



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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TO THE SHAREHOLDERS OF
JUNEFIELD DEPARTMENT STORE GROUP LIMITED
(Incorporated in Bermuda with limited liability)

■ REPORT ON THE FINANCIAL STATEMENTS ■

We were engaged to audit the consolidated financial statements of Junefield Department Store Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 81, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion**(1) Significant uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in Note 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in Note 3 to the financial statements, the Group is currently undertaking a number of measures to improve its liquidity and financial position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support by the Group's holding company, related companies and creditors.

The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

(2) Limitation of scope relating to interest in a jointly-controlled entity

As at 31 December 2006, the Company has an interest in a jointly-controlled entity, namely Wuhan Plaza Management Co., Ltd. ("WPM"), established in the People's Republic of China (the "PRC"), which represents a substantial part of the Group's total assets and the Group's results for the year. The directors of the Company accounted for the Group's share of results of the jointly-controlled entity for the year ended 31 December 2006 in the Group's consolidated financial statements based on the PRC unaudited management accounts of WPM after making adjustments which they consider appropriate. Due to the litigation relating to the breach of the rental agreement, as further explained in Note 39 to the financial statements, we were only granted access to carry out auditing procedures on the financial information of WPM in mid-April 2007. Up to the date of approval of these financial statements, we were unable to carry out auditing procedures necessary to obtain adequate assurance on the financial information of WPM. In the absence of sufficient reliable financial information of WPM, we were unable to obtain sufficient evidence regarding the carrying amount of the investment in the jointly-controlled entity of approximately HK\$66,766,000 and the amount due from the jointly-controlled entity of approximately HK\$2,842,000 as at 31 December 2006, and the Group's share of profit of the jointly-controlled entity of approximately HK\$26,731,000 for the year ended 31 December 2006. There were no other satisfactory audit procedures that we could adopt to determine whether any provision for impairment of the investment in the jointly-controlled entity and the amount due from the jointly-controlled entity were necessary. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to the figures may have a consequential significant effect on the profit for the year and net liabilities of the Group as at 31 December 2006.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



■ OTHER MATTERS ■

In respect alone of the limitation on our work relating to the matters described in the basis for disclaimer of opinion paragraph:

- 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 account had been kept.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 24 April 2007