | - | - |
| Less accumulated amortisation | | (100,000) | - | - | - |
| | | 900,000 | - | - | - |
| | | 1,162,500 | 292,500 | - | - |
| **NOTE 14: Payables** | | | | | |
| **Current** | | | | | |
| Trade creditors and accruals | | 17,177,058 | 10,272,201 | 11,453,581 | 9,718,082 |
| Property lease liabilities | | 102,520 | 175,747 | 102,520 | 175,747 |
| | | 17,279,578 | 10,447,948 | 11,556,101 | 9,893,829 |
| **Non-Current** | | | | | |
| Property lease liabilities | | - | 102,520 | - | 102,520 |
| | | - | 102,520 | - | 102,520 |
| **NOTE 15: Interest Bearing Liabilities** | | | | | |
| **Current** | | | | | |
| Mortgage Loan - School Street | | - | 15,904 | - | 15,904 |
| Bank Bill liability | 29(d) | 1,000,000 | - | 1,000,000 | - |
| Receivables Financing | 29(d) | 307,327 | - | - | - |
| Lease liabilities | 23(a) | 550,693 | 499,890 | 517,620 | 491,167 |
| | | 1,858,020 | 515,794 | 1,517,620 | 507,071 |
| **Non-Current** | | | | | |
| Lease liabilities | 23(a) | 1,062,335 | 199,890 | 979,975 | 186,463 |
| Retailers' interest bearing deposits | | 1,760,072 | 1,786,687 | 1,760,072 | 1,786,687 |
| | | 2,822,407 | 1,986,577 | 2,740,047 | 1,973,150 |
| (a) Total current and non - current secured liabilities | | | | | |
| - Bank Bill liability | | 1,000,000 | - | 1,000,000 | - |
| - Receivables financing | | 307,327 | - | - | - |
| - Mortgage loan | | - | 15,904 | - | 15,904 |
| - lease liabilities | | | | | |
| | | 1,307,327 | 15,904 | 1,000,000 | 15,904 |
| (b) Total carrying amount of non - current assets pledged as security are: | | | | | |
| - Freehold land and buildings | 11(a) | 4,500,000 | 3,565,500 | 4,500,000 | 3,565,500 |
| - Floating charge over assets | | 26,636,449 | - | 26,636,449 | - |
| Total assets pledged as security | | 31,136,449 | 3,565,500 | 31,136,449 | 3,565,500 |

(c) The bank bill liability is secured by registered first mortgages over certain freehold property of the parent entity and the subsidiaries

The receivable financing liability is secured by registered first mortgages over certain freehold property of the parent entity and the subsidiaries

The covenants within the bank borrowings require that certain ratios with respect to net worth to tangible assets and interest coverage be satisfied on a quarterly basis.

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| **NOTE 16: Tax Liabilities** | | | | |
| **Current** | | | | |
| Income tax payable (refundable) | - | 270,153 | - | 270,153 |

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **NOTE 17: Provisions** | | | | | |
| **Current** | | | | | |
| Provision for employee entitlements | | 1,054,365 | 380,736 | 452,815 | 377,758 |
| **Non-Current** | | | | | |
| Provision for employee entitlements | | 311,327 | 80,095 | 121,379 | 80,095 |
| (a) Aggregate of provision for employee entitlements | | 1,365,692 | 460,831 | 574,194 | 457,853 |
| (b) Number of employees at year end | | 224 | 88 | 95 | 86 |

