BaseDrive ™

“BaseDrive is the GSM of IP media delivery”
Dr Bob Wambaugh – Global Head of Interactive TV: Sun Microsystems

**If you’ve got a broadband connection,
you’ll want BaseDrive inside it.**

Table of Contents

1. BaseDrive – making Media On Demand (MOD) the next lounge room revolution

BaseDrive intends to develop and establish a leading global distributor of second tier electronic media content and applications over broadband networks. In so doing it will establish itself as the preferred platform for consumers and media / software owners by guaranteeing secure access, competitive pricing and attractive content on key presentation devices : *"If you have a broadband connection, you'll want BaseDrive inside it"*

BaseDrive will partner with leading providers of customer service management, billing, broadband media distribution systems to reduce technical risks and improve product performance and provide end user with a broadcast style, simple & easy to navigate graphical user interface (GUI).

BaseDrive provides content originators and broadband delivery networks with new revenue streams for their existing infrastructures and media assets. This is achieved by BaseDrive giving users access rights to various forms of broadband content hosted on behalf of content originator / providers by BaseDrive and delivered through its secure Virtual Private Networks (VPN's) to IP home gateways.

Mainstream consumers are interested in content not technology.

2. BaseDrive – Corporate strategy

2.1 What do consumers expect from *broadband*?

In general, consumers adopt broadband to get a faster more intense experience than the current narrowband internet. Moreover, If we take a closer look at their digital consumption habits, we observe a major sub-category of users who prefer multimedia content such as VOD, music, games, and multimedia utilities / applications. Furthermore, these users are expected to spend more time on-line with broadband than they currently do with narrowband, and they are expected to spend proportionally more of it on 'fewer sites' of which entertainment centric destinations can expect to benefit from the biggest proportional gain [(Mckinsey Quarterly report 2001, number 4 web exclusive)].

Based on this evidence, we aim to construct BaseDrive to operate as an IP based VPN (Virtual Private Network) with an affordable content offering that concentrates on selected Video on Demand (VOD), Digital TV re-broadcasting music, games, and multimedia utility applications.

2.2 How does BaseDrive access Broadband*?*

As an entertainment based VPN, BaseDrive's growth is largely dependent on growth in the up-take of broadband connectivity. Currently, end users obtain broadband through ISP's (Internet Service Providers). However, up to this point, Australian ISP's have failed to grow broadband penetration above 6%.['Broadband users starve for content' The Age 21/8/01] In fact, ISP's are struggling to even keep their users locked into their "network". This has had a great deal to do with the lack of compelling content (the latent demand for which – as aforementioned - exists today) and prohibitive pricing (see diagram 1 below). On the latter point, pricey bandwidth hurts 'streamers': e.g. a typical US player streaming 1 hour video event to 100,000 TV's $ thousand equates to a significant operating loss without taking into account content and other hosting costs (see diagram 2 below):

Diagram 1

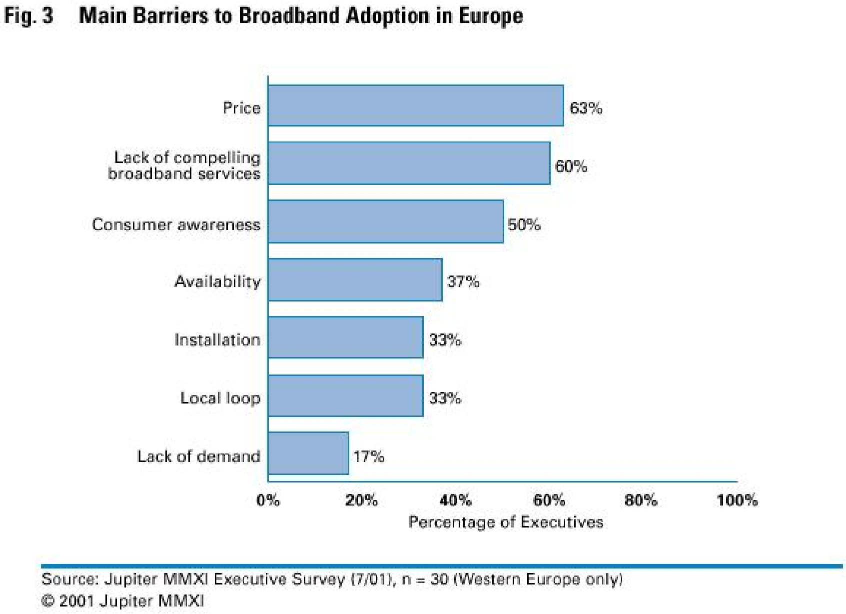
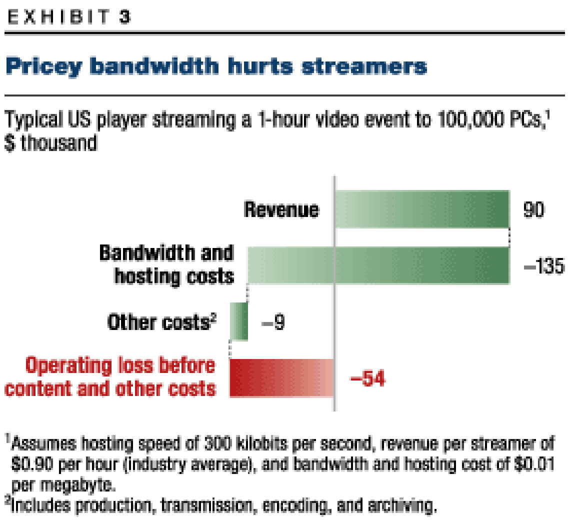


Diagram 2



(Source: McKinsey Quarterly)

Based on this evidence, we are building a licensed ISP partnership network that facilities affordable connectivity for BaseDrive end users to access compelling content, and also grows the ISP broadband subscriber base.

"At present, providers try to lock their customers into their portals creating a series of closed business systems. The providers' success varies across platforms, depending on how each or attractive consumers find it to switch portals or bypass them altogether." **(McKinsey Quarterly – "Portals for all platforms")**

2.3 The *face of BaseDrive*

Some experts go so far as to predict that high-tech revolution could stall unless the industry starts making products that consumers can use without their own 'in-home information technology support team. Companies that don't shift their focus away from technology (i.e. consumer aren't necessarily concerned whether or not a connection is asymmetrical DSL or cable), in favour of Broadband's connection related benefits, (e.g. always on connection, clear phone lines, video and MP3 files) will stifle consumer adoption.
Jupiter: Overcoming local-loop broadband challenges

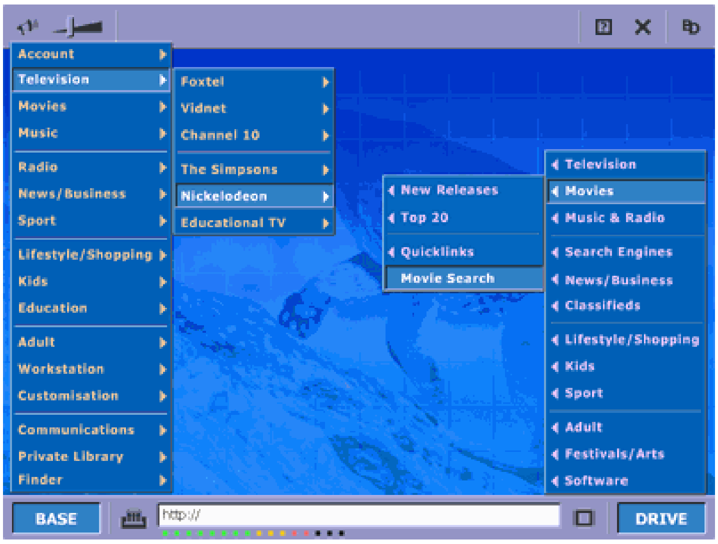
Based on this evidence, BaseDrive has designed a very unique user interface consistent in its user interaction with its namesake Base & Drive. Core to this VPN GUI will be how the user interacts with it: Our GUI is a multi O/S personalized content data storage platform allowing access to any form of streaming broadband content and is a functional application for customising the environment for sourcing, accessing, purchasing and storing content.

