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If you have sold or transferred all your shares in Melco International Development Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Melco International Development Limited
新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.melco.hk.cn>

(Stock Code: 200)

**CONTINUING CONNECTED TRANSACTION
SERVICES FOR SLOT HALLS OPERATED BY
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND
CONNECTED TRANSACTIONS
INFORMATION TECHNOLOGY SERVICES FOR
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND MOCHA SLOT GROUP LIMITED**

Financial Adviser to Melco International Development Limited



VC CAPITAL LIMITED

滙盈融資有限公司

(A wholly owned subsidiary of Value Convergence Holdings Limited)

**Independent Financial Adviser to the
Independent Board Committee**



SUN HUNG KAI INTERNATIONAL LIMITED

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders concerning the Continuing Connected Transaction and the Connected Transactions is set out on page 26 of this circular. A letter from Sun Hung Kai International Limited, the Independent Financial Adviser to the Independent Board Committee, is set out on pages 27 to 39 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at 4:15 p.m. on Wednesday, 18 May 2005 (or immediately after the conclusion or adjournment of the annual general meeting of the Company to be held at 3:30 p.m. on the same day) at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, is set out on pages 50 to 51 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company’s registered office, 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

29 April 2005

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Additional Site”	the new slot hall of SJM located at Hotel Taipa Square in Macau
“Annual Cap(s)”	the relevant cap amount for all transactions contemplated under the Slot Halls Service Arrangement to be received by Mocha Management from SJM for each of the three financial years of the Company ending 31 December 2007
“associate”	has the same meaning as ascribed to it in the Listing Rules
“Better Joy”	Better Joy Overseas Ltd., a company owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
“Board”	the board of Directors
“Company”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
“connected person”	has the same meaning as ascribed to it in the Listing Rules
“Connected Transactions”	the Mocha IT Service Arrangement and the SJM IT Service Arrangement
“Continuing Connected Transaction”	the Slot Halls Service Arrangement and the proposed Annual Cap(s) related thereto
“DICJ”	Gaming Inspection and Coordination Bureau, the gaming authority within the Macau Government
“Director(s)”	the director(s) of the Company
“Dr. Stanley Ho”	Dr. Ho Hung Sun, Stanley, the Chairman and an Executive Director of the Company
“EGL”	Elixir Group Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
“EGM”	an extraordinary general meeting of the Company to be convened on Wednesday, 18 May 2005 for the purpose of considering and approving the Continuing Connected Transaction and the Connected Transactions
“Elixir”	Elixir Group (Macau) Limited, a company incorporated under the laws of Macau and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Elixir Group”	EGL and Elixir
“Equipment Lease Agreements”	the three equipment lease agreements entered into between Mocha Slot and SJM respectively dated 24 July 2003, 3 March 2004 and 3 March 2004, details of which are disclosed in the announcement and circular of the Company respectively dated 1 April 2004 and 23 April 2004
“Existing Sites”	the Original Sites and the Additional Site
“Gaming Concession Contract”	the license contract of Macau for operation of games of fortune or chance or other casino games dated 28 March 2002 between the Macau Government and SJM, pursuant to which SJM has obtained the license rights to operate casinos in Macau for 18 years from 1 April 2002 to 31 March 2020
“Group”	the Company and its subsidiaries from time to time
“Hold Percentage”	the percentage of money wagered on the relevant electronic gaming machine that is ultimately retained and gained by the casino
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company comprising the Independent Non-executive Directors, namely Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, to advise the Independent Shareholders in respect of the Continuing Connected Transaction and the Connected Transactions
“Independent Financial Adviser” or “Sun Hung Kai”	Sun Hung Kai International Limited, the independent financial adviser to advise the Independent Board Committee in connection with the Continuing Connected Transaction and the Connected Transactions
“Independent Shareholders”	Shareholders other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend and Better Joy
“Independent Third Party(ies)”	independent third party(ies) not connected with the Company and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of the Company and its subsidiaries, or an associate of any of them under the Listing Rules

DEFINITIONS

“IT Services”	such information technology related services comprising the System Integration Services and the Maintenance Services to be provided by Elixir under the Mocha IT Service Arrangement and/ or the SJM IT Service Arrangement
“JV Group”	the joint venture group of companies established by the Company and PBL for pursuance of gaming, entertainment and hospitality businesses in the Asia Pacific region (excluding Australia and New Zealand) as well as in Macau, Hong Kong, the People’s Republic of China and Taiwan
“Lasting Legend”	Lasting Legend Ltd., a company wholly owned by Mr. Lawrence Ho
“Latest Practicable Date”	26 April 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Maintenance Services”	after sales services to be provided by Elixir including rectification of any error and provision of spare parts, if necessary, for the relevant hardware systems and equipment provided under the Mocha IT Service Arrangement and/ or the SJM IT Service Arrangement
“Mr. Lawrence Ho”	Mr. Ho, Lawrence Yau Lung, the Managing Director and Executive Director of the Company and son of Dr. Stanley Ho
“Mocha IT Service Arrangement”	the information technology related service arrangement comprising three separate agreements, entered into between Elixir and Mocha Slot, all dated 13 April 2005, regarding the respective provision of: (i) System Integration Services and Maintenance Services for the digital surveillance camera system; (ii) System Integration Services for the finger print access control system; and (iii) System Integration Services for the electronic gaming machines, by Elixir to Mocha Slot
“Mocha Slot”	Mocha Slot Group Limited, a company incorporated under the laws of the British Virgin Islands and the immediate holding company of Mocha Management and a non-wholly owned subsidiary of the Company within the JV Group. As at the date of this circular, the respective attributable interests in Mocha Slot owned by the Company and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho

DEFINITIONS

“Mocha Management”	Mocha Slot Management Limited, a company incorporated under the laws of Macau and a wholly owned subsidiary of Mocha Slot and a non-wholly owned subsidiary of the Company within the JV Group
“MOP\$”	pataca, the lawful currency of Macau
“New Site(s)”	any other additional slot hall(s) to be operated by SJM and managed by Mocha Management in Macau from time to time
“Original Sites”	the three slot halls of SJM respectively located at Hotel Royal, Kingsway Commercial Centre and San Kin Yip Building in Macau
“PBL”	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange
“Placing”	the top-up placing of 75,900,000 Shares at a price of HK\$5.20 per Share on 15 October 2004 as disclosed in the announcement of the Company dated 15 October 2004
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“SFO”	Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong)
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau
“SJM IT Service Arrangement”	the information technology related service arrangement comprising three separate agreements, entered into between Elixir and SJM, all dated 13 April 2005, regarding the respective provision of: (i) System Integration Services and Maintenance Services for the digital surveillance camera system; (ii) System Integration Services for the finger print access control system; and (iii) System Integration Services for the electronic gaming machines, by Elixir to SJM
“Slot Halls Services”	such services or obligations to be provided or borne by Mocha Management under the Slot Halls Service Arrangement

DEFINITIONS

“Slot Halls Service Arrangement”	the service arrangement comprising four separate agreements entered into between Mocha Management and SJM regarding the provision of Slot Halls Services by Mocha Management to the Existing Sites or if the context so requires, also refers to any other service agreement(s) with identical terms as the Slot Halls Service Arrangement to be entered into between Mocha Management and SJM from time to time in respect of any New Site(s)
“STDM”	Sociedade de Turismo e Diversoes de Macau, S.A.R.L. a company incorporated under the laws of Macau
“System Integration Services”	services to be provided by Elixir including the liaison with, and procurement of other hardware and software suppliers to develop, provide and install the real-time on-line transmission and monitoring security systems and gaming systems as well as the design and provision of information technology expertise to ameliorate the computer facilities and equipment of SJM and Mocha Slot respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“Value Convergence”	Value Convergence Holdings Limited, a company incorporated in Hong Kong, the securities of which are listed on the Growth Enterprise Market operated by the Stock Exchange (Stock code: 8101) and a 65.78% owned subsidiary of the Company
“%”	per cent.

For the purpose of this circular, the amount in US\$ and MOP\$ are respectively translated into HK\$ at the following exchange rates:

US\$1.00: HK\$7.78

MOP\$1.03: HK\$1.00.

LETTER FROM THE BOARD



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.melco.hk.cn>

(Stock Code: 200)

Executive Directors:

Dr. Stanley Ho (*Chairman*)

Mr. Lawrence Ho (*Managing Director*)

Mr. Tsui Che Yin, Frank

Non-executive Directors:

Mr. Ng Ching Wo

Mr. Ho Cheuk Yuet

Independent Non-executive Directors:

Sir Roger Lobo

Mr. Robert Kwan

Dr. Lo Ka Shui

*Registered office, head office and
principal place of business:*

Penthouse

38th Floor

The Centrium

60 Wyndham Street

Central

Hong Kong

29 April 2005

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
SERVICES FOR SLOT HALLS OPERATED BY
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND
CONNECTED TRANSACTIONS
INFORMATION TECHNOLOGY SERVICES FOR
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND MOCHA SLOT GROUP LIMITED**

INTRODUCTION

By the announcement of the Company dated 11 April 2005, the Board announced that Mocha Management, a non wholly-owned subsidiary of the Company within the JV Group, has entered into the Slot Halls Service Arrangement comprising four agreements with identical terms respectively dated 21 March 2005 and 22 March 2005 with SJM for the provision of certain services in relation to the operation of certain slot halls of SJM in Macau.

LETTER FROM THE BOARD

By another announcement of the Company dated 13 April 2005, the Board further announced that on 13 April 2005, Elixir, an indirect wholly-owned subsidiary of the Company, has entered into the SJM IT Service Arrangement and the Mocha IT Service Arrangement with SJM and Mocha Slot respectively for the provision of certain information technology related services.

The purpose of this circular is to set out (i) further information on the Slot Halls Service Arrangement and the proposed Annual Cap(s) related thereto (which collectively constitute the Continuing Connected Transaction); (ii) further information on the SJM IT Service Arrangement and the Mocha IT Service Arrangement (which collectively constitute the Connected Transactions); (iii) the recommendation from the Independent Board Committee in respect of the Continuing Connected Transaction and the Connected Transactions; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Continuing Connected Transaction and the Connected Transactions; and (v) a notice convening the EGM at which relevant resolution(s) will be proposed to the Independent Shareholders to consider and if thought fit, approve (by way of poll) the Continuing Connected Transaction and the Connected Transactions.

