



Company Announcements Platform
Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000

25 October 2006

Our Ref: 060306
Solicitor: Simon Jenkins

Dear Sir/Madam

**B Digital Limited Target's Statement
Takeover Bid by SP Telemedia Limited**

We act for B Digital Limited ("B Digital") in relation to the takeover bid by SP Telemedia Limited ("SP Telemedia") for all of the ordinary fully paid shares in B Digital.

We **attach**, in accordance with section 633(1) (item 14) of the *Corporations Act 2001*, a copy of the target's statement (including an independent expert's report by Deloitte Corporate Finance Pty Limited) prepared by B Digital in connection with the takeover bid.

The target's statement has been or will be lodged with the Australian Securities and Investments Commission and sent to SP Telemedia today.

Yours faithfully

PRICE SIERAKOWSKI

enclosures (x1)

CB24611

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TARGET'S STATEMENT

in response to the offer by

SP TELEMEDIA LIMITED ABN 46 093 058 069

to acquire all of your ordinary shares in

B DIGITAL LIMITED ABN 99 085 089 970

The Independent Directors of B Digital, having regard to the Independent Expert's conclusion that the Offer is fair and reasonable and other factors, recommend that you **ACCEPT** the Offer in the absence of a superior proposal.

This document contains the Target's Statement of B Digital Limited and includes an Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited.

This is an important document and requires your immediate attention

If you are in any doubt as to how to deal with it, please consult your stockbroker, legal or financial adviser

Price Sierakowski

Legal Advisers

Key Information

Announcement Date	25 September 2006
Date of the Bidder's Statement	26 September 2006
Date Offer made (beginning of the Offer Period)	10 October 2006
Date of this Target's Statement	25 October 2006
Close of Offer (unless extended or withdrawn)	7.00pm on 13 November 2006 (Sydney, Australia time)

Offer consideration

16 cents for each B Digital Share

Important notices

This document is a Target's Statement dated 25 October 2006 issued by B Digital under Part 6.5 Division 3 of the Corporations Act in response to the Bidder's Statement dated 26 September 2006 given to B Digital by SPT.

You should read this Target's Statement in its entirety.

A number of defined terms are used in this Target's Statement. These terms are explained in the Glossary in **section 12**, along with certain rules of interpretation in **section 11** which apply to this Target's Statement.

A copy of this Target's Statement, which has been approved by a resolution of the Directors of B Digital, has been lodged with ASIC and sent to ASX. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

No account of personal circumstances

This Target's Statement does not take into account the individual objectives, financial situation or particular needs of Shareholders. It does not contain personal financial or taxation advice. The Independent Directors encourage you to seek your own independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

Forward looking statements

This Target's Statement contains forward looking statements. All statements other than statements of historical fact are forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties, many of which are beyond the control of B Digital. Those risks and uncertainties include factors and risks specific to the B Digital's industry as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expected or implied in any forward looking statement and such deviations are both normal and to be expected. None of B Digital, any of its Directors or Officers, any person named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement, makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on those statements.

Any forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Further information

Further information relating to the Offer can also be obtained from B Digital's website: www.bdigital.com.au.

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25 October 2006

Dear Shareholder,

ACCEPT SP TELEMEDIA LIMITED OFFER

On 25 September 2006, SP Telemedia Limited (ABN 46 093 058 069) (**Bidder**), announced a proposal to acquire B Digital (ABN 99 085 089 970) (**Company**) for 16 cents per B Digital Share by a conditional offer under a takeover bid for all B Digital Shares (**Offer**).

You should have recently received the Offer from the Bidder to acquire all of your B Digital Shares for 16 cents each.

B Digital's Directors David Fairfull, Denis Ledbury and Peter Cleaves (the Common Directors) are also directors of SPT. Given the common directorships, the Board of B Digital has established a sub-committee comprising Peter George, William Egan and Ian Fraser to consider the Offer by SPT, formulate and prepare the Target's Statement and the B Digital Directors recommendations, and make all B Digital Board decisions in relation to the Offer.

This booklet includes the Target's Statement, which has been prepared on behalf of the Company by the Directors who are not associated with the Bidder.

This Target's Statement sets out your Independent Directors recommendation in response to the Offer. We encourage you to read carefully all of the information contained in this booklet and seek independent financial and taxation advice.

Attached to the Target's Statement is an Independent Expert's Report on the Offer by Deloitte Corporate Finance Pty Limited (the **Independent Expert**). The Independent Expert's Report concludes that the Offer is fair and reasonable.

Although the SPTCom Pty Ltd integrated IP network is now functioning and cost consolidation has been largely completed, this is unlikely to cause a re-rating of the Company in the foreseeable future.

The Independent Directors unanimously recommend that you accept the Offer, in the absence of a superior proposal, for the reasons set out in **section 3** of the Target's Statement.

Your Independent Directors will keep you informed of any material developments in relation to the Offer.

If you have any queries in relation to our response to the Offer, please call the B Digital's Shareholder information line on 1300 304 720 (or +61 89463 5987 if calling from outside Australia) during business hours (9.00am to 5.00pm Perth, Western Australia).

Yours sincerely

Ian Fraser
Director

William Egan
Director

Peter George
Director

1 Summary of Offer

SPT is offering to acquire all of your B Digital Shares through an offer under a takeover bid. The consideration offered by SPT is 16 cents for each B Digital Share.

The Offer is open for acceptance until 7.00pm (Sydney, Australia time) on 13 November 2006 (unless extended by SPT or withdrawn), and is subject to one condition. Details of the Offer and the condition are set out in section 8 of the Bidder's Statement. The Offer is also discussed in more detail in **section 6** of this Target's Statement.

2 Independent Expert Concluded the Offer is Fair and Reasonable

In accordance with its obligations under the Corporations Act, B Digital commissioned a report by the Independent Expert. Having regard to the factors noted below, in the Independent Expert's view, the Offer is fair and reasonable.

The key conclusions from the Independent Expert's Report are as follows:

- *The consideration offered by SPT is within the range of the Independent Expert's estimate of the fair market value of a B Digital Share.*
- *No other bidders have emerged between 25 September 2006, the date the Offer was announced, and the date of the Independent Expert's Report.*
- *Other purchasers would experience a number of difficulties in extracting synergies from an acquisition of B Digital as the B Digital and SPT businesses are already fairly intertwined as a result of:*
 - *SPT's 45.8% shareholding in B Digital.*
 - *The 50:50 joint venture, SPTCom Pty Ltd, and B Digital's commitment to migrate its fixed line and Internet customers onto this infrastructure. It is likely that any other purchaser would be locked into this arrangement.*
 - *Transition to a co-branding arrangement with the Soul brand rather than solely marketing B Digital's own three brands. Any other purchaser would likely have to incur capital expenditure to assist in re-establishing the prominence of the B Digital brands in the marketplace.*
 - *Consolidating banking and insurance activities.*
- *B Digital's share price has been volatile over the past six months with a high of 18 cents, a low of 7 cents and a VWAP of 11 cents.*
- *The acceptance by B Digital's second largest shareholder is a strong signal that the Offer is considered attractive.*

The Independent Expert's Report is an annexure to this Target's Statement.

3 Directors' recommendation

3.1 Directors of B Digital

As at the date of this Target's Statement, the Directors of B Digital are:

Name
David Fairfull (Non executive Chairman)
Peter George (Non executive director)
William Egan (Non executive director)
Denis Ledbury (Non executive director)
Peter Cleaves (Non executive director)
Ian Fraser (Non executive director)

B Digital's Directors David Fairfull, Denis Ledbury and Peter Cleaves (the Common Directors) are also directors of SPT. Given the common directorships, the Board of B Digital has established a sub-committee comprising Peter George, William Egan and Ian Fraser to consider the Offer by SPT, formulate and prepare the Target's Statement and the B Digital Directors recommendations, and make all B Digital Board decisions in relation to the Offer.

In addition, the Common Directors have, as stated in section 4.2 of the Bidder's Statement, agreed to absent themselves from any B Digital Board meeting where any discussions in relation to the offer take place, and will continue to do so until completion of the Offer.

Accordingly, each of the Independent Directors' desires to make, and considers they are justified in making, a recommendation in relation to the Offer.

3.2 Recommendation

The Independent Expert's Report values B Digital's Shares in the range 14.4 to 19.8 cents per B Digital Share and states that the Offer is fair and reasonable.

Each of the Independent Directors recommend that you **accept** the Offer in the absence of a superior proposal.

Each of David Fairfull, Peter Cleaves and Denis Ledbury do not make a recommendation in relation to the Offer, as they are each a director and associate of SPT.

In considering whether to accept the Offer, the Independent Directors encourage you to:

- read both this Target's Statement, including the Independent Expert's Report and the Bidder's Statement in their entirety;

- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the alternatives in **section 4**; and
- obtain financial advice from your own broker or financial adviser regarding the Offer and obtain taxation advice on the effect of accepting the Offer.

3.3 Directors' reasons for their recommendation

The key reasons for your Independent Directors' recommendation to **accept** the Offer are as follows:

a) Independent Expert's assessment of the Offer

The Independent Expert's opinion is that the Offer is both fair and reasonable. The Offer price falls within the range of the Independent Expert's estimate of the fair market value of a B Digital Share.

b) Shares have not traded above the Offer price

Since the Offer was announced on 25 September 2006, B Digital Shares have not traded above the 16 cent Offer price.

c) Acceptance by second largest shareholder

On 19 October 2006, Kilaben Holdings, B Digital's second largest shareholder, accepted the Offer in respect of its 17.7% holding in B Digital. This acceptance of the Offer is a strong signal that the Takeover Offer is considered attractive.

d) No alternative Offer has emerged

Since the Offer was announced on 25 September 2006, no superior offer or proposal has been made. Your Independent Directors now believe there is a low likelihood of a rival bid emerging.

e) SPT now controls B Digital

On 19 October 2006, Kilaben Holdings accepted the Offer in relation to its 17.7% holding in B Digital. SPT therefore increased its shareholding to 63.5% and gained control of B Digital. This enables SPT to appoint the majority of Directors to the B Digital Board.

f) Intentions of SPT

SPT has announced its intention to proceed with compulsory acquisition of B Digital upon achieving a 90% interest in B Digital. In the event that SPT does not achieve a 90% interest, B Digital Shareholders not accepting the Offer risk becoming minority Shareholders in a relatively illiquid stock.

g) Share price in the absence of the Offer

Your Directors believe that if the Offer is not accepted and no alternative offer emerges, it is likely that the share price will fall below the level at which it has been trading since the Offer was announced.

The opportunity to realise the value attributed to the B Digital Shares arising out of the Offer may not otherwise be available for some time in the absence of the Offer or an alternative offer.

h) Premium to market price

The Offer represents a significant premium to the market price of B Digital Shares. The Offer price of 16 cents cash is:

- 33.3% higher than the closing price of B Digital Shares of 12 cents on 22 September 2006, being the last trading day before the Offer was announced.
- 50.0% higher than the volume weighted average price of B Digital Shares of 10.67 cents in the three months up to 22 September 2006, being the last trading day before the Offer was announced.

3.4 Directors' intentions in relation to the Offer

Each Independent Director who has a relevant interest in B Digital Shares intends to **accept** the Offer in relation to the B Digital Shares held by them, unless there is a material change in circumstances or a superior proposal is announced.

Ian Fraser and David Fairfull do not own or have a relevant interest in B Digital Shares.

Each of Peter Cleaves and Denis Ledbury have informed B Digital that they intend to **accept** the Offer in relation to the B Digital Shares held by them, unless there is a material change in circumstances or a superior proposal is announced.

B Digital will promptly advise you if there are any material developments in relation to the Offer or if alternative proposals are announced during the Offer Period.

Details of the relevant interests of each Director in B Digital Shares are set out in **section 7.1**.

4 Your alternatives

B Digital encourages you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your B Digital Shares.

You have the following alternatives as a Shareholder:

4.1 Accept the Offer

If you wish to accept the Offer, you should follow the instructions set out in sections 2.3 and 8.6 of the Bidder's Statement, and on the Acceptance Form. Your valid acceptance must be received before 7.00pm (Sydney, Australia time) on 13 November 2006, unless the Offer is extended or withdrawn.

The consequences of accepting the Offer are set out in section 8.7 of the Bidder's Statement.

In particular, if you accept the Offer you will not be able to sell your B Digital Shares on the market unless, at the time you decide you no longer wish to accept the Offer, you have the right to withdraw your acceptance. See **section 6.7** for details on withdrawing your acceptance. If the condition to the Offer is not satisfied or waived, or if SPT withdraws the Offer, you will retain your B Digital Shares and have the ability to sell your B Digital Shares on the market or into a subsequent offer, if one is made.

4.2 Not accept the Offer

If you wish to not accept the Offer and retain your B Digital Shares, you do not need to take any action.

If you do not accept the Offer and SPT becomes entitled to compulsorily acquire your B Digital Shares under the Corporations Act as it intends to do, you will be paid later than Shareholders who choose to accept the Offer. See **section 6.13** for details on compulsory acquisition.

Further, if the Offer is successful (in that the Offer is declared or becomes unconditional) but SPT does not become entitled to compulsorily acquire your B Digital Shares, you will remain a Shareholder. In that situation, you will be subject to the risks and other competitive factors facing B Digital's business and the Independent Directors refer you to section 4.9 of the Independent Expert's Report which sets out the strengths, weaknesses, threats and opportunities for B Digital.

4.3 Sell your B Digital Shares on the market

During a takeover, shareholders in a target company can still sell their shares on the market for cash.

If you wish to sell your B Digital Shares on the market, you will receive a cash amount according to the prevailing market value of your B Digital Shares, less any brokerage payable. You will receive payment sooner than if you accept the Offer, while it remains subject to the outstanding condition.

You will, however, lose the right to participate in the Offer including any subsequent increase in the Offer consideration.

Please note that you cannot sell your B Digital Shares on the market if you have accepted the Offer and have not validly withdrawn your acceptance.

If you are considering selling your B Digital Shares on the market, you should contact your broker for information on how to do so and your tax adviser to determine your tax implications from such a sale. Brokerage will not be payable by accepting Shareholders in respect to this Offer. The price for B Digital Shares and SPT shares can be obtained from the ASX website www.asx.com.au (subject to a 20 minute delay).

5 Important matters for Shareholders to consider

In making a decision whether to accept the Offer you should carefully consider your personal circumstances and have regard to the following matters:

5.1 Independent Expert's valuation

The Offer of 16 cents per B Digital Share is within the Independent Expert's valuation range of 14.4 to 19.8 cents per B Digital Share, as contained in the Independent Expert's Report.

5.2 Update in B Digital's financial performance

The Independent Directors did not include a forecast of B Digital's future financial performance in this Target's Statement, because they are of the view that revenue is subject to a number of variables, including but not limited to:

- actions of competitors in the telecommunications market;
- changes in technology;
- government regulation;
- reliance on wholesale providers; and
- changes in telecommunications market conditions;

which make revenue forecasts unreliable. As such, the Independent Directors considered it prudent not to include a forecast of financial information.

B Digital is currently negotiating with a third party with respect to the sale of B Shop. B Digital is unable to identify the effect on B Digital's performance unless and until any such negotiations result in a formal agreement.

5.3 Possible decrease in B Digital Share price

The Independent Directors consider that the B Digital Share price might fall in the absence of the Offer or in the absence of another equivalent or superior proposal.

The Independent Directors consider that the B Digital Share price might fall if the Offer lapses. See **section 6.12** for more information on lapse of the Offer.

5.4 Limited prospects of alternative proposal

No proposals have been put to B Digital or are currently under consideration by B Digital which are alternatives to the Offer and the Independent Directors are not aware of any other likely offer or proposal which might be made as an alternative to the Offer. The Independent Directors, therefore, believe that it is unlikely that an alternative offer or proposal for all B Digital Shares will be made in the foreseeable future.

You should note that your Independent Directors' recommendation of the Offer is subject to the absence of a superior proposal for your B Digital

Shares. Should such a proposal arise, your Independent Directors will reconsider their recommendation of the Offer and inform you accordingly.

5.5 Liquidity of B Digital Shares

SPT currently holds a 45.8% interest in B Digital Shares and under a pre-bid agreement has the right to acquire a further 3% of B Digital's issued share capital for 16 cents per B Digital Share from Kilaben Holdings. Full details of the pre-bid agreement are set out in section 10 of the Bidder's Statement. Additionally, SPT states in section 10 of the Bidder's Statement that and Mr Nick Kotzohambos announced on 25 September 2006, that he intends to accept the Offer by SPT for the remaining 17.7% interest in B Digital Shares held by Kilaben Holdings.

