

FIRST STAR DEVELOPMENT LIMITED

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30th Floor, New World Tower, 18 Queen's Road Central, Hong Kong

1000-11

Your Ref : (112) in LM(6) in DLO/KW/103/KPT/KW

20th February 2003

Director of Lands
Lands Department
Land Supply and Redevelopment Section
19th Floor, North Point Government Offices
333 Java Road, North Point
Hong Kong

Subject to Contract and Negotiation
and Without Prejudice

Attn: Mr. J. E. White (Chief Estate Surveyor (Atg.))/
Land Supply and Redevelopment Section

Dear Sir,

Proposed Modification - Hung Hom Bay Reclamation Area, Kowloon - Kowloon
Inland Lot No.11076

We refer to your letter of 7th February 2003.

Before we go into details of your said letter, we would like to put on record that it is indeed the Government's initiative, not ours, to propose to modify the current land grant of Kowloon Inland Lot No.11076 to cater for the change in circumstances resulting from the change in the Government's housing policy - suspension/cancellation of the Private Section Participation Scheme ("PSPS"). As such, we consider that the Administrative Fees chargeable/payable under the proposed Modification, if any, shall be kept to the minimal.

Subject to the amount of premium being satisfactorily agreed between us which should properly take into account an appropriate amount for the settlement or the waiver of our claim against the Government, the Director of Lands and the Hong Kong Housing Authority for loss, damages, costs and expenses arising from the suspension/cancellation of the PSPS resulting in our interests in the above development being adversely affected, and to follow up the proposed Modification in your said letter, we wish to inform you on a without prejudice and non-binding basis that the terms as set out in your said letter are in principle acceptable to us except for S.C.No.(36)(1)(ii) of the Second Schedule concerning restriction on alienation of Residential Parking Spaces.

We are of the view that since after the lease modifications, the development will become a private development as opposed to Home Ownership Scheme or PSPS developments, the "usual" restriction for assigning the residential parking spaces to residents appears not strictly necessary or otherwise applicable to this development.

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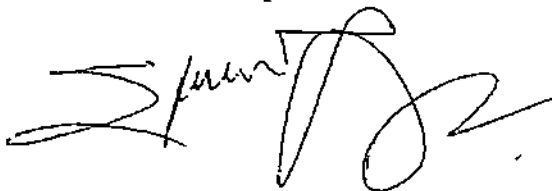
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Our concern is that if such restriction shall remain, there is always a possibility that some (and it is difficult to estimate the extent at this moment) of the Residential Parking Spaces will not be taken up by the owners of the residential flats of the development ("Owners") eventually nor will such remaining Residential Parking Spaces be successfully underlet to residents of the residential flats. This is unreasonable to us as the developer who, on one hand, are forbidden to realize our investment in the development and, on the other hand, have to continue to bear the expenses incurred incidental to the holding of these remaining Residential Parking Spaces. These expenses will include the management fees, rates and Government rents, etc. There must be a reasonable arrangement that we are allowed to dispose of the Residential Parking Spaces freely.

In the circumstances, we would insist to limit the restriction on alienation contained in sub-clause (ii) of this Special Condition to a certain period commencing from the date of first assignment of residential flat(s) to purchaser(s). We are willing to consider extending such period from 6 months (as we previously proposed) to 9 months. We are also willing to consider to include a provision that should we intend to dispose of the Residential Parking Spaces to persons other than the Owners after the agreed period, we will give the Owners one months notice during which the Owners will have the first right of refusal to purchase the Residential Parking Spaces. We sincerely hope that the Government will reconsider our proposal.

Finally, we wish to stress that whilst we will endeavour to negotiate with the Government for a satisfactory conclusion to the proposed Modification, all our rights herein to claim against the Government for all losses and damages suffered by us in the development are hereby expressly reserved. Needless to say our negotiation with the Government on the proposed Modification should be treated as entirely without prejudice to all our rights in the development and that nothing herein contained or in all other correspondence with you in this regard are to be taken as binding on us in any way until and unless formal documentation shall have been duly executed between us and the Government and all other parties concerned.

Yours faithfully,
For and on behalf of
First Star Development Limited



Leung Chi Kin