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Mr. Shane's total fees would be USD15,000 for the 3-day mediation, USD1,275 living expenses for 3 days, ½ a return business class ticket to/from the USA plus reading-in time of USD425 per hour.

Having said that, if the mediation takes place on 15th - 17th December 2003, we are informed by Mr. Shane that the parties would only have to pay for ½ a return business class ticket to/from the USA instead of the entire return ticket.

As with all mediations, the costs are split 50/50 between the parties (to preserve the neutrality of the mediator) which would mean, for each party, for a mediation from 15th to 17th December inclusive, the cost would be USD8375 plus ½ a return business class ticket to/from the USA plus ½ cost of reading-in time. Given the large sums in dispute in this matter, these amounts are relatively insignificant, and we should be grateful if you could let us know if the fees are acceptable to your client.

Please also let us know if the nomination of Mr. Shane is acceptable to your client, at your earliest convenience, so that we can in turn inform Mr. Shane, as we understand he would have to rearrange his diary to fit us in on 15th -17th December. He is pressing us for confirmation that we wish to proceed on these dates.

If the nomination of Mr. Shane is not acceptable to your client, then we would invite your client to nominate an alternative mediator. If we do not accept your nomination, then the parties can ask the HKIAC to nominate a mediator. This is the usual practice. However, approaching the HKIAC would no doubt incur delay.

Concerning the appointment of a valuation expert/ estate surveyor to act as adviser to the mediator, we have prepared a short-list of candidates, whom we shall be contacting over the next three days, to check their availability and fees. We shall revert to you about this matter shortly.

2nd Letter of 5th November 2003

Thank you for your second letter of 5th November. The Defendants are pleased that your client has made a settlement offer, and they hope to be able to satisfactorily resolve this dispute as soon as possible.

However, the Defendants are under a mandate to endeavour to resolve this dispute through mediation. The Defendants are not empowered to resolve the dispute through direct negotiations, so they are not able to make a counter-offer until the commencement of the mediation.

We wish to emphasise that this is not a delaying tactic: it is merely a statement of the constraints imposed upon the Defendants.

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There are, however, two comments that the Defendants would like to make in respect of your second letter of 5th December 2003:

1. To take this matter forward, it is essential that all parties have a common understanding of the requisite modifications to KIL 11076. Accordingly, we should be grateful if you would kindly confirm that the modifications referred to in the condition numbered 2 in your second letter dated 5th November 2003 are those set out in the draft modification as per Land Supply's letter dated 7th February 2003 (copy enclosed, together with your client's reply dated 20th February 2003) subject to agreement on the premium, administration fee and the restriction on the alienation of the car-parking spaces;
2. We would suggest that the parties proceed on a global settlement basis (that is to say, simultaneous settlement of all outstanding issues between our clients arising out of the Hunghom development, not only the modification premium).

We look forward to hearing from you at your earliest convenience.

Yours faithfully,



(Gregory Payne)
Senior Government Counsel

Enc:

地政總署
LANDS DEPARTMENT

電話 Tel: 2231 3368

圖文傳真 Fax: 2523 4973

本署編號 Our Ref: (112) in L/M (6) in DLO/KW 103/KPT/KW

來函編號 Your Ref:

Land Supply and Redevelopment Section
19/F North Point Government Offices
333 Java Road, North Point
Hong Kong

By Fax (2131 0668) and
By Recorded Delivery

7 February, 2003

Without Prejudice

First Star Development Ltd.
30/F., New World Tower,
18 Queen's Road Central,
Central,
Hong Kong

(Attn: Mr. LEUNG Chi Kin, Stewart)

Re (114)

Dear Sirs,

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

I refer to our previous correspondence on this matter and now write to confirm that I am prepared to recommend to the Government of the Hong Kong Special Administrative Region (hereinafter referred to as "the Government") to proceed with the proposed lease modification subject to the following basic terms :-