- The simple GUI is inspired by common iTV models but incorporates a simple PC style operating system
- The functionality includes pop up and slide out bars that enable easy sourcing, storing and management of all content - the user can log into their account anywhere, anytime.
- Central to the GUI is BaseDrive's two key buttons.

The **"Base"** button (*bottom left hand corner on the screen*) - your personal content, work, entertainment and data management engine (remotely stored; e.g. one of your favourite movies)

The **"Drive"** button (*bottom right hand corner of screen*) – the marketplace for content and media. You select your personal content, work, entertainment and data (remotely accessed; e.g. all available movies)

Once requested/purchased/rented the content moves across to the Base for easy retrieval.



Working demo of our proprietary GUI

Judy Estrin, CEO of Packet Design says: "To take the market to it's full potential, you need usability. Otherwise consumers won't buy the technology. Millions of consumers find themselves in an all-too-familiar scenario, saddled with glitched PC's, mobile phones and digital assistants, that they can't operate. Often, their response is to give up – and stop buying. The problem boils down to one word: usability (**"Old Wisdom for new tech: keep it simple stupid" Age 16/10/01)**

2.4 The BaseDrive experience @ home

The existing portal style entertainment offering accessed via PC is suffering now, and will more so in the future. However, the latest research into television viewing in the US (where the Internet has achieved highest penetration and usage) has revealed a preference for net usage over TV - Internet users of all ages watch significantly less television (Internet users in 2001 watched 4.5 hours per week less than non-Internet users) (UCLA Internet Report 2001). Despite this, the market has failed capitalise and marry 'digital' content and television into an effective product offering. However, it's expected – in the next 2-3 years - that companies offering interactive basic TV VOD offerings - as opposed to the prohibitively expensive uni-cast iTV services - in a market in which networks are closed and the necessary interactive content is already being put in place, are likely to reach profitability quite rapidly over IP. By contrast, PC's face open standards, high costs and consumers who are not used to paying for content. PC's Vs TV's 25/10/01 McKinsley Quarterly.

Finally, studies have shown that half the Australian population intend to buy a digital television within 5 years (Colmar Brunton Research – Equipment purchase intent 2001) while households are no longer buying desktop PCs because [they see] there is simply no justification (AFR, "Gadgets boost wireless, 14/11/01).

Based on this evidence, we believe the television will be the new digital battleground and best new opportunity for digital media. BaseDrive will take television "by the horns", launching BaseDrive Network access through a TV based end-user product offering.

"Television executives stay awake at night wondering where this most powerful of mediums of theirs is heading, what new tricks it's about to play. And the truth is, they don't know" **(Age 13/12/01)**
"Consumers want more Video Control, not Web-On-TV."
Forrester- Devices & Access North America Consumer Technographics Data Overview July 2001

2.5 DRM and BaseDrive

"The media industry has become increasingly dependent on digital technology over the past three decades yet its business models remain largely based on trade in tangible objects. The CD and DVD formats adapted analogue distribution platforms like LP records and VHS tapes to the information age" ("Licensed to bill" Wired October 2001). But as electronic media has evolved, the inefficiencies of this system have become harder to ignore.

Clearly, the lessons of Napster are being examined keenly by all content originators with the aim of determining the cost and benefits of current and future distribution systems. Protection of copyright is becoming increasingly important as current peer-to-peer software often facilitates mass copyright infringement on the public internet.

Based on this evidence, BaseDrive is to incorporate a secure DRM (Digital Rights Management) system that confers end-user access based on encryption-key technology , and ensures that a content originator's revenue stream is un-compromised.

2.6 Home networks – the future of home entertainment and technology

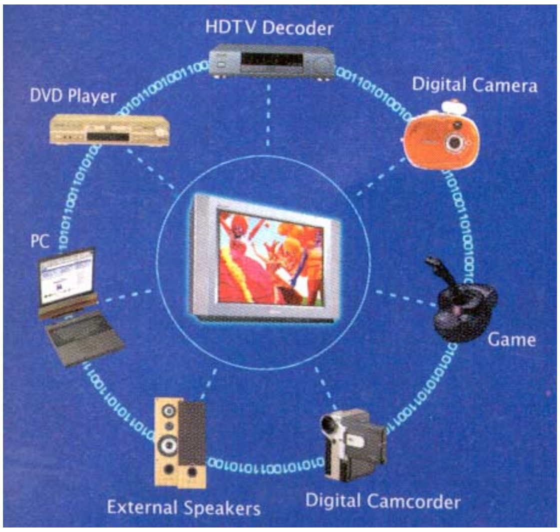
Networked homes are rare, but there is consumer interest in connecting multiple devices – particularly when entertainment is involved (i.e. entertainment drives home networks and advanced TV). Moreover, while PC's have traditionally been seen as necessity for home offices, consumers are more interested in networking entertainment devices than multiple desktops. (Forrester- Devices & Access North America Consumer Technographics Data Overview July 2001). The first generation of Australian *smart homes* highlight this trend, making entertainment the centrepiece of their consumer marketing efforts.

Based on this evidence, we have involved BaseDrive in a *sister company* initiative that services the installation of networked wireless LAN's for BaseDrive user access...

2.7 BaseDrive: a home rationalisation tool

The number of different technologies (both types and brands) currently in households, and the rich variety expected to be adopted by households soon, *will result in the level of home technologies reaching saturation point* (see diagram 3 below). This growing problem can be simply illustrated by examining current trends in the uptake of home entertainment devices and those soon coming to (Australian) homes:

Diagram 3



Now:
Analogue TVs (at least 1), Standard radio (at least 1), VHS (at least 1), Walkman, CD Players/Stereo (at least 1), DVD (1.1 million households expected to have a DVD player by Christmas 2001 - source: AFR 6/7/01, Home computer (% of households), Dedicates games machine e.g. Playstation games console (33% of homes in 2000, up from 23% in 1998 - source: ABS), narrowband internet (61% of homes have internet access, 18% plan to get it, and only 13% of the Australian population say they never use it - source: AustraliaSCAN 2001), 2G (GSM) and 2.5G (CDMA) mobile technology (at least 1 per home, on average), Pay TV (currently in 20% of Australian homes).

