

## ADDENDUM

### INTRODUCTION

An agreement (the "Agreement") was entered into between Beijing Zhong Zheng Real Estate Development Co. Ltd. ("Zhong Zheng"), a subsidiary of the Company and an independent third party - China Network Communications Group Corporation ("Other Party") as defined in The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") on the other side on 23 December 2003 in relation to certain financial and construction arrangements of China Securities Plaza, an office building under construction with a total gross floor area of approximately 128,827 square meters, to be erected on a parcel of land held by Zhong Zheng situated at Zone B6, Jinrong Street, Xi Cheng District, Beijing, the People's Republic of China (the "PRC").

### BRIEF DESCRIPTION OF THE AGREEMENT

#### *Introduction*

The Agreement is a conditional agreement that does not amount to a disposal transaction by the Company of China Securities Plaza and its ancillary facilities, together with the relevant land use rights, to the Other Party at the present stage.

Pursuant to the Agreement, Zhong Zheng has agreed, subject to satisfaction of certain conditions precedent, including but without limitation to, signing of a formal sale and purchase agreement with the Other Party which will in turn be conditional upon full compliance with the required procedures under the Listing Rules, for an aggregate consideration of approximately RMB2,007.1 million (equivalent to approximately HK\$1,875.8 million).

#### *Conditions precedent*

Conclusion of the Agreement is subject to the signing of a formal "sale and purchase agreement for commercial houses" (商品房銷售合同) after China Securities Plaza having met the requirements of the pre-sale of a "commercial house" (商品房), such as filing of completion certification, and the satisfaction of the following conditions precedent:—

- (a) the passing of the structural examination of China Securities Plaza stipulated by the relevant government authorities;

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- (b) the passing of the examination of each unit comprising China Securities Plaza and its ancillary facilities stipulated by the relevant government authorities;
- (c) the registration by the relevant PRC regulatory authorities as having passed all the relevant examinations and completion of all system allocations and the overall examinations within three months after completion of the interior finishing of China Securities Plaza;
- (d) the satisfaction of certain quality standards as required by the Other Party, including the reward of "Great Wall Cup", an architectural award, in 2005; and
- (e) the fulfillment of all such other conditions as stated in the appendices to the Agreement.

#### *Proposed consideration*

The proposed consideration in the Agreement will include the following:—

- (i) a cash consideration of approximately RMB1,556.9 million (equivalent to approximately HK\$1,455.0 million) payable in eight different installments in 2004 and 2005; and
- (ii) the present office building of the Other Party located at Xi Cheng District, Beijing with a registered floor area of approximately 25,729 square meters (the "**Consideration Property**") at an agreed value of approximately RMB450.2 million (equivalent to approximately HK\$420.8 million) which will be transferred to Zhong Zheng within four months after completion of the Agreement. The valuation of the Consideration Property is very close to the valuation of the same dated 21 January 2004 and prepared by RHL Appraisal Limited, an independent property valuer appointed by Zhong Zheng, of approximately RMB450.0 million (which is equivalent to approximately HK\$420.6 million),

subject to a retention money of 2.5 per cent of the total consideration for securing against any construction defects during the warranty period of about 24 months under the applicable PRC laws, regulations and business practices.

In the event that the actual gross floor area is greater than the agreed gross floor area of China Securities Plaza, the proposed consideration will be adjusted upward, provided that such upward adjustment will not be more than one per cent. If the actual gross floor area is smaller than the agreed gross floor area, the proposed consideration will be adjusted downward accordingly.

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The Directors confirm that the amount of the proposed consideration was arrived at after arm's length negotiations between Zhong Zheng and the Other Party taking into consideration the following factors:—

- (i) the one time sale of the all units comprising China Securities Plaza;
- (ii) the interests that may be saved from alternate construction finance upon receipt of the installment payments; and
- (ii) anticipated completion date of China Securities Plaza which will not be earlier than the middle of 2005.