- (i) Premium: to be determined.
- (ii) Administrative Fee: to be determined.
- (iii) Development Conditions:
 - ◆ General Condition No. 1(b) of the Conditions of Sale No. 12547 ("the Conditions"), Special Condition Nos. (3)(b), (5), (6)(c), (6)(d), (6)(e), (24), (25), (26), (28), (29), (30), (31), (32), (33), (34), (35), (36)(k)(i), (36)(k)(ii), (42)(b), (42)(c), (42)(d), (42)(e), (42)(f), (42)(g), (52)(e), (62), (63), the Technical Schedule and Appendix A thereto shall be deemed to be deleted;

- ◆ Special Condition Nos. (3)(d)(ii), (3)(e), (6)(a), (12), (13), (14), (27), (36)(a), (36)(f) and (36)(k)(iii) of the Conditions shall be deemed to be deleted and substituted by those Special Conditions set out in the First Schedule of the draft document enclosed herewith respectively; and
- ◆ the Special Conditions set out in the Second Schedule of the draft document enclosed herewith shall be deemed to be added to the Conditions as Special Condition Nos. (36)(l), (64), (65), (66), (67), (68) and (69).

The above is a brief summary of the enclosed set of draft document for the proposed transaction ("the Document"). You are requested to note that the draft document is ~~yet to be finalised and will be subject to any further amendments as the Government~~ thinks fit. In addition, your request for relaxation of the restriction on alienation of residential parking spaces from the whole of the lease term to a certain period from the date of first assignment of residential flats to the flat purchasers as mentioned in your letter of 23 December 2002 has been thoroughly considered but is not acceptable. The other amendments suggested in your letter of 11 December 2002 and 23 December 2002 have been reflected in the enclosed draft document, where appropriate.

The formal basic terms offer (with premium) in respect of the proposed lease modification will also contain a condition that you agree and acknowledge that you shall have no claim whatsoever against the Government, the Director of Lands and the Hong Kong Housing Authority in respect of any loss, damages, costs, and expenses arising out of or in any way connected to the conversion of the development on the lot from PSPS to a private development as a result of the Government's current housing policy. The Government, the Director of Lands and the Hong Kong Housing Authority shall have no liability whatsoever in respect of such conversion and anything connected thereto.

Further, it will be a condition of the basic terms offer (with premium) in respect of the proposed lease modification that notwithstanding the deletion of Special Condition No. (33) from the lease conditions upon the execution of the Modification Letter giving effect to the proposed modification, you shall remain liable and shall undertake to pay to the Director of Housing all the cost of the Surveyor incurred up to the date of the Modification Letter and payable by the Director of Housing to the Surveyor pursuant to the appointment of the Surveyor made under Special Condition No. (33). You shall also indemnify the Director of Housing against all claims (if any) from the Surveyor arising out of the termination of appointment. Please liaise with the Director of Housing in relation to the settlement and payment of such cost.

Please reply in writing indicating your agreement to proceed on the basis of the above terms by 14 February 2003.

It is anticipated that the premium together with the above basic terms would be formally offered to you as soon as possible. The premium figure will be assessed on current values. To facilitate the exercise, you are invited to provide information relevant to the assessment of premium to the Chief Estate Surveyor / Valuation of this Department (attn.: Ms. Susan KU) at your earliest convenience.

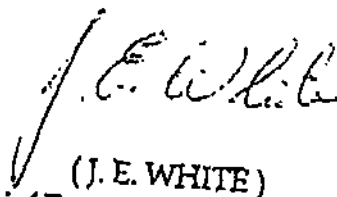
I must point out that I am not in a position to commit Government in this matter and it should be clearly understood that Government will not consider itself bound in any way by the contents of this letter. Any expenses which you may incur in respect of the proposed transaction will be, before the legal document giving effect to the proposed transaction is executed, at your own risk.

For the avoidance of doubt it is not intended that any legal obligations are to be created or arisen, whether by act of part performance or otherwise in favour of either yourselves or Government, nor (regardless of whether any correspondence may be entered into or on the subject) will Government accept any such obligations by virtue of this letter.

My letter of 16 December 2002 under ref. (64) in this series is hereby superseded.

Should you have any queries; please feel free to contact the undersigned or Mr. Albert CHAN of this Office (tel. no.: 2231 3761).