On 19 October 2006, SPT announced that Kilaben Holdings accepted SPT's Offer in respect of its remaining 17.7% interest in B Digital's issued share capital.

Further, SPT has stated in section 7.3.4 of the Bidder's Statement an intention to procure that an application be made to remove B Digital from the official list of ASX, should SPT become entitled to compulsorily acquire your B Digital Shares. However, if SPT does not become entitled to compulsorily acquire your B Digital Shares, SPT has stated in section 7.4.2 of the Bidder's Statement an intention to maintain B Digital's listing on ASX while B Digital meets ASX requirements for maintaining a listing.

Under these circumstances, if the Offer is successful, the liquidity of B Digital Shares is likely to be reduced, thereby impacting on Shareholders' ability to sell their B Digital Shares at price levels that reflect their value.

5.6 Controlling interest of SPT

SPT currently holds a controlling shareholding interest in B Digital. Therefore on declaring the Offer free from conditions, the controlling interest will enable SPT to control the activities of B Digital irrespective of the number of Shareholders who accept the Offer. SPT has given no indication that it intends to dispose of its interest in B Digital if the Offer is unsuccessful.

5.7 Superior proposals

If you accept the Offer, then unless you are able to withdraw your acceptance in the circumstances described in **section 6.7**, you will forgo the opportunity to benefit from any superior proposal by another party for your B Digital Shares, should such a proposal eventuate.

If SPT varies the Offer to increase the consideration it is offering for your B Digital Shares, and the Offer becomes unconditional, you will be entitled to receive the increased consideration even if you have already accepted the Offer.

5.8 Likelihood of Offer condition being satisfied

The Offer is subject to a condition, which is outlined in section 8.8 of the Bidder's Statement and in **section 6.8**.

The Independent Directors are of the view that the condition is likely to be fulfilled. No Prescribed Occurrence has occurred to the best knowledge of the Independent Directors and they are not aware of any fact or circumstance that would or is likely to give rise to a Prescribed Occurrence.

5.9 SPT's stated intentions with respect to the Offer and B Digital

Section 7 of the Bidder's Statement details SPT's intentions in respect of the business, assets and employees of B Digital. The following is a summary of those intentions.

- (a) If SPT becomes entitled to 90% or more of B Digital Shares, it, subject to the satisfaction or waiver of the Offer condition:
 - (i) will proceed to compulsory acquisition of all outstanding B Digital Shares, B Digital Employee Shares and B Digital Options (see **section 6.13**);
 - (ii) will undertake a detailed review of B Digital's assets, strategy and operations. The review will particularly focus on the matters set out in section 7.3.1 of the Bidder's Statement;
 - (iii) intends to replace the members of B Digital's Board (other than those B Digital Directors who are also directors of SPT) and the members of the boards of B Digital's Subsidiaries with nominees of SPT;
 - (iv) intends to retain the management personnel of B Digital in roles appropriate to their skills and expertise;
 - (v) will seek to find new roles for such employees that may become redundant as a result of the implementation of the above intentions; and
 - (vi) intends to arrange for B Digital to be removed from the official list of ASX.
- (b) If SPT becomes entitled to more than 50.1%, but less than 90% of B Digital Shares, it:
 - (i) intends to implement, to the extent that is feasible if B Digital is controlled by SPT but is not a wholly owned subsidiary, its intentions outlined in **section 5.9(a)**; and
 - (ii) maintain B Digital's listing on ASX while it meets ASX requirements for maintaining a listing;
 - (iii) intends (subject to the Corporations Act and B Digital's constitution) to seek to ensure that it has such proportion of its nominees on the B Digital Board as reflects its shareholding. SPT would seek to achieve this by making further appointments and/or replacing existing B Digital Directors with its nominees;
 - (iv) intends to review the dividend policy of B Digital having regard to any capital funding and ongoing operational requirements of

B Digital on the one hand and the appropriateness of paying dividends to shareholders on the other; and

- (v) if SPT becomes entitled at some future time to exercise general compulsory acquisition rights under the Corporations Act, SPT will exercise those rights.

Except as summarised above, SPT's current intention is to:

- continue the businesses of the B Digital Group in substantially the same manner as they are presently conducted;
- not make any major changes to the businesses of the B Digital Group (including the redeployment of the fixed assets of the B Digital Group); and
- continue the employment of the B Digital Group's present employees in accordance with their current terms.

5.10 Transaction expenses

The Offer has resulted in B Digital incurring expenses that would not otherwise arise from trading in the current financial year. Expenses include legal, financial and tax advisers engaged to assist in this transaction and other transaction related expenses which will have a negative impact on the after tax earnings in the current financial year.

5.11 Taxation

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances.

The discussion of the tax implications in section 9 of the Bidder's Statement is not intended to be an authoritative or complete statement of the law applicable to any given Shareholder. Your income tax and capital gains tax liabilities will depend on your personal circumstances and the decisions you make. It is strongly recommended that you seek independent advice in regard to your personal situation.

Neither B Digital nor any of its Officers or advisers accept any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences themselves.

6 Key terms of the Offer

6.1 The Offer

On 25 September 2006, SPT announced its intention to make a takeover bid for B Digital.

On 26 September 2006, SPT lodged its Bidder's Statement with ASIC and gave that document to B Digital. The Bidder's Statement contains SPT's Offer.

The Offer is to acquire all of your B Digital Shares, including any rights attaching to B Digital Shares. The consideration offered by SPT under the Offer is 16 cents for each B Digital Share and all rights attaching to each B Digital Share.

6.2 Offer Period

The Offer is open for acceptance from 10 October 2006 until 7.00pm (Sydney, Australia time) on 13 November 2006, unless extended or withdrawn by SPT in accordance with the Corporations Act.

6.3 Offer extends to B Digital Options

Sections 2.1 and 8.1 of the Bidder's Statement states that the Offer extends to any B Digital Shares:

- that are issued during the period from the Register Date to the end of the Offer Period due to the conversion of, or exercise of rights attached to, B Digital Options that are on issue as at the Register Date; and
- which result from the conversion during the period from the Register Date to the end of the Offer Period of B Digital Employee Shares that are on issue as at the Register Date into B Digital Shares, as a result of the restrictions on transfer of the B Digital Employee Shares being released during that period.

See **sections 8.7 and 8.8** for further details on the effect of the Offer on B Digital Employee Shares and B Digital Options.

6.4 Acceptance of the Offer

If you choose to accept the Offer, your valid acceptance must be received before the end of the Offer Period.

Instructions on how to accept the Offer are set out in section 8.6 of the Bidder's Statement, and on the Acceptance Form.

You may only accept the Offer for all of your B Digital Shares. You cannot accept the Offer for only some of your B Digital Shares.

The effect of your acceptance is described in section 8.7 of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights

attaching to your B Digital Shares and the representations and warranties that you are deemed to give to SPT by accepting the Offer.

In particular, if you accept the Offer then, unless withdrawal rights are available (see **section 6.7**) and you exercise these rights, you will give up your right to sell your B Digital Shares on market or to any other person that may make an alternative takeover offer, or deal with them in any other manner.

6.5 Extension of the Offer Period

If the Offer remains subject to the condition, SPT may (but need not) extend the Offer Period at any time before the publication of the Notice of Status of Conditions (see **section 6.9** and section 8.8 of the Bidder's Statement).

If the Offer is unconditional (i.e. the condition is satisfied or waived), SPT may (but need not) extend the Offer at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, SPT.

- improves the consideration under the Offer; or
- its voting power in B Digital increases to more than 50%.

If either of these two events occur, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

6.6 Withdrawal of the Offer

SPT may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent. (see section 8.11 of the Bidder's Statement for further details)

6.7 Withdrawal of your acceptance

In general terms, under the Corporations Act, you may only withdraw your acceptance if the Offer is conditional and SPT varies the Offer in a way that postpones for more than one month the time for SPT to satisfy its obligations under the Offer (for example, if SPT extends the Offer Period by more than one month).

6.8 Condition of the Offer

The Offer is subject to the condition which is set out in full in section 8.8 of the Bidder's Statement.

Subject to section 650F of the Corporations Act, SPT may declare the Offer free from the condition at any time, but no later than 3 Business Days after the end of the Offer Period as set out in section 8.8.3 of the Bidder's Statement).

6.9 Notice of Status of Conditions

Section 8.8.4 of the Bidder's Statement indicates that SPT will give notice on the status of the condition (as required by the Corporations Act) on 6

November 2006. SPT's required to set out in its Notice of Status of Conditions:

- whether the Offer is free of the condition of the Offer;
- whether, so far as SPT knows, the condition has been fulfilled; and
- SPT's then voting power in B Digital.

If the Offer Period is extended at any time before the Notice of Status of Conditions is to be given, the date that SPT must give its Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, SPT is required, as soon as reasonably practicable after the extension, to give ASX and B Digital a notice that states the new date for giving the Notice of Status of Conditions.

6.10 Payment of consideration if you accept the Offer

SPT is only obliged to pay you if the condition of the Offer is met or if it waives the outstanding condition. Accordingly, no payment for your B Digital Shares will be made until after the Offer becomes unconditional.

In brief, if you validly accept the Offer, under the terms of the Offer you are to be paid the earlier of 1 month after the Offer becomes unconditional and 21 days after the end of the Offer Period. However, you should refer to section 8.9 of the Bidder's Statement for full details in this regard.

6.11 Effect of an improvement in Offer consideration

If SPT improves the Offer consideration under its takeover bid, all Shareholders, whether or not they have accepted the Offer, will be entitled to the benefit of that improved consideration. As at the date of this Target's Statement, there has been no suggestion of any such improvement.

6.12 Lapse of the Offer

The Offer will lapse if the Offer conditions are not satisfied or waived by no later than 3 Business Days after the end of the Offer Period. In that event, all contracts resulting from acceptance of the Offer, and all acceptances that have not resulted in binding contracts, will be void and you will be free to deal with your B Digital Shares as you see fit.

6.13 Compulsory acquisition

If SPT becomes entitled to compulsorily acquire any B Digital Shares under section 661A of the Corporations Act, SPT has indicated in section 10.2.1 of the Bidder's Statement that it will give notices to compulsorily acquire any outstanding B Digital Shares in accordance with section 661B of the Corporations Act, even if the B Digital Shares to which those notices relate:

- are issued after the Offer closes but before the notices are given; or
- are issued on exercise of the B Digital Options, or are converted from B Digital Employee Shares into B Digital Shares, up to six weeks after the notices are given.

SPT will be entitled to compulsorily acquire any B Digital Shares in respect of which it has not received an acceptance of the Offer if, during or at the end of the Offer Period:

- SPT and its associates have a relevant interest in at least 90% (by number) of B Digital Shares, pursuant to Part 6A.1 Division 1 of the Corporations Act; and
- SPT and its associates have acquired at least 75% (by number) of B Digital Shares that SPT offered to acquire under the Offer.

If SPT proceeds to compulsory acquisition:

- SPT must, within one month after the end of the Offer Period, give compulsory acquisition notices to Shareholders that SPT intends to compulsorily acquire;
- SPT must acquire B Digital Shares issued before the end of the Offer Period (including B Digital Shares issued on the exercise of B Digital Options or converted from B Digital Employee Shares to B Digital Shares during this period);
- SPT may acquire B Digital Shares issued after the end of the Offer Period and before the compulsory acquisition notice is issued (including B Digital Shares issued on the exercise of B Digital Options or converted from B Digital Employee Shares to B Digital Shares during this period);
- SPT may acquire B Digital securities which will or may convert into B Digital Shares within 6 weeks after the compulsory acquisition notice is issued (including B Digital Shares issued on the exercise of B Digital Options or converted from B Digital Employee Shares to B Digital Shares during this period); and
- Shareholders will have statutory rights to challenge the compulsory acquisition of their B Digital Shares, but a successful challenge would require the relevant Shareholder to establish to the satisfaction of a court that the consideration does not represent “fair value” for their B Digital Shares.

Shareholders should be aware that, if their B Digital Shares are compulsorily acquired, they are not likely to receive payment until at least 1 month after the compulsory acquisition notices are dispatched to them.

If SPT does not become entitled to compulsorily acquire B Digital securities in accordance with Part 6A Division 1 of the Corporations Act, it may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

SPT has indicated in section 10.2.2 of the Bidder’s Statement that it intends to exercise the right to proceed to compulsory acquisition of the outstanding B Digital Shares and B Digital Options, if it meets the required thresholds.

Shareholders and Optionholders should be aware that if SPT were to acquire 90% by value of all B Digital Shares and B Digital Options, SPT

may elect to acquire all remaining B Digital Shares and B Digital Options within 6 months after becoming a 90% holder (provided that holders of less than 10% by value of the remaining B Digital Shares or B Digital Options do not object to the acquisition or the court approves the acquisition in accordance with the Corporations Act).

7 Information relating to the Directors

7.1 Directors' interests in B Digital securities

The table below sets out the number and description of marketable securities in B Digital in which each Director or an associate of a Director has a relevant interest as at the date of this Target's Statement:

Name of Director	Class of securities	Number of securities	Nature of interest
David Fairfull	-	-	-
William Egan	B Digital Shares	250,000	Securities registered in Directors own name
Denis Ledbury	B Digital Shares	50,000	Securities registered in Directors own name
Peter Cleaves	B Digital Shares	15,000	Securities registered in Directors own name
Peter George	B Digital Shares	500,000	Securities registered in Directors own name
Ian Fraser	-	-	-

No Director or an associate of a Director has a relevant interest in any marketable securities of B Digital, other than as specified above.

7.2 Directors' interests in SPT securities

The Directors do not have a relevant interest in the securities in SPT or its related bodies corporate and have not acquired or disposed of any securities in SPT or its related bodies corporate in the period of 4 months ending on the day immediately before the date of this Target's Statement, other than as and unless otherwise set out below:

Securities in SPT

Name of Director	Class of securities	Number of securities	Nature of interest
David Fairfull	Ordinary fully paid shares	144,445	Held by DJ Fairfull Pty Ltd in trust for the Fairfull Family Superannuation Trust
William Egan	-	-	-
Denis Ledbury	-	-	-
Peter Cleaves	Ordinary fully paid shares	49,889	Securities registered in Directors own name

Peter George	-	-	-
Ian Fraser	-	-	-

7.3 Benefits to Directors

No Director has agreed to receive, or is entitled to receive, any benefit from B Digital or SPT which is conditional on, or is related to, the Offer, other than in their capacity as a holder of B Digital Shares or B Digital Options.

As a result of the Offer, no benefit has been, or will be, given to a person:

- (a) in connection with the retirement of a person from a board or managerial office in B Digital or a Related Body Corporate of B Digital; or
- (b) who holds, or has held a board or managerial office in B Digital or a Related Body Corporate, or a spouse, relative or associate of such person, in connection with the transfer of the whole or any part of the undertaking of property of B Digital,

which would require approval of Shareholders under section 200E of the Corporations Act.

7.4 Agreements with Directors in connection with the Offer

No agreement has been made between any Director and any other person in connection with or conditional on the outcome of the Offer other than in their capacity as a holder of B Digital Shares or B Digital Options.

7.5 Directors' interests in contracts

No Directors have an interest in any contract entered into by B Digital or SPT or any of their respective Related Bodies Corporate.

8 Additional information

8.1 B Digital securities on issue

As at the date of this Target's Statement, B Digital had the following securities on issue:

Class	Securities
B Digital Shares	830,030,212
B Digital Options	887,600

Each B Digital Option gives the holder the right to be issued one (1) B Digital Share upon exercise.

8.2 B Digital's top ten Shareholders

The table below sets out B Digital's top ten Shareholders and their respective holdings as at 19 October 2006.

