Media Release

For Immediate Publication

B DIGITAL – FINANCIAL RESULTS FOR YEAR ENDING 31st JULY 2006

B Digital Limited (BBB) today announced its results for the financial year ended 31st July 2006 reporting a Net Loss after Income Tax, AIFRS adjustments and Significant Items of $67.7 million compared to a Net Profit after Tax and Significant Items of $27.4 million for the previous financial year. The results for the current year cover a 13 month period compared to 12 months for the previous period following the change in the year end reporting date to 31st July.

The BBB results for the current financial year and any comparison to previous corresponding periods is affected by a number of factors, including:

- The current financial year represents a 13 month period compared to 12 months last year.
- The current financial year results have been prepared adopting AIFRS which has been applied retrospectively to the 12 month comparative results.
- The results released at the end of last financial year adopted the previous AGAAP accounting standards.
- The BBB group incurred a number of once off adjustments and significant items in the current financial year not incurred in previous periods.
- The company became a full tax paying entity in the current financial period having taken full tax benefit of accumulated tax losses for accounting purposes in the previous year.

Set out below is a table which summarises these key influences on the results of BBB over the two periods being reported.

	2005 / 2006 $m		2004 / 2005 $m	
	13 Months AIFRS	12 Months AIFRS	12 Months AIFRS	12 Months AGAAP
Revenue	358.8	331.2	338.4	330.2
Net Profit After Tax	(67.7)	(68.9)	27.4	17.9
Tax Expense	(5.6)	(5.2)	(1.0)	(1.3)
Kooee Goodwill Impairment	(65.7)	(65.7)	-	-
B Shop Write Downs	(11.0)	(11.0)	-	-
Other Significant Items	(6.6)	(6.6)	(2.4)	(2.4)
Earnings before Tax and Significant Items	21.2	19.6	30.8	21.6

The cash flow for BBB for the period under review also highlights that underlying earnings are consistent with prior periods.The Company generated $18.1 million net cash from operating activities compared to $15.3 million last year.Cash on hand at the end of the current year is $14.6 million which is $0.7 million greater than the start of the year. Furthermore during this period BBB paid a dividend totalling $8.3 million (a 41% or $2.4 million increase on last year), income tax of $2.9 million and made loans of $11.1 million to joint venture parties B Shop and SPTCom.

Chairman, Mr David Fairfull stated “The B Digital results for the year are most disappointing however they have been affected by a number of non-recurring significant items and accounting adjustments that are mainly of a non cash nature. The underlying normalised earnings of the Company are satisfactory given the current telco climate and the strong cash position of the company at the end of the year is evidence of this performance. The strong cash position is despite paying an increased dividend and providing loans to related entities”.

The Directors are unable to declare a final dividend due to the Company recording a Net Loss for the current financial year and having negative Retained Earnings at year end.

The significant items arising in the year included:

- Changes in the accounting policies following the adoption of International Financial Reporting Standards (AIFRS) which has resulted in the commencement of recognition of employees share options as an expense, amortisation of non current intangibles, a change in accounting treatment of subscriber acquisition costs and the impairment of goodwill.
- Losses incurred in the write off of the investment in B Shop and BBB share of trading losses. BBB acquired a 50% interest in B Shop in April 2005 for $4.2 million. After making this investment there were significant operational inefficencies and discrepancies discovered. Furthermore, a number of costs applicable prior to acquisition arose requiring write off in the post acquisition period. In July 2006, BBB sold the 50% shareholding in B Shop and acquired assets and liabilities of B Shop at a cost of $200,000. The disposal of shares held in B Shop and acquisition of the B Shop assets and liabilities has resulted in B Shop operations being wholly owned by BBB.
- During the year, BBB commenced the implementation of operational initiatives as part of an overall strategic review of the various business units within the BBB group. This process will result in the operational integration of these business units and utilisation of the network assets owned by SPTCom in which BBB holds a 50% interest. The migration of traffic to the SPTCom network, which will result in improved margins, commenced during the financial year. This review will also result in cost savings for BBB. As part of the review a number of executives and employees have left the company in the year resulting in redundancy costs of $0.8 million which will be offset by savings in subsequent periods
- SPTCom has recorded a net loss for the current year. The BBB investment in SPTCom was partially to capitalise on the benefits of infrastructure ownership through improved margins and competiveness. During the year BBB was not able to divert traffic to the SPTCom network. The transfer of BBB voice, internet and data products commenced in April 2006 and is continuing. The full benefit of migration will be realised in April 2007.
- During the year it was determined that assets and receivables recorded in prior periods were not recoverable and required write off in the current period. Furthermore, the results of a prior period GST audit were borne in the current half year.