Yours faithfully,



(J. E. WHITE)
Chief Estate Surveyor (Atg.) /
Land Supply and Redevelopment Section

Encl

b.c.c. D of H

AD/HQ

AD/K

APS/K&Con.

CES/V

(Attn.: Mr. Macro WU

& Mr. Terry LAM)

(Attn.: Mr. Herbert LEUNG)

(Attn.: Mr. A. K. PATON)

(Attn.: Mrs. Karen HO)

(Attn.: Ms. Susan KU)

| w/o encl.
|
|

First Star Development Limited

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BY RECORDED DELIVERY

Dear Sirs,

Kowloon Inland Lot No.11076

I have to inform you that in consideration of your payment to the Government of the Hong Kong Special Administrative Region (hereinafter referred to as "the Government") of an additional premium amounting to \$ _____ and an administrative fee of \$ _____ (the receipts whereof are hereby acknowledged), the Government has approved a modification of Conditions of Sale No.12547 as varied or modified by a Modification Letter dated the 6th day of December 2001 and registered in the Land Registry by Memorial No.8552750 (which said Conditions of Sale as varied or modified aforesaid are hereinafter referred to as "the Conditions"), under which the above-mentioned lot is held, in manner hereinafter appearing subject to the following conditions and to the acceptance thereof by you and the Lender in the manner stated in paragraph 2 hereof :-

(1). With effect from the date of this letter: -

- (A) General Condition No. 1(b) of the Conditions, Special Condition Nos. (3)(b), (5), (6)(c), (6)(d), (6)(e), (24), (25), (26), (28), (29), (30), (31), (32), (33), (34), (35), (36)(k)(i), (36)(k)(ii), (42)(b), (42)(c), (42)(d), (42)(e), (42)(f), (42)(g), (52)(e), (62), (63), the Technical Schedule and Appendix A thereto shall be deemed to be deleted;
- (B) Special Condition Nos. (3)(d)(ii), (3)(e), (6)(a), (12), (13), (14), (27), (36)(a), (36)(j) and (36)(k)(iii) shall be deemed to be deleted and substituted by those Special Conditions set out in the First Schedule hereto respectively; and
- (C) the Special Conditions set out in the Second Schedule hereto shall be deemed to be added to the Conditions as Special Condition Nos. (36)(l), (64), (65), (66), (67), (68) and (69).

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- (2) Except as hereby modified, all the terms and conditions contained in the Conditions shall remain in full force and effect.
- (3) You shall, if required by the Director of Lands so to do, execute a formal Agreement incorporating all the conditions herein contained in such form as he may require.
- (4) The condition of re-entry on the breach, non-observance or non-performance of any of the conditions contained in the Conditions shall extend to the breach, non-observance or non-performance of any of the foregoing conditions.

If the foregoing conditions are acceptable to you, I shall be glad if you will signify your acceptance by executing, under seal in accordance with your Articles of Association, the docket on both copies of this letter. Please also arrange for The Hongkong and Shanghai Banking Corporation Limited, the Lender under the Debenture (incorporating a First Building Mortgage and a First Floating Charge) dated the 27th day of September 2001 and registered in the Land Registry by Memorial No.8509433, to signify its acceptance by executing under seal by its lawful attorney the other docket provided on this letter. After execution, please return to me both copies of this letter together with a certified copy of a resolution of your Board of Directors whereby authority is given to the affixing of your Common Seal hereto and a certified copy of a valid Power of Attorney of the Lender whereby authority is given to its lawful attorney to the execution hereof, whereupon this letter will be registered by Memorial in the Land Registry. On completion the original of this letter will be returned to you for retention. You may attach it for record purpose to the other land documents in your possession.

Yours faithfully,

()
Chief Estate Surveyor
Land Supply and Redevelopment Section
Lands Department

We hereby agree to and accept the foregoing conditions.

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Witness : _____
(Signature and name in block letters)

(Seal of First Star Development Limited and signatures and names in block letters of its arresting officers and description of their offices)

Address : _____
: _____
: _____

Witness : _____
(Signature and name in block letters)

(Signed, sealed and delivered by
the lawful attorney for and on behalf of The
Hongkong and Shanghai Banking
Corporation Limited)

Address : _____
: _____
: _____

The First Schedule**DRAFT**

(3) (d)(ii) The Purchaser shall throughout the term hereby agreed to be granted at his own expense after completion of the landscaping keep all landscaped areas within the lot well cultivated, managed and maintained to the satisfaction of the Director.