**NOTE 18: Contributed Equity**

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| 10,400 (2003: 7,300) fully paid A class shares | 18(a) | 20,048 | 14,600 | 20,048 | 14,600 |
| 72,800 (2003: 51,100) fully paid B class shares | 18(b) | 140,335 | 102,200 | 140,335 | 102,200 |
| | | 160,383 | 116,800 | 160,383 | 116,800 |
| **(a) A class shares** | | **$** | **$** | **$** | **$** |
| At the beginning of the reporting period | | 14,600 | 15,400 | 14,600 | 15,400 |
| Shares issued during the year - 3900 shares | | 7,800 | - | 7,800 | - |
| Transaction costs relating to share issue | | (752) | - | (752) | - |
| | | 21,648 | 15,400 | 21,648 | 15,400 |
| Shares bought back during the year - 800 shares | | (1,600) | (800) | (1,600) | (800) |
| At reporting date | | 20,048 | 14,600 | 20,048 | 14,600 |
| | | **No.** | **No.** | **No.** | **No.** |
| At the beginning of the reporting period | | 7,300 | 7,700 | 7,300 | 7,700 |
| Shares issued during the year | | 3,900 | - | 3,900 | - |
| Shares bought back during the year | | (800) | (400) | (800) | (400) |
| At reporting date | | 10,400 | 7,300 | 10,400 | 7,300 |
| **(b) B class shares** | | **$** | **$** | **$** | **$** |
| At the beginning of the reporting period | | 102,200 | 107,800 | 102,200 | 107,800 |
| Shares issued during the year - 27,300 shares | | 54,600 | - | 54,600 | - |
| Transaction costs relating to share issue | | (5,265) | - | (5,265) | - |
| | | 151,535 | 107,800 | 151,535 | 107,800 |
| Shares bought back during the year - 5,600 shares | | (11,200) | (5,600) | (11,200) | (5,600) |
| At reporting date | | 140,335 | 102,200 | 140,335 | 102,200 |
| | | **No.** | **No.** | **No.** | **No.** |
| At the beginning of the reporting period | | 51,100 | 53,900 | 51,100 | 53,900 |
| Shares issued during the year | | 27,300 | - | 27,300 | - |
| Shares bought back during the year | | (5,600) | (2,800) | (5,600) | (2,800) |
| At reporting date | | 72,800 | 51,100 | 72,800 | 51,100 |

The above shares participate in dividends (if any) and the proceeds on winding up of the entity in proportion to the number of shares held. Each shareholder has 50 A class shares and 350 B class shares which are issued at $2 each. At shareholders meetings each share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The shares bought back during the year are from members that had resigned from the group and were no longer entitled to hold those shares. The shares were bought back at $2 each.

Subsequent to the reporting date, BSL's share capital was restructured as detailed in Note 28 to the Financial accounts

**NOTE 19: Reserves**

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **Asset revaluation reserve movements during the year** | | | | | |
| Opening balance | | 597,912 | 597,912 | 597,912 | 597,912 |
| Revaluation increment of freehold land and buildings | 11a | 871,328 | - | 871,328 | - |
| Closing balance | | 1,469,240 | 597,912 | 1,469,240 | 597,912 |

Betta Stores Limited employed DTZ Australia (Brisbane) Pty Ltd as independent valuers with a purpose of valuing the land and buildings located at 97 School Street on the basis of market value with continued existing use. The valuation of land ($1,500,000) and building ($3,000,000) were completed in the fourth quarter of the 2004 financial year.

**NOTE 20: Retained Profits**

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| Retained profits at the beginning of the year | | 9,381,244 | 6,428,648 | 9,420,930 | 6,428,648 |
| Net profit attributable to the members of the parent entity | | 2,899,628 | 2,952,596 | 3,219,497 | 2,992,282 |
| Retained profits at the end of the year | | 12,280,872 | 9,381,244 | 12,640,427 | 9,420,930 |

## NOTE 21: Outside Equity Interests in Controlled Entities

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| Outside equity interest comprises: | | | | | |
| Share Capital | | 1 | 1 | - | - |
| Retained Profits/(Accumulated Losses) | | (32,405) | (39,687) | - | - |
| | | (32,404) | (39,686) | - | - |