Revenue in the current financial year is $358.8 million which is 6% greater than last year. On a 12 month comparative basis revenue is 2.1% less than last year. The reduction in revenue is due to a number of factors, mainly:

- Reduced volumes of mobile connects in the period and therefore reduced commission.

- Reduction in the level of commission on mobile connects.
- The increased competitiveness in the mobile sector particularly with the introduction of capped and prepaid plans.
- The variability in mobile handset sales.
- Reduction in international override revenue.
- Disruption in B Shop operations during the period.

Gross Profit margin in the current year was an average of 25.5% compared to last year's average of 27.0%. This is largely attributable to the competitiveness in the mobile telephony market and an increase in total service and preselect voice customers.

Operating expenses for the year after adjusting for significant items and the 13 month reporting period are 1.6% higher than last year.

Mr Fairfull concluded "whilst directors have taken a number of strategic initiatives to improve the positioning of B Digital we are operating in a difficult market in the telecommunications sector. We still have some challenges ahead particularly in the integration of our business units and rationalisation of B Shop. This is a difficult market where infrastructure ownership is essential and our investment in SPTCom will hopefully allow us to compete effectively in this regard. The commencement of the migration of traffic to SPTCom has seen the company record positive profit after tax in June and July 2006 and we anticipate further improvement in the new financial year".

For further information, please contact:

Mr David Fairfull
Chairman, BBB
02 9210-7000

Mr Michael Simmons
CEO, BBB
02 8220-6000

B Digital Limited and its controlled entities

ABN 99 085 089 970

Appendix 4E

Preliminary final report

For thirteen months ended 31 July 2006

Contents of Appendix 4E

Appendix 4E
Preliminary final report
31 July 2006
B Digital Limited and its controlled entities

1 Details of the reporting period and the previous corresponding period

The preliminary final report of the Company for the thirteen months ended 31 July 2006 comprise the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities. B Digital Limited has aligned its reporting dates with its ultimate parent entity, SP Telemedia Limited, pursuant to Sections 323D(3) and 323D(4) of the Corporations Act 2001. Accordingly, this preliminary final report is for the thirteen months ended 31 July 2006. The comparative period income statement is for the twelve months ended 30 June 2005.

2 Results for announcement to the market

	B Digital Limited and its controlled entities			
	13 months ended 31 July 2006	**12 months ended 30 June 2005**	**Movement**	**Movement**
In thousands of AUD				%
Extract from the income statement				
Revenue	**358,812**	338,439	20,373	6%
(Loss) / profit for the financial period / year	**(67,651)**	27,352	(95,003)	> 100%

3 Income statement for the period ended 31 July 2006

	B Digital Limited and its controlled entities	
In thousands of AUD	13 months ended 31 July 2006	12 months ended 30 June 2005
Revenue	358,812	338,439
Cost of sales	(267,393)	(246,953)
Gross profit	**91,419**	**91,486**
Expenses	(148,185)	(63,929)
Results from operating activities	**(56,766)**	**27,557**
Financial income	2,597	3,533
Financial expense	(938)	(1,460)
Net financial income	**1,659**	**2,073**
Share of loss of joint venture entities	(6,962)	(1,241)
(Loss) / profit before tax	**(62,069)**	**28,389**
Income tax expense	(5,582)	(1,037)
(Loss) / profit after tax	**(67,651)**	**27,352**
Earnings per share (AUD) from continuing operations		
Basic	(0.08)	0.04
Diluted	(0.08)	0.04
Dividends per share (AUD)		
Ordinary shares	-	0.01

