Auditors' Report to the members of MediaStream Limited

We have audited the financial statements of MediaStream Limited ("the Company") and its subsidiaries ("the Group") as set out on pages 18 to 41 for the year ended 31 December 2003. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed below, we conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Included in the Group's and Company's property, plant and equipment as at 31 December 2003 is a building on leasehold land with a net book value of S$7,516,156. No impairment assessment has been performed on these assets to determine their recoverable amounts and we were not able to carry out additional procedures to satisfy ourselves as to the reasonableness of the carrying value of these assets. Accordingly, the potential impairment losses which might have arisen had the impairment assessment been performed were not recorded in the financial statements.

Included in other receivables of the Group and Company as at 31 December 2003 is a deposit amount of $100,000 which has been outstanding for more than a year. The Directors are of the opinion that the amount is recoverable and accordingly, no provision for doubtful debts has been made in the financial statements. We are unable to obtain sufficient evidence to determine the recoverability of this amount.

As disclosed in Note 28 to the financial statements, a factoring company has taken legal action against the Company for a corporate guarantee provided by the Company for its former subsidiary company, Allandes Corporation Pte Ltd, which is currently under liquidation. The amount claimed is S$537,791 excluding legal costs. The Directors are of the view that there are several defenses available to the Company to defend the case, hence, no provision for possible claims has been made in the financial statements. Based on the information available to us, we are unable to satisfy ourselves as to whether this amount should have been provided for.

As more fully explained in Note 2 to the financial statements, the Group incurred net losses during the year ended 31 December 2003 of S$2,102,260, and as of that date, the current liabilities of the Group and Company exceeded current assets by S$7,566,811 and S$6,906,869 respectively. As of 31 December 2003, the Group and the Company were in net shareholders' deficit positions of S$718,343 and S$984,117 respectively. The validity of the going concern assumption on which the financial statements are prepared depends on the continuing support of the Group's bankers and creditors, the profitability and cash flows of the Group's operations in the next twelve months and the ability of the Group to raise additional funding in the next twelve months. The Company has engaged a financial adviser, whose role includes the sourcing of investors who would be either able to inject funds and/or possible new business into the Group. As further explained in Note 2 and 29 to the financial statements, the Group and Company have taken steps to ensure that the Group and Company continue in operational existence for the foreseeable future. However, the Directors are at present uncertain as to the outcome of the steps taken. These factors raise substantial doubt that the Group and Company will be able to continue as a going concern. If the Group and Company were unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, long term assets and liabilities may have to be reclassified as current assets and liabilities. No such adjustments have been made to these financial statements.

Auditors' Report to the members of MediaStream Limited

Because of the significance of the matters discussed in the above paragraphs, we are not in a position to, and accordingly do not, express an opinion as to whether the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act (the Act) and Singapore Financial Reporting Standards and so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2003 and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

In our opinion, the accounting and other records (excluding registers) required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are auditors, have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
27 May 2004

Notes to the financial statements

31 December 2003

1. Corporate information

MediaStream Limited is a limited liability company, incorporated in Singapore.

The registered office of the Company is located at 39 Tampines Street 92, MediaStream Building, Singapore 528883.

The principal activities of the Company are the licensing, production and distribution of music records in the format of cassettes, videos and compact discs.

The principal activities of the subsidiary companies consist of:

(a) the licensing, production and distribution of entertainment and educational products in variety of format and the collection of recording copyright royalties;

(b) the rendering of audio and video recording and editing services and rental of the recording studio and facilities;

(c) the rendering of post production services;

(d) the rendering of production services for animated cartoons; and

There has been no significant changes in the nature of these activities during the financial year.

The Group and Company employed 52 and 7 employees (2002: 68 and 8) as of 31 December 2003, respectively.

2. Going concern

The Group incurred net losses during the year ended 31 December 2003 of S$2,102,260 (2002: S$18,790,650), and as of that date, the current liabilities of the Group and Company exceeded current assets by S$7,566,811 and S$6,906,869 (2002: S$6,378,578 and S$5,659,384) respectively. As of 31 December 2003, the Group and Company were in net shareholder's deficit positions of S$718,343 and S$984,117 respectively. The validity of the going concern assumption on which the financial statements are prepared depends on the continuing support of the Group's bankers and creditors, the profitability and cash flows of the Group's operations in the next twelve months and the ability of the Group to raise additional funding in the next twelve months. The Company has engaged a financial adviser to review the position with the view to moving forward in the interest of all shareholders. The role of the financial adviser includes the sourcing of investors who would either be able to inject funds and/or possible new business into the Group. The Directors are at present uncertain as to the outcome of the steps taken to secure continued financial support. These factors raise substantial doubt that the Group and the Company will be able to continue as a going concern.

If the Group and Company were unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, long term assets and liabilities may have to be reclassified as current assets and liabilities. No such adjustments have been made to these financial statements.