THE CONTINUING CONNECTED TRANSACTION

Background of the Slot Halls Service Arrangement

As disclosed in the announcement and circular of the Company respectively dated 1 April 2004 and 23 April 2004, Mocha Slot, the immediate holding company of Mocha Management, (as lessor) has entered into the Equipment Lease Agreements with SJM (as lessee) for a period of ten years from the date of commencement of operation of the relevant electronic gaming machines at the Original Sites. Pursuant to the Equipment Lease Agreements, Mocha Slot has agreed to lease such number of electronic gaming machines and other equipments, as may from time to time be deemed necessary and required by SJM, for operation of the Original Sites and to provide the related auxiliary management services for a monthly fee being the aggregate amount of a fixed monthly rent of MOP\$8,000 (equivalent to about HK\$7,767) for each Original Site and 31% of the net win from each electronic gaming machine leased thereunder after deducting the aforesaid fixed monthly rental.

Due to the opening of the Additional Site on 24 March 2005 and for the purpose of regularizing the relationship between Mocha Slot and SJM under the Equipment Lease Agreements in accordance with the terms of the Gaming Concession Contract, Mocha Management has, at the request and with the approval of DICJ, the gaming authority in Macau, entered into the Slot Halls Service Arrangement with SJM, which replaced the Equipment Lease Agreements.

LETTER FROM THE BOARD

Principal terms of the Slot Halls Service Arrangement

The Slot Halls Service Arrangement comprises four separate service agreements in identical terms entered into between Mocha Management and SJM in relation to the provision of the Slot Halls Services to the Original Sites and the Additional Site (collectively the “Existing Sites”). The principal terms of the Slot Halls Service Arrangement are as follows:

- Date(s) : 21 March 2005 in respect of the three service agreements regarding the Original Sites; and 22 March 2005 in respect of the remaining service agreement regarding the Additional Site.
- Parties : Mocha Management, as service provider
SJM, as service recipient
- Service period : An initial period of five years commencing from the respective dates of the agreements, subject to any earlier termination by either party unilaterally giving to the other not less than one year’s notice or such other earlier termination, if any, as mentioned in “Termination” below. Subject to the approval of the Macau Government, after expiration of the initial five year period, the service period can be extended for equal periods of five years each.

According to Rule 14A.35(1) of the Listing Rules, a continuing connected transaction must not exceed three years unless there are special circumstances for a longer duration and such longer duration is within normal business practice for contracts of similar type. The Slot Halls Service Arrangement replaces the fixed ten year Equipment Lease Agreements, at the request of the gaming authority in Macau and as expressly contemplated by the Company’s circular dated 23 April 2004 relating to the approval of the Equipment Lease Agreements. However, the Slot Halls Service Arrangement is an unprecedented business arrangement approved and endorsed by the Macau Government and there are no other comparable agreements in the market to which reference can be made regarding whether or not the duration of the Slot Halls Service Arrangement is within normal business practice. As such, the five year period of the Slots Halls Service Arrangement is technically non-compliant with the provisions of Rule 14A.35(1) of the Listing Rules, although the Slot Halls Service Arrangement can be unilaterally terminated by Mocha Management at any time by not less than one year’s notice. The Directors are of the view that the service period of five years each is in the interest of the Shareholders since Mocha Management has incurred or will

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incur considerable investment costs in providing the electronic gaming machines to SJM under the Slot Halls Service Arrangement and a longer service period is necessary for Mocha Management to recoup its investment costs.

Prior to the third anniversary of the date of the Slot Halls Service Arrangement and the expiry of the validity of the proposed Annual Caps for the three financial years ending 31 December 2007, the Company will put forward the annual caps and the Slot Halls Service Arrangement for Independent Shareholders' approval (by way of poll) in respect of the remaining term of the initial five year period and will comply with all relevant requirements as specified in Chapter 14A of the Listing Rules in this regard, including the requirements of reporting, announcement and issue of a circular. If for any reasons the Independent Shareholders do not approve, by way of poll, the annual caps or the Slot Halls Service Arrangement for the remaining term, the Directors will take such steps as may be necessary to ensure that the Company remains compliant with the provisions of the Listing Rules in this regard.

- Slot Halls Services to be provided :
- The services to be provided by and obligations of Mocha Management include:
- (i) at the costs of Mocha Management, to supply, deliver and install such number of electronic gaming machines and other equipments, as may from time to time be deemed necessary and required by SJM, for operation of the Existing Sites;
 - (ii) at the costs of Mocha Management, to maintain and repair the electronic gaming machines and other equipments installed at the Existing Sites and to keep the necessary spare parts of the relevant machines and equipments for performing the maintenance work;
 - (iii) to bear the rents of the Existing Sites;
 - (iv) to bear all necessary expenses for the interior design, decoration and renovation of the Existing Sites; and

LETTER FROM THE BOARD

- (v) to bear all necessary operational expenses in relation to the operation of the Existing Sites (including but not limited to utilities expenses, staff costs and marketing expenses).

Consideration : In consideration for the provision of the Slot Halls Services, Mocha Management shall be entitled to receive a monthly service fee from SJM representing 31% of the aggregate gross income of all the electronic gaming machines installed in the Existing Sites in the relevant month. Gross income of each electronic gaming machine is defined as the net win from each such machine before deduction of any tax or levy as prescribed by the relevant legislations or rules in Macau. By taking into account the factors mentioned in the paragraph headed “Proposed Annual Caps” below, the Directors expect that the said 31% of the aggregate gross income of all the electronic gaming machines will translate into a monetary value of about HK\$146.82 million, HK\$238.91 million and HK\$528.49 million respectively for each of the three years ending 31 December 2007.

The consideration for the Slot Halls Services, representing 31% of the aggregate gross income of all the electronic gaming machines installed at the Existing Sites, is determined with reference to the estimated costs of (i) the prices of the relevant electronic gaming machines and other necessary equipments; (ii) the resources to be incurred by Mocha Management for installation and maintenance of the relevant machines and equipments including but not limited to the estimated costs for the estimated number of spare parts that are required; (iii) the rental payment of the Existing Sites; (iv) the decoration and renovation of the Existing Sites and the frequency required thereof; and (v) all necessary operational expenses in relation to the operation of the Existing Sites (including but not limited to utilities expenses, staff costs and marketing expenses). During the year ended 31 December 2004, the total investment costs incurred by Mocha Slot in providing the electronic gaming machines to SJM amounted to approximately HK\$54 million and the aggregate consideration received by Mocha Slot from SJM in respect of the services provided under the former Equipment Lease Agreements amounted to approximately HK\$57 million.

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Payment terms : It is contemplated that according to the past business practice adopted under the former Equipment Lease Agreements, SJM will settle the relevant payment under the Slot Halls Service Arrangement in cash on or before the 10th day of each calendar month based on the aggregate gross income of all the electronic gaming machines in the Existing Sites generated during the immediate preceding month.

Termination : During the service period, the Slot Halls Service Arrangement will be terminated on the occurrence of the following events whichever is earlier:

(i) on the expiration of SJM's gambling license under the Gaming Concession Contract on 31 March 2020 or any earlier termination thereof; or

(ii) winding up or cessation of business of either party.

In addition, the Slot Halls Service Arrangement may be terminated by either party unilaterally giving not less than one year prior notice to the other; or by not less than six months prior notice if the termination is mutually agreed by both parties; or by either party giving immediate notice to the other who is in default of the terms of the Slot Halls Service Arrangement.

Other terms : During the service period, the electronic gaming machines installed at the Existing Sites shall remain the property of Mocha Management provided that the ownership, title and rights attached to such electronic gaming machines then installed as at the date of the termination of SJM's gambling license shall automatically vest in the Macau Government without compensation to Mocha Management in accordance with the terms of the Gaming Concession Contract.

Proposed Annual Caps

As at the Latest Practicable Date, there were altogether 647 electronic gaming machines supplied and installed by Mocha Management at the Existing Sites with the average number of approximately 160 electronic gaming machines in each Existing Site.

By taking into account the following factors:

(i) the average net win per electronic gaming machine per day (during the period from 12 September 2003, being the date of opening of the first Existing Site, to 21 March 2005) according to the internal record of Mocha Slot;

LETTER FROM THE BOARD

- (ii) the statistics obtained from the quarterly results of Las Vegas Sands, Inc., the operator of the Sands Casino in Macau, as at 30 September 2004 filed with the Securities and Exchange Commission in the United States, namely (a) there were a total of 667 electronic gaming machines installed in the Sands Casino in Macau as at 30 September 2004; and (b) during the three months ended 30 September 2004 (a total of 92 days), the total amount wagered on its electronic gaming machines was US\$110 million (equivalent to approximately HK\$855.80 million);
- (iii) assuming the Sands Casino in Macau has adopted the respective Hold Percentages of 5%, 10%, 15%, 20% and 25% and based on the number of electronic gaming machines installed therein, the said total wagered amount of approximately HK\$855.80 million during the period cited represented a daily net win per machine of HK\$697.31, HK\$1,394.63, HK\$2,091.94, HK\$2,789.26 and HK\$3,486.57 respectively;
- (iv) according to the market practice, the Hold Percentage varies from casino to casino in Macau depending on the relevant casino's internal policy and the types of electronic gaming machines and generally ranges from 5% to 25%;
- (v) as disclosed in various announcements and circular of the Company respectively dated 23 November 2004, 23 December 2004 and 5 January 2005, upon completion of the luxury hotel owned by the JV Group in Taipa, Macau in the fourth quarter of 2006, there would be an additional slot hall to be operated by SJM with Mocha Management as the service provider (subject to the approvals of the Macau Government authorities). It is currently expected that such new slot hall will house approximately 1,300 electronic gaming machines; and
- (vi) it is the intention of SJM and Mocha Management to open one New Site housing approximately 160 electronic gaming machines for every three months for the year ending 31 December 2005 and in this regard, as disclosed in the announcement of the Company dated 15 October 2004 regarding the Placing, the Company expected to apply the net proceeds of the Placing of approximately HK\$377 million, as to HK\$94 million for expansion of the business of Mocha Slot and/ or Mocha Management, as to HK\$207 million for the development of the hotel on a piece of land in Taipa, Macau and as to the remaining HK\$75 million as working capital for the Group. As at the Latest Practicable Date, the Company has utilized a total sum of approximately HK\$29.3 million mainly for acquisition of hardware and systems for the business of Mocha Slot and/ or Mocha Management,

the Directors have assumed a daily net win of HK\$1,500 per electronic gaming machines installed in the Existing Sites and have projected that the aggregate amount payable by SJM to Mocha Management will not exceed the following proposed Annual Caps for each of the three financial years of the Company ending 31 December 2007:

LETTER FROM THE BOARD

	Proposed Annual Caps		
	For the year ending 31 December		
	2005	2006	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Aggregate gross income generated by the Existing Sites	354.23	407.36	468.46
Cushion A (<i>Note 1</i>)	53.13	61.10	70.27
Aggregate gross income generated by the New Sites to be opened	66.24	262.80	1,013.97
	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>
Cushion B (<i>Note 5</i>)	–	39.42	152.10
Aggregate gross income generated by the Existing Sites and the New Site	<u>473.60</u>	<u>770.68</u>	<u>1,704.80</u>
Proposed Annual Caps representing 31% of the total gross income payable by SJM to Mocha Management	146.82	238.91	528.49

Notes:

1. The cushion A represents a 15% annual increase in the total gross income generated by the Existing Sites by reason of the expansion of the same whether through installation of more electronic gaming machines as may from time to time deemed necessary by SJM under the Slot Halls Service Arrangement or upward adjustment of the Hold Percentage and continuous growth in the gaming business in Macau. As at the Latest Practicable Date, SJM has not made any request to Mocha Management in relation to the increase of the number of the electronic gaming machines.
2. It is expected that for every three months in the year ending 31 December 2005, one New Site housing approximately 160 electronic gaming machines will be opened thereby bringing the total number of electronic gaming machines in the New Sites to reach 160, 320 and 480 respectively by the respective ends of June, September and December 2005 and hence the estimated aggregate gross income to be generated from the New Sites will be about HK\$22.08 million (with 160 electronic gaming machines in operation) for the three month period ending 30 September 2005 and about HK\$44.16 million (with 320 electronic gaming machines in operation) for the three month period ending 31 December 2005.
3. Commencing from 1 January 2006, all the 480 electronic gaming machines in the New Sites will be in operation thereby generating an estimated aggregate gross income of about HK\$262.80 million for the year ending 31 December 2006. In addition it is assumed that an additional New Site housing approximately 1,300 electronic gaming machines will be completed upon the same time as the completion of the development of the hotel held JV Group by the end of 2006 but will not commence business until 1 January 2007.
4. Commencing from 1 January 2007, all the 1,780 electronic gaming machines in the New Sites will be in operation (as compared with 480 electronic gaming machines in 2006) thereby generating an estimated aggregate gross income of about HK\$1,013.97 million for the year ending 31 December 2007.
5. The cushion B represents a 15% annual increase in the total gross income generated by the New Sites by reason of the expansion of the same whether through installation of more electronic gaming machines as may from time to time deemed necessary by SJM under the Slot Halls Service Arrangement or upward adjustment of the Hold Percentage and continuous growth in the gaming business in Macau.

LETTER FROM THE BOARD

THE CONNECTED TRANSACTIONS

Background of the SJM IT Service Arrangement

Elixir and EGL are wholly-owned subsidiaries of the Company. Since its inception in July 2002, the Elixir Group has been engaged in the business of system integration and supply and provision of various software systems and hardware equipment as well as information technology services to clients predominantly in Macau and the Pearl River Delta Area of the PRC. Its clients include companies and enterprises from a wide range of industries such as gaming, retail, entertainment, hospitality as well as banking and finance. The business relationship between the Elixir Group and SJM commenced in January 2003 and during the years 2003 and 2004, EGL has altogether entered into four separate service arrangements with SJM for the provision of information technology related services to SJM. Details of the first and second service arrangements are disclosed in the announcements of Value Convergence respectively dated 21 January 2003 and 17 July 2003; details on the third service arrangement are disclosed in the joint announcement of the Company and Value Convergence dated 9 October 2003 and the respective circulars of the Company and Value Convergence both dated 31 October 2003; and details on the fourth service arrangement are disclosed in the announcement and circular of the Company respectively dated 30 July 2004 and 27 August 2004.

Given that the Elixir Group has demonstrated its quality of works and services provided under the said previous service arrangements and established a good business relationship with SJM, on 13 April 2005, Elixir has entered into another service arrangement, namely, the SJM IT Service Arrangement, with SJM for the provision of System Integration Services and Maintenance Services for the aggregate values of about HK\$48.18 million and HK\$2.75 million respectively.

Principal terms of the SJM IT Service Arrangement

The principal terms of the SJM IT Service Arrangement are as follows:

- | | | |
|----------------------------|---|---|
| Date | : | 13 April 2005 |
| Parties | : | Elixir, as service provider
SJM, as service recipient |
| IT Services to be provided | : | The services to be provided by Elixir include:

(i) System Integration Services including the liaison with, and procurement of other hardware and software suppliers to develop, provide and install the real-time on-line transmission and monitoring security systems, such as the digital surveillance camera system, the finger print access control system as well as the gaming systems such as the electronic gaming machines together with the design and provision of information technology expertise to ameliorate the computer facilities and equipment of SJM; and |

LETTER FROM THE BOARD

- (ii) Maintenance Services including the continuing maintenance and support services, such as rectification of any error and provision of spare parts, if necessary, for a number of hardware systems and equipment provided under the SJM IT Service Arrangement. The Maintenance Services are for a term of one year commencing from the expiration of the three months' free warranty period provided by Elixir after completion of installation and the acceptance test on the relevant systems and equipment.

Consideration : The consideration payable by SJM under the SJM IT Service Arrangement was determined by arm's length negotiations between the parties thereto. The aggregate service charge for the System Integration Services is about HK\$48.18 million (as to about HK\$31.42 million for digital surveillance camera system, as to about HK\$0.074 million for the finger print access control system and as to about HK\$16.69 million for the electronic gaming machines and related system). Such aggregate service charge is determined with reference to the estimated market costs of (i) the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir for installing the same and provision of the related technical services to SJM.

Elixir has ascertained the relevant hardware systems and equipment and manpower required to provide the relevant System Integration Services to SJM after receiving its orders and arranged to purchase the required hardware systems and equipment from the suppliers. The aggregate service charge of the System Integration Services has been calculated based on the cost prices of the required hardware systems and equipment (with a mark up on the cost prices charged by the suppliers, the rate of such mark up is comparable with the rate that Elixir normally adopts in dealings with other customers who are Independent Third Parties) as well as the estimated time and effort for performing the installation services and other related technical services.

As for the Maintenance Services for the digital surveillance camera system, the aggregate service charge is about HK\$2.75 million and was determined with reference to the estimated market costs of (i) the estimated number of spare parts that requires for maintaining the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir during the relevant agreed service period. The service charge

LETTER FROM THE BOARD

for the Maintenance Services to be provided by Elixir to SJM is comparable to the market rate and charge to other customers of Elixir who are Independent Third Parties.

- Payment terms : (i) an initial amount of about HK\$15.71 million representing 50% of the relevant service charge in relation to the System Integration Services for the digital surveillance camera system upon entering into the SJM IT Service Arrangement. The balance of the relevant service charge will be payable by three installments of amounts equivalent to 30%, 10% and 10% thereof upon (a) the date of delivery of the relevant system, (b) the date of completion of installation and acceptance test on such system and (c) the expiry date of the three month free warranty period after completion of the acceptance test respectively. The said three milestone dates are expected to take place in around mid May 2005, early June 2005 and early September 2005 respectively;
- (ii) the full amount of about HK\$0.074 million in respect of the System Integration Services for the finger print access control system upon the date of delivery of the relevant system, which is expected to be around mid May 2005;
- (iii) an initial amount of about HK\$8.345 million representing 50% of the relevant service charge in relation to the System Integration Services for the electronic gaming machines upon entering into the SJM IT Service Arrangement with the remaining 50% thereof to be paid upon the date of delivery, which is expected to be around mid May 2005; and
- (iv) the full amount of about HK\$2.75 million for the Maintenance Services upon the expiration of the three month free warranty period, which is expected to be around early September 2005.

The different payment schedules that apply to the different hardware systems and equipment are consistent with the relevant terms offered by different suppliers to Elixir.

- Other terms : The performance of the SJM IT Service Arrangement is conditional on the fulfillment of the condition as set out in the paragraph headed "Condition precedent of the Connected Transactions" below.

LETTER FROM THE BOARD

Principal terms of the Mocha IT Service Arrangement

In addition to the SJM IT Service Arrangement, on 13 April 2005, Elixir has also entered into the Mocha IT Service Arrangement with Mocha Slot for the provision of System Integration Services and Maintenance Services for the aggregate values of about HK\$22.61 million and HK\$0.6 million respectively. The principal terms of the Mocha IT Service Arrangement are as follows:

- Date : 13 April 2005
- Parties : Elixir, as service provider
Mocha Slot, as service recipient
- IT Services to be provided : The services to be provided by Elixir include:
- (i) System Integration Services including the liaison with, and procurement of other hardware and software suppliers to develop, provide and install the real-time on-line transmission and monitoring security systems, such as the digital surveillance camera system, the finger print access control system as well as the gaming systems such as the electronic gaming machines together with the design and provision of information technology expertise to ameliorate the computer facilities and equipment of Mocha Slot; and
 - (ii) Maintenance Services including the continuing maintenance and support services, such as rectification of any error and provision of spare parts, if necessary, for a number of hardware systems and equipment provided under the Mocha IT Service Arrangement. The Maintenance Services are for a term of one year commencing from the expiration of the three months' free warranty period provided by Elixir after completion of installation and the acceptance test on the relevant systems and equipment.
- Consideration : The consideration payable by Mocha Slot under the Mocha IT Service Arrangement was determined by arm's length negotiations between the parties thereto. The aggregate service charge for the System Integration Services is about HK\$22.61 million (as to about HK\$2.08 million for digital surveillance camera system, as to about HK\$0.25 million for the finger print access control system and as to about HK\$20.28 million for the electronic gaming machines and related system). Such aggregate service charge was determined with reference to the

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estimated market costs of (i) the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir for installing the same and provision of the related technical services to Mocha Slot.

Elixir has ascertained the relevant hardware systems and equipment and manpower required to provide the relevant System Integration Services to Mocha after receiving its orders and arranged to purchase the required hardware systems and equipment from the suppliers. The aggregate service charge of the System Integration Services has been calculated based on the cost prices of the required hardware systems and equipment (with a mark up on the cost prices charged by the suppliers, the rate of such mark up is comparable with the rate that Elixir normally adopts in dealings with other customers who are Independent Third Parties) as well as the estimated time and effort for performing the installation services and other related technical services.