## NOTE 22: Financial Instruments

### (a) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities, is as follows:

| | Weighted average interest rate | | Floating Interest Rate | | Fixed Interest Rate Maturing within 1 year | | Fixed Interest Rate Maturing 1-5 yrs | | Non-Interest Bearing | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | % | % | | | | | | | | |
| **Financial Assets** | | | | | | | | | | |
| Cash at bank | 4.17 | 4.15 | 331,791 | 2,716,453 | - | - | | - | - | - |
| Bank Bills | - | 4.72 | - | 996,445 | - | - | | - | - | - |
| Trade debtors | - | - | - | - | - | - | | - | 14,020,310 | 12,142,389 |
| Other debtors | - | - | - | - | - | - | | - | 2,766,225 | 276,519 |
| | | | 331,791 | 3,712,898 | - | - | | - | 16,786,535 | 12,418,908 |
| **Financial Liabilities** | | | | | | | | | | |
| Retailer interest bearing deposit | 4.00 | 4.00 | 1,760,072 | 1,786,687 | - | - | | - | - | - |
| Lease liabilities | 6.78 | 6.64 | - | - | 641,409 | 540,481 | 1,130,363 | 192,438 | - | - |
| Mortgage | - | 7.40 | - | - | - | 15,904 | - | - | - | - |
| Property lease liability | - | - | - | - | - | - | - | - | 102,520 | 278,267 |
| Bank bill liability | 5.75 | - | - | - | 1,000,000 | - | - | - | - | - |
| Receivables Financing | 7.75 | - | 307,327 | - | - | - | - | - | - | - |
| Trade and sundry creditors | - | - | - | - | - | - | - | - | 17,177,058 | 10,272,201 |
| | | | 2,067,399 | 1,786,687 | 1,641,409 | 556,385 | 1,130,363 | 192,438 | 17,279,578 | 10,550,468 |

### (b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to recognised financial assets is the carrying amount, net of any provision for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

### (c ) Fair Values

The net fair values of the company's financial assets and liabilities, except listed investments, approximate their carrying value. None of the company's assets and liabilities are readily traded on organised markets, other than listed investments.

The aggregate net fair values and carrying amounts of all other financial assets and liabilities are disclosed in the statement of financial position and notes to the financial statements.

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **NOTE 23: Leasing Commitments** | | | | | |
| **(a) Finance lease commitments payable** | | | | | |
| - not later than one year | | 641,409 | 540,481 | 601,643 | 530,235 |
| - later than 1 year and not later than 5 years | | 1,130,363 | 192,438 | 1,041,412 | 178,825 |
| Minimum lease payments | | 1,771,772 | 732,919 | 1,643,055 | 709,060 |
| Less future finance charges | | (158,744) | (33,139) | (145,460) | (31,430) |
| Total lease liability | | 1,613,028 | 699,780 | 1,497,595 | 677,630 |
| Current Liabilities | 15 | 550,693 | 499,890 | 517,620 | 491,167 |
| Non-Current Liabilities | 15 | 1,062,335 | 199,890 | 979,975 | 186,463 |
| | | 1,613,028 | 699,780 | 1,497,595 | 677,630 |

All motor vehicle leases are non-cancellable leases, generally over a period of three years with rent payable in advance. In general, there is a provision within the lease for the economic entity to acquire the vehicle at the end of the lease term upon payment of a residual generally equal to 40% of the financed amount.

The finance leases for computer equipment are non-cancellable leases over a period of three years with rent payable in advance. There is a provision within the lease for the economic entity to acquire the equipment at the end of the lease term upon payment of a residual equal to 10% of the financed amount.

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| **(b) Non-cancellable operating leases contracted for but not capitalised in the accounts payable:** | | | | |
| - not later than one year | 2,566,692 | 551,437 | 411,599 | 551,437 |
| - later than 1 year and not later than 5 years | 5,807,955 | 497,492 | 246,782 | 497,492 |
| | 8,374,647 | 1,048,929 | 658,381 | 1,048,929 |
| Operating leases consist of: | | | | |
| - Property lease rentals | 8,309,397 | 971,157 | 593,131 | 971,157 |
| - Equipment lease rentals | 65,250 | 77,772 | 65,250 | 77,772 |
| | 8,374,647 | 1,048,929 | 658,381 | 1,048,929 |
| Offsetting the above operating property lease rentals are non-cancellable operating lease revenues contracted for but not capitalised in accounts receivable | | | | |
| - not later than one year | 95,886 | 160,836 | 95,886 | 160,836 |
| - later than 1 year and not later than 5 years | - | 93,821 | - | 93,821 |
| | 95,886 | 254,657 | 95,886 | 254,657 |

In general, property leases are non-cancellable leases with a term of either three or five years with rent payable in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be indexed by the change in CPI published during the quarter preceding that date the indexed rent is to take effect. An option exists to renew all property leases at the end of their terms for an additional period of varying between three and ten years. The leases allows for sub-letting.