Terms in Tender Notice form
part of these Conditions

(3) (e) Paragraphs 16 and 17 of the Tender Notice are expressly incorporated in and made part of these Conditions.

Building covenant

(6) (a) The Purchaser shall develop the lot by the erection thereon of a building or buildings, ancillary works or facilities complying with these Conditions and in all respects to the satisfaction of the Director and in accordance with the Schedule and the Master Layout Plans submitted in accordance with paragraph 3(d)(ii) and (iii) of the Tender Notice and the Approved Landscaping Proposals and complying and in accordance with all Ordinances, byelaws and regulations relating to building, sanitation and planning which are or may at any time be in force in Hong Kong, such building or buildings to be completed and made fit for occupation on or before the 22nd day of August 2002.

Restrictions on the use of
hand-dug caissons

(12) Hand-dug caissons shall not be used except with the prior written approval of the Director.

Design of ground floor slabs

(13) All ground floor slabs of any building or buildings to be erected on the lot which are designed and intended for the use referred to in Special Condition No.(7)(a) hereof shall be designed and constructed as suspended ground floor slabs supported on structural elements of the said building or buildings provided that the ground floor slabs within such building or buildings intended for the parking of private vehicles or goods vehicles or service vehicles need not be suspended as aforesaid but their design shall be subject to the prior written approval of and their construction shall be to the satisfaction of the Director.

Estate Management Office,
Owners' Committee Office
and Contractors Office

(14) The Purchaser shall at his own expense and to the satisfaction of the Director provide within the lot one Owners' Committee Office (hereinafter referred to as "the Owners' Committee Office") having a gross floor area of not less than 38 square metres and not more than 42 square metres; and Estate Management Office (hereinafter referred to as "the Estate Management Office") having a gross floor area not less than 140 square metres and not exceeding 170 square metres; and a combined office for the cleansing contractor and the maintenance contractor (hereinafter referred to as "the Contractors Office") having a gross floor area not less than 30

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square metres and not exceeding 35 square metres which offices shall serve the whole of the development on the lot provided that:

- (a) the Owners' Committee Office shall not be used for any purpose other than for the purposes of meetings and administrative work of the Owners' Committee or the Owners' Corporation formed or to be formed in respect of the lot and the buildings erected or to be erected thereon; the Estate Management Office shall not be used for any purpose other than for the purposes of management of the building or buildings and other facilities erected or to be erected on the lot; and the Contractors Office shall not be used for any purpose other than for the purposes of maintenance and cleansing of the building or buildings and other facilities erected or to be erected on the lot; and
- (b) the Owners' Committee Office, the Estate Management Office and the Contractors Office shall form part of the Common Areas referred to in Special Condition No.(67)(a)(v) hereof.

The area so provided for the Owners' Committee Office, the Estate Management Office and the Contractors Office will not be taken into account for the purpose of calculating the maximum total gross floor area stipulated in Special Condition Nos.(17)(b)(i) and (11)(b)(ii) hereof.

Restriction on alienation
before compliance

(27) Prior to compliance with these Conditions in all respects to the satisfaction of the Director the Purchaser shall not except with the prior written consent of the Director and in conformity with any conditions imposed by him (including the payment of such fees as may be required by him):

- (a) assign, underlet or part with possession of or otherwise dispose of the lot or any part thereof or any interest therein or any building or part of any building thereon (whether by way of direct or indirect reservation, the grant of any right of first refusal, option or power of attorney, or any other method, arrangement or document of any description) or enter into any agreement so to do;
- (b) solicit or accept, whether directly or indirectly or through a solicitor, agent, contractor or trustee or through a company in which the Purchaser or its nominee is directly or indirectly the owner of shares or which is the owner of shares in the

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Purchaser or otherwise, any money, money's worth or other valuable consideration of any description pursuant to any transaction, present or future, conditional or unconditional whereby the lot or any part thereof or any interest therein or any building or part of any building thereon is or may be sold, assigned, underlet or otherwise disposed of or affected, or enter into any agreement so to do; or

