

## PRACTICE NOTE 19 DISCLOSURE

|                      | <b>31 December<br/>2002</b><br><i>HK\$'000</i> | <b>30 June<br/>2002</b><br><i>HK\$'000</i> |
|----------------------|--|--|
| Loans receivable     | 53,141   | 53,141                                     |
| Less: Provision made | <u>(53,141)</u>                                | <u>(53,141)</u>                            |
|                      | <u>—</u>                                       | <u>—</u>                                   |

As part of the Group's debt restructuring agreement entered into with its bankers in January 1998, the Company had advanced an aggregate amount of HK\$53,141,000 to Almswood International Limited ("Almswood") and has an obligation to make further advances to Almswood from the net proceeds to be realised from the sale of the Group's property investments in Shanghai, Chengdu and Yingkou in the People's Republic of China.

The loan bears interest at the highest of the interest rates charged by the banks on overdraft facilities to the Group or, if none, at the cost of funding the loans by the Group. The repayment by Almswood of the principal and interest is subordinated to Lo Kit Lun, Frank's, Almswood and its subsidiaries' indebtedness to certain banks ("banks' indebtedness").

The loans extended by the Company to Almswood are to be repaid in 10 equal semi-annual instalments commencing from the sixth month after Almswood's indebtedness to the banks has been fully repaid or, at the discretion of the Board of the Company, commencing no later than the thirteenth month after Almswood's indebtedness to the banks has been fully repaid. Under the existing payment profile of the indebtedness, full repayment of the banks' indebtedness is scheduled in the fifth year from the date of drawdown on 23 January 1998.

Under an agreement with its bankers, Almswood was committed to commence repayment of its bank indebtedness by January 2000. The Directors understand that Almswood has yet to obtain additional external funding to enable it to meet its financial obligations, including those to its bankers and to the Group. In the opinion of the Directors, the recoverability of amounts loaned and to be loaned to Almswood is dependent upon Almswood obtaining sufficient additional external funding, which was in question, and accordingly, provisions were made for the loans receivable of HK\$53,141,000 and against the Group's property and other investments with an aggregate carrying value of HK\$59,138,000 in the previous years.

Almswood is a company wholly owned by Lo Kit Lun, Frank, who acted as a non-executive Director of the Company until 18 August 2000.