4 Balance sheet as at 31 July 2006

	Consolidated	
In thousands of AUD	31 July 2006	30 June 2005
ASSETS		
Cash and cash equivalents	14,599	13,879
Trade and other receivables	53,880	45,258
Inventories	2,579	2,000
Intangible assets	36,690	36,686
Assets classified as held for sale	500	-
Other	696	1,853
Total current assets	**108,944**	**99,676**
Receivables	8,915	19,232
Investments accounted for using the equity method	39,369	46,329
Deferred tax assets	1,475	2,175
Property, plant and equipment	3,837	4,222
Intangible assets	53,612	118,067
Other	1,187	5,297
Total non-current assets	**108,395**	**195,322**
Total assets	**217,339**	**294,998**
LIABILITIES		
Trade and other payables	43,962	46,380
Interest-bearing loans and borrowings	8,914	416
Employee benefits	1,309	1,245
Income tax payable	3,055	1,077
Provisions	224	458
Unearned revenue	32,767	33,538
Income in advance	3,117	4,492
Total current liabilities	**93,348**	**87,606**
Interest-bearing loans and borrowings	16	8,098
Employee benefits	270	198
Provisions	-	-
Total non-current liabilities	**286**	**8,296**
Total liabilities	**93,634**	**95,902**
Net assets	**123,705**	**199,096**

4 Balance sheet (continued) as at 31 July 2006

	Consolidated	
In thousands of AUD	**31 July 2006**	**30 June 2005**
EQUITY		
Issued capital	230,780	230,780
Reserves	576	22
Accumulated losses	(107,651)	(31,706)
Total equity	**123,705**	**199,096**

5 Statement of changes in equity for the period ended 31 July 2006

		Consolidated	
In thousands of AUD	Note	**13 months ended 31 July 2006**	**12 months ended 30 June 2005**
Total equity at the beginning of the financial period/year		**199,096**	**85,179**
Foreign exchange translation differences		(133)	(4)
Net expense recognised directly in equity		**(133)**	**(4)**
(Loss) / profit for the financial year		**(67,651)**	**27,352**
Total recognised income and expense for the financial year		**(67,784)**	**27,348**
Transactions with equity holders in their capacity as equity holders			
Share issued		-	92,160
Equity-settled transactions		687	289
Dividends paid		(8,294)	(5,880)
		(7,607)	86,569
Total equity at the end of the financial period / year		**123,705**	**199,096**
Total recognised income and expense for the financial year attributable to equity holders of the parent		**(67,784)**	**27,348**

6 Statement of cash flows for the period ended 31 July 2006

	Consolidated	
	13 months ended 31 July 2006	12 months ended 30 June 2005
In thousands of AUD		
Cash flows from operating activities		
Cash receipts in the course of operations	425,716	378,506
Cash payments in the course of operations	(407,269)	(357,712)
Cash generated from operations	18,447	20,794
Interest received	2,597	1,072
Interest paid	(78)	(86)
Income taxes paid	(2,905)	(6,496)
Net cash from operating activities	18,061	15,284
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,626)	(2,828)
Acquisition of controlled entities, net of cash acquired	-	(1,823)
Acquisition of investments	-	(17,318)
Security deposits receipts	4,111	465
Cash acquired in controlled entity	-	1,566
Net cash from investing activities	2,485	(19,938)
Cash flows from financing activities		
Repayment of finance lease liabilities	(444)	(448)
Loans to related parties	(11,088)	(3,790)
Dividends paid	(8,294)	(5,880)
Net cash from financing activities	(19,826)	(10,118)
Net increase / (decrease) in cash and cash equivalents	720	(14,772)
Cash and cash equivalents at 1 July	13,879	28,649
Effect of exchange rate fluctuations on foreign currency cash balances	-	2
Cash and cash equivalents at 31 July / 30 June	14,599	13,879

7 Details of individual and total dividends

Dividends for financial year 2005 comprised of a 1 cent fully franked dividend totalling $8.3 million and paid on 13 December 2005.

8 Statement of accumulated losses

A reconciliation of movements in accumulated losses is as follows:

	B Digital Limited and its controlled entities	
	31 July 2006	**30 June 2005**
In thousands of AUD		
Balance at 1 July	**(31,706)**	(53,178)
Total recognised income and expense	**(67,651)**	27,352
Dividends to shareholders	**(8,294)**	(5,880)
Balance at 31 July / 30 June	**(107,651)**	(31,706)

9 Net tangible assets per security

	B Digital Limited and its controlled entities	
	31 July 2006	**30 June 2005**
	$	$
Net tangible assets per ordinary share	0.04	0.05

Net tangible assets per ordinary share as at 30 June 2005 has been restated to reflect the adoption of the Australian equivalents to International Financial Reporting Standards.