As for the Maintenance Services for the digital surveillance camera system and the electronic gaming machines, the aggregate service charge is about HK\$0.6 million. Amongst the said HK\$0.6 million, HK\$0.12 million is the service charge for the Maintenance Services for the digital surveillance camera system, which was determined with reference to the estimated market costs of (i) the estimated number of spare parts that requires for maintaining the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir during the relevant agreed service period. The remaining HK\$0.48 million service charge is for Maintenance Services for the electronic gaming machines, which was determined by the relevant supplier supplying the relevant equipment. The service charge for the Maintenance Services to be provided by Elixir to Mocha Slot is comparable to the market rate and charge to other customers of Elixir who are Independent Third Parties.

Payment terms : (i) an initial amount of about HK\$1.04 million representing 50% of the relevant service charge in relation to the System Integration Services for the digital surveillance camera system upon entering into the Mocha IT Service Arrangement. The balance of the relevant service charge will be payable by three installments of amounts equivalent to 30%, 10% and 10% thereof upon (a) the date of delivery of the relevant system, (b) the date of completion of installation and acceptance test on such

LETTER FROM THE BOARD

system and (c) the expiry date of the three month free warranty period after completion of the acceptance test respectively. The said three milestone dates are expected to take place in around mid May 2005, early June 2005 and early September 2005 respectively;

- (ii) the full amount of about HK\$0.25 million in respect of the System Integration Services for the finger print access control system upon the date of delivery of the relevant system, which is expected to be around mid May 2005;
- (iii) an initial amount of about HK\$10.14 million representing 50% of the relevant service charge in relation to the System Integration Services for the electronic gaming machines and related system upon entering into the Mocha IT Service Arrangement with the remaining 50% thereof to be paid upon the date of delivery, which is expected to be around mid May 2005;
- (iv) the amount of about HK\$0.12 million for the Maintenance Services for the digital surveillance camera system upon the expiration of the three month free warranty period, which is expected to be around early September 2005; and
- (v) the initial amount of about HK\$0.24 representing 50% for the Maintenance Services for the electronic gaming machines upon subscription of the maintenance services by Mocha Slot with the remaining 50% thereof to be paid 15 days after the date of delivery, which is expected to be around early June 2005.

The different payment schedules that apply to the different hardware systems and equipment are consistent with the relevant terms offered by different suppliers to Elixir.

Other terms : The performance of the Mocha IT Service Arrangement is conditional on the fulfillment of the condition as set out in the paragraph headed “Condition precedent of the Connected Transactions” below.

LETTER FROM THE BOARD

Condition precedent of the Connected Transactions

Both the SJM IT Service Arrangement and the Mocha IT Service Arrangement are conditional upon the approval by the Independent Shareholders (by way of poll) at the EGM in compliance with the Listing Rules including (without limitation to) the requirement that any Shareholder(s) and their associates interested in the Connected Transactions having abstained from voting at the EGM. The SJM IT Service Arrangement and the Mocha IT Service Arrangement are not inter-conditional.

Unless the parties thereto otherwise agree (but nevertheless subject to the relevant requirements under the Listing Rules), the above condition cannot be waived by the relevant parties to the respective Connected Transactions. In the event that the condition cannot be fulfilled on or before 30 June 2005 (or such other date as the parties may subsequently agree), SJM may, by notice to Elixir, terminate the SJM IT Service Arrangement and Mocha Slot may, by notice to Elixir, terminate the Mocha IT Service Arrangement. Upon any such termination, Elixir shall return to SJM and/ or Mocha Slot (as the case may be) any payment made under the relevant Connected Transactions (without interest) and subject to that none of the parties to the SJM IT Service Arrangement and/ or Mocha IT Service Arrangement will have any obligations and liabilities save to any antecedent breach of the terms thereof.

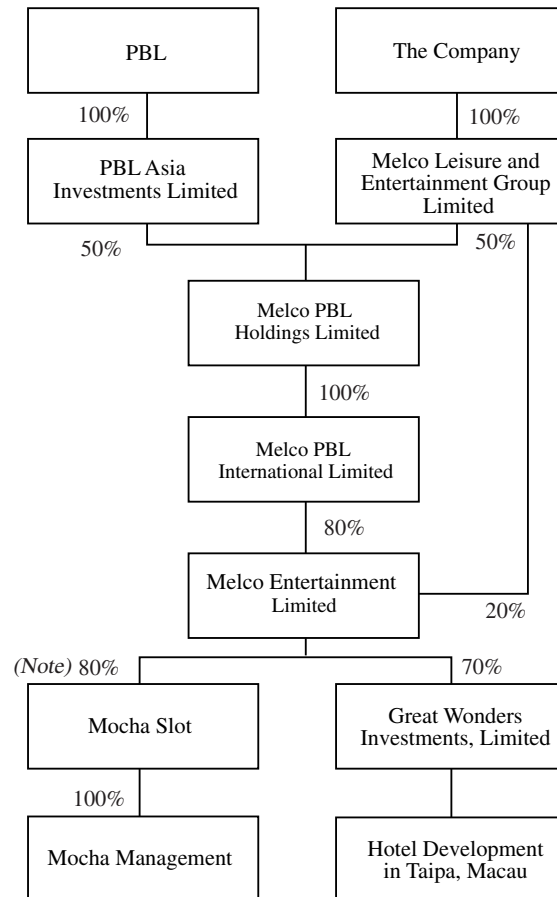
INFORMATION OF THE GROUP

Currently, the Group's business is broadly divided into four divisions, namely, (i) leisure and entertainment division; (ii) investment banking and financial services division; (iii) technology division; and (iv) property investment division. The leisure and entertainment division of the Group comprises the pursuance of the gaming and hospitality businesses through the JV Group and the operation of two floating restaurants, namely, Jumbo and Tai Pak, in Aberdeen, Hong Kong.

LETTER FROM THE BOARD

Information on Mocha Slot and Mocha Management

Mocha Slot and Mocha Management, were established in March 2003 and have been engaged in the business of leasing of electronic gaming machines and the provision of related auxiliary services to casino operators in Macau since September 2003. As a result of the Group reorganization and formation of the JV Group as disclosed in various announcements and circulars of Melco respectively dated 23 March 2004, 1 April 2004, 23 April 2004, 23 November 2004, 23 December 2004 and 5 January 2005, Mocha Slot and Mocha Management became the non wholly-owned subsidiaries of the Company within the JV Group. The chart below shows the existing shareholding structure of Mocha Slot and Mocha Management:



Note:

The remaining 20% equity interests in Mocha Slot is currently held by Dr. Stanley Ho personally.

The Company will use its best endeavours to ensure that throughout the holding of its investment in the gaming ventures and business through the JV Group, the operation of the JV Group, Mocha Slot and Mocha Management will comply with the applicable laws in the relevant jurisdictions. Shareholders are reminded that, in accordance with the Stock Exchange's guidelines on gambling business, that if the operation of the JV Group, Mocha Slot and/or Mocha Management does not comply with applicable laws in the relevant jurisdictions, the Stock Exchange may, depending on the circumstances of the case, direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of,

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Shares under Rule 6.01 of the Listing Rules. As the Group's business includes financial services, information technology and other leisure and entertainment business, if the Company cannot take the requisite remedial action in the circumstance aforementioned, it is the Company's intention to maintain active trading and listing status of Shares by divesting its investment in the JV Group, Mocha Slot and/or Mocha Management.

Information on Elixir

Elixir is an indirect wholly-owned subsidiary of the Company, belongs to the technology arm of the Group and is principally engaged in the business of system integration and supply and provision of various software systems and hardware equipment as well as information technology services to clients predominantly in Macau and the Pearl River Delta Area of the PRC. Its clients include companies and enterprises from a wide range of industries such as gaming, retail, entertainment, hospitality as well as banking and finance.

INFORMATION ON SJM

SJM is a company incorporated under the laws of Macau and is majority owned by STDM with Dr. Stanley Ho as its managing director. Pursuant to the Gaming Concession Contract, SJM is one of the three concessionaires to engage in casino gaming operations in Macau from 1 April 2002 to 31 March 2020. As at the date of this circular, all the Existing Sites are operated by SJM.

REASONS AND BENEFITS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTION AND THE CONNECTED TRANSACTIONS

The Continuing Connected Transaction

Apart from reinforcing the status of Mocha Management as a service provider and business partner to SJM, the entering into of the Slot Halls Service Arrangement also has the benefit of extending the services coverage of Mocha Management from the Original Sites to the Existing Sites thereby enabling the Group to further tap into the continuing growth of the gaming business in Macau.

The Directors consider that the terms of the Slot Halls Service Arrangement are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms, in the ordinary and usual course of business of Mocha Management and the Group and in the interests of the Independent Shareholders as a whole.

The Connected Transactions

The provision of the IT Services to SJM and Mocha Slot forms part of the normal business activities of Elixir and generates income for the Group. Besides, by leveraging on the established track record of providing technology systems and services to SJM and Mocha Slot, the Group would be able to further promote its products and services to other potential customers in the gaming and entertainment industries in Macau.

LETTER FROM THE BOARD

The Board is of the view that the respective terms of the SJM IT Service Arrangement and Mocha IT Service Arrangement are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms, in the ordinary and usual course of business of Elixir and the Group and in the interests of the Independent Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

According to Rule 14A.35(1) of the Listing Rules, a continuing connected transaction must not exceed three years unless there are special circumstances for a longer duration and such longer duration is within normal business practice for contracts of similar type. The Slot Halls Service Arrangement replaces the fixed ten year Equipment Lease Agreements, at the request of the gaming authority in Macau and as expressly contemplated by the Company's circular dated 23 April 2004 relating to the approval of the Equipment Lease Agreements. However, ultimately the Slot Halls Service Arrangement is an unprecedented business arrangement approved and endorsed by the Macau Government and there are no other comparable agreements in the market to which reference can be made regarding whether or not the duration of the Slot Halls Service Arrangement is within normal business practice. As such, the five year period of the Slots Halls Service Arrangement is technically non-compliant with the provisions of Rule 14A.35(1) of the Listing Rules, although the Slot Halls Service Arrangement can be unilaterally terminated by Mocha Management at any time by not less than one year's notice. The Directors are of the view that the service period of five years each is in the interest of the Shareholders since Mocha Management has incurred or will incur considerable investment costs in providing the electronic gaming machines to SJM under the Slot Halls Service Arrangement, a longer service period is necessary for Mocha Management to recoup its investment costs.

