

REPORT OF THE AUDITORS

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**Deloitte
Touche
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TO THE MEMBERS OF WIRELESS INTERNETWORKS LIMITED

(Receivers and Managers appointed)

(Formerly S.Megga International Holdings Limited)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

REPORT OF THE AUDITORS (continued)

1. As explained in note 6(b)i to the financial statements, the Current Directors of the Company (as defined in note 1 to the financial statements) have been unable to satisfy themselves as to whether the following amounts included in the financial statements have been completely and accurately recorded by the Group:
 - Turnover of HK\$539,577,000;
 - Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK\$453,112,000, HK\$26,758,000 and HK\$73,275,000, respectively, included in cost of sales;
 - Other revenue of HK\$55,191,000;
 - Selling and administrative expenses of HK\$91,347,000;
 - Finance costs of HK\$50,677,000;
 - Operating lease rental payments in respect of land and buildings and plant and machinery of HK\$1,954,000 and HK\$20,000 respectively;
 - Total directors' remuneration and other staff costs of HK\$57,122,000 (excluding amount capitalised in deferred development expenditure) as analysed in notes 11 and 12 to the financial statements;
 - Gross rental income of HK\$5,130,000;
 - Tax recoverable with nil balance; and
 - Trade and other payables of HK\$115,626,000.

As a result of the above, the Current Directors were also unable to satisfy themselves as to:

- the appropriateness of the provision for bad and doubtful debts of HK\$3,206,000; and
 - the reliability of the segmental information in note 9 to the financial statements.
2. Included in the Group's property, plant and equipment as at 30 September 2000 were freehold land and buildings outside Hong Kong with a carrying value of HK\$14,754,000 as at that date. We were unable to obtain sufficient information and explanations to assess whether any impairment loss should be recognised in respect of this freehold land and buildings.
 3. As explained in note 6(b)ii to the financial statements, the Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the fifteen-month period ended 30 September 2000. Accordingly, the Current Directors were unable to satisfy themselves regarding the appropriateness of the write-off of deferred development expenditure of HK\$29,052,000 included in the consolidated income statement of the Group for the fifteen-month period ended 30 September 2000.

REPORT OF THE AUDITORS (continued)

4. As explained in note 6(b)iii to the financial statements, included in bank balances and cash of the Group was an amount of HK\$1,318,000 which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group was an amount of HK\$167,000 in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2000.
5. As explained in note 6(b)iv to the financial statements, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the fifteen-month period ended 30 September 2000 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2000. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, and related party transactions and balances.
6. As explained in note 6(c) to the financial statements, the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK\$58,861,000, HK\$ 34,676,000, HK\$21,782,000, HK\$2,676,000 and HK\$790,000, respectively.

Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2000 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and the depreciation and amortisation charge in respect of property, plant and equipment of HK\$15,120,000 (excluding amount capitalised in deferred development expenditure) for the fifteen-month period were fairly stated in the financial statements.

7. As explained in note 6(d) to the financial statements, included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the "Subsidiaries") for the fifteen-month period ended 30 September 2000 as follows:
 - Other revenue of HK\$45,000;
 - Selling and administrative expenses of HK\$5,402,000;
 - Provision for bad and doubtful debts HK\$94,000;

REPORT OF THE AUDITORS (continued)

- Finance costs of HK\$432,000;
- Other payables of HK\$665,000;
- Bank balances and cash of HK\$801,000; and
- Bank and other borrowings of HK\$2,177,000.

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the fifteen-month period ended 30 September 2000; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

8. We have been unable to obtain direct confirmations or other documentary evidence in respect of the Company's and the Group's borrowings from other loans lenders and holders of convertible notes in respect of balances due to them in the amount of HK\$7,800,000 and HK\$20,374,000, respectively, included in the consolidated balance sheet of the Group as at 30 September 2000. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 8 above. Any adjustments to the above figures would affect the net liabilities of the Group and the Company as at 30 September 2000 and the loss and cash flows of the Group for the fifteen-month period then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Basis of preparation of financial statements

In forming our opinion, we have considered the adequacy of the disclosure made in note 6(a) to the financial statements. In early 2001, receivers were appointed by the security trustee of the 3 Years Convertible Noteholders and 7 Years Convertible Noteholders in respect of the Company and certain subsidiaries of the Company, including S.Megga Telecommunications Limited, a principal subsidiary. Subsequent to the appointment of the receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of a restructuring proposal (the "Restructuring Proposal"). Further, a supplier and a former director of the Company filed wind-up petitions against S.Megga Telecommunications Limited and the Company, respectively. Against this background, the Company entered into certain agreements (the "Restructuring Agreements") with certain third parties and details of the Restructuring Proposal are described in note 5 to the financial statements.

Providing that the Restructuring Proposal can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors consider that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

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Disclaimer of opinion

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2000 or of the loss and cash flows of the Group for the fifteen-month period then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of accounts have been kept.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 25 February 2002