In the future:
iTV, Digital TVs, Set-top Boxes, next-generation Game Consoles (XBOX, PS2, GameCube), DVDs (32% intend to by in the next five years) Internet enabled home devices (radio, fridge, etc), PVRs (TiVOs), broadband connectivity (5.4% of net users now, broadband future), wireless Internet/Home gateways and power-line connectivity (base station, and enabled devices).

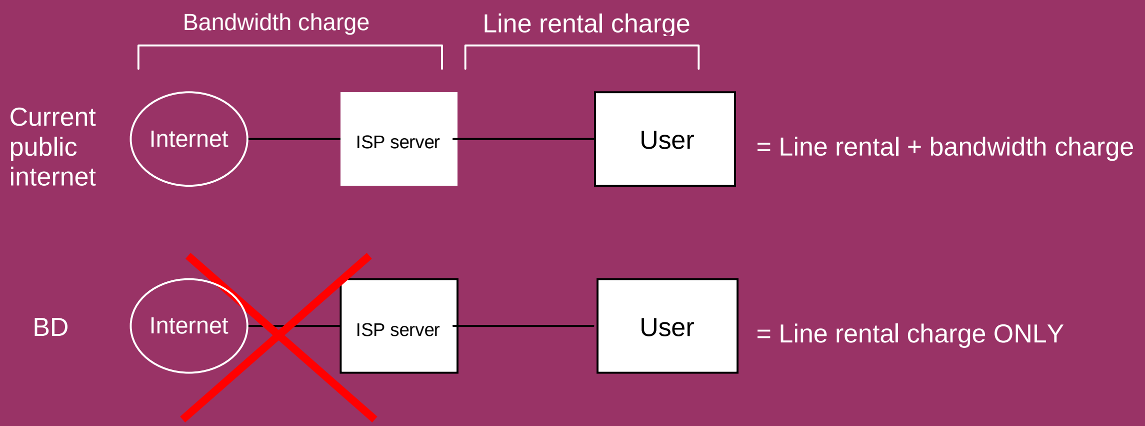
Therefore, the home technology arena can be expected to become even more confusing for the consumer and can be expected to go through severe consolidation over the next 3-5 years.

Based on this evidence, BaseDrive's marketing efforts and technology partnerships are to be geared towards encouraging the consumer to view our offering as an integral part of the natural progression towards their home network. Considering the pragmatist attitudes of many potential users, BaseDrive will be presented as a simple solution offering a total package (entertainment content-on demand, apps-on-demand, games on-demand, and integrated remote data storage). Our customer service and distribution models will be optimised so that the installation and use of BaseDrive will be a seamless transition for consumers.

2.8 BaseDrive: a paradigm shift in bandwidth costing

With variable bandwidth transmission charges dwarfing fixed telephony costs for common internet access, MOD over the public internet is effectively handicapped by prohibitive pricing. Unless the internet infrastructure is upgraded/replaced, true MOD to a mass market will not be possible.

Based on this evidence, BaseDrive is to build a VPN (Virtual Private Network) environment that excludes the cost structures as they relate to fragile public internet infrastructure. BaseDrive substitutes this variable charge, with a fixed telephony line rental and therein lowers the supply cost of broadband MOD to users.

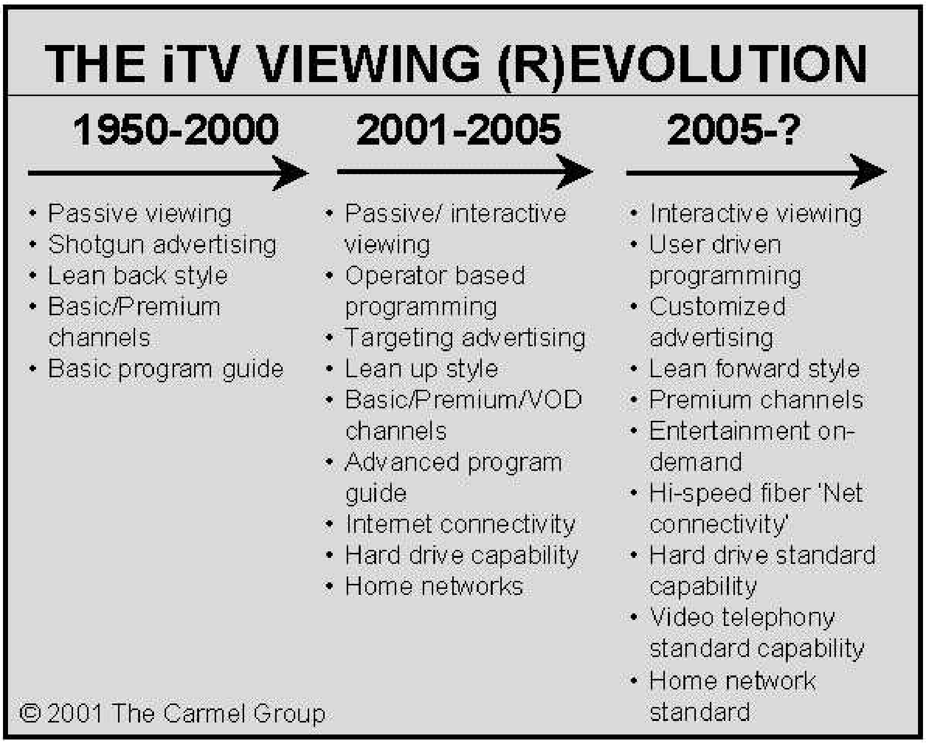


ISP's are the licence holders to deliver BaseDrive. Transfer costs are minimised given the VPN environment of BaseDrive. All transfer & content charges are on-sold through the ISP.

3. Summary of BaseDrive's corporate strategy

Now Broadband on the public Internet	Faster basic data on demand to your PC	Prohibitive pricing & minimal content	Tech-oriented 'browsing' technology	PC only	Napsterised public internet
BaseDrive Broadband running BaseDrive	MOD style multimedia on your TV	Affordable connectivity bundled with 'broad' attractive content	Consumer oriented 'made-for-TV Interactive technology	TV & other home networked ; Internet connected devices (value add)	DRM protected by a secure VPN

" Currently: Pay for access not for content. In the future: you pay less for access more for content "



4. The BaseDrive Network

BaseDrive aims to maximise user enjoyment of digital entertainment as well as enhance the revenue streams of content originators. This is achieved by 'optimising' the physical delivery of 'content' from content originators to users (BaseDrive's back end offering), via a GUI that is easy and enjoyable to the end user (BaseDrive's 'user experience' offering).

Furthermore, BaseDrive's 'back end' is to incorporate several technology partner software devices that links content originators and users via robust hardware partner technologies (see partner *profiles* in *BaseDrive product* discussion below)

Physical distribution model

Content originators via (Digital Asset Management (DAM)

Di-Stream systems encoding of content

Sun Microsystems , Digital fountain, Sony - Edge Server Network and systems

Content license holders, Content Administration, Price setting, Consumer utilization information, ISP billing association (+ markup)

Local Loop

End User: Home gateway utilising BD interface

ISPs enter into an agreement for subsidies to the cost of internal bandwidth utilization and provide “BaseDrive enabled” service (MOD, ASP, VOIP, etc) to the Australian public. ISPs are paying for content via the BaseDrive Administration system (sales contract).