Rental agreements for all office equipment range from two to five year terms and are generally non-cancellable leases, with rent payable in advance.

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| **(c) Promotional expenditure commitments contracted for:** | | | | |
| - not later than one year | 1,720,000 | 3,045,000 | 1,720,000 | 3,045,000 |
| - later than 1 year and not later than 5 years | 3,000,000 | 1,440,000 | 3,000,000 | 1,440,000 |
| | 4,720,000 | 4,485,000 | 4,720,000 | 4,485,000 |

**Note 24: Directors' and Executives' Remuneration**

**(a) Names and positions held of parent entity directors and specified executives in office at any time during the financial year including remuneration details are:**

| | **Primary** | | | **Post Employment** | | **Equity** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Cash Bonus | Non-Monetary | Superannuation | Retirement Benefits | | **Benefits** | |
| **Specified Directors** | | | | | | | | |
| **Tynan P J** | *Chairman (non-executive)* | | | | | | | |
| 2004 | 46,596 | - | - | 4,194 | - | - | - | 50,790 |
| 2003 | 26,754 | - | - | 2,396 | - | - | - | 29,150 |
| **Johnson E D** | *Director (non-executive)* | | | | | | | |
| 2004 | 26,244 | - | - | 2,362 | - | - | - | 28,606 |
| 2003 | 26,277 | - | - | 2,358 | - | - | - | 28,635 |
| **Sutherland N J** | *Director (non-executive)* | | | | | | | |
| 2004 | 26,244 | - | - | 2,362 | - | - | - | 28,606 |
| 2003 | 26,754 | - | - | 2,396 | - | - | - | 29,150 |
| **Cain R L** | *Director (non-executive)* | | | | | | | |
| 2004 | 26,244 | - | - | 2,362 | - | - | - | 28,606 |
| 2003 | 26,754 | - | - | 2,396 | - | - | - | 29,150 |
| **Currington G J** | *Director (non-executive)* | | | | | | | |
| 2004 | 26,244 | - | - | 2,362 | - | - | - | 28,606 |
| 2003 | 26,277 | - | - | 2,358 | - | - | - | 28,635 |
| **McClelland D C** | *Director (non-executive): elected 24 November 2003* | | | | | | | |
| 2004 | 15,854 | - | - | 1,427 | - | - | - | 17,281 |
| **Whitehead R B** | *Director (non-executive): retired 30 June 2003* | | | | | | | |
| 2003 | 47,134 | - | - | 4,225 | - | - | - | 51,359 |
| **Total Remuneration: Specified Directors** | | | | | | | | |
| 2004 | 167,426 | - | - | 15,069 | - | - | - | 182,495 |
| 2003 | 179,950 | - | - | 16,129 | - | - | - | 196,079 |
| **Specified Executives** | | | | | | | | |
| **Houghton G T** | *Chief Executive Officer* | | | | | | | |
| 2004 | 332,196 | 61,804 | 34,533 | 11,001 | - | - | - | 439,534 |
| 2003 | 227,590 | 40,159 | 30,377 | 10,519 | - | - | - | 308,645 |
| **Whitehead R B** | *General Manager - Buy Rite Stores* | | | | | | | |
| 2004 | 192,640 | - | 32,706 | 28,051 | - | - | - | 253,397 |
| **Hazell D R** | *General Manager - Marketing & Retail* | | | | | | | |
| 2004 | 130,396 | 44,533 | 23,740 | 45,863 | - | - | - | 244,532 |
| 2003 | 131,137 | 27,066 | 24,308 | 35,519 | - | - | - | 218,030 |
| **Goode D J** | *General Manager - Finance* | | | | | | | |
| 2004 | 174,776 | 35,178 | 17,061 | 11,001 | - | - | - | 238,016 |
| 2003 | 144,114 | 7,349 | 12,795 | 10,519 | - | - | - | 174,777 |
| **Trindall A E** | *National Operations Manager* | | | | | | | |
| 2004 | 157,201 | - | 2,799 | 39,999 | - | - | - | 199,999 |
| **Quinn N T** | *Legal Counsel* | | | | | | | |
| 2004 | 87,494 | - | | 6,876 | - | - | - | 94,370 |
| **Total Remuneration: Specified Executive** | | | | | | | | |
| 2004 | 1,074,703 | 141,515 | 110,839 | 142,791 | - | - | - | 1,469,848 |
| 2003 | 502,841 | 74,574 | 67,480 | 56,557 | - | - | - | 701,452 |