3. Summary of significant accounting policies

(a) *Basis of accounting*

The financial statements, expressed in Singapore dollars, have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act. In previous years, the financial statements were prepared in accordance with Singapore Statements of Accounting Standard ("SAS"). The transition from SAS to FRS did not result in any significant change in accounting policies.

The financial statements have been prepared on a historical cost basis.

Notes to the financial statements

31 December 2003

27. Directors' remuneration

The number of Directors of the Company with remuneration received from the Company and all of its subsidiaries are in the following ranges:

	2003 $	2002 $
$500,000 and above	**–**	–
$250,000 to $499,999	**–**	–
Below $250,000	**4**	6
Total	**4**	6

28. Contingent liability

(a) The Company has issued a letter of corporate guarantee for one of its subsidiaries as follows:

Name of subsidiary/facility	Facility 2003 $	Facility 2002 $	Amount drawn as at 31 December 2003 $	Amount drawn as at 31 December 2002 $
Infinite Frameworks Pte Limited/ overdrafts and term loan	**1,500,000**	1,500,000	**388,067**	690,240

(b) A legal suit amounting to $537,791 (including accrued interest) has been filed by a factoring company against the Company in respect of the corporate guarantee provided by the Company to its former subsidiary company, Allandes Corporation Pte Ltd which is currently under liquidation. The Company is currently in discussion with the factoring company in relation to the claim. The Directors are of the view that there are several defenses available to the Company to defend the case, hence, no provision for possible claims has been made in the financial statements.

(c) A legal suit has been taken by a party against the Company to register the transfer of 50,000,000 shares in the Company to the party's name. The shares are currently registered under an ex-director, Desmond Poh's name. The Directors are of the opinion that the transfer of shares is not legally binding as the Company is currently pursuing legal action against Desmond Poh to rescind the contract by which the shares were issued to him.

29. Subsequent events

(a) The Company had announced on 11 February 2004 that it had entered into a conditional sale and purchase agreement in respect of the proposed acquisition of 80% of the entire issued and paid up share capital of MegaTalk Pte Ltd ("MTPL"). MTPL provides high-quality communication solution using internet telephony. This transaction is subject to the approval of the shareholders of the Company and the fulfilment of the requirement of SGX-ST listing manual.

(b) On 27 April 2004, the Company entered into a Shareholders' Agreement with the other existing and new shareholders of its subsidiary company, Infinite Frameworks Pte Limited ("IFW"). Based on the Shareholders' Agreement, IFW will increase its authorised share capital from $5.0 million to $10.0 million by the creation of 5.0 million additional ordinary shares of $1 each. With the increase, the new shareholders will subscribe for IFW's 1,775,788 ordinary shares of $1 each at par in full for a cash consideration of $1,775,788. With the subscription, IFW's issued and fully paid up capital will increase from 2,104,212 to 3,880,000 ordinary shares of $1 each. As a result, the Company's shareholding in IFW will be diluted from the current 94.10% to 51.03%. This transactions is subject to the approval of the shareholders of the Company and the fulfilment of the requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual.

Notes to the financial statements

31 December 2003

(c) Subsequent to the in-principle approval obtained from SGX on 5 April 2004, an Extraordinary General Meeting was held on 13 May 2004 by the Company in which, *inter alia*, the following was duly passed as part of a capital reduction exercise:

(i) the special resolution for the capital reduction exercise to reduce the par value of each ordinary share in the share capital of the Company from S$0.05 to S$0.01; and

(ii) the ordinary resolution for the increase in authorised share capital of the Company by the creation of an additional 4,000,000,000 shares of $0.01 each, such that the Company' authorised share capital will be S$50,000,000 comprising 5,000,000,000 shares of S$0.01 each.

The effect of the capital reduction exercise is to cancel an aggregate amount of S$28,864,434 of the issued and paid-up share capital of the Company which is lost or unrepresented by available assets by writing off S$28,864,434 standing in the accumulated losses account. The capital reduction exercise is subject to the approval of the High Court and the compliance of the SGX-ST's listing requirements.

30. Financial risk management objectives and policies

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and credit risk.

Interest rate risk

The Company obtains additional financing through bank borrowings and leasing arrangements. The Company's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Information relating to the Company's interest rate exposure is also disclosed in the notes on borrowings, including leasing obligations.

Foreign currency risk

Transaction risk is calculated in each foreign currency and includes foreign currency denominated assets and liabilities and firm and probable purchases and sales commitments.

As at the balance sheet date, Company currency exposures are insignificant.

Credit risk

The carrying amount of trade and other receivables, amount owing from related companies and cash represent the Company's maximum exposure to credit risk.

The Company has no significant concentrations of credit risk.

Fair value

The carrying amounts of trade and other receivables, cash, trade and other payables, amount owing to/from related companies and short-term bank borrowings approximate their fair value due to their short-term nature. The fair value of term loans is not disclosed as it approximates it carrying value due to the re-setting of interest rates to the market on a periodic basis.