The BaseDrive network aggregates content and ensures service delivery to ISP’s, creating a distribution centre for wholesale (b2b) data transfer.

4.2 Supply chain partners:

4.2.1 Original content

Hosting vast libraries of major motion picture studio content digitized to MPEG 2 +MPEG 4 formats, U.S based New Mexico Software's B2B Digital Asset Management (DAM) systems provides content owners with distribution to syndicated broadcast networks. BaseDrive intends to utilise this arrangement within the Australasian market predominantly to syndicated ISP's.

4.2.2 Digital Encoding and optimisation

BaseDrive is to utilise U.S Based technology partner *Di-stream* for *physical* content optimisation. A proprietary post-codec compression technique that converts MPEG 2 content to near DVD quality MPEG 4, and facilitates it's distribution through the local loop at a third of it's conventional size (i.e. 1:3 compression ratio). Di-Stream's *DiVet* technology minimizes hosting and data transfer costs (bandwidth) maximizing profitability for the network as a whole.

4.2.3 Hosting and distribution to "local loop"

BaseDrive is intending to utilise Digital Fountain and Sun Microsystems edge server storage and streaming solutions and Java based MHP platform (i.e. digital TV and interactive TV platform) to cache user content indexed by:

* Movies, documentaries, and TV programs and Music clips on demand
* Digital TV broadcasting & guide
* Music on demand
* Networked games
* ASP functionality (eg: MS Office, Basic Applications)

Content distribution to end-users, is facilitated by wholesale bandwidth suppliers that currently house ISP partner servers in close proximity to our own.

Actual content volume is expected to grow as user base grows. In phase 0, rollout of the aforementioned is to be limited so as to facilitate a 'feedback loop' that optimises base offerings to aggregate user preferences (this is to be discussed further in *rollout*).

4.2.4 Home Gateway

BaseDrive is to utilise a combination of ISP and 3rd party services contractors to facilitate the installation of end-user home gateways (to be discussed further). Home Gateway's are to be seen as the primary point of access for BaseDrive users to Network content (phase 0 & 1)

4.3 The BaseDrive product:

4.3.1 Sales and Customer service model

Like its 'back end', BaseDrive's retail face supports a business model underpinned by re-seller agreements. Specifically, the re-seller sales network is to incorporate ISP's partnership networks (Request DSL), Retail partners (e.g. Dick Smith, Powerhouse) Set-top Box manufacturers (e.g. Nokia) and 3rd party fulfilment providers (e.g. Simply Wireless)

Revenue, sourced through BaseDrive hardware ons-old through retail partners, is 'pooled'and re-distributed evenly among ISP's. The task of physical connectivity is allocated by geography. BaseDrive will endeavour to regulate the retail franchise.

4.3.2 End User Access

The physical BaseDrive offering will include both a consumer software component and a hardware component. In phase 0, BaseDrive access is to largely confined to a fixed home or office. However, in the event of an accelerated uptake of mobile broadband devices BaseDrive will provision services suitable for "anywhere anytime" access (phase 1).

Generic product offerings*

A) BaseDrive in the home or office - Phase 0

Users will access the BaseDrive network using a set-top box (STB) and/or wireless local area networks (LAN's) installed by a combination of 3rd party fulfilment partners such *wireless connectivity providers* or come with a DIY home installation guide. This offering will include a choice of 'packages':

Class Z - Premium
- A “BaseDrive enabled” set-top box^ utilising the GUI for network content delivery.
- An ADSL modem bundled with:
  * ADSL connectivity (ADSL routers/wireless connectivity
  * User's set top box
  * One extra PCMCIA Wireless adaptor allowing wireless broadband for an extra device such as a laptop computer.

Class Y - Standard
- A “BaseDrive enabled” set-top box^ utilising the GUI for network content delivery.
- An ADSL modem bundled with:
  * ADSL connectivity provided by a syndicated ISP partner
  * Cabling and/or wireless connectivity from the latter to the user's set top box

B) BaseDrive anytime anywhere - Phase 1

The software offering is expected to match the former with a further allowance for greater support for *portable* devices (again as market proliferation and take-up by users accelerates). These devices may possibly include:

- Next-generation Game Consoles (XBOX, PS2, GameCube)

- PDA’s
- IP enabled home devices (radio, fridge, etc) and
- PVRs; among others.

^ Set-top box = ‘name brand’ incorporating open standard software that enables the user to access entertainment offerings by multiple content originators e.g. 'Drive' options for Nintendo, Sony and Microsoft network gaming.
* At time of market entry, end user offerings may be expected to vary with consumer pricing initiatives

5. Consumer Marketing Strategy

BaseDrive's core marketing strategy is focused on encouraging the consumer to view our offering as an integral part of the natural progression of their home (or office) towards a networked environment. They are also focussed on creating a simple, seamless house or office transition with BaseDrive initially positioned as ***what you need*** to get the most out of your broadband connection. This is of course made possible, by our unique virtual private network and various partnerships. As technology in the home rationalises (mostly) to those connected to the public Internet or private networks, BaseDrive will become a key tool and home-network resource.

Recent research by The Carmel Group has shown that viewer adoption of a better TV experience will be driven by three unique factors:
- *Enhanced convenience (e.g. watch what I want when I want)*
- *Enhanced entertainment (e.g. latest VOD movies or interactive games)*
- *Affordability*

BaseDrive's partnerships and various strategies put us in a good position to deliver on the three factors listed above. We would, however, add two additional factors both of which BaseDrive will be uniquely positioned to also offer:
- ***User simplicity*** (through user-interface, and being content and device neutral)
- ***User support*** (information and education providing the user with a crucial home network resource)

As previously stated, a phased rollout is planned and multi-tiered pricing and content packages used to ease BaseDrive into the marketplace; with the initial focus on a TV based end-user product offering. Much learning can be gained from the rollout of expensive mobile phone technology through multi-year plans and multi-level subscription packages. Through negotiations and revenue-partnerships with ISPs users of BaseDrive will be able to pay less to access the network (increasingly affordability) and more for the content and applications they access. For example, users stand to save thousands accessing software on a PPV basis rather than new software every time it is upgraded. BaseDrive also plans, in the future, to take advantage of additional strategic marketing opportunities such as being a central part of the first generation Australian smart homes.

Two core concepts underpin the bulk of our consumer marketing strategy;
- *BaseDrive Inside,* and
- *BaseDrive Friendly*

5.1 BaseDrive Inside

Tech issues aren't important to our core audience. Our potential consumer base care about their home or office (experience), making technology work for them, and making the most of their time. We have observed over the past few years a shift in "hero product" away from hardware (e.g. Intel Inside) towards things that make the most of this hardware, such as software and content. BaseDrive is in a unique position to be the key package inside the hardware it is accessed through. There are many learnings available from Intel's marketing strategies that BaseDrive can easily implement to position itself as what you must have "inside your broadband" to make the most of it.

Broadband and BaseDrive will, over the next 3-6 years, begin to enjoy a multi-device future and BaseDrive content will become accessible through multiple devices. The *"If you've got a broadband connection, you'll want BaseDrive inside it"* positioning will therefore become even stronger over time.