**(b) Remuneration Practices**

The company's policy for determining the nature and amount of emoluments of directors and executives of the company is as follows:

The remuneration structure for specified directors is based on the elected position held. The contracts for service between the economic entity and specified directors are on a continuing basis for a period of three years at which time the position is vacated and the officer may stand for re-election.

The remuneration structure for executive officers is based on a number of factors, including length of service, particular experience and qualifications of the individual concerned and overall performance of the company. The contracts for service between the company and specified executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified executives are paid employee benefit entitlements accrued to date of retirement.

The group seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically, the incorporation of incentive payments based on the achievement of targets and return on equity ratios. Bonuses included in Note 24(a) are based on these targets. The objective of the reward schemes is to both reinforce the short and long-term goals of the company as set out in the strategic plan of the economic entity that provides a common interest between management and shareholders. The bonuses were granted to specified executives on 28 November 2003. There has been no alteration to the terms of the bonuses paid since grant date.

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|

**NOTE 25: Related Party Transactions**

The directors of the company and/or their director related entities are shareholders of BSL and each control 400 shares in the company, which is the same for all shareholders. Under the Articles of Association, this is the maximum number of shares that any shareholder can hold.

Each director and/or their director related entities transact with the company on a regular basis on terms and conditions no more favourable than those provided to other franchisees of the economic entity. In summary, these transactions include:

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| (a) Aggregate revenue from purchases of stock and fees paid by these entities: | 5,170,842 | 3,945,880 | 5,170,842 | 3,945,880 |
| (b) Aggregate amount of rebates and retailer bonuses paid by the company to these entities: | 1,286,940 | 3,828,286 | 1,286,940 | 3,828,286 |
| (c) Aggregate trade debt receivable from these parties at year end: | 653,778 | 408,238 | 653,778 | 408,238 |
| (d) Aggregate amounts payable to these parties (interest bearing deposit) at year end: | 43,927 | 49,505 | 43,927 | 49,505 |

**NOTE 26: Auditors Remuneration**

| | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|
| Remuneration of the auditor of the parent entity for: | | | | |
| - Auditing or reviewing the financial report | 64,800 | 51,000 | 43,800 | 46,000 |
| - Other services | 2,107 | 8,432 | 2,107 | 8,432 |
| | 66,907 | 59,432 | 45,907 | 54,432 |

**NOTE 27: Contingent Liabilities**

Estimates of the maximum amounts of contingent liabilities that may become payable:

Guarantees provided by the parent entity
The parent entity has provided guarantees to third party landlords in relation to the performance and obligations of a controlled entity with respect to property lease rentals. The guarantees are for the term of the respective leases, covering periods between 3 and 7 years.

The parent entity has also provided a guarantee to a third party landlord over a property lease assigned from Vox Retail Group Pty Ltd to a franchisee. The guarantee covers the landlord for a period of up to twelve months should the premises become vacant prior to termination or assignment of the lease to a third party. Current annual rental on the premises is approximately $185,000.

**NOTE 28: Events Subsequent to Reporting Date**

Restructure of Contributed equity

On 11 June 2004, BSL shareholders approved a Restructure Proposal which included the following elements:
- The granting of additional 'veto' voting rights and the removal of the right to dividends for 'A' Class Shares and renaming 'A' Class Shares as Retailer Shares;
- The conversion of all 'B' Class Shares currently on issue to Ordinary Shares (on a 4:1 basis) with voting and dividend rights;
- Unstapling the linkage between 'A' Class Shares (new Retailer Shares) and 'B' Class Shares (new Ordinary Shares) so that Shareholders do not need to hold more than one class of share;
- The issue of Retailer Shares to all Current Retailers and future Retailers and buyback or redemption of Retailer Shares when a Retailer ceases to have a Licence Agreement or Services Agreement with the BSL Group;
- The issue of Ordinary Shares to all Current Retailers as at 13 July 2004; and
- Adoption of a revised Constitution

As a result of that shareholder approval, the following changes were made to Contributed Equity on 13 July 2004:
- 10,300 issued 'A' Class Shares at 13 July 2004 were renamed as Retailer Shares
- 72,100 issued 'B' Class shares at 13 July 2004 were converted to 288,400 Ordinary Shares
- An additional 46.53 million Ordinary Shares were issued for no consideration.