### *Other material terms of the Agreement*

Zhong Zheng has to submit the design proposal of China Securities Plaza to the Other Party for approval before submitting the same to the relevant government authority. The Other Party will bear additional costs if it would like to change the design. Subject to various conditions precedent, Zhong Zheng is required to be ready to complete the Agreement by 30 December 2005, failing which it will be liable for damages payable to the Other Party on a daily basis. In the event of any delay of more than the 90 days from 30 December 2005, the Other Party will have a right not to complete (in which event Zhong Zheng will be required to return all money received) or require Zhong Zheng to pay defaulting interest.

If Zhong Zheng is able to be ready to complete the Agreement before 30 December 2005, it will be entitled to a monthly early-completion bonus of RMB3.0 million (equivalent to approximately HK\$2.8 million).

### *Additional information on the Agreement*

The PRC legal advisers to the Company, namely Horizon Law Firm, confirm that the terms, format and the contents of the Agreement do not satisfy the requirements for the pre-sale of "commercial houses" (商品房) and that the Agreement is neither a sale and purchase agreement nor a pre-sale and purchase agreement for "commercial houses" (商品房銷售或預售合同), according to the prevailing PRC laws and regulations. On this basis, the Directors consider that the Agreement does not constitute a disposal of China Securities Plaza and its ancillary facilities, together with the relevant land use rights, by Zhong Zheng at the present stage or an acquisition of the Consideration Property by Zhong Zheng.

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### ANCILLARY AGREEMENTS

Various ancillary agreements (the “**Ancillary Agreements**”), were also entered into on or about 23 December 2003 for the sole purpose of allowing Zhong Zheng to continue the construction work of China Securities Plaza and to provide an effective monitoring system of the financial and construction arrangements of China Securities Plaza.

Details of the Ancillary Agreements are as follows:

#### (a) **Supervisory Agreement**

Pursuant to the terms of the supervisory agreement dated 23 December 2003 entered among the Other Party, Beijing Finance Street Holding Company Limited (北京市金融街控股股份有限公司) (“**Finance Street Holding**”) and Zhong Zheng (the “**Supervisory Agreement**”), Finance Street Holding as the secured creditor to Zhong Zheng essentially consented to the entering into the Agreement between Zhong Zheng and the Other Party; agreed not to exercise its rights under the security against Zhong Zheng without the prior written consent of the Other Party; and undertook to provide all assistance, including but not limited to the provision of consent letter to the relevant government authorities regarding the sale of China Securities Plaza, to procure the delivery and the transfer of China Securities Plaza by Zhong Zheng to the Other Party in accordance with the “Certification of Permission for the Pre-sale of Commercial Houses and Sale and Purchase Agreements of Commercial Houses”.

Zhong Zheng shall apply the funds received from the Other Party under the Agreement towards the repayment of the outstanding liabilities relating to the land development costs concerning the construction of the China Securities Plaza to Finance Street Holding by three different installments in accordance with the payment schedule as set out in the Supervisory Agreement in the year of 2004 and within 30 days after the delivery of the completed building by Zhong Zheng to the Other Party respectively.

#### (b) **Financial Supervisory Agreement**

Pursuant to the terms of the financial supervisory agreement dated 23 December 2003, the Other Party, China Construction Bank and Finance Street Holding (as creditors to Zhong Zheng), Tong Sun Limited, a company incorporated in Samoa with limited liability and an indirect wholly-owned subsidiary of the Company which holds 66% interest in the capital of Zhong Zheng (“**Tong Sun**”) and Guozheng Economic Development Company Limited (國証經濟開發有限公司), a company incorporated in the PRC which holds 34% interest in the capital of Zhong Zheng (“**Guozheng**”) (as beneficial owners of Zhong Zheng) and Zhong Zheng agreed to, inter alia, establish a financial supervisory committee in supervising the financial operation and use of funds for the construction of China Securities Plaza (the “**Financial Supervisory Committee**”).