5.2 BaseDrive Friendly

Already today a proliferation of broadband (connection and hardware), iTV and entertainment options are developing. At BaseDrive we see this as only accelerating over the next few years. As such, we intend on keeping BaseDrive neutral on two very specific levels:
- *Content neutrality*
- *Device neutrality*

As the BaseDrive network and broadband grows we believe two distinct sides will emerge:

- Those who are friends to the BaseDrive network
- Those who are members of competing networks

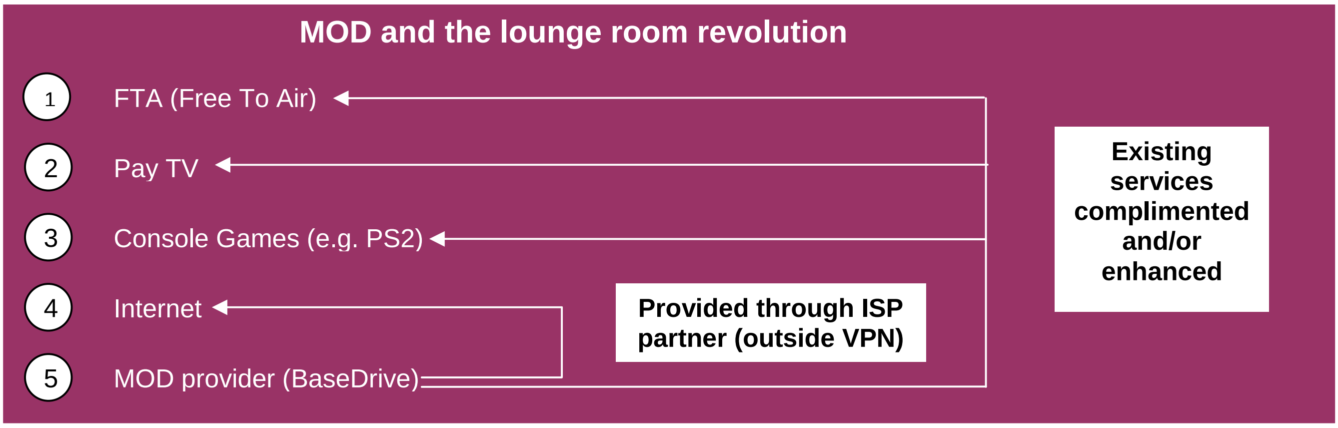
As a network we will aim to:

i. Provide any content that an originator wishes to make available through our network (*content neutral*), and also
ii. To make our content available through any broadband/hardware provider that wishes to enter into a co-operative marketing and revenue arrangement with BaseDrive (*device neutral*).

Content and device neutrality, will become a key differentiator, with many industry participants inherently biased towards their content or hardware. We want to provide everyone, no matter what they currently subscribe to (or access broadband through), the opportunity to enjoy BaseDrive's services. Rather than being a closed system (like television has been for many years), we would like to see BaseDrive 'open-minded narrow-casting' made available through multiple hardware and broadband providers.

That said, we foresee a need to partner with a well-known and trusted technology brand for our initial roll-out. As trust is a huge concern among many of today's consumers (especially with regard to the Internet), a well-known technology brand will allow BaseDrive to more quickly establish itself (Building trust on-line: McKinsey Quarterly – 2001 Number 4) However, after initial roll-out, we envisage *"BaseDrive Friendly"* becoming a key co-operative marketing and branding tool that can be used in many ways - for example as a sticker that can be placed on all *"BaseDrive Friendly"* hardware devices at retail level.

Australian competition in the MOD market has been largely experiment to date. In overseas markets (such as the US) companies are making large investments into on-demand content delivery. BaseDrive has conducted in-depth research into these developments and, as discussed earlier BaseDrive is formalizing appropriate partnerships with media and technology companies in the creation of The BaseDrive Network. From now into the future, one thing is clear – there will be massive uptake of more sophisticated set-top boxes into Australian lounge rooms. Be it to provide interactive services for existing FTA, or to upgrade the service from Pay TV providers or online console gaming. MOD players (such as BaseDrive) will look to play a compelling role:



6. Trade Marketing Strategy

BaseDrive invites companies to become part of the "BaseDrive Network." As such, we will develop agreements facilitating the share of revenue, and differing levels of involvement. As the 'brother' of our consumer marketing strategy, the concepts of "BaseDrive Friendly" and "BaseDrive Inside" extend through to our partners.

6.1 BaseDrive Inside:

- **BaseDrive inside your Distribution-Network**

  As open-content-delivery-platform we are looking for as many content originators (movie studios, video game developers, through to work processing applications) to make BaseDrive their content available through our system, thus facilitating the world of content ("Drive") in our system.

- **The DoCoMO learnings applied to the MOD model**

  BaseDrive is to act as a content aggregator, negotiating with content originators for the supply of content on consignment to the BaseDrive network. Content providers (e.g. moviefly) are not charged by BaseDrive to provide content to users. Instead BaseDrive is to take a percentage of the revenue gained from content access, connectivity to the BaseDrive network and the Internet. In summary:

  a. ISPs subsidize connectivity in exchange for BaseDrive driven growth in broadband Internet subscriber base AND content revenue received.
  b. BaseDrive agrees to aggregate content and ensure service delivery to consumers.
  c. Content originators earn a disproportionate (above average) percentage of revenue (as compared with BaseDrive and other partners)

  BaseDrive is creating a distribution center for data transfer and take a small percentage of subscription and PPV revenue.