	Fully Diluted Basis		Undiluted (current B Digital shares on issue)	
Top Ten Shareholders	Number of B Digital Shares	%	Number of B Digital shares	%
S P Telemedia Limited	379,800,000	45.71	379,800,000	45.76
Kilaben Holdings Pty Ltd <Kilaben Holdings 2005 A/C> ¹	172,134,863	20.72	172,134,863	20.74
J P Morgan Nominees Australia Limited	38,794,366	4.67	38,794,366	4.67
Citicorp Nominees Pty Limited	29,686,541	3.57	29,686,541	3.58
RBC Dexia Investor Services Australia Nominees Pty Ltd <Pipooled A/C>	27,879,770	3.36	27,879,770	3.36
UBS Nominees Pty Limited	13,476,111	1.62	13,476,111	1.62
AMP Life Limited	13,272,581	1.60	13,272,581	1.60
Invia Custodian Pty Limited <Wilson Leaders	10,209,854	1.23	10,209,854	1.23

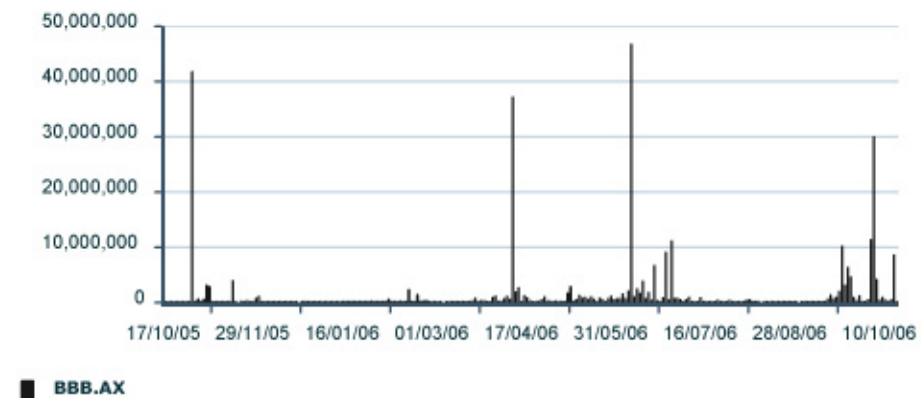
Limited A/C>				
Westpac Custodian Nominees Limited	9,989,040	1.20	9,989,040	1.20
Farjoy Pty Limited	8,262,189	0.99	8,262,189	0.99

¹ On 19 October 2006, SPT announced that Kilaben Holdings accepted SPT's Offer in respect of its remaining 17.7% interest in B Digital's issued share capital

8.3 B Digital Share price history

B Digital's share trading history since 17 October 2006 is summarised in the following table:

Volume Chart



Source: Australian Financial Review Access / Reuters

Price Chart for B Digital Limited



■ BBB.AX

Source: Australian Financial Review Access / Reuters

8.4 Dealings in B Digital Shares by SPT and it's associates

No relevant interests in B Digital Shares were acquired, disposed of or issued by SPT or any associate of SPT in the period of 4 months ending on the day immediately before the date on which the Bidder's Statement was served on B Digital, except as set out below:

Name	Date	Description of Dealing	Number of B Digital Shares	Price per B Digital Share
SPT	26/9/06	SPT entered into an agreement with Kilaben Holdings as trustee for the Kilaben Holdings 2005 Trust and Nick Kotzohambos under which Kilaben Holdings grants SPT an option to acquire 3% of the issued shares in B Digital for 16 cents a Share.	24,900,906	16c

8.5 B Digital dividend history

A summary of B Digital's dividend payments for the 2005 financial year is set out below:

Summary of B Digital's 2005 financial year dividend (full year)	
Earnings per share (cents)	0.03

Dividend per share (cents)	0.01
Payout ratio*	46%

*** The percentage of net profit after tax declared to be paid to Shareholders in the form of dividends for the financial year.**

Section 7.4.4 of the Bidder's Statement sets out SPT's intention in relation to future dividend payments.

8.6 Effect of the Offer on B Digital's material contracts

B Digital is party to a number network agreements with various telecommunications carriers, which contain restraints on ownership by other telecommunications carriers in B Digital. B Digital does not consider that the successful completion of the Offer will trigger any right of termination under these provisions.

As at the date of this Target's Statement, B Digital had not received any written notice from any party to such contracts that such party intends to exercise its rights under those contracts.

8.7 Effect of Offer on B Digital Options

As at 27 September 2006 there were 887,600 B Digital Options on issue under B Digital's Executive Share and Option Plan (each B Digital Option being convertible into one (1) B Digital Share). The B Digital Options are held by 23 employees of B Digital and its subsidiaries. The exercise price of these B Digital Options is \$1 per tranche of Options issued to each employee..

Optionholders cannot exercise their B Digital Options unless and until those B Digital Options have vested subject to satisfaction of certain performance and service hurdles. Holders of those B Digital Options may not exercise their B Digital Options and accept the Offer for as long as the vesting restrictions remain.

The B Digital Options are exercisable if:

- SPT acquires a relevant interest in more than 50.1% of B Digital's issued share capital; and
- The Offer is no longer subject to any defeating condition.

In the event of the above conditions being satisfied in respect of the Offer, B Digital will notify each Optionholder in writing that his/her unexercised B Digital Options are exercisable.

The Directors may, at their discretion allow B Digital Options which have not otherwise vested to vest in an Optionholder where in the Directors view, it would otherwise be unfair to the Optionholder.

The Offer also extends to B Digital Shares that come into existence during the Offer Period as a result of the exercise of any B Digital Options.

8.8 Effect of Offer on B Digital Shares issued under the B Digital Employee Share Plan

There are currently 546,700 B Digital Shares issued under the B Digital Employee Share Plan. These B Digital Shares are held by 220 employees of B Digital or its subsidiaries.

As at 27 September 2006, 546,700 B Digital Shares acquired by employees under the B Digital Employees Share Plan remained subject to restrictions on disposal. Holders of those B Digital Shares may not accept the Offer for as long as the disposal restrictions remain.

In the event the restrictions applying to the B Digital Employee Shares are removed and are sold as a result of an acceptance under the Offer, such sale may have tax implications for holders of B Digital Employee Shares. B Digital strongly recommends that you should seek independent advice in relation to your personal tax situation.

8.9 Material litigation

There is only one current litigation matter affecting B Digital through its 100% interest in Kooee Communications Pty Ltd (**Kooee**). This matter concerns disputes between Kooee and its former service provider, Primus Telecommunications Pty Ltd (**Primus**). The disputes concerns:

- The terms and implementation of the agreements between Kooee and Primus in relation to the provision of services (**Service Agreements**) over time; and
- The terms and implementation of an agreement between Kooee and Primus in relation to the termination of the Service Agreements (**Separation Deed**).

The matter is before the Supreme Court of New South Wales and has been set down for hearing on 31 January 2007 for 7 days.

The Independent Directors have no knowledge of any other potential material litigation.

8.10 No material changes in financial position of B Digital

There are no material changes to the financial position of B Digital since 31 July 2006 (being the date of the last yearly financial statements) and 19 October 2006.

8.11 Recent announcements

Listed below are the B Digital company announcements released since the 2005 Annual Report was released on 06/10/2005..

Date	Title
06/10/2005	Notice of Annual General Meeting
01/11/2005	Change in substantial holding from SOT
03/11/2005	Appendix 3B

07/11/2005	Chairman & Managing Director AGM Address
08/11/2005	Results of AGM
09/11/2005	Change of Company Secretary
09/11/2005	Appendix 3B
29/11/2005	Change of Director's Interest Not
30/11/2005	Appendix 3B
30/11/2005	Change of Director's Interest Notice
07/12/2005	Director Resignation
08/12/2005	Final Director's Interest Notice
22/12/2005	Financial Trading Update
28/12/2005	Relief from half-year reporting
28/12/2005	ASIC Relief Order re Half Year Reporting
29/12/2005	Financial Trading Update
17/01/2006	ASX Listing Rules Compliance
07/02/2006	Resignation of Managing Director
20/02/2006	Appendix 3B
17/03/2006	Suspension from Official Quotation
17/03/2006	Reinstatement to Official Quotation
30/03/2006	Half Yearly Report/Half Year Accounts
04/04/2006	Change of Director's Interest Notice
05/04/2006	Presentation
11/04/2006	Notification of Change of Financial Year
13/04/2006	ASX Listing Rules Compliance
01/05/2006	Appointment of Independent Non-Executive Director
02/05/2006	Optus / Soul & B Digital expand & extend relationship
02/05/2006	SGT: Optus / Soul & B Digital expand & extend relationship
02/05/2006	SOT: Optus / Soul & B Digital expand & extend relationship
16/05/2006	Becoming a substantial holder from CGF
19/05/2006	Restricted Securities
25/05/2006	Change in substantial holding from SOT

25/05/2006	Change in substantial holding
26/05/2006	Change of Director's Interest Notice
31/05/2006	Response to ASX Query re: Share Price
28/06/2006	SOT: Acquires WIN Corporation Joint Venture Interests
12/07/2006	Appendix 4F Waiver
19/07/2006	Acquisition of B Shop Business
26/07/2006	Appendix 3B
27/07/2006	Cancellation of Options
11/08/2006	Cancellation of Employee Options
18/08/2006	Appendix 3B
31/08/2006	Form 603 & 604
14/09/2006	Soul Slashes Local Call Costs with New Soulmate Plan
14/09/2006	SOUL offer provides major headache to other Telco's
20/09/2006	Preliminary Final Report
20/09/2006	Full Year Results Presentation
22/09/2006	SP Telemedia (SOT) Ownership Increase Speculation
22/09/2006	Ceasing to be a substantial holder from CGF
25/09/2006	SOT ann: Offer to acquire B Digital Limited shares
25/09/2006	SOT: B Digital shareholder supports SP Telemedia share offer
25/09/2006	Letter to Shareholders re Offer to acquire B Digital Shares
25/09/2006	SOT: Prescribed occurrences referred to in SOT's offer
26/09/2006	Response to ASX Query
26/09/2006	Change in substantial holding from SOT
26/09/2006	Bidders Statement
10/10/2006	Bidder's Statement from SOT
11/10/2006	Change in substantial holding from SOT
19/10/2006	Change in substantial holding from SOT
19/10/2006	SOT: B Digital's second largest shareholders accept Soul offer

	accepts Soul offer
20/10/2006	2006 Annual Report
20/10/2006	Notice of Annual General Meeting

These announcements can be located on the ASX website at
www.asx.com.au.

9 No other material information

This Target's Statement is required to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment of whether or not to accept the Offer, but:

- only to the extent to which it is reasonable for Shareholders and their professional advisers to expect to find the information in the Target's Statement; and
- only if the information is known to any Independent Director.

The Independent Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment of whether or not to accept the offer is:

- SPT's Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- B Digital's Annual Reports and releases to ASX and documents lodged by B Digital with ASIC before the date of this Target's Statement; and
- this Target's Statement.

In deciding what information should be included in the Target's Statement, the Independent Directors have had regard to:

- the nature of B Digital Shares;
- the matters that holders of B Digital Shares may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Shareholders' professional advisers; and
- the time available to B Digital to prepare this Target's Statement.

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate. The Independent Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

9.1 Consents

Deloitte Corporate Finance Pty Limited has consented to the inclusion of its report in this Target's Statement, and the references made about its report in the form and context in which they appear, and has not, before the date of issue of this Target's Statement withdrawn that consent.

Price Sierakowski has given and has not, before the date of issue of this Target's Statement withdrawn, its consent to be named in this Target's Statement in the form and context in which it is named.

9.2 Publicly available information

This Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to ASX by SPT. As permitted by ASIC Class Order 01/1543, the consent of SPT is not required for the inclusion of such statements in this Target's Statement. A copy of those documents can be obtained from B Digital free of charge.

9.3 Officials and publications

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or published book, journal or comparable publication.

Pursuant to this class order, the consent of persons to which such statements are attributed to is not required for the inclusion of those statements in this Target's Statement.

10 Approval

This Target's Statement has been approved by a resolution of the Directors. Each of the Independent Directors voted in favour of the resolution. Each of the Common Directors were not present and did not vote upon the resolution.

11 Interpretation

11.1 Definitions

Terms used in this Target's Statement have the meaning given in the Glossary (unless the contrary intention appears).

11.2 Construction

In this Target's Statement, unless expressed to the contrary:

- (a) words importing the singular include the plural and vice versa and any gender include the other gender;
- (b) "includes" means includes without limitation;
- (c) if a word or phrase is defined in the Corporations Act, it bears the same meaning;
- (d) if a word or phrase is defined, other parts of speech and grammatical forms of that word or phrase have corresponding definitions;
- (e) an obligation of two or more parties binds them jointly and severally;
- (f) a reference to:
 - (i) a person includes a firm, unincorporated association, corporation and a government or statutory body or authority;
 - (ii) a person includes the legal personal representatives, successors and assigns of that person;
 - (iii) a statute, ordinance, code or other law includes regulations and other statutory instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
 - (iv) a right includes a benefit, remedy, direction or power;
 - (v) "\$" or "cents" is a reference to the lawful currency of Australia; and
 - (vi) a section or paragraph is to a section or paragraph of this Target's Statement.

11.3 Headings

Headings are for ease of reference only and do not affect the interpretation of this Target's Statement.

12 Glossary

In this Target's Statement, unless the context requires otherwise:

Acceptance Form	the transfer and acceptance form accompanying the Bidder's Statement.
ASIC	the Australian Securities and Investments Commission.

ASX	Australian Stock Exchange Limited.
B Digital Board or B Digital Directors	the Directors of B Digital constituting a board and each of the Directors (as the case may be).
B Digital	B Digital Limited (ABN 99 085 089 970).
B Digital Options	options to acquire unissued B Digital Shares, issued pursuant to B Digital's Executive Share and Option Plan.
B Digital Employee Shares	ordinary shares in the capital of B Digital issued under the B Digital Employee Share Plan.
B Digital Employee Share Plan	adopted by B Digital in 2000 and varied by Shareholders on 21 April 2005.
B Digital Executive Share & Option Plan	adopted by B Digital 2000 and varied by Shareholders on 21 April 2005.
B Digital Group	B Digital, its Subsidiaries and each body corporate in which B Digital has voting power of not less than 20%.
B Digital Optionholder	a holder of B Digital Options.
B Digital Shares	ordinary shares in B Digital.
B Digital Shareholder	a holder of a B Digital Share.
Bidder's Statement	the bidder's statement issued by SPT dated 26 September 2006.
Business Day	a day which is not a Saturday, Sunday, bank or public holiday in Sydney, Australia.
Common Directors	David Fairfull, Peter Cleaves and Denis Ledbury.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Directors	the directors of B Digital, as listed in section 3.1 .
Independent Expert	Deloitte Corporate Finance Pty Limited.
Independent Expert's Report	the report prepared by the Independent Expert as to whether the Offer is fair and reasonable (which is set out in the Annexure to this Target's Statement).
Independent Directors	Peter George, Peter Cleaves and Ian Fraser.
Kilaben Holdings	Kilaben Holdings Pty Ltd (ACN 105 799 497).

Notice of Status of Conditions	SPT's notice disclosing the status of the conditions to the Offer which is required to be given by section 630(3) of the Corporations Act.
Offer	the offer by SPT for B Digital Shares, which offer is contained in section 8 of the Bidder's Statement.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with section 8 of the Bidder's Statement.
Officer	a director, alternate director, managing director, deputy managing director, executive director, associate director, secretary or assistant secretary.
Optionholders	holders of B Digital Options.
Prescribed Occurrences	An event listed in sections 652C(1)(a) to (h) inclusive and 652C(2)(a) to (e) inclusive of the Corporations Act.
Register Date	10.00 am on 27 September 2006.
Related Body Corporate	has the meaning given to that term in the Corporations Act.
Shareholder	a person registered in the register of members of B Digital as a holder of B Digital Shares.
SPT	SP Telemedia Limited (ABN 46 093 058 069).
Subsidiaries	Of a person means any entity whose financial results are consolidated with the financial results of that person for the purposes of preparing the financial statements of that person in accordance with the applicable accounting standards and includes an entity which is a subsidiary of that person as defined in section 9 of the Corporations Act.
Target's Statement	this document, being the statement of B Digital under Part 6.5 Division 3 of the Corporations Act.
VWAP	Volume weighted average share price.

DATED 25 October 2006

Signed for an on behalf of B Digital by Ian Fraser, being a director of B Digital who is authorised to sign this Target's Statement on behalf of B Digital pursuant to a resolution passed on 21 October 2006 by all directors of B Digital present and entitled to vote at the meeting and who voted in favour of the resolution.


.....

Ian Fraser
Director

Annexure A
Independent Expert's Report



B Digital Limited
Independent expert's report
19 October 2006

Financial services guide

19 October 2006

What is a Financial Services Guide?

This Financial Services Guide (FSG) is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of we, us or our is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence (AFSL) No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by B Digital Limited (B Digital) to give general financial product advice in the form of a report to be provided to you in connection with a Takeover Offer from SP Telemedia Limited (Soul). You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names Deloitte, Deloitte & Touche, Deloitte Touche Tohmatsu, or other related names.