(c) mortgage or charge the lot or any part thereof or any interest therein except for the purpose of the development thereof in accordance with these Conditions and then only by way of a building mortgage, it being agreed that for this purpose a building mortgage shall be one:

(i) whereby the lot is mortgaged or charged in favour of a licensed bank or a registered deposit-taking company authorized under section 16 of the Banking Ordinance to secure monies (and interest thereon) advanced or to be advanced to the Purchaser for the purpose only of developing the lot in accordance with these Conditions and for the payment of legal and other professional fees in connection with such development and the mortgage (provided that such fees do not, in the aggregate, exceed 5% of the total amount secured by the mortgage), and for no other purpose;

(ii) under which such advances (in the case of work done) are to be made to the Purchaser only in amounts to be certified from time to time by the Authorized Person (appointed by the Purchaser under the Buildings Ordinance for the development of the lot) as having been incurred by the Purchaser for the development of the lot; and

(iii) under which the mortgagee is obliged to release any share or interest in the lot from the mortgage unconditionally upon receipt of a sum representing the total purchase price under an agreement for sale and purchase approved by the Director in respect of that share or interest in the lot.

Residential Parking Spaces (36) (a)

Space shall be provided within the lot to the

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satisfaction of the Director for the parking of private cars at the rate of not more than one vehicle space for every five residential flats or part thereof and not less than one vehicle space for every seven residential flats or part thereof in the building or buildings erected or to be erected on the lot (which parking spaces are hereinafter referred to as "the Residential Parking Spaces"). Each space shall have a minimum measurement of 2.5 metres x 5.0 metres with a minimum headroom of 2.4 metres. The spaces so provided shall not be used for any purpose other than for the purposes of parking of private cars licensed under the Road Traffic Ordinance and belonging to the residents of the building or buildings erected or to be erected on the lot and their bona fide visitors or invitees and in particular the said spaces shall not be used for the storage, sale or exhibiting of motor vehicles.

Deposit of car parking layout plan (36)

(j) A plan approved by the Director indicating the layout of all the manoeuvring, parking, loading and unloading spaces provided within the lot in accordance with sub-clauses (a), (b), (c), (d), (e), (f), (g) and (h) of this Special Condition and the Car Park Common Areas referred to in sub-clause (1)(iv) of this Special Condition, or a copy of such plan certified by an Authorized Person (as defined in the Buildings Ordinance) shall be deposited with the Director. No transaction (except a building mortgage under Special Condition No.(27)(c) hereof or such other transactions as the Director may approve) affecting the lot or any part thereof or any building or part of any building erected or to be erected on the lot shall be entered into prior to such deposit. The manoeuvring, parking, loading and unloading spaces and the Car Park Common Areas indicated on the said approved plan shall not be used for any purpose other than for the respective purposes set out in sub-clauses (a), (b), (c), (d), (e), (f), (g), (h) and (l) of this Special Condition. The Purchaser shall maintain the manoeuvring, parking, loading and unloading spaces and the Car Park Common Areas in accordance with the said approved plan and shall not alter the layout except with the prior written consent of the Director.

(36) (k)(iii) The Purchaser (which expression for the purpose of this sub-sub-clause shall not include its successors in title or assigns) may not assign, charge, mortgage, demise, underlet, part with the possession of or otherwise alienate or dispose of the goods vehicle spaces, the manoeuvring space for goods vehicles and refuse collection vehicles, the parking space for kindergarten, the taxi lay-by and the spaces for vehicles for disabled users (or any part thereof or any interest therein) required to be provided in accordance with sub-clauses (c), (d), (e), (f), (g) and (h) respectively of this Special Condition other than to the manager appointed in accordance with the DMC (as defined in Special Condition No.(67)(a)(i) hereof) or a corporation incorporated under the Building Management

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Ordinance (Cap. 344), which manager or corporation shall hold the undivided shares attributable to the goods vehicle spaces, the manoeuvring space for goods vehicles and refuse collection vehicles, parking space for kindergarten, taxi lay-by, and spaces for vehicles for disabled users in trust for all the owners of undivided shares in the lot. Provided that the said manager or the corporation may let the parking spaces for the kindergarten to be provided in accordance with sub-clause (f) of this Special Condition to the occupiers of the kindergarten. The goods vehicles spaces, the manoeuvring space for goods vehicles and refuse collection vehicles, the taxi lay-by and spaces for vehicles for disabled users shall be designated as and form part of the Common Areas referred to in Special Condition No.(67)(a)(v) hereof."