Prior to the third anniversary of the date of the Slot Halls Service Arrangement and the expiry of the validity of the proposed Annual Caps for the three financial years ending 31 December 2007, the Company will put forward the annual caps and the Slot Halls Service Arrangement for Independent Shareholders' approval (by way of poll) in respect of the remaining term of the initial five year period and will comply with all relevant requirements as specified in Chapter 14A of the Listing Rules in this regard, including the requirements of reporting, announcement and issue of a circular. If for any reasons the Independent Shareholders do not approve, by way of poll, the annual caps or the Slot Halls Service Arrangement for the remaining term, the Directors will take such steps as may be necessary to ensure that the Company remains compliant with the provisions of the Listing Rules in this regard.

In view of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM, the parent company of SJM, SJM is a connected person of the Company for the purpose of the Listing Rules. Also, by reason of the fact that Dr. Stanley Ho has an equity interest in, as well as being a director of, Mocha Slot, Mocha Slot is a connected person of the Company for the purpose of the Listing Rules.

Since the transaction under the Slot Halls Service Arrangement involves provision of services which shall be performed on a continuing or recurring basis and is expected to extend over a period of time and by virtue of the fact that some of the relevant percentage ratios (other than the profit ratio) as specified in Rule 14.07 of the Listing Rules on an annual basis are more than 25% and the anticipated Annual Cap(s) of consideration exceeds HK\$10,000,000, the Slot Halls Service Arrangement constitutes

LETTER FROM THE BOARD

a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules and is subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM as set out in Chapter 14A of the Listing Rules.

In addition, based on the interests held by Dr. Stanley Ho in SJM and Mocha Slot respectively, each of the SJM IT Service Arrangement and the Mocha IT Service Arrangement constitutes a non-exempt connected transaction of the Company under Rule 14A.16(5) of the Listing Rules (by virtue of the fact that the revenue ratio in each case is more than 2.5% but less than 25% and the total amount payable by SJM and Mocha Slot (as the case may be) for the IT Services exceeds HK\$10,000,000) and is subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM as set out in Chapter 14A of the Listing Rules.

Dr. Stanley Ho, who beneficially owns approximately 3.06% shareholding interest in the Company, and his associates, including Madam Lucina Laam King Ying, Mr. Lawrence Ho, Better Joy and Lasting Legend, will abstain from voting on the relevant resolution(s) regarding the Continuing Connected Transaction and the Connected Transactions at the EGM.

As at the Latest Practicable Date, the total number of issued shares of the Company were 491,019,270 Shares and were held as to approximately 3.06% by Dr. Stanley Ho, approximately 0.05% by Madam Lucina Laam King Ying, approximately 0.55% by Mr. Lawrence Ho personally, approximately 11.76% by Lasting Legend, approximately 29.38% by Better Joy and approximately 7.96% by Shun Tak Shipping Company Limited (a company in which Dr. Stanley Ho holds 27.78% shareholding interest and is a director). Based on the interest of Dr. Stanley Ho in Shun Tak Shipping Company Limited, Shun Tak Shipping Company Limited is not an associate of Dr. Stanley Ho under the definitions of the Listing Rules. Accordingly, Shun Tak Shipping Company Limited and its associates are not required to abstain from voting on the relevant resolution(s) regarding the Continuing Connected Transaction and the Connected Transactions at the EGM.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 4:15 p.m. on Wednesday, 18 May 2005 (or immediately after the conclusion or adjournment of the annual general meeting of the Company to be held at 3:30 p.m. on the same day) at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on pages 50 to 51 of this circular at which ordinary resolution(s) will be proposed and, if thought fit, passed by the Independent Shareholders (by way of poll), to approve the Continuing Connected Transaction and the Connected Transactions.

The Independent Board Committee comprising the three Independent Non-executive Directors namely, Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, has been appointed to advise the Independent Shareholders on whether or not the Continuing Connected Transaction and the Connected Transactions are fair and reasonable and in the interests of the Independent Shareholders as a whole. Sun Hung Kai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Continuing Connected Transaction and the Connected Transactions.

A proxy form for use by the Shareholders at the EGM is enclosed. Whether or not you are available to attend the EGM in person, you are requested to complete the accompanying proxy form in

LETTER FROM THE BOARD

accordance with the instructions printed thereon and return the same to the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of a proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 26 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Continuing Connected Transaction and the Connected Transactions; and (ii) the letter from Sun Hung Kai to the Independent Board Committee set out on pages 27 to 39 of this circular containing its advice to the Independent Board Committee in this regard.

The Independent Board Committee, having taking into account the advice from Sun Hung Kai in relation to the Continuing Connected Transaction and the Connected Transactions, considers that the Continuing Connected Transaction and the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and that the Continuing Connected Transaction and the Connected Transactions are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Continuing Connected Transaction and the Connected Transactions.

GENERAL

As at the date of this circular, the Board comprises three Executive Directors, namely, Dr. Stanley Ho, Mr. Lawrence Ho and Mr. Frank Tsui, two Non-executive Directors, namely, Mr. Ng Ching Wo and Mr. Ho Cheuk Yuet and three Independent Non-executive Directors, namely, Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui.

Your attention is also drawn to the additional information set out in the appendix to this circular.

By Order of the Board
Melco International Development Limited
Ho, Lawrence Yau Lung
Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.melco.hk.cn>

(Stock Code: 200)

Penthouse
38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

29 April 2005

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
SERVICES FOR SLOT HALLS OPERATED BY
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND
CONNECTED TRANSACTIONS
INFORMATION TECHNOLOGY SERVICES FOR
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND MOCHA SLOT GROUP LIMITED**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Continuing Connected Transaction and the Connected Transactions, details of which are set out in the "Letter from the Board" in the circular dated 29 April 2005, of which this letter forms part. Terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from Sun Hung Kai as set out on pages 27 to 39 of this circular, which contains its advice and recommendation to us as to whether or not the Continuing Connected Transaction and the Connected Transactions are fair and reasonable and in the interests of the Independent Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Sun Hung Kai as stated in its aforementioned letter of advice, we are of the opinion that the Continuing Connected Transaction and the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and the Continuing Connected Transaction and the Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Continuing Connected Transaction and the Connected Transactions.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Sir Roger Lobo Robert Kwan Dr. Lo Ka Shui
Independent Non-executive Directors

LETTER FROM SUN HUNG KAI

The following is the text of a letter of advice from the Sun Hung Kai to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.



SUN HUNG KAI INTERNATIONAL LIMITED

29 April 2005

To the Independent Board Committee and the Independent Shareholders
Melco International Development Limited
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Dear Sirs,

**CONTINUING CONNECTED TRANSACTION
SERVICES FOR SLOT HALLS OPERATED BY
SOCIEDADE DE JOGOS DE MACAU, S.A.
and
CONNECTED TRANSACTIONS
INFORMATION TECHNOLOGY SERVICES FOR
SOCIEDADE DE JOGOS DE MACAU, S.A.
AND MOCHA SLOT GROUP LIMITED**

INTRODUCTION

We refer to our engagement under which Sun Hung Kai International Limited (“Sun Hung Kai”) has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Continuing Connected Transaction and the Connected Transactions. Terms defined in the circular of the Company to the Shareholders dated 29 April 2005 (the “Circular”), of which this letter forms part, bear the same meanings herein unless the context otherwise requires.

The Independent Board Committee comprising Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Continuing Connected Transaction and the Connected Transactions and whether the Continuing Connected Transaction and the Connected Transactions are in the interests of the Company and the Shareholders as a whole. Our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders is to give our opinion as to whether the terms of the Continuing Connected Transaction and the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM SUN HUNG KAI

Dr. Stanley Ho, who beneficially owns approximately 3.06% shareholding interest in the Company, and his associates, including Madam Lucina Laam King Ying, Mr. Lawrence Ho, Better Joy and Lasting Legend, will abstain from voting on the relevant resolution(s) regarding the Continuing Connected Transaction and the Connected Transactions at the EGM.

As at the Latest Practicable Date, the total number of issued shares of the Company were 491,019,270 Shares and were held as to approximately 3.06% by Dr. Stanley Ho, approximately 0.05% by Madam Lucina Laam King Ying, approximately 0.55% by Mr. Lawrence Ho personally, approximately 11.76% by Lasting Legend, approximately 29.38% by Better Joy and approximately 7.96% by Shun Tak Shipping Company Limited (a company in which Dr. Stanley Ho holds 27.78% shareholding interest and is a director). Based on the interest of Dr. Stanley Ho in Shun Tak Shipping Company Limited, Shun Tak Shipping Company Limited is not an associate of Dr. Stanley Ho under the definitions of the Listing Rules. Accordingly, Shun Tak Shipping Company Limited and its associates are not required to abstain from voting on the relevant resolution(s) regarding the Continuing Connected Transaction and the Connected Transactions at the EGM.

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors and have assumed that all information and representations made or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. Except for relying to a certain extent on the information and representations made by the Company contained in the Circular, we have conducted independent research on certain statistics in relation to the gaming industry in Macau. We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, SJM and STDM.

A Continuing Connected Transaction

Mocha Management, a non wholly-owned subsidiary of the Company within the JV Group, has entered into the Slot Halls Service Arrangement comprising four agreements with identical terms respectively dated 21 March 2005 and 22 March 2005 with SJM for the provision of certain services in relation to the operation of certain slot halls of SJM in Macau. Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM, the parent company of SJM, SJM is a connected person of the Company for the purpose of the Listing Rules. Also, by reason of the fact that Dr. Stanley Ho has an equity interest in, as well as being a director of, Mocha Slot, Mocha Slot is a connected person of the Company for the purpose of the Listing Rules.

Since the transaction under the Slot Halls Service Arrangement involves provision of services which shall be performed on a continuing or recurring basis and is expected to extend over a period of time and by virtue of the fact that some of the relevant percentage ratios (other than the profit ratio) as specified in Rule 14.07 of the Listing Rules on an annual basis are more than 25% and the anticipated Annual Cap(s) of consideration exceeds HK\$10,000,000, the Slot Halls Service Arrangement constitutes a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules and is subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM as set out in Chapter 14A of the Listing Rules.

LETTER FROM SUN HUNG KAI

In arriving at our opinion as regards the terms of the Continuing Connected Transaction, we have taken into account the following principal factors:

1. Background

Mocha Slot and Mocha Management, were established in March 2003 and have been engaged in the business of leasing of electronic gaming machines and the provision of related auxiliary services to casino operators in Macau since September 2003. As at the Latest Practicable Date, there were altogether 647 electronic gaming machines supplied and installed by Mocha Management at the Existing Sites with the average number of approximately 160 electronic gaming machines in each Existing Site.