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide financial product advice in respect of securities, debentures, stocks or bonds issued or proposed to be issued by the government and interests in managed investment schemes including investor directed portfolio schemes
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of securities and debentures, stocks or bonds issued or proposed to be issued by the government.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as general advice because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

We recommend you obtain and read carefully the Bidder's Statement provided by Soul. The purpose of this document is to help you make an informed decision about the Takeover Offer from Soul.

How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is \$55,000, excluding GST, and will also be disclosed in the Target Statement prepared by B Digital.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service (FICS). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service
PO Box 579
Collins Street West
Melbourne VIC 8007
Telephone: 1300 780 808
Fax: +61 3 9621 2291
Internet: <http://www.fics.asn.au>

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia (ICAA). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512

Specific contact details for lodging a complaint with the ICAA can be obtained from their website at <http://www.icaa.org.au/about/index.cfm>.

The Australian Securities and Investments Commission (ASIC) regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: infoline@asic.gov.au
Internet: <http://www.asic.gov.au/asic/asic.nsf>

The Directors
B Digital Limited
Level 2
1 Adelaide Terrace
Perth WA 6000

19 October 2006

Dear Directors

Independent expert's report

Introduction

On 25 September 2006 SP Telemedia Limited (Soul or the Bidder) announced a conditional offer to acquire all of the shares in B Digital Limited (B Digital or the Company) that Soul does not already own (the Takeover Offer). The consideration offered by Soul to holders of B Digital shares other than Soul (Shareholders) is 16 cents per share (Cash consideration).

The full details of the Takeover Offer are included in a Bidder's Statement which was issued by Soul on 26 September 2006. An overview of the Takeover Offer is provided in Section 1 of this report.

The directors of B Digital are to issue a Target's Statement, in response to the Bidder's Statement, which will include their recommendation as to whether Shareholders should accept the Takeover Offer.

Purpose of the report

The independent directors of B Digital (the Independent Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte) provide an independent expert's report advising whether, in our opinion, the Takeover Offer is fair and reasonable.

This independent expert's report is required pursuant to Section 640 of the Corporations Act 2001 (Section 640) to assist Shareholders in their decision whether to accept or reject the Takeover Offer. We have prepared this report having regard to Section 640 and the relevant Australian Securities and Investments Commission (ASIC) Policy Statements and Practice Notes.

This report is to be included in the Target's Statement to be sent to Shareholders and has been prepared exclusively for the purpose of assisting Shareholders in their consideration of the Takeover Offer. The report should not be used for any other purpose.

Basis of evaluation

In order to assess whether the Takeover Offer is fair and reasonable we have:

- assessed whether the Takeover Offer is fair by estimating the fair market value of an ordinary B Digital share and comparing that value to the Cash consideration to be received by Shareholders pursuant to the Takeover Offer
- assessed the reasonableness of the Takeover Offer by considering other advantages and disadvantages of the Takeover Offer to Shareholders.

Summary and conclusion

In our opinion the Takeover Offer is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

The Takeover Offer is fair

Set out in the table below is a comparison of our assessment of the fair market value of a B Digital share with the Cash consideration offered by Soul.

Table 1: Evaluation of fairness

	Low (cents)	High (cents)
Estimated fair market value of a B Digital share (Section 6)	14.4	19.8
Cash consideration offered	16.0	16.0

Source: Deloitte analysis

Note:

All amounts stated in this report are in Australian dollars (AUD) unless otherwise stated

The wide range of our assessed valuation reflects company specific risks and uncertainties and the inherent difficulties in projecting performance in the telecommunications reselling sector.

The consideration offered by Soul is within the range of our estimate of the fair market value of a B Digital share. Accordingly, it is our opinion that the Takeover Offer is fair.

Valuation of a B Digital share

We are of the opinion that the most appropriate methodology to value B Digital is the capitalisation of maintainable earnings method due to the following factors:

- there is an adequate number of publicly listed companies with operations sufficiently similar to those of B Digital and comparable transactions in the telecommunications sector to provide meaningful analysis
- there are no reliable long-term cash flow forecasts thus the discounted cash flow method cannot be used. While management have prepared three year projections, they are not considered reliable due to the level of uncertainty and regulatory risk in the industry, which makes forecasting beyond this period highly subjective.

We have selected earnings before interest, tax, depreciation and amortisation (EBITDA) as an appropriate measure of earnings for B Digital because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on earnings before interest and tax (EBIT) or net profit after tax (NPAT). We have assessed B Digital's maintainable level of EBITDA to be in the range of \$20 million to \$22 million, based on consideration of B Digital's historical earnings volatility and normalised EBITDA, outlook for the industry, margin pressures from industry and Company specific factors and uncertainty surrounding operational performance of B Shop.

The earnings multiple used of 5 times to 6 times was based on an analysis of comparable listed companies, previous mergers and acquisitions in the telecommunications reselling sector and company specific factors.

In addition, we have also used an analysis of recent share market trading to provide additional evidence of the fair market value of B Digital.

Valuation of consideration

The consideration offered to shareholders under the Takeover Offer is 16 cents in cash.

The Takeover Offer is reasonable

In accordance with ASIC Policy Statement 75 an offer is reasonable if it is fair. On this basis, in our opinion the Takeover Offer is reasonable. We have also considered the following factors in assessing the reasonableness of the Takeover Offer:

Advantages of accepting the Takeover Offer:

Likelihood of another bidder emerging

B Digital has appointed financial advisers to assess if there are any other potential bidders for the Company. No other bidders have emerged between 25 September 2006, the date the Takeover Offer was announced, and the date of this report.

Other purchasers would experience a number of difficulties in extracting synergies from an acquisition of B Digital as the B Digital and Soul businesses are already fairly intertwined as a result of:

- Soul's 45.8% shareholding in B Digital
- the 50:50 joint venture, SPTCom, and B Digital's commitment to migrate its fixed line and internet customers onto this infrastructure. It is likely that any other purchaser would be locked into this arrangement
- transition to a co-branding arrangement with the Soul brand rather than solely marketing B Digital's own three brands. Any other purchaser would likely have to incur expenditure to assist in re-establishing the prominence of the B Digital brands in the marketplace
- consolidating banking and insurance services.

On this basis an alternative bid is unlikely.

B Digital's share price would likely fall below the current Takeover Offer level

In the absence of another offer for B Digital, it is likely that B Digital shares would trade at prices below the offer price of 16 cents if the Takeover Offer is not successful. B Digital's share price has been volatile over the past six months with a high of 18 cents, a low of 7 cents and a VWAP of 11 cents. The majority of share trading has occurred in the 8 cents to 10 cents range.

B Digital's second largest shareholder has accepted the Takeover Offer

Soul has entered into a pre-bid agreement with Kilaben Holdings Pty Ltd (Kilaben), a company associated with Mr Nick Kotzohambos, B Digital's second largest shareholder, in which Soul is granted an option over 3% of the outstanding shares in B Digital owned by Kilaben.

Mr Kotzohambos, who through Kilaben holds approximately 20.7% of B Digital's ordinary shares, also indicated his intention to accept the Takeover Offer for the remainder of his shares, in the absence of a higher offer.

On 19 October 2006 Mr Kotzohambos accepted Soul's offer for B Digital in respect of 17.7% of B Digital's shares. This acceptance by B Digital's second largest shareholder of the Takeover Offer is a strong signal that the Takeover Offer is considered attractive.

Disadvantages of accepting the Takeover Offer:

Inability to participate in possible future growth potential of B Digital

Shareholders will no longer hold a direct interest in B Digital and accordingly will not participate in any future growth of B Digital. If shareholders wish to continue to invest in and have exposure to the telecommunications reselling sector, there are a limited number of alternative publicly listed investment opportunities in the Australian telecommunications reselling sector.

Taxation implications

If the Takeover Offer is successful Shareholders may incur a tax expense. Individual investors should consult their tax advisers in relation to their personal circumstances.

Conclusion on reasonableness

As the Takeover Offer is fair it is also reasonable.

Opinion

In our opinion, the Takeover Offer is fair and reasonable to Shareholders. An individual shareholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

Deloitte Corporate Finance Pty Limited



Keith Jones
Director



Mark Pittorino
Director

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1 Terms of the Takeover Offer

1.1 Summary

On 25 September 2006, Soul, B Digital's largest shareholder holding 45.8% of the ordinary shares, announced an offer to acquire the remaining shares in B Digital for 16 cents per share. Full details of the Takeover Offer are provided in the Bidder's Statement.

The Takeover Offer is subject only to a condition that there are no prescribed occurrences, being the 'Prescribed Occurrences' as listed under Sections 652C (1)(a) to (h) and 652C (2)(a) to (e) of the Corporations Act 2001 (the Corporations Act).

1.2 Pre-bid agreement

In connection with the Takeover Offer, Soul has entered into a pre-bid agreement with Kilaben, a company associated with Mr Nick Kotzohambos, B Digital's second largest shareholder. Kilaben has granted Soul an option to acquire 3% of the outstanding shares in B Digital owned by Kilaben at 16 cents per share.

Mr Kotzohambos, who through Kilaben holds approximately 20.7% of B Digital's ordinary shares, has also indicated his intention to accept the Takeover Offer for the remainder of his shares in the absence of a higher offer.

The pre-bid agreement includes a break-fee arrangement with Soul. In the event that Mr Kotzohambos does not accept Soul's offer for all of his remaining shares (for any reason), he must pay \$720,000 to Soul as reimbursement for the costs and expenses incurred by Soul in relation to the Takeover Offer.

On 19 October 2006 Mr Kotzohambos accepted Soul's offer for B Digital in respect of 17.7% of B Digital's shares.

1.3 Common directors

Soul and B Digital have the following common directors and key executives:

- B Digital directors, David Fairfull (Chairman), Denis Ledbury and Peter Cleaves are also directors of Soul (and Denis Ledbury is also a director of SPTCom Pty Ltd (SPTCom))
- B Digital Chief Executive Officer (CEO) Michael Simmons is also the CEO of Soul.

1.4 Soul's intentions

If Soul becomes entitled to do so, Soul intends to exercise its rights of compulsory acquisition in respect of all the outstanding B Digital shares (including any employee shares) in accordance with Part 6A.1 of the Corporations Act. Employee shares are shares issued under the B Digital Employee Share Plan and the B Digital Executive Share and Option Plan (ESOP) and/or B Digital shares issued upon exercise of B Digital options granted under the ESOP.

Soul also intends to exercise its rights of compulsory acquisition in respect of any B Digital options, which are not cancelled by B Digital, exercised by B Digital option holders or acquired by Soul, in accordance with Part 6A.2 of the Corporations Act.

In the event of B Digital becoming wholly owned by Soul, Soul's intentions are as follows:

- undertake a detailed review of B Digital's assets, strategy and operations

- replace the members of the B Digital board, other than those B Digital directors who are also Soul directors, and the members of the boards of B Digital's subsidiaries with Soul nominees
- assess if certain head office functions need to be made redundant
- remove B Digital from the official list of the Australian Stock Exchange (ASX).

In the event of Soul not becoming entitled to compulsorily acquire all the outstanding B Digital shares, Soul's intentions are as follows:

- undertake a review of B Digital's assets, strategy and operations to the extent feasible as a subsidiary controlled but not wholly owned
- maintain B Digital's listing on the ASX
- ensure that Soul has a proportion of its nominees on the B Digital board to reflect its shareholding
- review the dividend policy
- exercise its right to compulsorily acquire to the extent that Soul becomes entitled to do so in the future.

Except for the changes and intentions noted above, it is Soul's intention to:

- continue to operate the businesses of the B Digital group in substantially the same manner as they are presently being conducted
- not make any changes to the businesses of the B Digital group (including the redeployment of the fixed assets of the B Digital group)
- continue the employment of the B Digital group's present employees in accordance with their current terms.

2 Scope of the report

2.1 Purpose of the report

Under Section 640 a target's statement given in response to a takeover offer must include, or be accompanied by, an independent expert's report if either the bidder's voting power in the target is 30% or more, or the bidder and target have one or more common directors. The independent expert's report is required for the purpose of providing shareholders of the target company with an objective and disinterested view as to whether the offer is fair and reasonable and to provide them with sufficient information to make an effective, informed decision as to whether to accept or reject the offer.

Soul currently holds 45.8% of the voting power in B Digital and also has a number of directors in common with B Digital. An independent expert's report is therefore required under Section 640.

2.2 Basis of evaluation

2.2.1 Regulation

In our determination as to whether the Takeover Offer is fair and reasonable, we have had regard to common market practice and to Policy Statement 75 and Practice Note 43 issued by ASIC in relation to independent expert's reports. The Policy Statement and Practice Note prescribe standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

2.2.2 Fairness

ASIC Policy Statement 75 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. The comparison must be made assuming 100% ownership of the target company.

Accordingly, we have assessed whether the Takeover Offer is fair by comparing the Takeover Offer with the value of a B Digital share. We assessed the value of each B Digital share by determining the current value of B Digital as a whole and dividing this value by the number of shares on issue.

B Digital has been valued at fair market value, which we have defined as the amount at which B Digital would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices, to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of B Digital has not been premised on the existence of a special purchaser.

2.2.3 Reasonableness

ASIC Policy Statement 75 considers an offer to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Takeover Offer we have considered the following significant factors in addition to determining whether the Takeover Offer is fair:

- the existing shareholding of Soul in B Digital
- other significant shareholding blocks in B Digital
- the likely price and market liquidity of B Digital shares in the absence of the Takeover Offer
- the likelihood of an alternative takeover offer
- other implications for shareholders of rejecting the Takeover Offer.

2.2.4 Individual circumstances

We have evaluated the Takeover Offer for Shareholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable. If in doubt investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 5.

Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (AUS), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

3 Telecommunications industry

3.1 Introduction

The Australian telecommunications industry has experienced significant growth over the past decade. The increased growth can be attributed to a number of factors, including changes to regulations which increased competition in the industry, continued technological innovations resulting in new products and services, strong underlying demand for telecommunications and general convergence of the telecommunications, entertainment and IT industries.

The telecommunications industry can be divided into a number of operating segments, including fixed wire and mobile network providers, resellers and internet service providers. B Digital operates as a reseller in the mobile, fixed wire and internet markets and therefore its profitability and future growth is influenced by the network providers.

The following sections contain an analysis of the following market segments:

- telecommunications resellers (section 3.2)
- mobile telecommunication carriers (section 3.3)
- wired telecommunication carriers (section 3.4)
- internet service providers (section 3.5).

In addition, regulatory issues are presented in section 3.6.

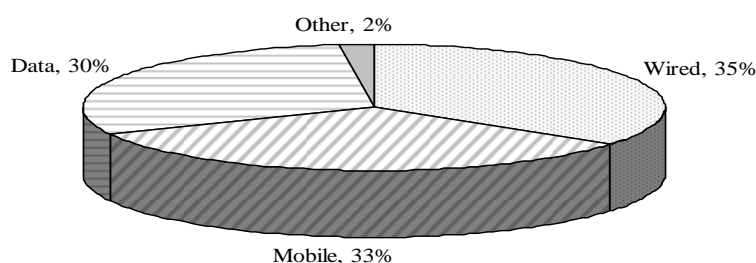
3.2 Telecommunications resellers

Telecommunications resellers are service providers that supply various telecommunications services, including national long distance and international direct dial services, local calls and mobile services to telephone service customers.

Telecommunications resellers do not need to invest significant start up capital in network and infrastructure as they simply act as retailers, selling access to networks and airtime. This provides the opportunity for smaller players to enter the market and service a particular niche.

The telecommunications resellers' products are divided into wired services, mobile services and data services as shown in the diagram below.

Figure 1: Telecommunications resellers' product segmentation



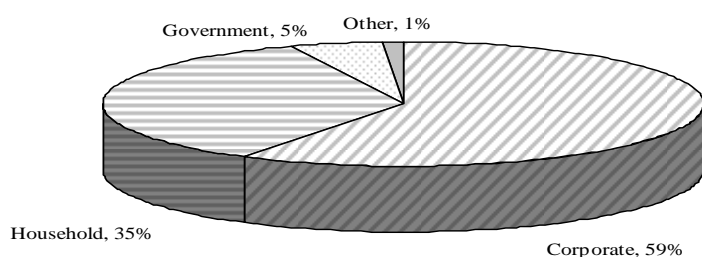
Source: IBIS

- wired services (35%) include access charges to the public switched telephone network (PSTN) or hybrid fibre coax (HFC) network. Falling demand for wire line services is due largely to consumers switching to mobiles for their telephony requirements and has resulted in a reduced market share for wire line services in recent years

- mobile telephony services (33%). At present the majority of mobile resellers operate in the two generation (2G) technology market, however carriers of three generation (3G) technology are expected to recoup their investment in this technology by allowing resellers to utilise the 3G network in the future. The increase in market share of mobile resellers is a result of increased mobile penetration within Australia, substitution from fixed to mobile services and falling termination charges, which reduces reseller payments to infrastructure owners
- data services (30%) include wholesale access to internet protocol (IP) networks, internet backhaul and data transmission services.

