ERNST & YOUNG
安永會計師事務所

To the members
Junefield Department Store Group Limited
(Formerly Hudson Holdings Limited)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 Society of Accountants. An audit includes an 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 Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed 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. 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.

FUNDAMENTAL UNCERTAINTIES RELATING TO (A) THE SATISFACTORY OUTCOME OF THE ARBITRATIONS AND LEGAL ACTIONS AND (B) THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in notes 1 and 2 to the financial statements concerning the following fundamental uncertainties:

(a) As disclosed in note 1 to the financial statements, two arbitration awards were issued by the Arbitration Commission of Wuhan (the "Arbitration Awards") to Wuhan Huaxin Real-Estate Development Co., Ltd. ("WHRED", a 51%-owned subsidiary), Wuhan Plaza Management Co. Ltd. ("WPM", a 49%-owned jointly-controlled entity) and a joint venturer (the "Joint Venturer", which holds the remaining 49% and 51% interests in WHRED and WPM, respectively), whereby (i) WHRED was ordered to repay approximately RMB231 million (equivalent to approximately HK$216 million) (the "Loan") together with the accrued interest and the relevant expenses in respect of the abritration to the Joint Venturer, and WPM was found to be liable for the Loan together with the accrued interest and the relevant expenses, under a certain guarantee agreement made by WPM in favour of the Joint Venturer (the "Guarantee Agreement"); and (ii) WHRED, pursuant to a certain indemnity agreement made by WHRED in favour of WPM relating to the obligations of WPM under the Guarantee Agreement (the "Indemnity Agreement"), was ordered to transfer certain properties (the "Properties") to WPM in settlement of the amount ordered to be paid by WPM to the Joint Venturer. As at 31 December 2003, the carrying value of the Properties amounted to approximately HK$272 million, which was included in "Fixed assets", "Investment properties", "Properties contracted for sale" and "Properties held for sale" as to approximately HK$8 million, HK$250 million, HK$2 million and HK$12 million, respectively.

The Group had not been informed of the commencement or the conduct of the arbitration proceedings leading to the Arbitration Awards and only became aware of such proceedings after the Arbitration Awards had been issued. The Group has no record of the board meetings of WHRED and WPM which approved the Guarantee Agreement and the Indemnity Agreement, and of the Guarantee Agreement and/or Indemnity Agreement being signed. Furthermore, the Guarantee Agreement and the Indemnity Agreement were not signed by any directors nominated by the Group. Based on the legal opinion obtained from the Group's legal advisor, the directors consider the Guarantee Agreement, the Indemnity Agreement, and the related arbitrations to be invalid and are currently in the process of taking legal action to reverse the Arbitration Awards.

In addition, as disclosed in note 1 to the financial statements, the Group's requests to nominate directors to WHRED, WPM and another 51%-owned subsidiary (collectively referred to as the "Wuhan Companies") have not been met. Based on a legal opinion , the Group has the legal right to nominate directors to the Wuhan Companies. The Group has commenced arbitration proceedings against the Joint Venturer in this regard and the proceedings are currently in progress as at the date of this report. Taking into account the opinion obtained from the Group's legal advisor, the directors continued to record the Properties and the Loan in the Group's balance sheet, and to consolidate/equity account for the results of the Wuhan Companies in the Group's financial statements.

The Group is currently in the process of taking legal action against the Joint Venturer in relation to the above. The financial statements do not include any adjustment that may result due to a failure to reverse the Arbitration Awards and to execute its rights to nominate directors to the Wuhan Companies. Should the Group be unable to reverse the Arbitration Awards and to execute its rights to nominate directors to Wuhan Companies, the Properties of HK$272 million would be set-off against the Loan of HK$216 million, resulting in a loss of approximately HK$67 million (which also includes the related expenses and taxes of approximately HK$11 million). In addition, the Wuhan Companies would cease to be accounted for as subsidiaries and a jointly-controlled entity respectively. We consider that appropriate disclosures regarding the fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

(b) During the year, the Group recorded a significant loss of approximately HK$92 million and the deficiency in assets of the Group as at 31 December 2003 amounted to HK$29 million. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to relieve its current liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the satisfactory outcome of these measures, the ongoing support of the Group's ultimate holding company, bankers and creditors, successful action to reverse the Arbitration Awards and execute the rights to nominate directors to the Wuhan Companies mentioned in point (a) above and the ability of the Group to attain profitable and cash flow positive operations. The financial statements do not include any adjustment that may be necessary should the implementation of such measures become unsuccessful. We consider that appropriate disclosures regarding the fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion above, we draw attention to the fact that our report dated 27 June 2003 on the financial statements of the Group for the year ended 31 December 2002, which form the basis for the comparative amounts presented in the current year's financial statements, was qualified on account of a disagreement about accounting treatment. The disagreement related to a deficit on revaluation of the Group's investment properties of HK$40 million, which in our opinion should have been recorded in the consolidated profit and loss account for the year ended 31 December 2001, but instead was recorded in the consolidated profit and loss account for the year ended 31 December 2002, as part of the deficit charged of HK$42.9 million. Further details of the qualification are included in our abovementioned report. Accordingly, the consolidated profit and loss account for the year ended 31 December 2002 presented in these financial statements may not be reliable for the purpose of comparison with the corresponding amounts presented for the current year.

Ernst & Young
Certified Public Accountants

Hong Kong
29 April 2004