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The Financial Supervisory Committee shall comprise seven committee members; of which two representatives shall be appointed by the Other Party, whilst other parties to the Financial Supervisory Agreement shall each have the right to appoint one representative. Any decisions of the Financial Supervisory Committee shall be made by the Other Party in accordance with the opinions of the respective members and the terms of the Financial Supervisory Agreement.

The Financial Supervisory Committee shall also monitor the use of the funds received from the Other Party for the benefit the construction of China Securities Plaza.

China Construction Bank, Financial Street Holding and Tong Sun (as creditors to Zhong Zheng) also undertook that they shall not apply the funds received from the Other Party deposited with the designated account to set off the respective entitlements due and payable by Zhong Zheng, unless prior written consent of the Other Party has been obtained or the rights of the Other Party under the Agreement have been fully fulfilled.

The Financial Supervisory Committee shall be dismissed when the Other Party has obtained the property ownership certificate and land use rights certificate of China Securities Plaza. Also, Financial Street Holding and China Construction Bank shall procure their representatives to resign from their respective offices in the Financial Supervisory Committee automatically once their positions as creditors to Zhong Zheng has been fully discharged under the consent of the Other Party.

In the event of breach of the Financial Supervisory Agreement by Zhong Zheng, the Other Party may claim damages in an agreed amount against Zhong Zheng as set out in the Agreement and/or terminate the Agreement and other related agreements whereby Zhong Zheng shall return all sums it received under the Agreement to the Other Party within 30 days from the notice of termination notice together with default interest. Both the aforesaid damages and default interest were arrived at after arm's length negotiations between Zhong Zheng and the Other Party.

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### (c) Memorandum and Consulting and Guarantee Fee Agreement

Pursuant to the memorandum dated 18 December 2003 (the “**Memorandum**”) and the consulting and guarantee fee agreement (the “**Consulting and Guarantee Fee Agreement**”) entered into between China Poly Group Corporation (中國保利集團公司) (“**Poly Corporation**”) and Zhong Zheng, Zhong Zheng agreed to pay Poly Corporation the guarantee fee of RMB 9,500,000 (equivalent to approximately HK\$8,878,505) as consideration for the provision of the Poly Corporation Guarantee (to be defined below) by Poly Corporation in favour of the Other Party in three different installments as set out in the Consulting and Guarantee Fee Agreement.

Also, Zhong Zheng shall pay Poly Corporation a consultation fee of RMB 2,500,000 (equivalent to approximately HK\$2,336,449), within 15 business days after the completion of the construction of the 10th floor of China Securities Plaza, for appointing Poly Corporation to supervise the daily operation of the project and to provide advice thereto during the construction period.

The guarantee fee and the consultation fee were arrived at after arm’s length negotiations between Zhong Zheng and Poly Corporation after considering market charges in similar arrangements in the PRC.

### (d) Poly Corporation Guarantee

At the request of the Other Party, Poly Corporation agreed to enter into a guarantee (the “**Poly Corporation Guarantee**”) to guarantee, among other things, the fulfillment by Zhong Zheng of all its obligations under the Agreement including any third party claims and delay in the delivery of China Securities Plaza to the Other Party and default payments and all losses and liabilities suffered by the Other Party as a result of the default by Zhong Zheng and all payments due by Zhong Zheng to the Other Party upon termination of the Agreement.

### (e) New City Guarantee

Pursuant to a guarantee (the “**New City Guarantee**”) executed by the Company, Zhong Zheng and two other individual shareholders of the Company in favour of the Other Party, the Company and Zhong Zheng agreed to, among other things, procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement and to indemnify Poly Corporation of all its liabilities under the Poly Corporation Guarantee together with all additional consequential losses.

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### (f) **New City Counter Indemnity and Zhong Zheng Counter Indemnity**

Pursuant to an indemnity executed by the Company in favour of Poly Corporation (the “**New City Counter Indemnity**”), the Company agreed to counter indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of the Other Party.