DRAFTThe Second ScheduleRestriction on
alienation of Residential
Parking Spaces

(36)(1)(i)

The Residential Parking Spaces provided within the lot in accordance with sub-clause (a) of this Special Condition shall be designated as spaces for the parking of private cars belonging to the residents of the residential flats in the building or buildings erected or to be erected on the lot on the approved car park layout plan referred to in sub-clause (j) of this Special Condition.

(ii) The Residential Parking Spaces shall not be:

(I) assigned except

(a) together with undivided shares in the lot giving the right of exclusive use and possession of a residential flat or flats in the building or buildings erected or to be erected on the lot; or

(b) to a person who is already the owner of undivided shares in the lot with the right of exclusive use and possession of a residential flat or flats in the building or buildings erected or to be erected on the lot; or

(II) underlet except to the residents of the residential flats in the building or buildings erected or to be erected on the lot,

provided that in any event not more than three of the Residential Parking Spaces shall be assigned or underlet to the owner or resident of any one residential flat.

Allocation of undivided
shares to the Car Park
Common Areas

(iii)

Prior to any assignment or disposal of any undivided share allocated to the Residential Parking Spaces or any interest therein, the Purchaser shall allocate to those parts of the car park which are for the common use and benefit only of the owners and occupiers of the Residential Parking Spaces, including but not restricted to the lifts, landings, loading and unloading spaces, spaces for the picking up and setting down of passengers and manoeuvring and circulation areas (hereinafter referred to as "the Car Park Common Areas"), a number of undivided shares in the lot which in the opinion of the Director is appropriate.

Restriction on
alienation of Car Park
Common Areas

(iv)

The Purchaser may not assign, mortgage or charge or otherwise dispose of or part with the possession of any undivided shares allocated to the Car Park Common Areas or any interest therein or enter into any agreement so to do except that the whole of the said undivided shares in the Car Park Common Areas shall be assigned to and vested in:-

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- (I) upon execution of the DMC (as defined in Special Condition No. (67)(a)(i)), the manager appointed in accordance with the DMC who shall hold the said undivided shares on trust for the benefit of all owners for the time being of the undivided shares allocated to the Residential Parking Spaces; or
- (II) upon execution of a sub-Deed of Mutual Covenant in respect of any building or buildings or part or parts thereof erected on the lot which includes the Residential Parking Spaces (hereinafter referred to as "the Sub-DMC"), the manager appointed in accordance with the Sub-DMC who shall hold the said undivided shares on trust for the benefit of all owners for the time being of the undivided shares allocated to the Residential Parking Spaces.
- (v) Notwithstanding sub-clause (1)(ii) of this Special Condition, the Purchaser may, with the prior written consent of the Director (which he may grant or refuse at his absolute discretion), assign the Residential Parking Spaces and the Car Park Common Areas as a whole, but only to a wholly-owned subsidiary company of the Purchaser.
- (vi) Sub-clauses (1)(ii), (1)(iii) and (1)(iv) of this Special Condition shall not apply to an assignment, underletting, mortgage or charge of the lot as a whole.
- (vii) Sub-clauses (1)(iii) and (1)(iv) of this Special Condition shall not apply to an assignment, underletting, mortgage or charge as a whole of the undivided shares allocated to the Residential Parking Spaces and the Car Park Common Areas.
- (viii) Sub-clauses (1)(iii) and (1)(iv) of this Special Condition shall not apply to an underletting of the Residential Parking Spaces.