10 Details of investments associates and jointly controlled entities

Name	Principal activities	Reporting date	Ordinary share ownership interest 31 July 2006	Ordinary share ownership interest 30 June 2005
			%	%
SPTCom Pty Ltd	Telecommunications	31 July	50	50
B Shop Telecommunications Pty Ltd	Telecommunications	31 July	-	50
Kooee Pty Ltd	Telecommunications	31 July	50	50

All investments are incorporated in Australia.

Sale of investments

On 17 July 2006 the consolidated entity disposed of its 50% shareholding in B Shop Telecommunications Pty Ltd (B Shop). The revenue on the sale of the investment was not considered significant. The transaction also involved the consolidated entity acquiring 100% of the business and assets of B Shop for the amount of $200,000. The assets have been taken up at the following fair values:

	In thousands of AUD
Assets of B Shop taken up	
Cash at bank / cash on hand	112
Security deposits	2
Sundry debtors	39
Store bonds	35
Inventory (net of provision for obsolescence)	1,144
Property, plant & equipment	500
	1,832

The liabilities taken up by the consolidated entity include the following items:

	In thousands of AUD
Liabilities of B Shop taken up	
Creditors	239
Creditor accruals	84
Annual leave provision	251
Taxes payable	88
Finance agreements	21
Provision for 'make good' costs	165
	848
Net assets	984
Consideration	
Cash on settlement	200
Loans and advances	784
Total consideration	984

10 Details of investments associates and jointly controlled entities (continued)

The movements in the carrying amounts for associates and jointly controlled entities are as follows:

	SPTCom Pty Ltd	B Shop Telecommunications Pty Ltd	Kooee Pty Ltd	Total
Carrying amount at 1 July 2005	41,222	4,248	859	46,329
Acquisition adjustments	67	(40)	(52)	(25)
Share of losses after income tax	(2,023)	(1,263)	(62)	(3,348)
Amortisation of intangible asset	(643)	(491)	-	(1,134)
Impairment loss on goodwill	-	(2,454)	-	(2,454)
Carrying amount at 31 July 2006	38,623	-	745	39,368

11 Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Balance sheet

Net assets at 31 July 2006 are $124 million compared with net assets of $199 million at 30 June 2005. The decrease in net assets of $75 million comprised a decrease in total assets of $77 million, offset by a decrease in total liabilities of $2 million.

The decrease in total assets of $77 million was primarily due to a $66 million writedown in the carrying value of goodwill in Kooee Communications Pty Ltd. The goodwill for the entity was tested for impairment on the basis of value in use as at 31 July 2006 using a discounted cash flow ("DCF") model applied against forecasted earnings for the company for the next 3 years together with a further 2 years of zero growth and a terminal value. A pre-tax discount rate of 15%, consistent with the rate included in the April 2005 Independent Expert's Report on the B Digital / Kooee / SPTCom transaction has been applied. Since acquisition, the performance of Kooee Communications has failed to meet expectation and the turn around following the problems of migrating the customer base from Primus has not eventuated.The Kooee goodwill was tested for impairment by two valuation models both of which demonstrated the goodwill had been fully impaired. As a consequence, these assets have been fully written down at 31 July 2006.

Other material movements contributing to the reduction in net assets have been:

- A $7.0 million reduction in equity accounted investments, mainly as a result of a $4.2 million writedown in the carrying value of B Shop, $2.0 million share of losses in SPTCom and $0.6 million amortisation of intangibles (refer to note 10 for more details).
- A reduction in other non current assets with the return of a $4.6 million deposit previously held by Optus as security but released as part of a new whole of business agreement signed with Optus on 30 March 2006.

Net liabilities included reclassification of related party loans from non current to current. Pursuant to the Digiplus Share Sale Deed, the loans represent the remaining sale proceeds owed by the Company.

Statement of cash flows

The Company reported a growth in operating cash flow and net cash flow position during the period under review which enabled the company to pay an increased dividend payment and provide funding to its joint venture entities. Cash on hand increased from $13.9 million at 30 June 2005 to $14.6 million at 31 July 2006.

Net cash provided by operating activities totalled $18.1 million which was $2.8 million higher than for the previous financial year, outlining the strength of the underlying earnings.