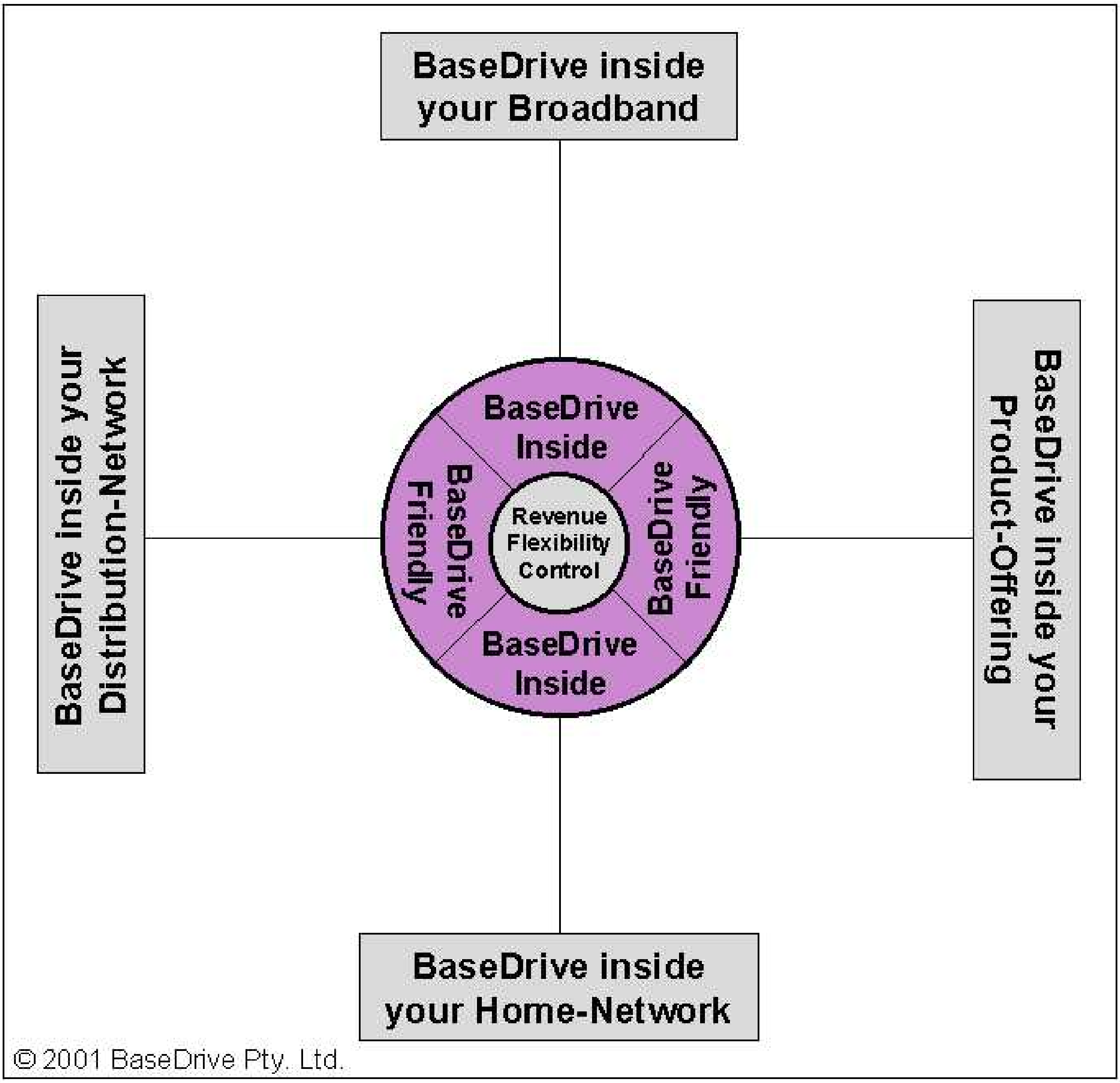
- **BaseDrive inside your Product-Offering**
  - As open-content-delivery-platform we are looking for as many ISPs (e.g. Western Power, Request DSL), retail partners (e.g. Harvey Norman) and hardware providers (e.g. the Nokia media terminal) to sell BaseDrive to their customers.
  - This has obviously store-level/brochure implications, with "BaseDrive Inside" posters on-store windows being one possibility

6.2 BaseDrive Friendly:

Any content originator that puts BaseDrive in the Distribution-Network, or company that puts BaseDrive inside their Product-Offering becomes "BaseDrive Friendly." The possibilities include "BaseDrive Friendly" stickers on set-top boxes and marketing on ISP advertisements.

BaseDrive in its very nature is "friendly" to our partner on multiple levels. We offer:

- Content security (DRM)
- Simple, safe, revenue potential
- A value-add to existing clients (e.g. for ISPs) or the possibility of simplifying your distribution model



BaseDrive inside your Broadband
BaseDrive inside your Distribution-Network
BaseDrive Inside
BaseDrive Friendly
Revenue
Flexibility
Control
BaseDrive Friendly
BaseDrive Inside
BaseDrive inside your Product-Offering
BaseDrive inside your Home-Network
© 2001 BaseDrive Pty. Ltd.

7. Test bed and roll-out plan

7.1 Consumer Test Bed

It is intended that BaseDrive will initiate a consumer rollout schedule with a *consumer test bed* in a major Australian urban center (e.g. Melbourne or Sydney). Specifically, this will involve:

a. The setting up of a centralised data center delivering our service offering to the end users via BaseDrive friendly ISP's cache servers linked to BaseDrive edge servers.
b. The participation of existing *BaseDrive friendly* ISP customers in a trial of the *premium* BaseDrive service.

Based on the involvement of 100 users (capped trail period) and the supply to candidates of hardware devices (underwritten in full by BaseDrive), we calculate the following capital costs:

Data Center (Edge Server Costing) in AUD

Item	Cost (AUD)
a)Digital Fountain Streaming Server	80,000
b)Sun Microsystems Storage Server	250,000
c)Administration Costs (IT Network Admin costs – test bed only)	80,000
d)Software licences	400,000
e)Build Team	50,000
f)Miscellaneous data centre costs	5,000
Total Cost	**865,000**
Hardware cost (end users) - assumes 100 candidates	
a)*Set Top media* boxes	100,000
b)PCMCIA network hardware	13,000
b)ADSL routers	65,000
d)PC connectivity	130,000
Total Cost	**308,000**
Final Cost	**1,173,000**

Note: we assume favorable credit and trade marketing treatment (e.g. PDA devices) from aforementioned suppliers in return for strategic partnership arrangements.

7.2 Roll-out plan

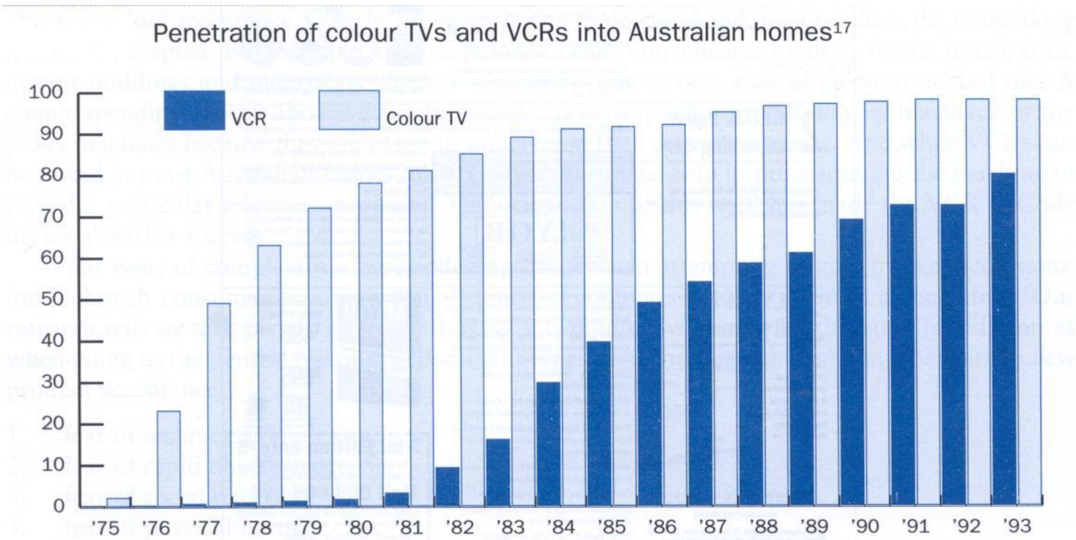
BaseDrive has been designed to be a globally applicable concept. This roll-out plan, however, assumes that BaseDrive will only remain available to Australians and it obviously subject to change in the future.

As BaseDrive is rolled out around progressively around the nation, additional capital expenditure will be required depending upon the region and existing infrastructure. Roll-out is intended to be orchestrated through a mixture of BaseDrive and co-operation advertising, as well as by forging strategic retail/ISP partnerships (i.e. Western Power in Western Australia, Transact in Canberra etc).