The financial effect of these transactions has not been brought to account in the 2004 financial report.

Public Listing

In addition to the above capital restructure, the shareholders of BSL voted on 11 June 2004 in favour of listing on the Newcastle Stock Exchange (NSX). On 23 August 2004, the parent entity listed 46,818,400 Ordinary Shares on the NSX.

Dividend Paid Subsequent to Reporting Date
Subsequent to reporting date and to the restructure of contributed equity detailed above, a fully franked ordinary dividend of 2.2 cents per share franked at a tax rate of 30% has been proposed and paid. The total payment to shareholders by the economic entity as a result of the dividend was $1,030,005. No dividends were paid to shareholders in the 2003 financial year.

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| **NOTE 29: Cash Flow Information** | | | | | |
| **(a) Reconciliation of cash flow from operations with Operations with profit from ordinary activities after income tax.** | | | | | |
| Profit from ordinary activities after income tax | | 2,906,910 | 2,912,909 | 3,219,497 | 2,992,282 |
| Non-cash flows in profit from ordinary activities | | | | | |
| Amortisation & Depreciation | | 1,729,766 | 891,308 | 1,426,954 | 879,197 |
| Increase value of securities to market value | | (27,919) | 19,417 | (27,919) | 19,417 |
| Charges to provisions | | 904,862 | 107,850 | 116,341 | 104,872 |
| Movement in future income tax benefits | | (236,631) | (68,647) | 6,835 | (34,721) |
| Movement in income taxes payable | | (427,574) | (5,335) | (337,043) | (5,335) |
| (Profits)/Losses on sale of property, plant, equipment and vehicles | | 212,225 | 95,325 | 223,275 | 95,325 |
| (Profits)/Losses on sale of securities | | 14,939 | - | 14,939 | - |
| Changes in assets and liabilities | | | | | |
| Movement in inventories | | (9,562,299) | 261,093 | (5,091) | 261,093 |
| Movement in prepayments | | 740,076 | (446,980) | 885,514 | (432,668) |
| Movement in trade and term debtors | | (4,367,627) | (4,070,016) | (2,018,804) | (3,977,122) |
| Movement in creditors and accruals | | 6,729,109 | 2,672,450 | 1,559,752 | 2,118,331 |
| Cash Flows from operations | | (1,384,163) | 2,369,374 | 5,064,249 | 2,020,671 |

**(b) Reconciliation of Cash**
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows :

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| Cash at bank and on hand | | 331,791 | 218,626 | 66,812 | 190,947 |
| Short term deposits | | - | 3,494,272 | - | 3,494,272 |
| | | 331,791 | 3,712,898 | 66,812 | 3,685,219 |

**(c) Non-cash financing activities**
During the year the economic entity acquired leased plant, equipment & motor vehicles with an aggregate fair value of $1,844,048 by means of finance lease.
These acquisitions are not reflected in the statement of cash flows.

During the year the parent entity acquired leased plant, equipment & motor vehicles with an aggregate fair value of $1,723,702 by means of finance lease.
These acquisitions are not reflected in the statement of cash flows.

