

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

*H. C. Watt & Co. Ltd.*  
*Certified Public Accountants*  
*Chartered Secretaries*

**Report of the Auditors to the Shareholders of  
New World Development Company Limited**  
*(Incorporated in Hong Kong with limited liability)*

We have audited the accounts on pages 102 to 179 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. However, the evidence available to us was limited as set out below.

*Fundamental uncertainty and limitation of audit scope relating to pending litigations*

As described in Note 34 to the accounts, New World TMT Limited ("NWTMT"), a 54.44% owned listed subsidiary, commenced litigations against PrediWave Corporation ("PrediWave") and certain companies associated with PrediWave (collectively the "PrediWave Companies") and Mr. Tony Qu, the president and founder of the PrediWave Companies. NWTMT was seeking recovery of various investments in and other payments made by the Group to the PrediWave Companies (the "NWTMT Complaint"). On the other hand, PrediWave also commenced litigations against NWTMT (the "PrediWave Complaint"), under which PrediWave alleged that NWTMT had failed to make full payments under certain purchase orders and an agreement of approximately US\$59 million (approximately HK\$459 million). PrediWave claimed damages of not less than US\$58 million (approximately HK\$452 million) and loss of profit of unspecified amount.

## **Basis of opinion** (continued)

### *Fundamental uncertainty and limitation of audit scope relating to pending litigations* (continued)

As more fully described in Note 34 to the accounts, in preparing the accounts, the directors have concluded that a full provision amounting to HK\$3,082 million against the Group's investments in the PrediWave Companies, loans to the PrediWave Companies and deposits paid to PrediWave (collectively the "PrediWave Assets"), is most appropriate for the purpose of the accounts for the year ended 30 June 2004. In addition, the directors have not made any provision for any commitment/loss under the PrediWave Complaint in the accounts as they are of the view that the Group has proper and valid defences to the PrediWave Complaint.

As a result of the uncertainty of the timing and the outcome of the litigations which would have a consequential effect on the amount of assets recoverable, as well as the lack of updated meaningful financial information on the PrediWave Companies, the evidence available to us for assessing the carrying values of the PrediWave Assets, the propriety of the provisions made against the PrediWave Assets and any provision for any commitment/loss under the PrediWave Complaint was limited. There were no other practical satisfactory audit procedures that we could adopt to assess the carrying values of the PrediWave Assets, the propriety of the provisions made against the PrediWave Assets and any provision for any commitment/loss under the PrediWave Complaint. Any adjustments to the carrying values of the PrediWave Assets or provision for any commitment/loss under the PrediWave Complaint that might have been necessary should evidence become available to us would have a consequential impact on the Group's net assets at 30 June 2004 and the Group's loss for the year then ended.

### *Limitation of audit scope relating to other investments*

Included in other investments is an unlisted equity investment of approximately HK\$377 million in Intellambda Systems Inc. ("Intellambda") which was acquired by NWTMT during the year. Mr. Tony Qu is the Chief Executive Officer of Intellambda. As described in Note 18 to the accounts, sufficient financial information on Intellambda was not available to the directors. Notwithstanding that, the directors remain confident in the technology and business operation of Intellambda and consider that no provision for impairment in value of the investment in Intellambda is required. We were unable to obtain sufficient explanations and evidence relating to the future prospect of Intellambda. There were no other practical satisfactory audit procedures that we could adopt to assess the carrying value of the investment in Intellambda as at 30 June 2004. Any adjustment that might have been necessary should evidence become available to us would have a consequential impact on the Group's net assets at 30 June 2004 and the Group's loss for the year then ended.

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

### **Qualified opinion arising from limitation of audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters referred to in the "Basis of opinion" paragraphs, in our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters described above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

**H.C. Watt & Company Limited**  
*Certified Public Accountants*  
**H.C. Watt**  
*Practising Certificate No. P181*

Hong Kong, 15 October 2004