Telecommunications resellers principally target two key customer groups, being corporate and household as shown in the diagram below.

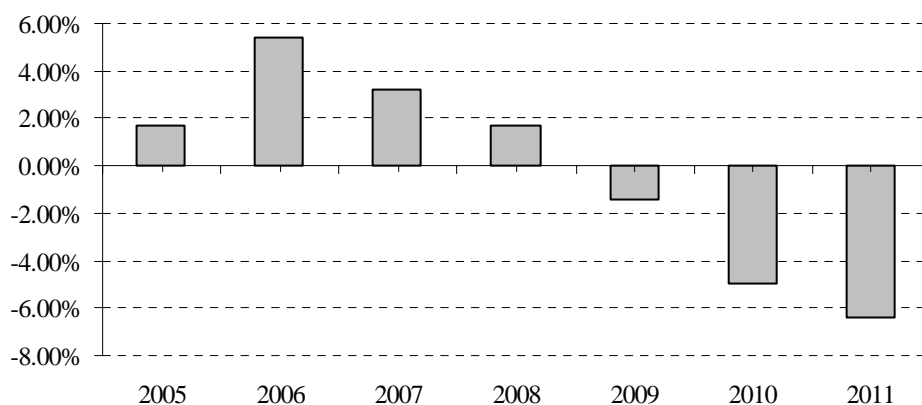
Figure 2: Telecommunications resellers' customer segments



Source: IBIS

The telecommunications reseller sector has benefited from strong growth in the Australian telecommunications industry over recent years and its revenue growth is forecast to continue into the near future. Longer term forecasts are for lower revenue growth as mobile penetration reaches saturation and demand for wholesale fixed services decreases. Lower reseller margins are also expected to drive a number of smaller players out of the market or force consolidation amongst the smaller players. The graph below shows the declining forecast revenue growth rates for telecommunications resellers.

Figure 3: Telecommunications resellers' revenue growth



Source: IBIS

To offset declining revenue growth telecommunications resellers will look to the bundling of products and services to gain competitive advantage over network carriers and to achieve higher margins. An increased focus on customer relationships will also ensure customer churn rates are minimised. The underlying risk for the telecommunications resellers in the future is the dependence on the strategies of wholesale network operators, which include pricing, product subsidies and discount policies.

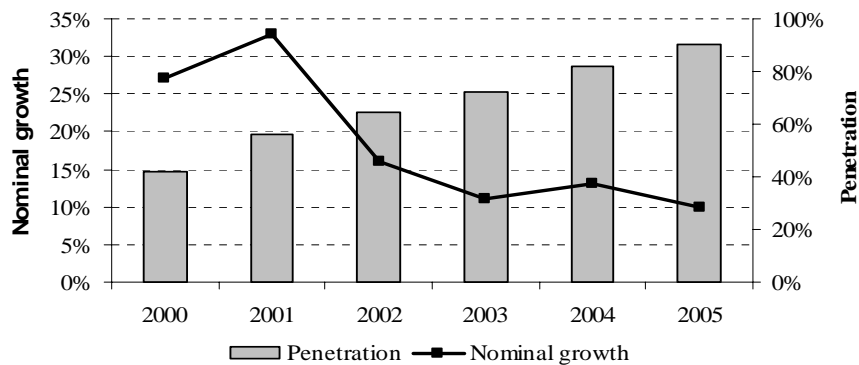
3.3 Mobile telecommunication carriers

Mobile telecommunication carriers consist of enterprises engaged in operating and maintaining switching and transmission facilities that provide direct communications by airwaves. The industry is controlled by the four major carriers being Telstra Ltd (Telstra) (38.4%), SingTel Optus Pty Limited (Optus) (35.8%), Vodafone Pty Ltd (15.6%) and Hutchinson Telecoms Ltd (8.2%), which between them represent 98% of the mobile carrier market.

The carriers currently operate two network systems being 2G and 3G. The product life cycle of the 2G services is now in decline with 3G set to become the dominant technology during the next five years. 3G will offer consumers voice, data and multi media products and services.

The large growth in new mobile customers in recent years has resulted in the mobile market moving close to saturation. The graph below illustrates the declining growth rate as the market reaches maximum penetration.

Figure 4: Mobile growth rates and total market penetration



Source: IBIS

Experience from overseas markets, particularly Europe and North America, indicates that for mobile companies to grow they will need to take market share from the fixed voice market, which will only be achieved through a drop in call charges and hence underlying revenue. This strategy has not been implemented by Australian mobile carriers to date.

The increasing penetration rates have led to greater competition between carriers and lower average revenue per user (ARPU) as competitors enter into price wars. The introduction of prepaid contracts in recent years has resulted in lower spending habits by consumers and subsequently reduced the ARPU. The mix of prepaid and post paid contracts is a large driver of a company's ARPU. As companies focus more on profitability rather than market share the number of prepaid contracts is expected to fall, leading to improved ARPUs.

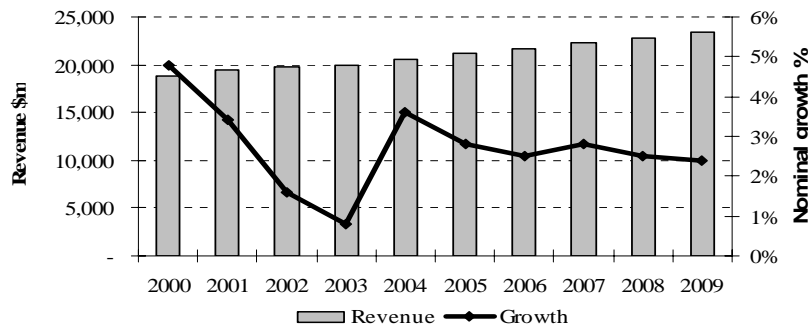
Churn rates in the telecommunications industry play a large part in the profitability of industry participants. As carriers and resellers competed for market share in the early 2000's churn rates were significantly higher. Recently the industry has focused on improved customer service programs and policies of identifying valued customers with the aim of achieving lower churn rates.

3.4 Wired telecommunications carriers

The move to open competition under the Telecommunications Act 1997, which came into force on 1 July 1997, changed the dynamics and performance of the wired telecommunications carriers in Australia. The change in regulation has resulted in a considerable number of fixed wire carriers entering the market which was previously controlled by Telstra and Optus. Between 1 July 1997 and August 2004 the Australian Communications and Media Authority (ACMA) issued 136 carrier licences and 54 nominated carrier declarations.

Changing technologies and the significant increase in mobile phone usage have resulted in a slowing growth rate for fixed wire carriers. While fixed wire telephone services are likely to remain an essential communication requirement within the Australian telecommunications industry, growth in the fixed wire segment will likely continue to lag behind other segments of the industry. This, in turn, will likely see fixed wire carriers continue to gradually decline in relative importance. The graph below illustrates the declining growth rates as the fixed wire market continues to mature.

Figure 5: Fixed wire industry revenue and growth rates



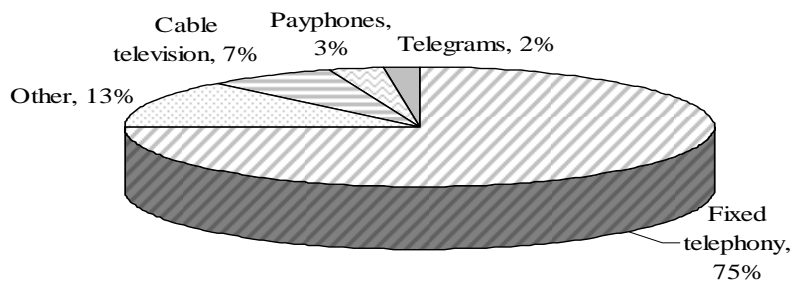
Source: IBIS

The growth for the fixed wire industry is forecast to remain below 3% for the years 2006-2009, reflecting the mature nature of fixed telephony systems and the continued evolution of the telecommunications industry, including the growing importance of data traffic and the transition to wireless systems.

Fixed wire industry segmentation

Fixed wire covers a number of products; however the market is largely dominated by fixed wire telephony services, reflecting Australia's high fixed wire telephony penetration rates.

Figure 6: Fixed wire product segmentation



Source: IBIS

There are three primary markets in the Australian wired telecommunications industry, being residential, corporate and government.

Residential customers account for approximately 70% of all Australian fixed telephone lines, which has increased in recent years in line with internet usage.

The corporate segment's approximately 26% market share is characterised by lower churn rates and is often favoured by new entrants into the fixed wire industry. More predictable utilisation patterns and the existence of long term contracts give providers to this segment a greater degree of stability.

The wired telecommunications segment will have to contend with a number of fundamental challenges, including substitution trends favouring mobile or wireless telephony and technological innovations in other telecommunications industries which also impinge on the activities of this industry such as voice over internet protocol (VoIP) services.

3.5 Internet service providers

An internet service provider (ISP) provides access to the internet for its customers. Other services may include web page hosting and web development, domain services, various technical and customised services and e-commerce based services.

Access services are the largest component of the industry and can be provided using a variety of means including dial up, broadband and wireless application protocols. The declining wholesale and retail prices for broadband have reduced dial up subscribers from 84% in 2004 to 70% in 2005 as a percentage of total internet subscribers, while broadband subscribers have increased from 16% in 2004 to 30% in 2005.

Households represent approximately 86% of the total internet market compared with business, which has approximately 14% market share. However, internet penetration for households was estimated at only 56% in 2005 compared with business that had a penetration rate of 77%.

Competition in the ISP market in Australia has increased in recent years, evidenced by aggressive pricing policies, falling access charges, new promotional offerings and high customer churn rates. The increased competition levels have created a number of consolidation opportunities for both small and large ISPs as they try to increase their subscriber base, maintain or build national coverage and achieve economies of scale. Other companies have formed strategic alliances, partnerships or joint ventures, often with players outside of the industry, including content providers and multimedia operators, to maintain a market presence.

Product and service pricing in the ISP market has followed the general telecommunications industry and tended to fall in recent times as the products and services have become commoditised. Whilst new value added products originally attract higher margins, pricing pressures gradually mount as an increasing number of participants offer similar products, resulting in the product's margin decreasing until it too becomes a low margin, commodity product.

Unlike the mobile telecommunications industry, which is nearing subscriber saturation, the ISP industry is far from saturation. The core growth driver will be increased broadband take up and migration, which will generate higher ARPU relative to dial up connections in the short term. However, once broadband becomes the dominant access technology, ARPU will likely fall again in the competitive environment.

3.6 Regulation

The regulatory regime for the general Australian telecommunications industry underwent a fundamental overhaul in 1997 with the introduction of the Telecommunications Act 1997. The main objective of the new legislation was to provide a regulatory framework that promoted the long term interests of consumers as well as the efficiency and international competitiveness of the Australian telecommunications industry.

The new regulatory framework identifies three main classes of operators that are subject to the new regulations:

- carriers who own specified infrastructure facilities must hold a carrier licence granted by the ACMA under the Telecommunications Act 1997
- service providers who provide carriage services between two or more points, one of which is located in Australia
- content service providers who provide broadcasting and on-line services. Access rights are granted under the Trade Practices Act 1974, whilst content is regulated by the Australian Broadcasting Authority.

The Telecommunications Act 1997 places obligations on carriers and service providers that are to the benefit of consumers and the general community. It also promotes competition in the industry by granting access rights to network systems.

Under the Telecommunications Act 1997 the Australian Competition and Consumers Commission (ACCC) has the responsibility for monitoring the regulations. A recent example of the ACCC's authority was evident when it blocked Telstra's proposed wholesale access rates for its proposed fibre to the node (FTTN) network. This resulted in Telstra not proceeding with the project. The proposed FTTN would have had a significant effect on the profitability and relevance of existing industry players current using Telstra's fixed copper wire network.

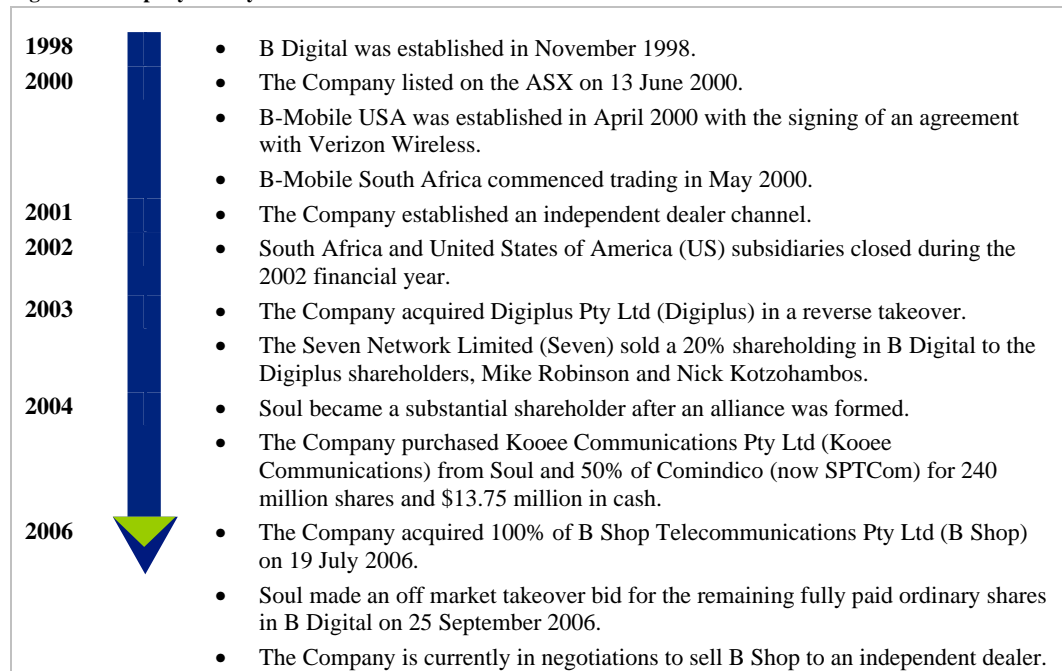
4 Profile of B Digital

B Digital provides telecommunication services including access and airtime to mobile, fixed line and ISP networks in Australia and equipment sales. The Company listed on the ASX in June 2000.

4.1 Company history

An overview of the Company's history is provided in Figure 7 below.

Figure 7: Company history

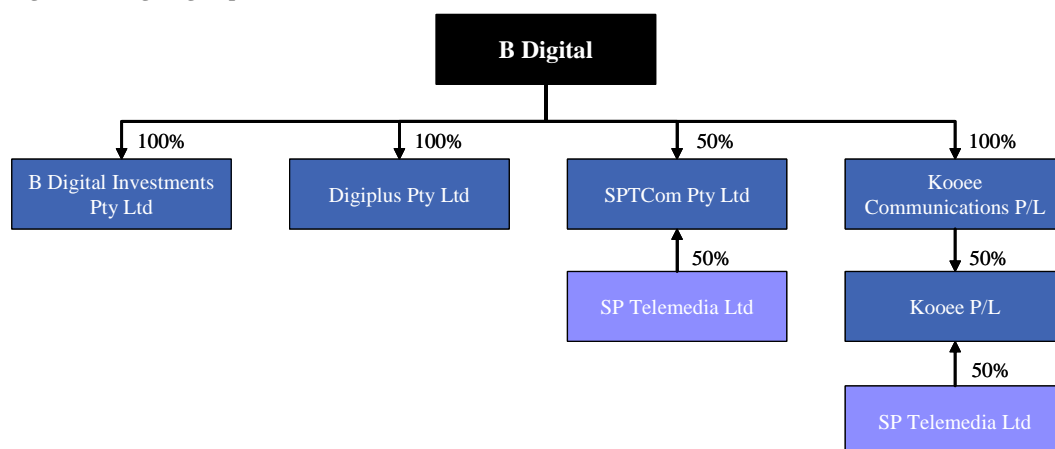


Source: B Digital

4.2 Legal structure

Figure 8 below sets out a simplified group structure for B Digital.

Figure 8: B Digital group structure



Source: B Digital

The principal operations of each of the companies in the B Digital group are discussed below.

B Digital

B Digital is a full service telecommunications reseller targeting the residential market and offering mobile telephony, dial up and asymmetrical digital subscriber line (ADSL) internet, and a range of fixed line telephony services including international, national, local and fixed to mobile services.