For the purposed of this report and to calculate take-up for sales forecasting, we have used the well known and validated **'Diffusion of Innovation'** curve. The diffusion process is the process by which the acceptance of an innovation is spread by communication to members of a social system over a period of time."

- 2.5% of the population are considered to be the **"Innovators"**; those who like to be ahead of the pack and be the first to try new innovations. They are a venturesome lot for whom it acceptable if the risk is daring - importantly they communicate with other "Innovators."
- 13.5% of the population are considered to be the **"Early Adopters"** and are the next group to try a new innovation. They are more integrated into the local social system and contain the greatest number of opinion leaders
- 34% of the population are considered to be the **"Early Majority"** and by the time they are beginning to adopt an innovation the "innovators" are generally looking for the next innovation. The "Early Majority" deliberate for some time before adopting new innovations, but do so just prior to the average.
- 34% of the population are considered to be the **"Late Majority."** They are a skeptical lot, and adoption is usually motivated by economic necessity or reaction to peer pressures - approach innovation cautiously, and the final adopters are the;
- 16% of the population that are the **"Laggards."** They are very traditional - oriented to the past and suspicious of the new.

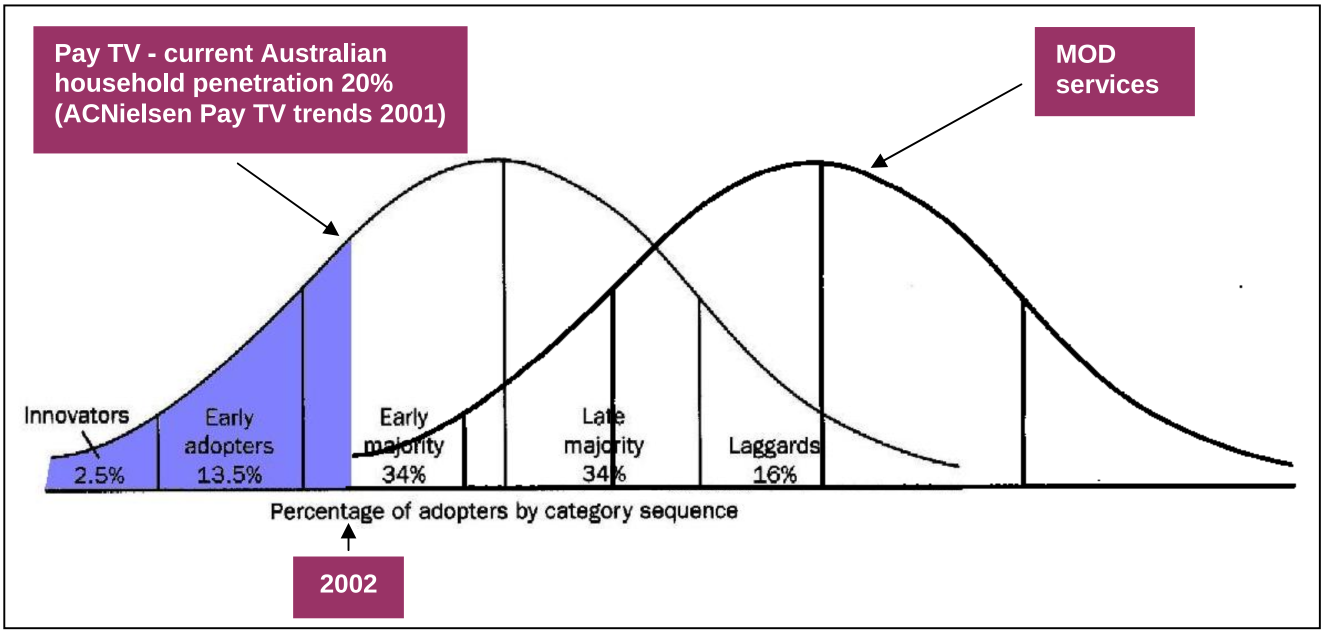
A classic example of the 'Diffusion of Innovation curve was the penetration of colour TVs and VCRs into Australian homes (take from 'Consumer Behaviour,' Schiffman et al, Prentice Hall Australia, 1997):



Source: Entertainment Business Review, *Diffusion of Communications, Entertainment and Information Services* (Attachment 1 to Communications Futures Project, Work in Progress Paper 4), Canberra 1994. Commonwealth of Australia copyright ©, reproduced with permission.

In applying the ‘Diffusion of Innovation’ curve, and forecasting our growth, we need to analyse the take-up of the preceding technology. For our forecasts we looked at the take-up of Pay TV in Australia. As household penetration is now at 20% (ACNielsen Pay TV trends 2001), new Pay TV adopters can be considered member of the “early majority.” For this reason, we can expect the “Innovators” to be looking for a new technology and to be our first customers as we begin to roll-out. Our growth to 2007 will then be fueled by the “Early Adopters.”

This can be represented by the following diagram:



As far as pricing is concerned, we expect the first consumer of BaseDrive to pay a fair premium for our service - much like the first subscribers to mobile phone technology did. According to a CIE/ACNielsen survey of Australian Internet Users (in October 2000), 10% of users spent more than AUD$50 a month for access, and many of these user would have a broadband connection. Where possible we envisage offering existing ADSL subscribers (that are connected through a member of the BaseDrive network and located within a deployed region) an *upgrade* package that subsidizes their ADSL connectivity expenses by signing them up to a long-term BaseDrive MOD content subscription – A K A the GSM model

As home networks become a reality for more people, it will become possible for BaseDrive to offer a large suite of services. AOL in the US predict that "the future revenue potential for selling broadband Internet access and related services could justify USD$159 per month per household" (ZDNET 12/12/01).

To give the forecasts some context, according to the latest ABS expenditure statistics, Australian households (in the highest gross income quintile) spend on average in *1998-99*:

- $480 a year on 'Audio-visual equipment and parts'
- $480 a year on 'Blank and pre-recorded media'
- $390 a year on ''Home computer equipment (inc. pre-packaged software)'
- $182 a year on 'Cinema fees and charges'