During the current period the Company paid a dividend of $8.3 million representing a $2.4 million or 41% increase on last years dividend.

Cash used in financing activities was a $19.8 million outflow representing an increase of $9.7 million over the prior year. This consisted of a dividend payment of $8.3 million, loans to SPTCom of $5.1 million and loans and advances of $6.0 million to B Shop to fund operational activities and new store roll outs.

12 Commentary on the results for the period

Income statement

The net loss for the period under review was $67.7 million (2005: net profit $27.4 million). The results were affected by a number of once off adjustments and significant items. The profit before income tax and significant items was $21.2 million reconciled as follows:

	In thousands of AUD
Net loss after income tax	**(67,651)**
Income tax expense	5,582
Impairment loss on goodwill in Kooee Communications Pty Ltd	65,699
Writedown in investment and loans and receivables in B Shop	10,976
Share of JV losses / amortisation of intangible in SPTCom	2,666
Assets written off relating to a prior period now not considered recoverable	1,959
Costs arising from group strategy and restructure	1,320
Recognition of employee share options expense (issued 2005) under AIFRS	687
Net profit before income tax and significant items	**21,238**

Total revenue from operating activities for the 13 month period was $359 million (2005: $338 million). After pro rata adjustment for the extra month in the reporting period, this reflects a decrease of 2.4% or $8 million on prior year operating revenues. This was largely due to a decrease in commission revenues and lower connection volumes.

Gross profit was $91.4 million (2005: $91.5 million), a decrease of $7.1 million after pro rata adjustment for 12 months reflecting the competitive nature of the telecommunications sector, the introduction and popularity of capped call mobile plans and the change in service mix from the more traditional higher margin mobile, international override and dial up internet services to lower margin broadband internet and fixed wire preselected and total service voice services.

Total operating expenses (before share of joint venture losses, depreciation and amortisation charges, interest expenses and income tax expense) was $80.3 million (2005: $61.6 million), an increase of $18.7 million from the prior year. A significant portion of this increase, $10.4 million was attributable to the once off adjustments described above included within the operating expense lines and $2.1 million was due to the revenue share expense pursuant to the heads of agreement in the Kooee joint venture. The adjusted total operating expenses after considering these two items is $67.8 million, an increase of 10% which reflects the additional month in the current reporting period.

Income tax expense for the 13 month period was $5.6 million (2005: $1.0 million) despite the consolidated entity making a loss for the current period. This was mainly due to the non-deductibility of the $66 million writedown in the carrying value of goodwill in Kooee Communications as well as the write down in the loans, receivables and investment in B Shop.

For the period under review the Company recognised $7.0 million in share of joint venture entity losses. Of this, $4.2 million was a result of the writedown in the carrying value of B Shop Telecommunications Pty Ltd (explained further in note 10), $2.0 million was attributable to the share of losses recorded by SPTCom and $0.6 million was the amortisation of the SPTCom intangible brought to account at acquisition.

13 A statement about the audit status

The preliminary final report is based on the B Digital Limited and its controlled entities financial report as at 31 July 2006 which is in the process of being audited.

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS)

This is the consolidated entity's first financial report prepared under the Australian Equivalents to International Financial Reporting Standards (AIFRS) as adopted by the Australian Accounting Standards Board (AASB). The transitional rules for first time adoption of AIFRS require a restatement of comparative financial report under AGAAP to AIFRS. Comparatives were remeasured and restated for the financial year ended 30 June 2005. Most of the adjustments on transition were made to opening accumulated funds at the beginning of the first comparative period at 1 July 2004.

An explanation of how the transition from previous Australian GAAP to AIFRS has affected the consolidated entity is set out in the following tables and the notes.

