

Report of the Auditors



羅兵咸永道會計師事務所

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

To the Shareholders of
New World Development Company Limited
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 101 to 169 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 35 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 a counter claim against NWTMT (the "PrediWave Cross-Complaint"), under which PrediWave alleged that NWTMT had failed to make full payments under certain purchase orders and an agreement totalling approximately US\$72 million (approximately HK\$564 million). As a result, PrediWave claimed damages against NWTMT in an amount to be proved at trial.

As more fully described in Note 35 to the accounts, the directors, in preparing the accounts, have concluded that a full provision amounting to HK\$3,082 million made in the accounts for the year ended 30 June 2004 against the Group's investments in the PrediWave Companies, loans to the PrediWave Companies and deposits paid to PrediWave (collectively the "PrediWave Assets"), remains most appropriate for the purpose of the accounts for the year ended 30 June 2005. In addition, the directors have not made any provision for any commitment and/or loss under the PrediWave Cross-Complaint in the accounts as they are of the view that the Group has proper and valid defences to the PrediWave Cross-Complaint.

Basis of opinion (continued)

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

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 and/or loss under the PrediWave Cross-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 and/or loss under the PrediWave Cross-Complaint. Any adjustments to the carrying values of the PrediWave Assets or provision for any commitment and/or loss under the PrediWave Cross-Complaint that might have been necessary should evidence become available to us may have a consequential impact on the net assets of the Group at 30 June 2005 and its profit 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 preceding 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 2005 and of the profit and cash flows of the Group 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, 6 October 2005