Provision of sales office
and show flats

(64) Notwithstanding the maximum gross floor area permitted under Special Condition No. (11) hereof, the Purchaser may erect on part or parts of the lot separate temporary structures for the purposes of a sales office and show flats and related marketing activities to facilitate the sale of the building or buildings or any part or parts thereof erected or to be erected on the lot in accordance with these Conditions, provided that the scale and period of operation of such sales office and show flats and related marketing activities shall be subject to the prior written approval of the Director and such other terms and conditions as the Director shall in his absolute discretion see fit to impose.

Quarters for watchmen
and caretakers

(65) (a) Quarters for watchmen or caretakers or both may be provided within the lot subject to the following conditions:

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within the lot subject to the following conditions:

- (i) that such quarters shall be located in one of the blocks of residential flats erected on the lot or in such other location as may be approved in writing by the Director;
- (ii) that such quarters shall be provided with self-contained toilet, showering, washing and kitchen facilities; and
- (iii) that such quarters shall not be used for any purpose other than the residential accommodation of watchmen or caretakers or both, who are wholly and necessarily employed within the lot.

(b) For the purpose of calculating the total gross floor area stipulated in sub-clause (b)(i) of Special Condition No. (11) hereof, quarters provided within the lot in accordance with sub-clause (a) of this Special Condition with a total gross floor area of not exceeding 25 square metres shall not be taken into account. Any gross floor area in excess of 25 square metres shall be taken into account for such calculation.

(c) Quarters for watchmen or caretakers or both provided within the lot in accordance with sub-clause (a) of this Special Condition shall be designated as and form part of the Common Areas referred to in Special Condition No. (67)(a)(v) hereof.

Registration

(66) Every assignment, mortgage, charge, underletting for more than three years or other alienation of the lot or any part thereof or any interest therein shall be registered at the Land Registry.

Deed of Mutual
Covenant incorporating
Management
Agreement (if any)

(67) (a) Notwithstanding that these Conditions shall have been observed and complied with to the satisfaction of the Director, the Purchaser shall not assign, mortgage, charge or part with the possession of or otherwise dispose of the lot or any part thereof or any interest therein or enter into any agreement so to do except by way of an assignment or other disposal of undivided shares in the whole of the lot together with the right to the exclusive use and occupation of individual floors and/or units in any building or buildings erected thereon and even then such assignment or other disposal shall be subject to the following conditions :

- (i) the Purchaser shall first submit to and obtain the approval in writing of the Director to a Deed of Mutual Covenant incorporating a Management Agreement (if any) (hereinafter referred to as "the DMC") to be entered into between the Purchaser and the assignees from him of undivided shares in the whole of the lot;
- (ii) the DMC must be in a form and contain the provisions which the Director shall approve or require and it (and any approved amendment or amendments to it) must be registered by Memorial against the lot in the Land

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Registry;

- (iii) the Purchaser must comply with the approved terms and conditions of the DMC. No amendment thereto may be made without the prior written consent of the Director and the payment of such fees as may be required;
 - (iv) every assignment or other disposal of an undivided share or shares in the lot shall be subject to and with the benefit of the DMC;
 - (v) in the DMC the Purchaser must allocate to those parts of the lot which comprise the common areas or amenities for the common use and benefit of owners for the time being of the lot (hereinafter referred to as "the Common Areas") a number of undivided shares in the lot which in the opinion of the Director is appropriate;
 - (vi) the Purchaser may not assign, mortgage or charge (except by building mortgage or charge under Special Condition No. (27)(c) hereof) or otherwise dispose of or part with the possession of any undivided shares allocated to the Common Areas or any interest therein or enter into any agreement so to do except that upon execution of the DMC the whole of the said undivided shares in the Common Areas shall be assigned to and vested in the manager appointed in accordance with the DMC who must hold the said undivided shares on trust for the benefit of all owners for the time being of undivided shares in the lot;
 - (vii) the DMC must provide that, subject to sub-clause (a)(viii) hereof, on termination of the manager's appointment the manager must assign the said undivided shares and the whole of the undivided shares in the Car Park Common Areas (if the same shall have been allocated in accordance with Special Condition No.(36)(l)(ii) hereof) free of costs or consideration to its successor in office; and
 - (viii) if an Owners' Corporation is formed under the Building Management Ordinance (Cap. 344), it may require the manager, in accordance with the DMC to assign the undivided shares in the Common Areas and transfer the management responsibilities to it free of costs or consideration, in which event, the said Owners' Corporation must hold them on trust for the benefit of all owners for the time being of undivided shares in the lot.
- (b) Sub-clause (a) of this Special Condition shall not apply to :
- (i) an assignment, underletting, mortgage or charge of the

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lot as a whole; or

(ii) an underletting of a part of the building erected thereon.