Reconciliation of Equity

In thousands of AUD		**AGAAP**	**Effects of transition to AIFRS**	**AIFRS**
			30 June 2005	
ASSETS				
Cash assets		13,879	-	13,879
Receivables		45,258	-	45,258
Inventories		2,000	-	2,000
Intangibles	(e)	-	36,686	36,686
Other		1,853	-	1,853
Total current assets		62,990	36,686	99,676
Receivables		4,540	14,692	19,232
Investments accounted for using the equity method		45,558	771	46,329
Property, plant & equipment		4,222	-	4,222
Deferred tax asset	(g)	1,704	471	2,175
Intangibles	(b)	110,628	7,439	118,067
Other	(c), (e)	30,113	(24,816)	5,297
Total non current assets		196,765	(1,443)	195,322
Total assets		259,755	35,243	294,998

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation of equity (continued)

In thousands of AUD		AGAAP	Effects of transition to AIFRS 30 June 2005	AIFRS
LIABILITIES				
Payables	(e)	46,456	(76)	46,380
Interest bearing liabilities		416	-	416
Current tax liabilities		1,077	-	1,077
Employee benefits		1,245	-	1,245
Provisions	(e)	1,419	(961)	458
Unearned revenue	(e)	3,007	30,531	33,538
Income in advance	(e)	4,074	418	4,492
Total current liabilities		57,693	29,913	87,606
Interest bearing liabilities		8,098	-	8,098
Employee benefits		198	-	198
Total non-current liabilities		8,715	(419)	8,296
Total liabilities		66,408	29,494	95,902
Net assets		193,347	5,749	199,096
Equity				
Issued capital		230,491	289	230,780
Reserves		22	-	22
Accumulated losses	(h)	(37,166)	5,460	(31,076)
TOTAL EQUITY		193,347	5,749	199,096

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(a) Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been re-stated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1 as discussed in that standard.

(b) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is included on the basis of its amortised cost, which represents the amount recorded under Australian GAAP, adjusted for re-classifications of other intangible assets not meeting with AIFRS recognition criteria or previously subsumed in goodwill.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and tested annually for impairment (refer (d) below for further details on impairment testing.) Goodwill is not amortised under AIFRS. As a consequence, amortisation expense of $7.3 million for the year ended 30 June 2005 has been reversed, resulting in a corresponding increase in goodwill and decrease in accumulated losses at 30 June 2005 respectively.

Other intangible assets

For post transition acquisitions, other identifiable intangible assets acquired have been stated at cost less accumulated amortisation and impairment losses. Intangible assets separately identified on transition to AIFRS include the acquired customer bases of $1.3 million and the entitlement to airtime commission of $0.6 million. A deferred tax liability of $0.6 million was recognised on acquisition in respect of these intangible assets with a corresponding increase in goodwill. At 30 June 2005 a deferred tax liability of $0.1 million remained in respect to these intangibles.

(c) Amortisation

Amortisation has been recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite life have not been subject to amortisation but tested for impairment annually. Other intangible assets have been amortised from the day they are available for use. The useful lives of intangible assets have been determined as follows:

- acquired customer bases - 7 to 14 months; and
- entitlement to airtime commission - 24 months.

The impact on the results for the consolidated entity for the year ended 30 June 2005 is to reverse goodwill amortisation of $7.3 million, and to increase amortisation expense of intangible assets of $0.4 million.

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(d) Impairment

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets, goodwill and indefinite life intangible assets have been reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill, which is not amortised under AIFRS (refer (b) above) is tested for impairment annually.

Under previous Australian GAAP the carrying amount of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of non-current assets exceeds the recoverable amount, the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

If there is any indication that an asset is impaired, the recoverable amount has been estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs will be determined.
A cash-generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash-generating unit exceeds it recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash-generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Goodwill has been tested for impairment at 30 June 2005. No impairment loss has been identified.

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(e) Accounting for subscriber acquisitions

(i) Commission revenue

Under AIFRS, revenue for services that are performed over a contract period are recognised on a straight-line basis over the specified contract period. Therefore activation and retention commission revenues are deferred and amortised over the contract term.

Under AGAAP activation and retention commission revenue is recognised when the fee in respect of the services is earned. This has been when the customer was activated or was retained.

(ii) Handset revenue and cost of sale

Under AIFRS multiple elements of a single transaction are separately recognised. Accordingly revenue arising from handset sales is separately recognised at the time of delivery and is measured at fair value. Where the handset sale is settled through instalments, interest revenue is recognised over the contract term. As all handset revenue is now separately recognised, all related handset costs are expensed at the time of delivery.

Under AGAAP those handsets offered as part of the total telecommunication service contract were not separately identified as a handset sale, rather the provision of the telecommunications service, inclusive of the handset, was treated as one transaction.