B Digital's business model is based on the acquisition of network access and airtime at wholesale rates from various carriers, primarily SPTCom and Optus, and reselling that access and airtime to consumers. The Company operates through a direct fulfilment model, targeting the consumer market, and also relies on a system of authorised dealer networks, which operate retail outlets that sell the Company's services.

Digiplus

B Digital acquired Digiplus at the end of 2003. Digiplus is predominantly a fixed line business selling override, preselection, calling cards and total fixed line services to ethnic community bases nationally. Digiplus also offers 2G post paid mobile and internet services as secondary services and has a small agent network.

B Digital Investments Pty Ltd

B Digital Investments Pty Ltd (B Investments) is a non trading entity and has no bank account, assets or liabilities.

SPTCom Pty Ltd

SPTCom is 50% owned by Soul and 50% owned by B Digital. SPTCom owns and operates an IP voice and data network and provides a range of data networking and fixed line voice products and services to telecommunications carriers and carriage service providers as well as business and government customers.

Kooee Communications

Kooee Communications has a regional market focus and provides fixed voice, mobile telephony, internet and broadband telecommunications products and services to customers. Marketing support is provided to Kooee Communications through the Kooee Pty Ltd joint venture between B Digital and Soul.

4.3 Directors and management

The directors and senior management of B Digital comprise:

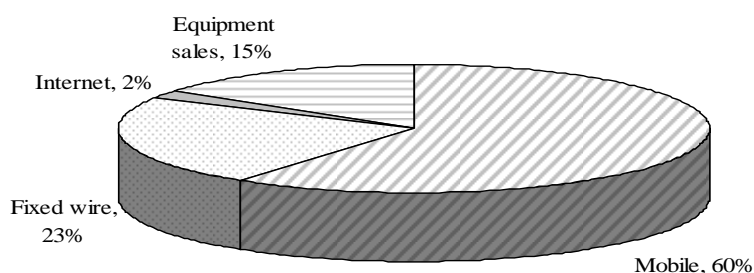
- Mr D Fairfull Chairman (also Non-Executive Director of Soul)
- Mr P George Non-Executive Director
- Mr D Ledbury Non-Executive Director (also Non-Executive Director of Soul)
- Mr W Egan Non-Executive Director
- Mr W P Cleaves Non-Executive Director (also Non-Executive Director of Soul)
- Mr I Fraser Non-Executive Director
- Mr M Simmons Chief Executive Officer
- Mr N Pope Chief Financial Officer
- Mr H Farrington Company Secretary

- Mr S Mitchinson General Manager
- Mrs K Langtry Digiplus Operations Manager
- Mr G Savva National Sales and Marketing Manager

4.4 Product offerings

B Digital's business is separated into three principal product offerings being mobile, fixed line and ISP. For the year ending 31 July 2006 mobile provided 60% of the Company's revenue as shown in the diagram below.

Figure 9: B Digital product offerings



Source: B Digital management accounts

Mobile revenue

The mobile segment sells network access, airtime and mobile handsets to customers. The Company currently offers 2G access and services and has plans to offer the 3G network to customers during 2007.

The Company typically sells post paid services to customers and has recently launched a prepaid mobile service.

Fixed wire revenue

Fixed wire revenue is earned through providing access to local, national and international telecommunication networks.

The Company recently launched VoIP, which is an extension of the B Digital group's fixed wire and ADSL products.

Internet revenue

The Company provides internet access through ADSL technology (a broadband based technology that allows high speed connectivity) as well as dial up internet access.

4.5 Capital structure and shareholders

B Digital had 830,030,212 fully paid ordinary shares on issue and approximately 2,543 shareholders as at 30 September 2006.

The top 10 shareholders of the Company, based on ASX filings, are set out in the table below:

Table 2: Top 10 shareholders

Holder Name	30 September 2006 # of shares	% of total shares on issue
SP Telemedia Limited	379,800,000	45.76
Kilaben Holdings Pty Ltd	169,910,281	20.47
J P Morgan Nominees Australia Limited	38,794,366	4.67
Equity Trustees Limited	34,114,145	4.11
RBC Dexia Investor Services Australia Nominees Pty Ltd	27,879,770	3.36
ANZ Nominees Limited	15,440,551	1.86
AMP Life Limited	13,272,581	1.60
Invia Custodian Pty Ltd	10,209,854	1.23
Westpac Custodian Nominees Limited	9,754,376	1.17
Farjoy Pty Ltd	8,262,189	0.99
	707,438,113	85.22%
Other Shareholders	122,592,099	14.78%
Total	830,030,212	100.00%

Source: B Digital

Options

At 30 September 2006 there were options over 887,600 unissued ordinary shares granted to directors, executives and employees under the ESOP. These options have an exercise price of \$1 per tranche and vest only on the optionholders meeting certain service performance hurdles. There are no voting rights attached to the unissued ordinary shares.

4.6 Share price performance

A summary of B Digital's recent share price performance is provided in the table below.

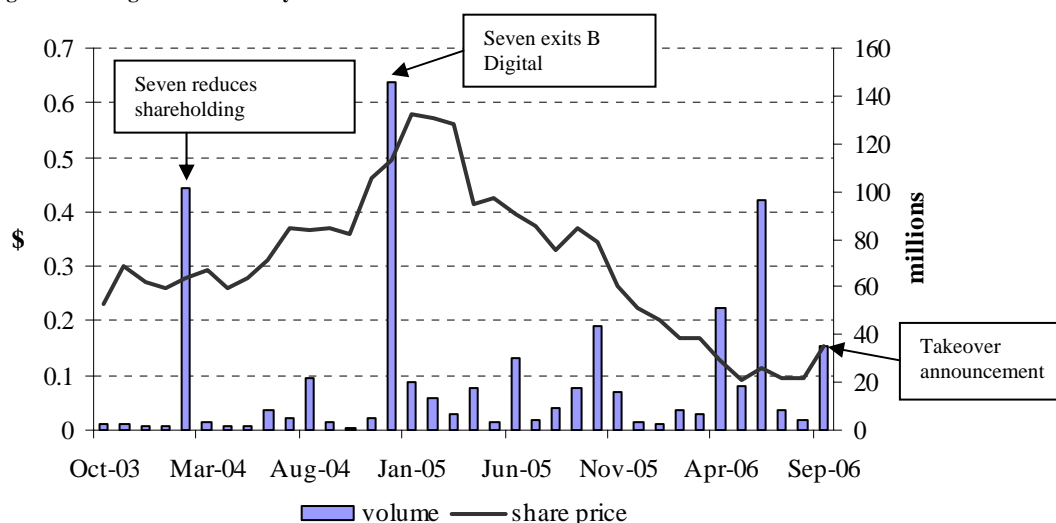
Table 3: B Digital quarterly share price information

Quarter end date	High (\$)	Low (\$)	Last Trade (\$)	Volume (million)
30 September 2006	0.16	0.09	0.155	47.5
30 June 2006	0.18	0.07	0.11	166.1
31 March 2006	0.25	0.12	0.17	17.0
31 December 2005	0.38	0.18	0.22	63.6
30 September 2005	0.40	0.31	0.37	30.9
30 June 2005	0.56	0.35	0.40	51.2

Source: Bloomberg

These share price movements and trading volumes are presented graphically in the figure below.

Figure 10: B Digital stock activity on ASX

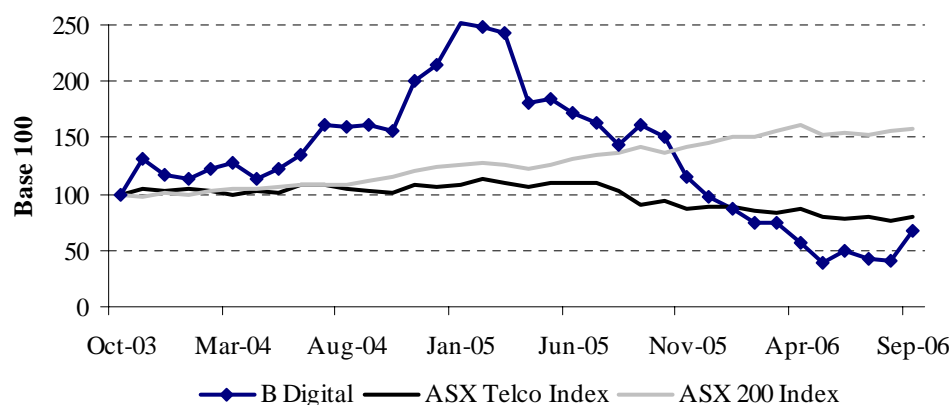


Source: Bloomberg

The volume weighted average share price (VWAP) for the month prior to public speculation of the Takeover Offer was 10.1 cents.

The figure below shows B Digital's share price performance relative to the ASX telecommunications services index (ASX Telco Index) and the ASX 200 Index. B Digital has underperformed the ASX Telco Index over the past nine months.

Figure 11: Share price comparison



Source: Bloomberg

4.7 Financial performance

The audited financial results of B Digital for the 12 month period ended 30 June 2004 (FY04), 30 June 2005 (FY05) and the 13 month period ended 31 July 2006 (FY06) are summarised in the table below. The financial results for FY05 and FY06 presented below have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) while the financial results for FY04 have been prepared in accordance with Australian Generally Accepted Accounting Practices (AGAAP).

Table 4: Financial results

	AGAAP Audited 12 months to 30 June 2004 (\$'000)	AIFRS Audited 12 months to 30 June 2005 (\$'000)	AIFRS Audited 13 months to 31 July 2006 (\$'000)
Trading revenue	280,624	338,439	358,812
Revenue growth on previous year (%)	54%	20%	6% ¹
Gross Margin	25%	27%	25%
EBITDA	30,735	28,883	4,111
EBITDA Margin (%)	11%	9%	1%
Depreciation and amortisation	17,184	2,567	67,839
EBIT	13,551	26,316	(63,728)
EBIT Margin (%)	5%	8%	n/m
Net interest	398	2,073	1,659
Profit before tax	13,949	28,389	(62,069)

Source: B Digital Financial Report FY06

Note 1: (2.1%) when adjusted to a 12 month period

n/m-not meaningful

The Company recorded a 6% increase in revenue for the year ended FY06, however on a 12 month comparative basis revenue was 2.1% less than the prior year. The reduction in revenue is due to a number of factors, including:

- reduced volumes of mobile connects in the period and therefore reduced commission
- reduction in the level of commission on mobile connects
- increased competitiveness in the mobile sector, particularly with the introduction of capped and prepaid plans
- disruptions to B Shop operations during the period.

The gross profit margin declined from 27% in FY05 to 25% in FY06, largely attributable to increased competitiveness in the mobile telephony market and an increase in service and preselect voice customers who operate at lower gross margins as they do not include national or international fixed line telephony services.

The EBIT and EBITDA presented in Table 4 above are affected by a number of unusual, non-recurring items. In Table 5 we have adjusted for these items to present normalised EBITDA and EBIT.

Table 5: Adjusted results

	Audited 12 months to 30 June 2005 (\$'000)	Audited 13 months to 31 July 2006 (\$'000)
Reported EBITDA	28,883	4,111
Write down of investment, loans and receivables in B Shop	-	10,976
Share of JV losses - SPTCom	-	2,667
Share of JV losses – B Shop	-	4,233
Assets written off	-	1,333
Redundancy costs from management restructure	1,106	769
Professional and legal fees written off in respect of corporate transactions not progressed	433	-
Adjusted EBITDA	30,422	24,089
Depreciation and amortisation (as reported)	(2,567)	(67,839)
<i>Depreciation and amortisation adjustments</i>		
Accelerated depreciation and other costs related to company relocation	814	-
Kooee Communications' goodwill impairment	-	65,699
Adjusted EBIT	28,669	21,949

Source: B Digital Financial Report FY06

The normalisation adjustments shown above are discussed further below:

- the Company acquired a 50% shareholding in B Shop in April 2005 for \$4.2 million. After making this investment, significant operational inefficiencies and discrepancies were discovered. The Company wrote down the carrying value of the investment and advances and loans made to B Shop by \$11 million during the year. In July 2006 the Company acquired the business assets of B Shop for a cash payment of \$200,000
- the Company is currently in negotiations to sell the B Shop business. While a formal sale agreement has not yet been executed, the board of directors of B Digital expect this to occur shortly. Accordingly, we have normalised the earnings to exclude losses of \$4.2 million incurred by B Shop during FY06
- SPTCom delivered a loss to B Digital of \$2.7 million for FY06 largely due to delays in the migration of B Digital fixed line customers to the SPTCom network. An analysis of the past quarter's results for SPTCom shows that the business has moved to a break even position. As completion of the migration is expected in FY07, SPTCom is expected to at least break even going forward. We have therefore adjusted EBITDA to exclude the SPTCom loss of \$2.7 million
- the purchase of Kooee Communications included goodwill of \$65.7 million. Following the introduction of the new AIFRS asset impairment standard the goodwill of \$65.7 million was considered fully impaired and expensed in FY06. We have excluded this amount from normalised depreciation and amortisation.

4.8 Financial position

The audited statements of financial position of B Digital as at the end of FY05 and FY06 are summarised in the table below. The financial results presented below have been prepared in accordance with AIFRS.

Table 6: Financial position

	30 June 2005 Audited (\$'000)	31 July 2006 Audited (\$'000)
Cash	13,879	14,599
Receivables	59,950	53,880
Intangibles ²	36,686	36,690
Other	3,853	3,775
Total current assets	114,368	108,944
Investments accounted for using equity method	46,329	39,369
Intangibles	118,067	53,612
Other	16,234	15,414
Total non-current assets	180,630	108,395
Payables	46,378	43,962
Unearned revenue	33,538	32,767
Other	7,688	16,619
Total current liabilities	87,604	93,348
Non-current liabilities		
Interest bearing liabilities	8,098	16
Provisions	198	270
Total non-current liabilities	8,296	286
Net assets	199,098	123,705
<i>Net assets per share (cents)¹</i>	<i>24.0</i>	<i>14.9</i>
<i>Net tangible assets per share (cents)¹</i>	<i>5.3</i>	<i>4.0</i>

Source: B Digital Financial Report FY06

Note 1: Based on 830,917,812 shares on a fully diluted basis

Note 2: Capitalised subscriber acquisition costs

The decrease in the net assets from FY05 to FY06 is largely attributed to the impairment of goodwill under the new AIFRS standards. This resulted in a write down of \$65.7 million of intangible assets.

4.9 Competitive position of B Digital

The table below sets out the strengths, weaknesses, opportunities and threats (SWOT) for B Digital.

Strengths	Weaknesses
<ul style="list-style-type: none"> • The Company has undergone a corporate restructure which has streamlined processes and reduced costs. The Company is also in negotiations to dispose of the poorly performing B Shop business. • Diversified range of services across the mobile, fixed line and internet services sectors. • Share in infrastructure assets through SPTCom. 	<ul style="list-style-type: none"> • Market scepticism over the company's ability to achieve its forecasts (e.g. an ABN AMRO analyst recently applied a "35% discount to their valuation due to lack of investor confidence in earnings visibility"). • Slow take-up of advances in technology (for example 3G products) resulting in potential loss of market share • B Digital's reliance on Optus to supply a competitive product and the risk of Optus reducing its wholesale subsidies. • Large percentage of income comes from the highly competitive mobile market which is approaching market saturation. • Marketing under a co-branding arrangement with the Soul brand, despite not having a licence agreement in place or legal ownership of the Soul brand.
Threats	Opportunities
<ul style="list-style-type: none"> • The ongoing problems in the B Shop business pose a potential threat to the Company's revenues, even if the B Shop business is successfully sold to an independent dealer, as a large portion of the Company's revenues depend on B Shop being successfully operated. • Continual changes in technology including the development of 3G. • The reliance on wholesale providers and uncertainty over business strategies of wholesale providers in the future. • Uncertainty over Government regulations and the effect it will have on the industry and industry players. • The growth in the use of prepaid mobile and capped mobile plans in the market, reducing ARPU further. • Increased use of service bundling to promote customer loyalty may decrease margins on certain products. • High churn rates and the difficulty of counteracting loss of customers. 	<ul style="list-style-type: none"> • Developing new product offerings and leveraging the existing customer base. • Moving from focusing on the low end consumer market to higher spend consumers through further cross selling of other services. • Moving into the small medium enterprises and business sectors • The potential growth of SPTCom and the opportunity of vertical integration between SPTCom and B Digital to create a fully integrated telecommunications company.

Source: Deloitte analysis, ABN AMRO broker report dated 20 September 2006.