Mocha Slot, the immediate holding company of Mocha Management, (as lessor) has entered into the Equipment Lease Agreements with SJM (as lessee) for a period of ten years from the date of commencement of operation of the relevant electronic gaming machines at the Original Sites. Pursuant to the Equipment Lease Agreements, Mocha Slot has agreed to lease such number of electronic gaming machines and other equipments, as may from time to time be deemed necessary and required by SJM, for operation of the Original Sites and to provide the related auxiliary management services for a monthly fee being the aggregate amount of a fixed monthly rent of MOP\$8,000 (equivalent to about HK\$7,767) for each Original Site and 31% of the net win from each electronic gaming machine leased thereunder after deducting the aforesaid fixed monthly rental.

Due to the opening of the Additional Site on 24 March 2005 and for the purpose of regularizing the relationship between Mocha Slot and SJM under the Equipment Lease Agreements in accordance with the terms of the Gaming Concession Contract, Mocha Management has, at the request and with the approval of DICJ, the gaming authority in Macau, entered into the Slot Halls Service Arrangement with SJM, which replaced the Equipment Lease Agreements.

The Slot Halls Service Arrangement comprises four service agreements in identical terms entered into between Mocha Management and SJM in relation to the provision of Slot Hall Services to the Original Sites and the Additional Site (collectively the “Existing Sites”).

2. Benefits and terms of the Continuing Connected Transaction

Currently, the Group’s business is broadly divided into four divisions, namely, (i) leisure and entertainment division; (ii) investment banking and financial services division; (iii) technology division; and (iv) property investment division. The leisure and entertainment division of the Group comprises the pursuance of the gaming and hospitality business through the JV Group and the operation of two floating restaurants, namely, Jumbo and Tai Pak, in Aberdeen, Hong Kong.

SJM is a company incorporated under the laws of Macau and is majority owned by STDM with Dr. Stanley Ho as its managing director. Pursuant to the Gaming Concession Contract, SJM is one of the three concessionaires to engage in casino gaming operations in Macau from 1 April 2002 to 31 March 2020. As at the date of the Circular, all the Existing Sites are operated by SJM.

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As stated in the letter from the Board, apart from reinforcing the status of Mocha Management as a service provider and business partner to SJM, the entering into of the Slot Halls Service Arrangement also has the benefit of extending the services coverage of Mocha Management from the Original Sites to the Existing Sites thereby enabling the Group to further tap into the continuing growth of the gaming business in Macau.

Macau is the third-largest gaming market in the world after Las Vegas and Atlantic City and the fastest-growing gaming market in the world. According to DICJ, in 2004 gaming industry had generated a total of approximately MOP42.3 billion (equivalent to approximately HK\$41.07 billion), representing a growth rate of approximately 43.4% from the previous year. According to information from Statistics and Census Service in Macau, total number of visitors in Macau increased from approximately 11.5 million in 2002 to approximately 16.7 million in 2004, represented a compound annual growth rate of approximately 20% during the period. Also, total number of visitor arrivals in 2004 rose approximately 40% as compared with the year 2003. Therefore, we believe that the prosperity of tourism industry in Macau can provide a favourable operating environment and enhances gaming business in Macau.

(a) *Monthly fee*

Pursuant to the Slot Halls Service Arrangement, Mocha Management will receive a monthly service fee from SJM representing 31% of the aggregate gross income of all the electronic gaming machines installed in the Existing Sites in the relevant month. The benefit of having a variable rental depending upon SJM's business is to capture the upside growth of the gaming business in Macau and hence increase the potential rental yield to the Group.

As stated in the letter from the Board, the consideration is determined with reference to the estimated costs of (i) the prices of the relevant electronic gaming machines and other necessary equipments; (ii) the resources to be incurred by Mocha Management for installation and maintenance of the relevant machines and equipments including but not limited to the estimated costs for the estimated number of spare parts that are required; (iii) the rental payment of the Existing Sites; (iv) the decoration and renovation of the Existing Sites and the frequency required thereof; and (v) all necessary operational expenses in relation to the operation of the Existing Sites (including but not limited to utilities expenses, staff costs and marketing expenses).

In formulating our view in relation to the monthly fee payable by SJM, we have taken into account the fact that the prescribed percentage of the aggregate gross income under the Slot Hall Services Arrangement is the same as that of the prescribed percentage of gross income pursuant to the former Equipment Lease Agreements as approved by the Independent Shareholders at the annual general meeting of the Company held on 20 May 2004. In addition, we have noted two recent circulars by Golden Resorts Group Limited (formerly known as Medtech Group Company Limited) (stock code: 1031) and Shun Tak Holdings Limited (stock code: 242) made on 22 February 2005 and 17 December 2004, respectively, in connection with, inter alia, the lease and/or services arrangements with SJM in respect of gaming operations on various premises in Macau. We have noted from such circulars that SJM has agreed to pay and the relevant companies have agreed to accept a

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variable monthly rental and/or fee (rather than a fixed amount) ranged from 30% to 40% of the gross monthly revenue of the gaming tables operated by SJM on the relevant premises. Except for the two cases we have quoted herein, we are not aware of any other similar transactions which are comparable to the Slot Halls Service Arrangement and have been entered into by SJM in recent published circulars. Although the investments on and services provided in relation to gaming tables are different from those of electronic gaming machines, they are different game types under the same gaming industry and therefore have similar target customers and under similar operating environment, accordingly, we compare the pre-agreed monthly rental and/or fee mentioned in the said circulars with that of the Slot Halls Service Arrangement and consider the pre-agreed percentage of 31% of the aggregate gross income of all electronic gaming machines payable by SJM are arrived at after arm's length negotiations between the parties thereto and are upon normal commercial terms, in the ordinary and usual course of business of SJM and the Group respectively and is fair and reasonable to the Company and the Independent Shareholders as a whole.

(b) Service period

As stated in the letter from the Board, an initial period of five years commencing from the respective dates of the agreements, subject to any earlier termination by either party unilaterally giving to the other not less than one year's notice or such other earlier termination, if any. The Independent Shareholders should note that according to Rule 14A.35(1) of the Listing Rules, a continuing connected transaction must not exceed three years unless there are special circumstances for a longer duration and such longer duration is within normal business practice for contracts of similar type.

Based on (i) the information from the DICJ, there are only two casinos, namely the Sands Casino and the Galaxy Casino in Macau that are operated by other gaming concessionaries which are not related to SJM; (ii) the available public records of the said two casinos have not shown any arrangement with other third party regarding the provision of the electronic gaming machines installed therein; and (iii) information from the Directors that the Slot Halls Service Arrangement is an unprecedented business arrangement approved by the Macau Government, therefore, we are not aware of any other fact which is known to us and contrary to the Directors' representation that there are no other comparable agreements in the market to which reference can be made regarding whether or not the duration of the Slot Halls Service Arrangement is within normal business practice. Furthermore, the Directors are of the view that the service period of five years each is in the interest of the Shareholders since Mocha Management has incurred or will incur considerable investment costs in providing the electronic gaming machines to SJM under the Slot Halls Service Arrangement and a longer service period is necessary for Mocha Management to recoup its investment costs.

Since the Slot Halls Service Arrangement can be unilaterally terminated by Mocha Management at any time by giving not less than one year prior notice and prior to the third anniversary of the date of the Slot Halls Service Arrangement and the expiry of the validity of the proposed Annual Caps for the three financial years ending 31 December 2007, the Company will put forward the annual caps and the Slot Halls Service Arrangement for

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Independent Shareholders' approval (by way of poll) in respect of the remaining term of the initial five year period and will comply with all relevant requirements as specified in Chapter 14A of the Listing Rules in this regard. If for any reasons the Independent Shareholders do not approve, by way of poll, the annual caps or the Slot Halls Service Arrangement for the remaining term, the Directors will take such steps as may be necessary to ensure that the Company remains compliant with the provisions of the Listing Rules in this regard. We are of the view that these measures have been properly arranged to govern the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders by seeking their approval in three-year period.

In light of the requirements attached to the Continuing Connected Transaction pursuant to Chapter 14A of the Listing Rules, in particular, (i) the restriction of the value of the Continuing Connected Transaction by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the terms of the Continuing Connected Transaction and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders.

We consider that the terms of the Slot Halls Service Arrangement are fair and reasonable and that they are arrived at after arm's length negotiations between the parties thereto and are upon normal commercial terms, in the ordinary and usual course of business of Mocha Management and the Group and in the interests of the Independent Shareholders as a whole.

3. *Proposed Annual Caps*

As at the Latest Practicable Date, there were altogether 647 electronic gaming machines supplied and installed by Mocha Management at the Existing Sites with the average number of approximately 160 electronic gaming machines in each Existing Site. Based on the assumption of a daily net win of HK\$1,500 per electronic gaming machine installed in the Existing Sites and the monthly service fee for each of the three years ending 31 December 2007 from SJM representing 31% of the aggregate gross income of all the electronic gaming machines installed in the Existing Sites and the New Sites, the proposed Annual Caps for each of the three years ending 31 December 2007 are estimated as about HK\$146.82 million, HK\$238.91 million and HK\$528.49 million, respectively. We note that the proposed Annual Caps for each of the three years ending 31 December 2007 represent approximately 36%, 59% and 130% respectively of the audited consolidated turnover of the Group for the year ended 31 December 2004.

We have discussed with the Directors about the projection of the proposed Annual Caps and have reviewed their calculations. The projected annual revenue of the Mocha Management is with reference to, among other matters, (i) the number of electronic gaming machines planned to be leased under the Slot Halls Service Arrangement; (ii) the timing of the leased electronic gaming machines becoming operational; (iii) the average daily net win per electronic gaming machine; and (iv) the expected annual growth rate of the gross income generated.

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- (a) Assumption of a daily net win of HK\$1,500 per electronic gaming machine

In considering the fairness and reasonableness of the size of the proposed Annual Caps for each of the three financial years of the Company ending 31 December 2007, we have reviewed the Mocha Slot's internal record, which illustrated the monthly summary during the period from 12 September 2003 (being the date of opening of the first Existing Site) to 21 March 2005 (being the date of the Slot Halls Service Arrangement) on (i) the gross income of all electronic gaming machines before deduction of relevant tax or levy; (ii) the total number of electronic gaming machines installed on the Existing Sites; and (iii) the number of business days in each month. Based on the aforesaid information, we can check the calculation on the average net win per electronic gaming machine per day of Mocha Slot prepared by the Company and the reasonableness on the assumption of a daily net win of HK\$1,500 per electronic gaming machine made by the Directors. Furthermore, we note that the assumption of a daily net win of HK\$1,500 per electronic gaming machine is within the range between HK\$697.31 and HK\$3,486.57 as calculated based on the assumed Hold Percentages ranging from 5% to 25% and based on the total amount wagered on the electronic gaming machines installed in the Sands Casino in Macau during the three months ended 30 September 2004. Taking into account the internal record of Mocha Slot and the aforesaid comparison with Sands Casino in Macau based on the published information issued by Las Vegas Sands Inc., the operator of the Sands Casino in Macau, we are of the view that the assumption of a daily net win of HK\$1,500 per electronic gaming machine has been made by the Directors after due and careful enquiry.