**(d) Credit Standby arrangements with banks**

| | Notes | Economic Entity 2004 | Economic Entity 2003 | Parent Entity 2004 | Parent Entity 2003 |
|---|---|---|---|---|---|
| Credit facility | | 15,000,000 | - | 5,000,000 | - |
| Amount Utilised | 15 | (1,307,327) | - | (1,000,000) | - |
| Unused Credit Facility | | 13,692,673 | - | 4,000,000 | - |

Credit standby arrangements are comprised of:

Commercial Bill Facility
$5,000,000 ten-year variable interest rate facility
provided by the Commonwealth Bank of Australia

Receivables Financing
$10,000,000 variable interest rate facility provided
by the Commonwealth Bank of Australia

**Note 30: Segment Reporting**

| | Franchisor Operations | | Central Accounting | | Retail Operations | | Eliminations | | Economic Entity | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **(a) Primary reporting - Business segments** | | | | | | | | | | |
| REVENUE | | | | | | | | | | |
| External sales (refer note 2) | 64,528,420 | 56,955,508 | 57,238,961 | 31,549,190 | 44,154,423 | - | - | - | 165,921,804 | 88,504,698 |
| Internal sales | 1,105,123 | - | 974,336 | - | 503,346 | - | (2,582,805) | - | - | - |
| **Total revenue from ordinary activities** | 65,633,543 | 56,955,508 | 58,213,297 | 31,549,190 | 44,657,769 | - | (2,582,805) | - | 165,921,804 | 88,504,698 |
| **RESULT** | | | | | | | | | | |
| **Segment result** | 2,977,533 | 3,028,106 | 223,027 | (115,197) | (293,650) | - | - | - | 2,906,910 | 2,912,909 |
| ASSETS | | | | | | | | | | |
| **Segment assets** | 23,453,935 | 19,298,686 | 9,382,035 | 4,541,407 | 13,431,810 | - | (9,063,992) | - | 37,203,788 | 23,840,093 |
| LIABILITIES | | | | | | | | | | |
| **Segment liabilities** | 14,206,464 | 11,299,813 | 4,457,760 | 2,484,011 | 13,725,460 | - | (9,063,987) | - | 23,325,697 | 13,783,823 |
| OTHER | | | | | | | | | | |
| Acquisitions of non-current segment assets | 2,580,180 | 1,087,378 | - | - | 1,090,138 | - | - | - | 3,670,318 | 1,087,378 |
| Depreciation and amortisation of segment assets | 1,470,570 | 883,808 | - | - | 257,396 | - | - | - | 1,727,966 | 883,808 |
| Other non-cash segment expenses | 614,859 | 101,906 | 60,000 | 46,704 | 148,430 | - | - | - | 823,289 | 148,610 |

**Business Segments**

The economic entity has the following three business segments:

- Franchisor Operations segment reflects all activities and services that the Economic Entity provides for the benefit of its franchisees spread across Australia. Franchise operations are predominantly in the electrical retail industry and a controlled entity provides franchise operations in the retail bedding industry.

- The primary business segment titled Central Accounting refers to the acquisition of goods by the economic entity for subsequent resale to retailers.

- The Retail Operations segment refers to the retail stores operating under the Buy Rite Stores Pty Ltd company.

**(b) Secondary reporting - Geographical segments**
The company operates within a single geographical segment, being that of Australia.

**NOTE 31: Company Details**
The registered office of the company is:

Betta Stores Ltd
8 McIlwraith Street
Everton Park Qld 4053

The principal place of business is:

Betta Stores Ltd
97 School Street
Spring Hill Qld 4000
ABN 44 009 710 605

# Directors Declaration

The directors of the company declare that:

1) the financial statements and notes, as set out on pages 6 to 24 are in accordance with the Corporations Act 2001 and:

    a) comply with Accounting Standards and the Corporations Regulations 2001;

    b) give a true and fair view of the financial position as at 30 June 2004 and the performance for the year ended on that date of the company and the economic entity;

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.

..........................................................Director

..........................................................Director

**BRISBANE QLD**
**20 September, 2004**

Chartered Accountants
Business Advisers and Consultants

Grant Thornton

# INDEPENDENT AUDIT REPORT TO MEMBERS OF BETTA STORES LTD

## Scope

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Betta Stores Ltd and the consolidated economic entity, for the year ended 30 June 2004. The economic entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

*Audit approach*

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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Grant Thornton

INDEPENDENT AUDIT REPORT
TO MEMBERS OF BETTA STORES LTD (cont)

**Audit opinion**

In our opinion, the financial report of Betta Stores Ltd is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated economic entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australian.

GRANT THORNTON
Chartered Accountants

Grant Thornton
Dan Carroll

D J CARROLL
Partner

Brisbane 20 September 2004