5 Valuation methodology

5.1 Valuation methodologies

To estimate the fair market value of the shares in B Digital we have considered common market practice and the valuation methodologies recommended by ASIC Practice Note 43 regarding valuation reports of independent experts. These are discussed below.

5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

5.2 Selection of valuation methodologies

We are of the opinion that the most appropriate methodology to value B Digital is the capitalisation of maintainable earnings method due to the following factors:

- there is an adequate number of publicly listed companies with operations sufficiently similar to those of B Digital and comparable transactions in the telecommunications sector to provide meaningful analysis
- there are no reliable long-term cash flow forecasts thus the discounted cash flow method cannot be used. While management have prepared three year projections, due to the level of uncertainty and regulatory risk in the industry, forecasting beyond this period is highly subjective.

In addition, we have also used an analysis of recent share market trading to provide additional evidence of the fair market value of B Digital.

6 Valuation of B Digital

6.1 Valuation of B Digital

Deloitte has estimated the fair market value of a B Digital share on a control basis to be in the range of 14.4 cents to 19.8 cents.

For the purpose of our opinion fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

We have estimated the fair market value of B Digital using the capitalisation of maintainable earnings method. In addition we have used an analysis of recent share trading to provide additional evidence of the fair market value of B Digital.

6.2 Capitalisation of maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets, deducting net debt and applying a premium for control. To value B Digital using the capitalisation of maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings
- an appropriate earnings multiple
- the value of any surplus assets
- the level of net debt outstanding
- an appropriate premium for control.

Our considerations on each of these are discussed separately below.

6.2.1 Future maintainable earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for B Digital because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT. This allows a better comparison with earnings multiples of other companies.

We have estimated future maintainable EBITDA to be in the range of \$20 million to \$22 million. In determining future maintainable earnings we have considered the following:

- historical earnings volatility of B Digital, including a high level of one-off write-offs in the past 2 years and a history of not achieving management's forecasts
- historical normalised EBITDA for FY06 of \$22 million (adjusted 12 months)
- there is currently uncertainty around whether a sale of B Shop will be successfully concluded. Based on management's forecasts, the impact of retaining B Shop is significant and would result in reduced forecast earnings
- pressure on B Digital's margins from a combination of:
 - saturation of the mobile market
 - product substitution (for example from fixed wire to mobile)

- supply risk relating to Optus wholesale rates which are re-negotiated every 6 months
- change in service mix from traditional higher margin mobile, international override and dial up internet to lower margin broadband internet and fixed wire preselected and total service voice services
- growth in prepaid mobiles and capped mobile plans
- greater focus on bundling of services. B Digital recently launched the ‘never pay for dial up’ campaign, which offers a free internet dial up service when taken with a fixed wire service and also now offers various bundles of broadband and fixed wire
- counteracting the above mentioned threats to B Digital’s profitability and market share are:
 - infrastructure ownership from B Digital’s 50% ownership of SPTCom is expected to lead to improved product margins. SPTCom, which was loss-making, has experienced a turn-around in the last quarter following the commencement of migration of B Digital’s fixed line and internet services customers from the Telstra and Optus networks. Management have forecast profits for SPTCom beyond FY07
 - reduction in marketing costs as a result of the transition to a co-branding arrangement with the Soul brand, despite not having a licence agreement in place or legal ownership of the Soul brand
 - service cost savings from the introduction of a new phone marketing system
 - increased mobile sales through B Digital’s dealer network, which are generally higher margin than direct channel sales
- moderate increase in management’s projections for FY07 and FY08 (not disclosed due to commercial sensitivity, uncertainty in the growth assumptions and the fact that they have not been approved by the board of directors)
- ABN AMRO broker report dated 20 September 2006 forecasts EBITDA of \$23.6 million for FY07
- the declining EBITDA trend from FY04 to FY06 (\$31 million in FY04 to \$30 million in FY05 to \$22 million (adjusted 12 months) in FY06).

Due to B Digital’s historical earnings volatility, the competitive nature of the telecommunications industry and the resulting difficulty in forecasting cash flows, we have selected a range for B Digital’s future maintainable EBITDA.

6.2.2 Earnings multiple

We have determined an earnings multiple in the range of 5.0 to 6.0 times EBITDA on a minority basis.

In selecting this earnings multiple range we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- company specific factors relevant to B Digital.

These are discussed separately below.

Market trading multiples

The share market valuation of comparable listed companies provides evidence of an appropriate earnings multiple for B Digital. The share price of a listed company represents the market value of a minority interest in that company.

We have compiled share market trading multiples for companies comparable to B Digital. These companies, together with their earnings multiples, are summarised in the following table.

Table 7: Earnings multiples – market trading

Company	Currency	Enterprise value (m)	EBITDA times (Historical)	EBITDA times (Current year forecast)	EBITDA times (Forecast)
<i>Australian</i>					
Cellnet Group Ltd	AUD	81.2	10.3 ¹	7.5	6.3
Commander Communications Ltd	AUD	444.8	4.7 ¹	4.5	4.0
Fone Zone Group Ltd	AUD	143.3	6.0	5.9	5.0
Average - Australian			7.0	6.0	5.1
<i>Foreign</i>					
Alternative Networks Plc	GBP	51.0	8.7	6.5	n/a
Avenir Telecom Ltd	EUR	274.0	12.5	8.2	7.2
Mobilezone Holding Ag-Br	CHF	214.5	9.5	8.2	6.5
New Ulm Telecom Inc	USD	97.0	6.7	n/a	n/a
Average - Foreign			9.4	7.6	5.9

Source: Bloomberg

n/a – not available

Note: Historical = 2006 financial year, current year forecast = 2007 financial year, forecast = 2008 financial year

Note 1: Multiples adjusted for high level assessment of abnormal items

Specific details regarding the above companies and the calculation of the earnings multiples are provided at Appendix 2.

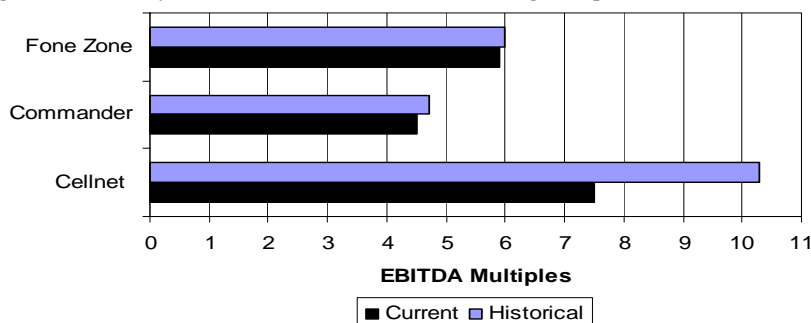
General comments regarding the multiples, together with the historical growth, margins and operations of the above companies, are listed below:

- enterprise values were calculated by summing the total of the net borrowings at each company's most recent reporting date and the market capitalisation at 11 October 2006. Earnings represent the latest 12 months taken from the last annual and interim reports
- the comparable companies represent companies in the reselling sector with minimal infrastructure assets as the majority of B Digital's revenue is derived from reselling activities. We have not presented comparable companies in the integrated telecommunications or the ISP sector due to the different risks and opportunities faced by these companies
- Commander Communications Ltd (Commander) completed its takeover of Volante Group Limited (Volante) in April 2006. Therefore Commander's reported historical EBITDA for FY06 contained only 2 months of Volante's earnings whereas FY07 forecasts include a full year's contribution from Volante resulting in lower current year forecast and forecast multiples of 4.5 and 4.0 times respectively. Adjusting Commander's EBITDA for this abnormal item gives a historical multiple of 4.7 times

- Cellnet Group Ltd's (Cellnet) historical EBITDA multiple is at the high end of the range. Cellnet reported lower than expected earnings for FY06 due to one off costs relating to the business reorganisation and write-downs relating to slow moving stock. Accordingly, Cellnet's reported historical EBITDA is not representative of future earnings. Adjusting Cellnet's EBITDA for the abnormal stock write down gives a historical multiple of 10.3 times
- Fone Zone Group Limited (Fone Zone) listed on the ASX in November 2005
- the non-Australian comparable companies include companies from the United Kingdom, the US, France and Switzerland. These foreign companies are subject to different risks and opportunities and a different regulatory regime, which will make their multiples less comparable
- Soul is an integrated telecommunications company with historical and current year forecast EBITDA multiples of 11.8 times and 6.7 times respectively. We have not presented other integrated telecommunications companies in our analysis as these companies are considerably larger than B Digital and typically own infrastructure assets. Hence these companies face significantly different risks and opportunities to predominantly reselling companies such as B Digital
- the average historical EBITDA multiple of the selected Australian companies is 7.0 times, while the average current year forecast and forecast EBITDA multiples for Australian companies are 6.0 times and 5.1 times respectively.

The following figure summarises the historical and current year forecast market trading multiples for the above Australian comparable companies, reflecting the high level adjustments made for abnormal items:

Figure 12: Summary – Historical and current market trading multiples



Source: Bloomberg and Deloitte analysis

Note: Commander and Cellnet multiples adjusted for high level assessment of abnormal items.

Merger and acquisition multiples

The price achieved in mergers or acquisitions of comparable companies provides evidence of an appropriate earnings multiple for B Digital. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

We compiled merger and acquisition multiples for companies comparable to B Digital. These companies, together with the EBITDA multiples at which they were acquired, are summarised in the following table.

Table 8: Earnings multiples – mergers and acquisitions

Company	Acquired by	Market sector	Effective date	Currency	Enterprise value (m)	Historical EBITDA multiple	Control premium
RSL COM	Commander	Fixed	Mar 03	AUD	59.9	4.8	n/a
ihug ¹	iiNet	ISP	Sept 03	AUD	72.0	4.0	n/a
Uecomm Ltd	SingTel Optus	ISP	May 04	AUD	231.7	11.7	1 Day 8% 5 Day 21% 30 Day 21%
B Digital	Soul	Reseller	Apr 05	AUD	95.3	7.2	n/a
Teleglobe International Holdings Ltd	Videsh Sanchar Nigam Ltd	Reseller with own network	Feb 06	USD	242.0	11.0	1 Day 22% 5 Day 34% 30 Day 80%
Mpower Holding	Telepacific	Integrated	Aug 06	USD	194.0	8.3	1 Day 3% 5 Day 15% 30 Day 31%
Yak Communications Inc.	Globalive Communication Corp	Reseller	Oct 06	USD	54.4	6.9	1 Day 35% 5 Day 43% 30 Day 80%
Average						7.7	

Source: Bloomberg, Mergerstat., Grant Thornton IER dated 18 March 2005

Note 1: In October 2006 iiNet announced the sale of ihug to Vodafone for AUD36 million, however no multiples are available

Specific details regarding the above companies and the calculation of the merger and acquisition earnings multiples are provided at Appendix 3.

General comments regarding the multiples, together with the historical growth, margins and operations of the above companies, are listed below:

- enterprise values were calculated by summing the total of the net borrowings at each company's most recent reporting date and the consideration offered under the terms of the transaction. Earnings were taken from the latest annual report prior to the transaction date
- the comparable transactions listed above (except for the B Digital/Soul transaction where Soul acquired a 42.9% stake in B Digital) all include control premiums
- the transactions presented above represent transactions across the telecommunications sector including ISP (ihug Ltd (ihug), Uecomm Ltd (Uecomm)), fixed wire (RSL COM (RSL)), integrated telecommunications (Mpower Holding Corp (Mpower)) and reselling (Yak Communications Inc (Yak), Teleglobe International Holdings Ltd (Teleglobe) and B Digital). Yak was involved solely in reselling and transacted at a multiple of 6.9 times, whereas the Teleglobe transaction was at 11.0 times due to the fact that Teleglobe also owns its own network which it wholesales out. The Commander/RSL transaction involved the takeover of RSL's fixed line reselling business, which has similarities to B Digital's fixed line business
- the non-Australian transactions (all of which involve US companies), while more recent than the Australian transactions, are subject to different levels of regulatory risk
- a number of the above target companies are larger than B Digital. In general, larger companies have higher earnings multiples than smaller companies.

Selected multiple

In selecting an appropriate multiple to apply to B Digital's future maintainable EBITDA we have considered the following:

- the majority (approximately 60%) of B Digital's current and future business involves selling mobile handsets and telecommunications services (network access and airtime)
- the majority of the transactions are involved in the broader telecommunications sector rather than in the reselling sector
- the uncertainty associated with forecasting B Digital's EBITDA and its recent history of abnormal expenses
- the risk surrounding the future operational performance of B Shop.

As a result of these factors, we have selected a multiple of 5.0 to 6.0 times EBITDA to apply to B Digital on a minority basis.

6.2.3 Surplus assets/liabilities

Surplus assets are those assets owned by a company that are surplus to its main operating activities, such as unused property, loans or investments. Such assets should be valued separately from the main operating activities of the company, after adjusting operating results to remove the net-income or expense provided by the surplus assets. We have identified the following surplus assets and contingent liabilities relating to B Digital:

Table 9: Surplus assets/liabilities

	Low value (\$'000)	High value (\$'000)
Tax losses	-	5,300
Total surplus assets/(liability)	-	5,300

Source: Deloitte analysis

Tax losses

B Digital has tax losses carried forward of \$18.6 million as at 31 July 2006. B Digital has been advised by KPMG that it is probable the B Digital will continue to satisfy the same business test allowing it to claim prior year tax losses in future years. We have valued these tax losses at between \$0 and \$5.3 million, assuming a corporate tax rate of 30%, a discount rate of 10% and that they will be utilised in FY07.

B Shop consideration

B Digital is currently negotiating the sale of B Shop. The proposed consideration is commercially sensitive and since it is immaterial to our valuation, it has not been included in the analysis of surplus assets above.

Litigation

B Digital is currently involved in litigation, through its 100% interest in Kooee Communications, with Primus Telecommunications Pty Ltd (Primus) relating to customer debts transferred on the acquisition of Kooee Communications. The parties have been in mediation and a court hearing has been set for January 2007, however the final outcome is uncertain. B Digital's potential exposure is commercially sensitive, however based on discussions with management the financial outcome is immaterial to our valuation and has therefore not been included in the analysis of surplus assets and liabilities above.

6.2.4 Net cash

B Digital's current interest bearing liabilities of \$9 million consists of a shareholder loan from the founding Digiplus shareholders, which is due for repayment on 31 December 2006. Based on discussions with management and an analysis of B Digital's cash balance over the past 6 months, B Digital's current net cash balance (after deducting the shareholder loan) of approximately \$7 million represents a normal level of net cash required for working capital in the business. After repaying the shareholder loan, B Digital could be left in a tight mid-month cash position. The Company has no borrowing capacity as it has few tangible assets and Optus holds a charge over its receivables. Therefore we have concluded that B Digital has no surplus cash above that required for working capital in the business.

6.2.5 Premium for control

Premium for control

Earnings multiples derived from market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- determine the strategy and policy of the company
- make acquisitions, or divest operations
- control the composition of the board of directors.

The level of premium that should be applied to the value of a minority interest in order to derive a controlling interest is somewhat subjective. The observed control premiums reflect the gearing of the acquired companies and also include synergy benefits.

The following factors have also been taken into consideration in determining an appropriate premium for control for B Digital:

- B Digital is not geared
- Soul already has a 45.8% holding in B Digital and is a 50:50 joint venture partner with B Digital in SPTCom. Soul has already extracted a level of synergy benefits from B Digital, including the migration of its fixed line and internet services customers from the Telstra and Optus networks to SPTCom, the transition to a co-branding arrangement with the Soul brand, changing B Digital's year end to coincide with Soul's and consolidating banking and insurance services. Therefore, the remaining level of synergy benefits available to any other purchaser is relatively low. We have not considered special value attributed to Soul due to the synergies only Soul can extract
- the average one day, one week and one month control premiums paid in the mergers and acquisitions of comparable companies (refer to Table 8) were 17%, 28% and 53% respectively.

The level of premium that should be applied to the value of a minority interest in order to derive the value of a controlling interest is somewhat subjective.

Based on the above considerations we believe that a premium for control at the low end of the observed range is appropriate for B Digital.

Based on these considerations, we believe that a premium for control of 20% is appropriate for B Digital.

6.2.6 Number of shares

We have based our assessment of the value per B Digital share on fully diluted issued shares of 830,917,812.

In addition to the 830,030,212 shares currently on issue we have included the 887,600 options over unissued shares granted to directors, executives and employees under the ESOP. These options carry an exercise price of \$1 per tranche of options exercised, i.e. a negligible amount in total, but are subject to certain performance related vesting conditions. However, we understand that these conditions fall away in a takeover situation once a takeover offer is unconditional. On this basis we have included all options in the calculation of fully diluted shares.