- (b) Cushions A and B

As mentioned in the letter from the Board, if the Sands Casino in Macau has adopted the respective Hold Percentages of 5%, 10%, 15%, 20% and 25%, the daily net win per electronic gaming machine installed therein shall be about HK\$697.31, HK\$1,394.63, HK\$2,091.94, HK\$2,789.26 and HK\$3,486.57 respectively. If the Sands Casino in Macau has adopted the Hold Percentage of 11%, the expected daily net win per electronic gaming machine installed therein shall be about HK\$1,534.09, and if the Sands Casino in Macau has adjusted the Hold Percentage to 12% and 13% respectively, the respective daily net wins per electronic gaming machine shall be about HK\$1,673.56 and HK\$1,813.02 representing the respective increases of approximately 9.09% and 18.18% in the daily net win per electronic gaming machine as compared with the aforesaid amount of HK\$1,534.09. As such, it appears that a slight increase in the Hold Percentage will result in a considerable increase in the daily net win per electronic gaming machine.

Accordingly, a buffer of 15% has been built in for the purpose of setting the proposed Annual Caps so as to cater for an increase of operating activities in each of the Existing Sites and the New Sites under the Slot Halls Service Arrangement during the relevant period. In consideration of the rooms for expansion whether through (i) installation of more electronic gaming machines as may from time to time be deemed necessary by SJM under the Slot Halls Service Arrangement; or (ii) upward adjustment of the Hold Percentage; or (iii) continuous growth in the gaming business in Macau, we are of the view that the Directors have a reasonable ground to build in a buffer of 15% for upward adjustment of the aggregate gross income to be generated.

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- (c) Projection of aggregate gross income for each of the three years ending 31 December 2007

We note that the aggregate gross income assumed to be generated by the Existing Sites for the year ending 31 December 2005 is based on a daily net win of HK\$1,500 per electronic gaming machine per day and the existing 647 electronic gaming machines. The aggregate gross income assumed to be generated by the New Sites to be opened in the relevant period is based on the said daily net win per electronic gaming machine per day and the expected number of electronic gaming machines to be opened in the relevant period. The Directors expected that there will be a projected annual growth rate of 15% for gross income assumed to be generated by both the Existing Sites and the New Sites for the years ending 31 December 2006 and 2007. According to the statistics from the DICJ, the gross revenue derived from slot machines in Macau grew from approximately MOP\$ 230 million (equivalent to approximately HK\$223.3 million) in 2003 to approximately MOP\$ 622 million (equivalent to approximately HK\$603.9 million) in 2004, representing an annual growth rate of approximately 170.4%. Since the gaming industry in Macau has experienced strong growth after its liberation in 2002, we are of the view that the Directors have reasonable ground to build in a 15% year to year growth rate in the aggregate gross income expected to be generated by the Existing Sites and the New Sites when calculating the proposed Annual Caps.

However, we note that it is inherently difficult for the management to make a precise projection of the anticipated gross income for the three years ending 31 December 2007 since, amongst others, (i) the Hold Percentages may be subject to change; (ii) the commencement date of the New Sites may be subject to change; and (iii) the gaming business may be fluctuated with economic cycle and increasing competition.

We would therefore draw your attention to the fact that the proposed Annual Caps may or may not achieve as the proposed Annual Caps have been calculated based on various assumptions which have been made by the Company and are subject to substantial inherent uncertainties as abovementioned. However, in case the actual gross income is higher than the proposed Annual Caps, the Company will be required to take such steps as may be necessary to ensure that the Company remains compliant with the applicable provisions of the Listing Rules.

Nevertheless, having considered (i) the projection, and principal assumptions made therein, prepared by the Directors on the aggregate gross income assumed to be generated by the Existing Sites and the New Sites during the relevant period; (ii) the build-in of 15% as a cushion for upward adjustment to the aforesaid projection; (iii) the future prospect of gaming business in Macau; and (iv) the comparison of relevant statistics with Sands Casino in Macau, we are of the view that the assumptions appear to us to be reasonable and that methodology and basis of the projection of the proposed Annual Caps have been made after due and careful enquiry by the Directors.

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The following illustrates details of the calculations on the proposed Annual Caps for each of the three financial years of the Company ending 31 December 2007:

	Proposed Annual Caps		
	For the year ending 31 December		
	2005	2006	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Aggregate gross income generated by the Existing Sites	354.23	407.36	468.46
Cushion A	53.13	61.10	70.27
Aggregate gross income generated by the New Sites to be opened	66.24	262.80	1,013.97
Cushion B	–	39.42	152.10
Aggregate gross income generated by the Existing Sites and the New Sites	<u>473.60</u>	<u>770.68</u>	<u>1,704.80</u>
Proposed Annual Caps representing 31% of the total gross income payable by SJM to Mocha Management	146.82	238.91	528.49

In consideration of the aforesaid bases of the proposed Annual Caps and that the Slot Halls Service Arrangement was entered into in the ordinary and usual course of business of Mocha Management, we consider that the size of the proposed Annual Caps is fair and reasonable so far as the Company and the Shareholders are concerned.

B Connected Transactions

On 13 April 2005, Elixir, an indirect wholly-owned subsidiary of the Company, entered into two service arrangements, namely, the SJM IT Service Arrangement and the Mocha IT Service Arrangement, with SJM and Mocha Slot respectively for the provision of certain information technology related services. Based on the interests held by Dr. Stanley Ho in SJM and Mocha Slot respectively, each of the SJM IT Service Arrangement and the Mocha IT Service Arrangement constitutes a non-exempt connected transaction of the Company under Rule 14A.16(5) of the Listing Rules.

Both the SJM IT Service Arrangement and the Mocha IT Service Arrangement are conditional upon the approval by the Independent Shareholders (by way of poll) at the EGM in compliance with the Listing Rules including (without limitation to) the requirement that any Shareholder(s) and their associates interested in the Connected Transactions having abstained from voting at the EGM. The SJM IT Service Arrangement and the Mocha IT Service Arrangement are not inter-conditional.

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Unless the parties thereto otherwise agree (but nevertheless subject to the relevant requirements under the Listing Rules), the above condition cannot be waived by the relevant parties to the respective Connected Transactions. In the event that the condition cannot be fulfilled on or before 30 June 2005 (or such other date as the parties may subsequently agree), SJM may, by notice to Elixir, terminate the SJM IT Service Arrangement and Mocha Slot may, by notice to Elixir, terminate the Mocha IT Service Arrangement. Upon any such termination, Elixir shall return to SJM and/or Mocha Slot (as the case may be) any payment made under the relevant Connected Transactions (without interest) and subject to that none of the parties to the SJM IT Service Arrangement and/or Mocha IT Service Arrangement will have any obligations and liabilities save to any antecedent breach of the terms thereof.

In arriving at our opinion as regards the terms of the Connected Transactions, we have taken into account the following principal factors:

1. Background

Elixir, an indirect wholly-owned subsidiary of the Company, belongs to the technology arm of the Group and is principally engaged in the business of system integration and supply and provision of various software systems and hardware equipment as well as information technology services to clients predominantly in Macau and the Pearl River Delta Area of the PRC. Its clients include companies and enterprises from a wide range of industries such as gaming, retail, entertainment, hospitality as well as banking and finance.

As stated in the letter from the Board, Elixir and EGL are wholly-owned subsidiaries of the Company. The business relationship between the Elixir Group and SJM commenced in January 2003 and during the years 2003 and 2004, EGL has altogether entered into four separate service arrangements with SJM for the provision of information technology related services to SJM. Given that the Elixir Group has demonstrated its quality of works and services provided under the said previous service arrangements and established a good business relationship with SJM, on 13 April 2005, Elixir entered into another service arrangement, namely, the SJM IT Service Arrangement, with SJM for the provision of System Integration Services and Maintenance Services for the aggregate values of about HK\$48.18 million and HK\$2.75 million respectively.

In addition to the SJM IT Service Arrangement, on 13 April 2005, Elixir also entered into the Mocha IT Service Arrangement with Mocha Slot for the provision of System Integration Services and Maintenance Services for the aggregate values of about HK\$22.61 million and HK\$0.6 million respectively.

2. Benefits of entering into the Connected Transactions

As stated in the letter from the Board, the business relationship between the Elixir Group and SJM commenced in January 2003 and during the years 2003 and 2004, EGL has altogether entered into four separate service arrangements with SJM for the provision of information technology related services to SJM.

According to the annual report of the Company for the year ended 31 December 2004, the turnover contribution for the technology segment to the Group was approximately HK\$155 million

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in 2004, which represented approximately 38% of total turnover for the year. According to the information provided by the Directors, during the year ended 31 December 2004, Elixir has provided such information technology related services to SJM for an aggregate value of about HK\$76 million represented approximately 49% of turnover contribution for the technology segment to the Group and approximately 19% of total turnover of the Group for the year ended 31 December 2004. By entering into the Connected Transactions, the revenue contribution from the technology segment to the Group will be enhanced, and such enhancement of the Group's revenue is in the interests of the Company and the Shareholders as a whole.

Given the business nature of each of Elixir, SJM and Mocha Slot, we concur with the Directors that the provision of the IT Services to SJM and Mocha Slot forms part of the normal business activities of Elixir and generates income for the Group. Besides, by leveraging on the established track record of providing technology systems and services to SJM and Mocha Slot, the Group would be able to further promote its products and services to other potential customers in the gaming and entertainment industries in Macau.

3. *Considerations for the Connected Transactions*

(a) SJM IT Service Arrangement

The aggregate service charge for the System Integration Services is about HK\$48.18 million (as to about HK\$31.42 million for digital surveillance camera system, as to about HK\$0.074 million for the finger print access control system and as to about HK\$16.69 million for the electronic gaming machines and related system). Such aggregate service charge is determined with reference to the estimated market costs of (i) the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir for installing the same and provision of the related technical services to SJM.

As for the Maintenance Services for the digital surveillance camera system, the aggregate service charge is about HK\$2.75 million and was determined with reference to the estimated market costs of (i) the estimated number of spare parts that requires for maintaining the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir during the relevant agreed service period. The service charge for the Maintenance Services to be provided by Elixir to SJM is comparable to the market rate and charge to other customers of Elixir who are Independent Third Parties.