(iii) Subscriber acquisition costs

Under AIFRS UIG1042 Subscriber Acquisition Costs in the Telecommunication Industry specifically excludes handset costs which are now expensed as discussed above. As commission received is now separately deferred, acquisition costs are capitalised on a gross basis. Subscriber acquisition costs are classified as current assets on the balance sheet.

Under AGAAP capitalised subscriber costs include handset and other costs directly attributable to the acquisition and retention of subscriber contracts. Where costs attributable to acquisitions exceed associated revenues, costs, net of revenue, were deferred. Subscriber acquisition costs were previously classified as non current assets.

The effect on the income statement of the consolidated entity for the year ended 30 June 2005 is to increase net profit by $2.6 million, comprising decreased revenue from service fees ($17.9 million), increased revenue from handset sales ($14 million), commission revenue ($13.3 million), disconnection revenue ($0.5 million) and interest income ($1.9 million) totalling $11.8 million, and to decrease net profit by increased cost of goods sold ($10.6 million), increased airtime and services expenses ($1.1 million), marketing costs ($3.7 million) and decrease in acquisition and retention cost of sales ($6.2 million) totalling $9.2 million.

As a consequence of the above, a deferred tax asset has been recognised in relation to the deferred income. The deferred tax asset recognised at 30 June 2005 was $9.1 million.

Also an adjustment to the deferred tax liability relating to deferred subscriber acquisition costs has also arisen. The impact of the above changes was to increase the deferred tax liability at 30 June 2005 by $3.6 million. A deferred tax liability has been recognised in relation to the upfront recognition of handset costs. The deferred tax liability recognised at 30 June 2005 was $4.4 million.

The effect of the re-classification of subscriber acquisition costs from non-current to current assets together with the adjustments noted above is an increase in current assets of $36.7 million at 30 June 2005.

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(f) Share based payments

Under AIFRS, the fair value of options and shares that are equity settled have been recognised as an employee benefit expense with a corresponding increase in equity. Under current Australian GAAP no expense was recognised for options or shares that are equity settled issued to employees.

The fair value has been measured at grant / issue date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options and shares.

For the financial year ended 30 June 2005, employee benefits expense and accumulated losses increased by $0.3 million in the consolidated entity.

(g) Taxation

In addition to the deferred tax adjustments described in the notes above, further adjustments arising from the adoption of AASB 112 have been made as follows:

A deferred tax liability has been brought to account in relation to loans with related parties in relation to the Digiplus acquisition, with a corresponding adjustment to goodwill of $0.6 million at 1 July 2004. This has reduced to $0.4 million at 30 June 2005. A deferred tax asset has been brought to account in relation to the loss from interest in joint ventures of $0.3 million as at 30 June 2005.

The above changes increased/(decreased) deferred tax assets as follows:

In thousands of AUD	**Note**	**30 June 2005**
Deferred income	(e)	9,139
Handset sales	(e)	(4,408)
Loans		(387)
Subscriber acquisition costs	(e)	(3,565)
Provisions	(e)	(528)
Investments in joint venture entities		331
Intangible assets	(b)	(111)
		471

(h) Summary of impact of transition to AIFRS on accumulated losses

The impact of the above adjustments is to (increase)/decrease accumulated losses as follows:

In thousands of AUD	**Note**	**30 June 2005**
Goodwill amortisation	(c)	7,280
Amortisation of intangible assets	(c)	(359)
Subscriber acquisitions and handset sales	(e)	(2,933)
Share based payments	(f)	(289)
Taxation		1,761
		5,460

14 Explanation of transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(h) Summary of impact of transition to AIFRS on retained earnings (continued)

Reconciliation of Profit

In thousands of AUD	**Note**	**AGAAP**	**Effects of transition to AIFRS 30 June 2005**	**AIFRS**
Revenue	(e)	328,560	9,879	338,439
Cost of sales	(e)	241,442	5,511	246,953
Gross profit		87,118	4,368	91,486
Expenses	(b) (e)	66,535	(2,606)	63,929
Results from operating activities		20,583	6,974	27,557
Financial income	(e)	1,681	1,852	3,533
Financial expenses		(1,460)	-	(1,460)
Share of losses in jointly controlled entities		1,601	(360)	1,241
Profit before tax		19,203	9,186	28,389
Income tax expense	(g)	1,272	(235)	1,037
Profit for the period		17,931	9,421	27,352