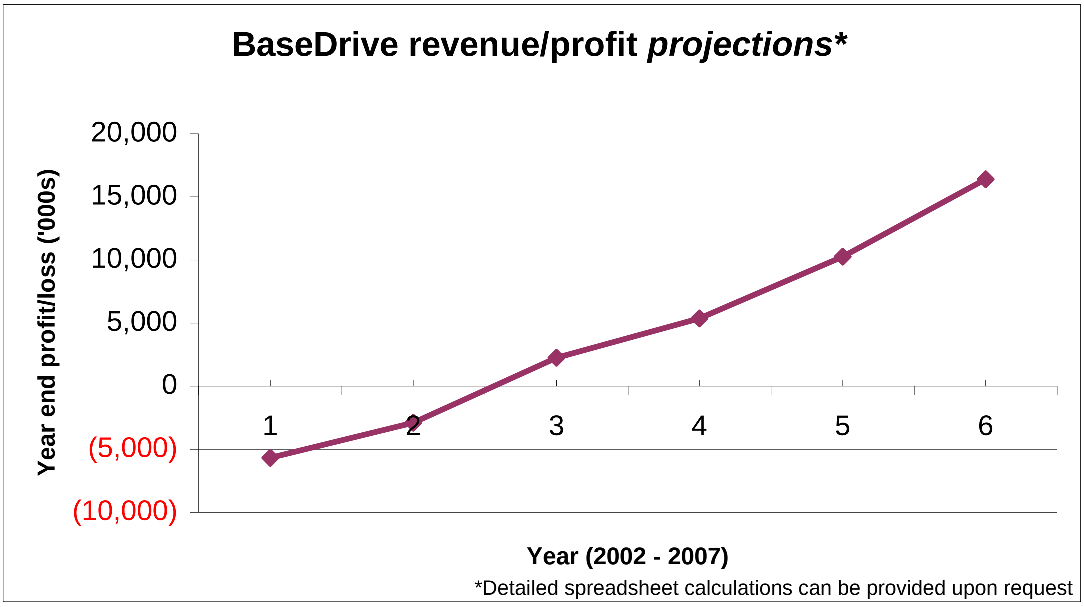
At the time of writing, these figures are nearly 4 years out of date and for example, in Australia an estimated 5.2 million DVD movies worth $171 million were sold in 2001 (Source: Sun Herald 6/1/02). Clearly a MOD revenue prediction of AUD$100 per month from subscribers from *2002 onwards* is not unreasonable, especially from our target market.

The following revenue forecasts have been calculated on year 2000 household statistics, and on the predicted steady increase in Australian adoption of Pay TV to UK levels by 2007 (40% households penetration). Throughout the financial spreadsheet modelling, we have remained conservative:

- The average customer spends slightly less than $80 a month on MOD subscription and PPV content (BaseDrive revenue excludes ISP ADSL revenue, content royalties, set-top box sales; and costs include initial infrastructure investments)
- Diffusion of MOD innovation remains true to the well validated theory
- Increasing industry competition is an acknowledgement from 2003 onwards, with appropriate adjustment made to BaseDrive's share of the Australian market:

Upon launching BaseDrive in mid-2002, we forecast the following:

	MOD uptake (in PayTV homes)	MOD market (Households)	BaseDrive market share	BaseDrive Customers ('000s)
Year 1 (2002)	2.5%	36,250	50%	18,100
Year 2 (2003)	7.0%	106,560	46%	49,000
Year 3 (2004)	11.5%	183,820	42%	77,200
Year 4 (2005)	16.0%	268,530	38%	102,000
Year 5 (2006)	20.5%	361,260	34%	122,800
Year 6 (2007)	25.0%	462,590	32%	138,800



8. BaseDrive Management & Administration

BaseDrive is a privately owned company. The company was incorporated in Victoria under the Corporations Law of Victoria.

8.1 Corporate Structure

BaseDrive P/L. is a company incorporated in Australia. Presently, its sole shareholder is W.I.T P/L. BaseDrive P/L. is and will be the developer and owner of the intellectual property (IP) underlying the technology. BaseDrive P/L. will not be put in a position where it places the IP at risk. It is envisaged BaseDrive P/L. will license the IP to related or unrelated entities that will engage in trade and commerce and commercialise the technology.

8.2 Management of BaseDrive

BaseDrive headquarters are in Melbourne, Australia and conducts all R & D activities in Australia.

BaseDrive consists of a management team of approximately 5 people and will engage project managers for deploying specific aspects of the company's activities. This will allow BaseDrive to partner and ally with appropriate software and hardware vendors for the development and deployment of the platform and service offerings.

8.2.1 Director Profiles

Danny Schwartz – Co-Founder & CEO

Mr Schwartz holds an Economics and accounting degree and a Bachelor of Law and has been active in the construction, media/IT industries for over 15 years. Danny has been involved in the broadband industry for the past two years. Mr Schwartz has extensive experience in senior management, financial and operational roles and will lead the growth of the company and drive it's marketing and communication activities.

Timothy Holborn – Co- Founder & CIO

Mr Holborn has occupied an integral role in the IT & C industry for the past seven years, undertaking roles in Product design, and Hardware / networking design & solutions for corporate, government and SME's. Tim has been active in the digital media arena for over two-and-a-half years and will drive the development of BaseDrive's technology solutions.

Desmond O'Geran – CFO

Mr O'Geran has a robust record of accomplishment within the financial services, media and technology firms in senior management roles. Desmond has a Masters degree in finance, and has worked at several major Australian Internet entities (f2 Fairfax Interactive Network, ecorp, ebay, Charles Schwab) Global Investment Banks (Deutsche Bank, Dresdner Bank, LGT Asset Management) and software houses (Advent Software). Desmond O'Geran is a motivated team player with first-rate communication skills, and experienced negotiator and team leader.

8.2.2 Consultancy Partners

Stephen McGrail – Marketing Officer

Mr McGrail holds a Business and Marketing degree and Diploma of Creative Advertising and Copywriting for the Australian College of Journalism. Stephen has studied intensively the role of advertising, products and companies in society as an advertising agency Strategic Planner. Additionally skilled as a social/consumer scientist and all-round 'ideas man', Stephen will help guide and drive BaseDrive's growth and advertising strategies. He has experience with numerous multinationals such as Nike and Kraft Foods.

Kosta Soteriou – Business Development officer

Mr Soteriou holds Bachelor degrees in International Trade and Banking & Finance. Former Victorian Campaign Manager at online advertising MNC BMC Media, and currently an Online Communications Consultant to Telstra/Pacific Access' Web Works solutions team, Kosta has worked at the cutting edge of new media advertising, managing the implementation of several dozen campaigns for almost every major Airline, Financial institution, Telecommunications and IT company operating within Australia.

Not included are the staff, management, contractors or alliance partners information.

8.2.3 Advisory Board

The management and Board of Directors will be augmented by an advisory board of technical and commercial experts. The Directors intend for the board to have at least three members, but not more than five and for the board to disband within two years of commencement of operation or once the product has been launched and is trading profitably. Members of the advisory board may be invited to join the main board as non-executive directors.

IMPORTANT NOTICE

This Information Memorandum is private and confidential and is for the attention of the Directors of BaseDrive Pty Limited ('BaseDrive') only. Unless stated otherwise, all matters and issues referred to in this document arise from meetings and discussions held with the management of BaseDrive up to 1 December 2001.

This Information Memorandum does not constitute an offer or invitation to invest in BaseDrive. Copies of this document are being made available to a limited number of interested parties.

This Information Memorandum contains forecasts. All forecasts are subject to uncertainty and unexpected events, many of which cannot be controlled. No representation or assurance is or can be given that the forecasts will be achieved.

Parties that are interested in obtaining further information pertaining to the BaseDrive products may contact BaseDrive directly.

Parties that require information relating to the investment opportunity should contact BaseDrive directly.

Contacts:

Daniel Schwartz
10 / 257 Collins St
Melbourne, Vic 3000
Australia
BH: 96546222
Fax: 96542225
Mobile: 0419328000
Email: danny@basedrive.com

Timothy Holborn
10 / 257 Collins St
Melbourne, Vic 3000
Australia
BH: 96546222
Fax: 96542225
Mobile: 0402363163
Email: tim@basedrive.com