(c) The DMC must not contain provisions which would in any way prohibit, prevent, hinder or prejudice the establishment or operation of a residential care home or homes as defined in the Residential Care Homes (Elderly Persons) Ordinance (Cap. 459), any regulations made thereunder and any amending legislation or such other Ordinances or Regulations which may amend or replace the Residential Care Homes (Elderly Persons) Ordinance (Cap. 459) (which residential care home or homes shall hereinafter referred to as "RCHE") or the use of the lot or any part thereof or any building or part of any building erected thereon for the purpose of RCHE. A provision to the effect that no provision in the DMC shall operate to prohibit, prevent, hinder or prejudice the establishment or operation of RCHE or the use of the lot or any part thereof or any building or part of any building erected thereon for the purpose of RCHE must be included in the DMC.

Restriction on partitioning

(68) The Purchaser shall not, without the prior written consent of the Director, partition (whether by way of agreement or other disposal or any other means) the lot or any part thereof or any section of the lot that has already been partitioned with consent. Where the lot has been partitioned with such consent, the provisions in Special Condition No. (67) hereof shall apply to each of the sections so partitioned with the references to "the lot" under the said Special Condition being replaced and substituted by the relevant section."

Recreational facilities

(69) (a) The Purchaser may erect, construct and provide within the lot such recreational facilities and facilities ancillary thereto (hereinafter referred to as "the Facilities") as may be approved in writing by the Director. The type, size, design, height and disposition of the Facilities shall also be subject to the prior written approval of the Director.

(b) The Facilities provided in accordance with sub-clause (a) of this Special Condition shall only be used by any one or more residents of the residential block or blocks erected or to be erected within the lot and their bona fide visitors and by no other person or persons whatsoever.

(c) For the purpose of calculating the total gross floor area stipulated in sub-clauses (b)(i) and (b)(ii) of Special Condition No.(11) hereof, any part of the Facilities provided within the lot in accordance with sub-clause (a) of this Special Condition which are for the common use and benefit of all the residents for the time being of the residential units of the lot and their bona fide visitors shall not be taken into account. The remaining part of the Facilities which are not for such use shall be taken into account for the calculation of the total gross floor area stipulated in sub-clause (b)(i) of Special Condition No.(11) hereof.

(d) In the event that any part of the Facilities is exempted from the gross floor area calculation pursuant to sub-clause (c) of this Special Condition: -

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- (i) such part of the Facilities shall be designated as and form part of the Common Areas referred to in Special Condition No.(67)(a)(v) hereof; and
- (ii) the Purchaser shall at his own expenses maintain such part of the Facilities in good and substantial repair and condition and shall operate such part of the Facilities to the satisfaction of the Director.

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FIRST STAR DEVELOPMENT LIMITED

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

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

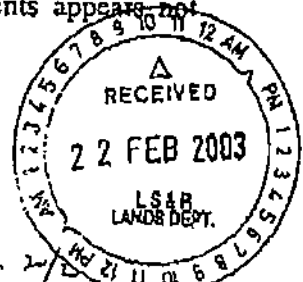
We refer to your letter of ⁽¹¹²⁾7th February 2003.

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.

mh Wong/mwd/hungchamps



FIRST STAR DEVELOPMENT LIMITED

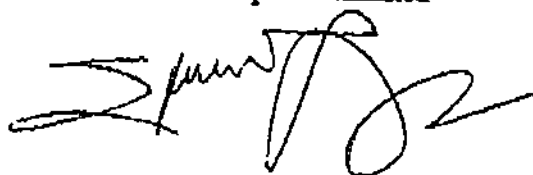
10th Floor, New World Tower, 18 Queen's Road Central, Hong Kong

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