6.2.7 Valuation: capitalisation of maintainable earnings

The value of B Digital derived from the capitalisation of maintainable earnings method is summarised below.

Table 10: Summary – capitalisation of maintainable earnings method

	Section	Low value	High value
Maintainable earnings	(\$m)	20.0	22.0
Earnings multiple	times	5.0	6.0
Enterprise value	(\$m)	100.0	132.0
Surplus assets/(liabilities)	(\$m)	-	5.3
Net cash	(\$m)	-	-
Equity value (on a minority basis)	(\$m)	100.0	137.3
Premium for control (20%)	(\$m)	20.0	27.5
Equity value (on a control basis)	(\$m)	120.0	164.8
Number of shares (fully diluted)	(000's)	830,918	830,918
Equity value per share (on a control basis)	(cents)	14.4	19.8

Source: Deloitte analysis

The wide range of our assessed valuation reflects company specific risks and uncertainties and the inherent difficulties in projecting performance in the telecommunications reselling sector.

6.3 Analysis of recent share trading

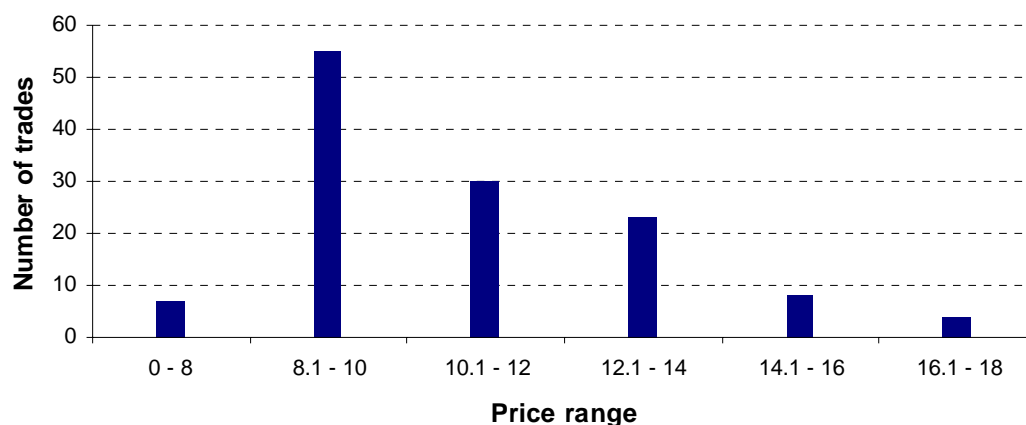
The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. We believe that the share price is an appropriate measure of the fair market value of B Digital's shares for the following reasons:

- B Digital's preliminary results for the year ended 31 July 2006 were released to the market on 20 September 2006, providing a recent update regarding B Digital's financial performance
- on 21 September 2006 B Digital experienced abnormally high levels of share trading and a share price increase of 25% from 9.6 cents to 12 cents amid market speculation that Soul was planning to increase its ownership interest
- on 22 September 2006 B Digital released a statement to the ASX that no formal proposal or advice had been received from Soul
- B Digital's shares are relatively liquid with approximately 25% of B Digital's outstanding shares trading in the six months prior to public speculation of the Takeover Offer on 21 September 2006
- B Digital is covered by an ABN AMRO equity analyst. Research reports are published quarterly with the most recent issued on 20 September 2006.

Accordingly we believe that it is reasonable to assume that the share price represents an objective assessment of the value of B Digital's shares.

B Digital's share price has been extremely volatile ranging from 7 cents to 18 cents per share for the six months prior to public speculation of the Takeover Offer on 21 September 2006. The VWAP for the six months prior to public speculation of the Takeover Offer was 11.0 cents. The following graph illustrates the weighting of trades during this six month period, with the majority of trades occurring between 8 cents and 10 cents.

Figure 13: B Digital stock activity on ASX



Source: Bloomberg

We have used this range as a basis for estimating the fair market value of B Digital's shares.

Share prices from market trading do not reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. A discussion of an appropriate premium for control for B Digital is set out in Section 6.2.5 above. We have selected a control premium of 20%.

Table 11: Summary – analysis of recent share trading method

	Low value	High value
Share price (cents)	7.0	18.0
Control premium	20%	20%
Implied equity value on a control basis (cents)	8.4	21.6

Source: Deloitte analysis

6.4 Conclusions

Our valuation of B Digital derived using the capitalisation of maintainable earnings method is in the range of 14.4 cents to 19.8 cents per share. Although our analysis of recent share trading prices of B Digital shares (prior to public speculation of the Takeover Offer on 21 September 2006) indicates a wide trading range and significant share price volatility, it broadly supports our valuation range.

7 Evaluation and conclusion

7.1 Fairness

We have estimated the fair market value of a B Digital share to be in the range of 14.4 cents to 19.8 cents. A comparison of the Takeover Offer of 16 cents in cash with the value of 14.4 cents to 19.8 cents indicates that the Takeover Offer falls within this value range. Therefore we have concluded that the Takeover Offer is fair.

7.2 Reasonableness

In accordance with ASIC Policy Statement 75 an offer is reasonable if it is fair. On this basis, in our opinion the Takeover Offer is reasonable. We have also considered the following factors in assessing the reasonableness of the Takeover Offer:

Advantages of the Takeover Offer:

Likelihood of another bidder emerging

B Digital has appointed financial advisers to assess if there are any other potential bidders for the Company. No other bidders have emerged between 25 September 2006, the date the Takeover Offer was announced, and the date of this report.

Other purchasers would experience a number of difficulties in extracting synergies from an acquisition of B Digital as the B Digital and Soul businesses are already fairly intertwined as a result of:

- Soul's 45.8% shareholding in B Digital
- the 50:50 joint venture, SPTCom, and B Digital's commitment to migrate its fixed line and internet customers onto this infrastructure. It is likely that any other purchaser would be locked into this arrangement
- transition to a co-branding arrangement with the Soul brand rather than solely marketing B Digital's own three brands. Any other purchaser would likely have to incur expenditure to assist in re-establishing the prominence of the B Digital brands in the marketplace
- consolidating banking and insurance services.

On this basis an alternative bid is unlikely.

B Digital's share price would likely fall below the current Takeover Offer level

In the absence of another offer for B Digital, it is likely that B Digital shares would trade at prices below the offer price of 16 cents if the Takeover Offer is not successful. B Digital's share price has been volatile over the past six months with a high of 18 cents, a low of 7 cents and a VWAP of 11.0 cents. The majority of share trading has occurred in the 8 cents to 10 cents range.

B Digital's second largest shareholder has accepted the Takeover Offer

Soul has entered into a pre-bid agreement with Kilaben, a company associated with Mr Nick Kotzohambos, B Digital's second largest shareholder, in which Soul is granted an option over 3% of the outstanding shares in B Digital owned by Kilaben.

Mr Kotzohambos, who through Kilaben holds approximately 20.7% of B Digital's ordinary shares, also indicated his intention to accept the Takeover Offer for the remainder of his shares, in the absence of a higher offer.

On 19 October 2006 Mr Kotzohambos accepted Soul's offer for B Digital in respect of 17.7% of B Digital's shares. This acceptance by B Digital's second largest shareholder of the Takeover Offer is a strong signal that the Takeover Offer is considered attractive.

Disadvantages of the Takeover Offer:

Inability to participate in possible future growth potential of B Digital

Shareholders will no longer hold a direct interest in B Digital and accordingly will not participate in any future growth of B Digital. If shareholders wish to continue to invest in and have exposure to the telecommunications reselling sector, there are a limited number of alternative publicly listed investment opportunities in the Australian telecommunications reselling sector.

Taxation implications

If the Takeover Offer is successful Shareholders may incur a tax expense. Individual investors should consult their tax advisers in relation to their personal circumstances.

7.3 Conclusion

As the Takeover Offer is fair it is also reasonable.

Appendix 1: Glossary

Reference	Definition
2G	Two generation
3G	Three generation
ACCC	Australian Competition and Consumers Commission
ACMA	Australian Communications and Media Authority
ADSL	Asymmetrical digital subscriber
AFSL	Australian Financial Services Licence
AGAAP	Australian Generally Accepted Accounting Practices
AIFRS	Australian equivalents to International Financial Reporting Standards
ARPU	Average revenue per user
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited
ASX 200 Index	ASX 200 index
ASX Telco Index	ASX telecommunications service index
AUD	Australian dollars
AUS	Australian Auditing Standards
Avenir	Avenir Telecom Ltd
B Digital or the Company	B Digital Limited
B Investments	B Investments Pty Ltd
B Shop	B Shop Telecommunications Pty Ltd
Cellnet	Cellnet Group Ltd
CEO	Chief Executive Officer
Commander	Commander Communications Limited
Corporations Act	Corporations Act 2001
Deloitte	Deloitte Corporate Finance Pty Limited
Digiplus	Digiplus Pty Ltd
DUI	Dial up internet
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ESOP	Executive share and option plan
FICS	Financial Industry Complaints Service
Fone Zone	Fone Zone Group Limited
FSG	Financial Services Guide
FTTN	Fibre to the node
FY04	12 months ending 30 June 2004
FY05	12 months ending 30 June 2005
FY06	13 months ending 31 July 2006
HFC	Hybrid fibre coax
IBIS	IBIS World Pty Ltd
ICAA	Institute of Chartered Accountants in Australia
ihug	ihug Ltd
Independent Directors	Independent Directors of B Digital
IP	Internet protocol

Reference	Definition
ISP	Internet service provider
Kilaben	Kilaben Holdings Pty Limited
Koeee Communications	Koeee Communications Pty Ltd
Mpower	Mpower Holdings Corp
New Ulm Telecom	New Ulm Telecom Inc
NPAT	Net profit after tax
Optus	SingTel Optus Pty Limited
Primus	Primus Telecommunications Pty Ltd
PSTN	Public switched telephone network
RSL	RSL Com
Section 640	Section 640 of the Corporations Act 2001
Seven	Seven Network Limited
Shareholders	Holders of B Digital shares other than Soul
Soul or the Bidder	SP Telemedia Limited
SPTCom	SPTCom Pty Ltd
SWOT	Strengths, weaknesses, opportunities and threats
Takeover Offer	Soul's offer to acquire all of the outstanding shares in B Digital that it does not already own
Teleglobe	Teleglobe International
Telstra	Telstra Ltd
Uecomm	Uecomm Ltd
US	United States of America
VoIP	Voice over internet protocol
Volante	Volante Group Limited
VWAP	Volume weighted average share price
Yak	Yak Communications Inc

Appendix 2: Comparable entities

The following table provides analysis of companies with comparable activities to B Digital:

Table 12: Comparable companies to B Digital

Company	Currency	Enterprise value (m)	Market capitalisation (m)	Sales (\$m)
Alternative Networks Plc	GBP	51.0	53.2	46.4
Avenir Telecom Ltd	EUR	274	254.5	746.1
Cellnet Group Ltd	AUD	81.2	73.0	567.4
Commander Communications Ltd	AUD	444.8	463.8	764.0
Fone Zone Group Ltd	AUD	143.3	143.9	129.4
Mobilezone Holding AG-Br	CHF	214.5	228.9	243.6
New Ulm Telecom Inc	USD	97.0	84.4	17.3

Source: Bloomberg

We provide the descriptions for each of the above companies as follows:

Alternative Networks Plc

Alternative Networks Plc is a business-to-business telecommunications reseller. The company provides a broad suite of telecommunications products for small and medium sized enterprises and small corporate customers including mobile, fixed line and data products.

Avenir Telecom Ltd

Avenir Telecom Ltd (Avenir) distributes mobile telecommunications equipment. Avenir sells mobile telephones, accessories and subscriptions, and provides customer service. Avenir sells its products through its Mobile Hut, Enterprises & Mobiles and Internity retail chains. The company operates in Europe, Hong Kong and Morocco.

Cellnet

Cellnet is a wholesale distributor of mobile phones and mobile phone accessories in Australia and New Zealand. The company distributes its products to manufacturers and suppliers to major retailers and service providers. Cellnet also distributes IT products such as PCs, digital cameras, scanners and printers.

Commander

Commander markets, sells, rents and maintains business communication systems throughout Australia. Commander's operations encompass data networking, voice and data solutions and web and e-business services, in addition to advisory, maintenance and financing services.

Fone Zone

Fone Zone retails mobile telephones. The company's chain of retail stores sells cellular telephones, accessories, extended warranties, mobile entertainment content, corded and cordless telephones and internet products.

Mobilezone Holdings AG-Br

Mobilezone Holding AG-Br is a reseller of mobile and fixed line telecommunications and retails mobile phones. The company sells its products through its own retail outlets, in department stores and shopping centres.

New Ulm Telecom Inc

New Ulm Telecom, Inc. (New Ulm Telecom) operates independent telephone systems which serve urban and rural areas in south-central Minnesota. The company offers basic telephone services, long distance, and cellular access. New Ulm Telecom also operates a cable television business in southern Minnesota.

Appendix 3: Comparable transactions

Below are the details of comparable market transactions, listed by target company.

RSL Com

RSL, a major Australian ISP was acquired by Commander in March 2003 for \$38.4m cash and \$21.5m in convertible notes. The acquisition was strategically important to Commander as it gained access to 45,000 business and 200,000 residential customers Australia-wide.

ihug Ltd

ihug was acquired by iinet for \$71.5 million in cash and shares. ihug was a provider of wholesale broadband and satellite access and web services to telecommunications operators and ISPs in both Australia and New Zealand.

Uecomm Ltd

Uecomm Ltd, an Australian owner/operator of a high-speed fibre optic network, was acquired by SingTel Optus during May 2004. Consideration of \$203m was paid in cash.

B Digital

B Digital acquired Kooee Communications from Soul and 50% of SPTCom during April 2005 in exchange for 240 million ordinary shares and \$13.75m cash.

Teleglobe International Holdings Ltd

Videsh Sanchar Nigam Ltd, India's leading provider of international communications and internet services, acquired Teleglobe for US\$242 million. Teleglobe was a provider of telephone and other telecommunication services.

Mpower Holding Corp

Mpower was acquired by TelePacific Communications, a privately-held telecommunications services company in August 2006 for US\$175.9m in cash. Mpower is a provider of data and voice services and primarily operates in Chicago.

Yak Communications Inc

Yak provides a fully array of telecommunications services including long distance, local, calling cards, cellular long distance, data services, and broadband voice to both residential and commercial customers.

Appendix 4: Sources of information

In preparing this report we have had access to the following principal sources of information:

- B Digital's ASX announcements, including the announcement dated 25 September 2006 announcing the Takeover Offer
- publicly available information on B Digital and comparable companies
- other publicly available information, including information published by Bloomberg, Connect4, IBIS World and Mergerstat
- various ABN AMRO broker forecasts, including the forecast dated 20 September 2006
- discussions with B Digital management
- B Digital historical financial statements for the 12 months ended 30 June 2004 and 30 June 2005 and the 13 months ended 31 July 2006 and monthly management accounts since 31 July 2006
- B Digital Bidder's Statement dated 26 September 2006
- B Digital's management projections for the three years to 31 July 2009

Appendix 5: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of B Digital and is to be included in the Target's Statement to be given to shareholders in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those shareholders entitled to receive the Target's Statement to assist them in their decision whether to accept or reject the Takeover Offer and should not be used for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer.

The report represents solely the expression by Deloitte of its opinion as to whether the Takeover Offer is fair and reasonable in relation to Section 640. Deloitte consents to this report being included in the Target's Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the information provided by the directors and executives of B Digital which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to B Digital management for confirmation of factual accuracy.

Furthermore, recognising that Deloitte may rely on information provided by B Digital and its officers and/or associates, B Digital has agreed to make no claim against Deloitte to recover any loss or damage which B Digital may suffer as a result of that reliance and also has agreed to indemnify Deloitte against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by Deloitte.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of B Digital personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor did they constitute a review in accordance with AUS 902 applicable to review procedures.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for B Digital included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of B Digital referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Keith Jones, B.Bus, CA, F.Fin, Mark Pittorino, B.Com, M.App. Fin, CA, Nicki Ivory, B.Com (Hons), CA, CFA, AnnMarie Mahony, B.A (Hons), M.Acc (Hons), ACA and Chris Bingemann, B.Com, CA. Keith Jones and Mark Pittorino are Directors of Deloitte and have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of \$55,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Takeover Offer.

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