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**Deloitte
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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 64 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. Our report on the financial statements of the Group for the fifteen-month period ended 30 September 2000 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Current Directors (as defined in note 1 to the financial statements) to locate sufficient documentary information as explained in note 5(b) to the financial statements. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group and of the Company as at 30 September 2000 and the results of the Group for the fifteen-month period ended 30 September 2000 were fairly stated. Any adjustments to the opening balances as at 1 October 2000 would affect the net liabilities of the Group and of the Company as at 30 September 2001 and the results of the Group for the year ended 30 September 2001. Also the comparative figures in respect of the net liabilities of the Group and of the Company as at 30 September 2000 shown on pages 25 and 26 and the results of the Group for the fifteen-month period ended 30 September 2000 shown on page 24 may not be comparable with the figures for the current year.

2. As explained in note 5(b)i to the financial statements, the Current Directors of the Company 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\$84,183,000 (1.7.1999 to 30.9.2000: HK\$539,577,000);
 - Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK\$38,903,000 (1.7.1999 to 30.9.2000: HK\$453,112,000), HK\$7,516,000 (1.7.1999 to 30.9.2000: HK\$26,758,000) and HK\$16,862,000 (1.7.1999 to 30.9.2000: HK\$73,275,000), respectively, included in cost of sales;
 - Other revenue of HK\$5,522,000 (1.7.1999 to 30.9.2000: HK\$55,191,000);
 - Selling and administrative expenses of HK\$25,630,000 (1.7.1999 to 30.9.2000: HK\$91,347,000);
 - Finance costs of HK\$5,252,000 (1.7.1999 to 30.9.2000: HK\$50,677,000);
 - Operating lease rental payments in respect of land and buildings and plant and machinery of HK\$1,916,000 (1.7.1999 to 30.9.2000: HK\$1,974,000);
 - Total directors' remuneration and other staff costs of HK\$18,334,000 (1.7.1999 to 30.9.2000: HK\$57,122,000) (excluding amount capitalised in deferred development expenditure) as analysed in note 9 to the financial statements;
 - Gross rental income of HK\$197,000 (1.7.1999 to 30.9.2000: HK\$5,130,000);
 - Tax recoverable with nil balance; and
 - Trade and other payables of HK\$91,172,000 (30.9.2000: HK\$115,626,000).

REPORT OF THE AUDITORS (continued)

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\$4,675,000 (1.7.1999 to 30.9.2000: HK\$3,206,000); and
 - the reliability of the segmental information in note 7 to the financial statements.
3. Included in the Group's property, plant and equipment as at 30 September 2001 were freehold land and buildings outside Hong Kong with a carrying value of HK\$14,754,000 (30.9.2000: 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.
 4. As explained in note 5(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 year ended 30 September 2001.
 5. As explained in note 5(b)iii to the financial statements, included in bank balances and cash of the Group as at 30 September 2001 was an amount of HK\$95,000 (30.9.2000: 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 as at 30 September 2001 was an amount of HK\$2,053,000 (30.9.2000: 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 2001.
 6. As explained in note 5(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 period from 1 October 2000 to 4 June 2001 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2001. 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, capital commitments, contingent liabilities and related party transactions and balances.
 7. As explained in notes 3(b) and 5(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\$23,438,000 (30.9.2000: HK\$58,861,000), HK\$32,007,000 (30.9.2000: HK\$34,676,000), HK\$14,628,000 (30.9.2000: HK\$21,782,000), HK\$2,540,000 (30.9.2000: HK\$2,676,000) and HK\$676,000 (30.9.2000: HK\$790,000), respectively, as at 30 September 2001.

REPORT OF THE AUDITORS (continued)

Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2001 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 of property, plant and equipment of HK\$3,271,000 (1.7.1999 to 30.9.2000: HK\$15,120,000) (excluding amount capitalised in deferred development expenditure) for the year were fairly stated in the financial statements.

8. As explained in note 5(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 year ended 30 September 2001 as follows:

- Other revenue of nil balance (1.7.1999 to 30.9.2000: HK\$45,000);
- Selling and administrative expenses of HK\$8,000 (1.7.1999 to 30.9.2000: HK\$5,402,000);
- Provision for bad and doubtful debts of nil balance (1.7.1999 to 30.9.2000: HK\$94,000);
- Finance costs of nil balance (1.7.1999 to 30.9.2000: HK\$432,000);
- Other payables of HK\$292,000 (30.9.2000: HK\$665,000);
- Bank balances and cash of HK\$188,000 (30.9.2000: HK\$801,000); and
- Bank and other borrowings of HK\$2,177,000 (30.9.2000: 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 year ended 30 September 2001; 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.

9. 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\$12,480,000 (30.9.2000: HK\$7,800,000) and HK\$48,888,000 (30.9.2000: HK\$20,374,000), respectively, included in the consolidated balance sheet of the Group as at 30 September 2001. 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 9 above. Any adjustments to the above figures would affect the net liabilities of the Group and of the Company as at 30 September 2001 and the loss and cash flows of the Group for the year then ended.

REPORT OF THE AUDITORS (continued)

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 5(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 4 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.

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 2001 or of the loss and cash flows of the Group for the year 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