Similarly, pursuant to another indemnity executed by Zhong Zheng in favour of Poly Corporation (the “**Zhong Zheng Counter Indemnity**”), Zhong Zheng agreed to counter indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of the Other Party.

## CONNECTED TRANSACTIONS

Amongst the Ancillary Agreements, (i) the Memorandum and Consulting and Guarantee Fee Agreement, (ii) the New City Guarantee and (iii) the Poly Corporation Guarantee, New City Counter Indemnity and Zhong Zheng Counter Indemnity may constitute separate connected transactions for the Company which may fall within the de minimus threshold under Rule 14A.32 of the Listing Rules or the scope of Rule 14A.66 of the Listing Rules. If so, the particulars of these connected transactions are required to be disclosed under Rules 14A.45 to 14A.46 and therefore, they are set forth under the directors’ report.

### (a) **De minimus connected transactions**

#### *The Memorandum and Consulting and Guarantee Fee Agreement*

As Poly Corporation is a substantial shareholder of Zhong Zheng, Poly Corporation is a connected person (as such term is defined under the Listing Rules) of the Company. Accordingly, the provisions of guarantee fee (RMB9,500,000) and consultation fee (RMB2,500,000) by Zhong Zheng to Poly Corporation under the Memorandum and Consulting and Guarantee Fee Agreement may constitute two separate connected transactions for the Company.

### (b) **Connected transactions pursuant to Rule 14A.66 of the Listing Rules**

#### *New City Guarantee*

Pursuant to the New City Guarantee, the Company and Zhong Zheng agreed to, inter alia, procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement. This may constitute a guarantee by the Company on the performance of obligations by Zhong Zheng. As this may be within the exemption in respect of the connected transaction under Rule 14A.66 of the Listing Rules, details of the New City Guarantee are required to be announced and therefore included in this annual report in accordance with Rules 14A.45 to 14A.46 of the Listing Rules.

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### *Poly Corporation Guarantee, New City Counter Indemnity and Zhong Zheng Counter Indemnity*

Pursuant to the Poly Corporation Guarantee, Poly Corporation has agreed to procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement. In this connection, the Company and Zhong Zheng entered into the New City Counter Indemnity and Zhong Zheng Counter Indemnity in favour of Poly Corporation respectively to counter indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of the Other Party.

Taking into account the above, the Board considers that the overall and actual effect of these guarantees and counter indemnities is to provide for a guarantee by the Company on the performance of Zhong Zheng. As this may be within the exemption in respect of the connected transaction under Rule 14A.66 of the Listing Rules, details of the Poly Corporation Guarantee, New City Counter Indemnity and PRC Subsidiary Counter Indemnity are required to be announced and therefore included in this annual report in accordance with Rules 14A.45 to 14A.46 of the Listing Rules.

## **REASONS FOR ENTERING INTO THE AGREEMENT**

The Directors consider that the cash consideration under the Agreement provides a constant flow of funding for the construction of China Securities Plaza. If the Agreement is to complete, the Consideration Property is expected to generate additional business opportunities, either for rentals, sales or otherwise, for the Group in the future.

The Directors would like to emphasize that the Agreement is a conditional agreement that does not amount to a disposal transaction by the Company of China Securities Plaza and its ancillary facilities, together with the land use rights, at the present stage. The Agreement will only complete after certain conditions precedent to be satisfied as well as full compliance by the Company with the then applicable disclosure and/or Shareholders' approval requirements under the Listing Rules.

## **BACKGROUND INFORMATION ON CHINA SECURITIES PLAZA**

Construction work of China Securities Plaza commenced in January 2000 and is still in progress. The Directors anticipate that all the construction work will be completed around June 2005. China Securities Plaza will have a gross floor area of approximately 128,827 square meters, of which the gross construction area above-ground and under-ground are approximately 90,588 square meters and approximately 38,239 square meters, respectively. The Directors confirm that the topping out of China Securities Plaza is expected to be completed by the middle of 2005.