As confirmed by the Company, as at the Latest Practicable Date, Elixir's maintenance services team comprised seven staff and the estimated manpower for providing the maintenance services will vary from project to project mainly depending on (i) types of the machines involved; and (ii) duration of readily available maintenance services within a day (for instance, certain customers may require 24 hours services while others may only require services within normal business hours).

We consider that the basis of determining the services charges for System Integration Services and Maintenance Services under the SJM IT Service Arrangement is fair and reasonable.

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(b) Mocha IT Service Arrangement

The aggregate service charge for the System Integration Services is about HK\$22.61 million (as to about HK\$2.08 million for digital surveillance camera system, as to about HK\$0.25 million for the finger print access control system and as to about HK\$20.28 million for the electronic gaming machines and related system). Such aggregate service charge was determined with reference to the estimated market costs of (i) the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir for installing the same and provision of the related technical services to Mocha Slot.

As for the Maintenance Services for the digital surveillance camera system and the electronic gaming machines, the aggregate service charge is about HK\$0.6 million. Amongst the said HK\$0.6 million, HK\$0.12 million is the service charge for the Maintenance Services for the digital surveillance camera system, which was determined with reference to the estimated market costs of (i) the estimated number of spare parts that requires for maintaining the relevant hardware systems and equipment; and (ii) the manpower to be incurred by Elixir during the relevant agreed service period. The remaining HK\$0.48 million service charge is for Maintenance Services for the electronic gaming machines, which was determined by the relevant supplier supplying the relevant equipment. The service charge for the Maintenance Services to be provided by Elixir to Mocha Slot is comparable to the market rate and charge to other customers of Elixir who are Independent Third Parties.

We consider that the basis of determining the services charges for System Integration Services and Maintenance Services under the Mocha IT Service Arrangement is fair and reasonable.

(c) Fairness and reasonableness of the considerations

The Board is of the view that the respective terms of the SJM IT Service Arrangement and Mocha IT Service Arrangement are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms, in the ordinary and usual course of business of Elixir and the Group and in the interests of the Shareholders as a whole.

Owing to the limited availability of public information regarding the market pricing for the relevant IT services provided in relation to the Connected Transactions, in formulating our independent judgment on fair and reasonableness of the consideration on the SJM IT Service Arrangement and Mocha IT Service Arrangement, we have been provided by the Directors and reviewed such information which, amongst others, the relevant comparisons for the Connected Transactions which include (i) one transaction under which Elixir provided similar information technology related services in respect of the digital surveillance camera system to a company who is not connected with any of the director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them ("Independent Customer"); (ii) one transaction under which Elixir provided similar information technology related services in respect of the finger print access control system to another Independent Customer; (iii) relevant price quotations from suppliers of Elixir on

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digital surveillance camera system, finger print access control system and electronic gaming machines; (iv) details of the first and second service arrangements as disclosed in the announcements of Value Convergence respectively dated 21 January 2003 and 17 July 2003; (v) details on the third service arrangement as disclosed in the joint announcement of the Company and Value Convergence dated 9 October 2003 and the respective circulars of the Company and Value Convergence both dated 31 October 2003; (vi) details on the fourth service arrangement as disclosed in the announcement and circular of the Company respectively dated 30 July 2004 and 27 August 2004; and (vii) the schedules of the estimated costs of the SJM IT Service Arrangement and the Mocha IT Service Arrangement.

As confirmed by the Company, there was no maintenance service of the same stringent standard including the requirement for the availability of service for 24 hours a day and seven days a week provided by the Group to any Independent Customer. As such, we have formed our opinion based on the maintenance services provided by the Group under previous arrangements with SJM. We consider it fair and reasonable to form our opinion on the consideration for the Maintenance Services merely by making reference to the estimated number of spare parts that requires for maintaining the relevant hardware system and equipment and the manpower to be incurred by Elixir during the relevant agreed service period.

In addition, as confirmed by the Company, there was no System Integration Services on electronic gaming machine provided by the Group to any Independent Customer, we can only compare the quotation made by the supplier of Elixir to form our opinion. We consider the pricing basis on the electronic gaming machines is in line with the suggested selling price made by the supplier of Elixir and is fair and reasonable.

Based on the above analysis, we conclude that both the terms of the SJM IT Service Arrangement and Mocha IT Service Arrangement are fair and reasonable.

RECOMMENDATION

Having taken into account the above factors and reasons, we consider that (i) the terms of the Continuing Connected Transaction and the Connected Transactions, are fair and reasonable as far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote at the EGM in favour of the resolutions in relation to the Continuing Connected Transaction and the Connected Transactions.

Yours faithfully,
For and on behalf of
Sun Hung Kai International Limited
Eric Shum
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. PARTICULARS OF DIRECTORS

Name	Address
<i>Executive Directors</i>	
Dr. Stanley Ho, G.B.S.	No. 1 Repulse Bay Road Hong Kong
Mr. Lawrence Ho	35 Black's Link Hong Kong
Mr. Frank Tsui	13A, Block 4 Braemar Hill Mansions 21 Braemar Hill Road Hong Kong
<i>Non-executive Directors</i>	
Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong
Mr. Ho Cheuk Yuet	12A, Kenville Building 32 Kennedy Road Hong Kong

Name	Address
<i>Independent non-executive Directors</i>	
Sir Roger Lobo, C.B.E., LL.D., J.P.	Woodland Heights E1, 2 Wongneichung Gap Road Happy Valley Hong Kong
Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.C.P.A., C.P.A., J.P.	Flat 4A, MacDonnell House 6-8 MacDonnell Road Hong Kong
Dr. Lo Ka Shui, GBS, JP	Unit 2A, Serenity Place 22 Mount Cameron Road The Peak Hong Kong

3. DISCLOSURE OF DIRECTORS' AND SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) *Interests in Shares and underlying Shares*

Name of Director	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Dr. Stanley Ho	Corporate	3,649,228 (Note 2)	31,829,268 (Note 3)	7.23%
	Personal	11,374,639	–	2.32%
Mr. Lawrence Ho	Corporate	202,020,815 (Notes 4 & 5)	–	41.14%
	Personal	2,716,306	–	0.55%

Name of Director	Nature of interest	Number of issued Shares interested	underlying Shares interested	percentage of the total number of issued Shares (Note 1)
Mr. Frank Tsui	Personal	2,700,000	–	0.55%
Mr. Ho Cheuk Yuet	Personal	1,816,306	–	0.37%
Dr. Lo Ka Shui	Personal	1,000,000	–	0.20%

Notes:

- As at the Latest Practicable Date, the total number of issued shares of the Company were 491,019,270 Shares.
- Dr. Stanley Ho is taken to be interested in 3,649,228 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.74% of the issued share capital of the Company.
- Two convertible notes respectively for the principal amounts of HK\$100 million and HK\$56 million carrying the respectively rights to subscribe for new Shares at an initial conversion price of HK\$4.00 and HK\$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005 respectively pursuant to the First Agreement and the Second Agreement as disclosed in the announcements and the circulars of the Company respectively dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes was HK\$156 million. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 31,829,268 Shares will be issued to STDM. As Dr. Stanley Ho's direct and corporate interests in STDM is in excess of 30%, under the SFO, he is deemed to be interested in these 31,829,268 underlying Shares.
- Mr. Lawrence Ho is taken to be interested in 57,754,512 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend which in turn holds approximately 11.76% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 144,266,303 Shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy which in turn holds approximately 29.38% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the Shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho were effectively interested in 9.82% and 34.94% respectively of the issued share capital of the Company.
- Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 April 2004. The total principal amount of the said convertible notes was HK\$45 million. On 11 April 2005, Better Joy exercised the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share resulting in a total of 19,565,216 Shares issued to Better Joy.

(ii) Interests in equity derivatives of the Company

Name of Director	Date of grant of the share options by the Company	Expiry date of the share options	Exercise Price per underlying Share (HK\$)	Number of underlying Shares comprised in the share options outstanding
Mr. Lawrence Ho	19 February 2004	7 March 2012	2.405	900,000
Mr. Frank Tsui	8 March 2002	7 March 2012	1.00	16,306
	19 February 2004	7 March 2012	2.405	900,000

(iii) Interests in shares of Value Convergence

Name of Director	Nature of interest	Number of issued shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence (Note 1)
Dr. Stanley Ho	Corporate	7,384,651 (Note 2)	3.02%
Mr. Lawrence Ho	Corporate	4,232,627 (Note 3)	1.73%

Notes:

- As at the Latest Practicable Date, the total number of issued shares of Value Convergence was 244,643,226 shares.
- Dr. Stanley Ho is taken to be interested in 7,384,651 shares of Value Convergence as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.02% of the issued share capital of Value Convergence.
- Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of Value Convergence.

(iv) Interests in equity derivatives of Value Convergence

Name of Director	Nature of interest	Number of underlying shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Dr. Stanley Ho	Personal	735,000 <i>(Note 1)</i>	0.30%
Mr. Lawrence Ho	Personal	1,226,057 <i>(Note 2)</i>	0.50%

Notes:

1. The personal interest of Dr. Stanley Ho represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 6 April 2001 and may be exercised during the period from 6 April 2001 to 8 October 2005 at an exercise price of HK\$3.60 per Value Convergence's share.
2. The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the physically settled options as follows:–
 - (a) 735,000 physically settled options which were granted on 6 April 2001 and may be exercised during the period from 6 April 2001 to 8 October 2005 at an exercise price of HK\$3.60 per Value Convergence's share; and
 - (b) 491,057 physically settled options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.

Save as disclosed herein, as at the Latest Practicable Date:

- (i) none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.
- (ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2004, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;

- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which was significant in relation to the business of the Group; and
- (iv) none of the Directors had service contract with the Company or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

4. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of the Company and other persons in the Shares, underlying Shares and debentures of the Company which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein; or (c) were directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Better Joy	Corporate	144,266,303 (Notes 2 & 6)	–	29.38%
Lasting Legend	Corporate	57,754,512 (Note 2)	–	11.76%
Dr. Stanley Ho	Corporate	3,649,228 (Note 3)	31,829,268 (Note 4)	7.23%
	Personal	11,374,639	–	2.32%
Mr. Lawrence Ho	Corporate	202,020,815 (Notes 5 & 6)	–	41.14%
	Personal	2,716,306	–	0.55%

Name	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
STDM	Corporate	–	31,829,268 (Notes 4 & 7)	6.48%
Shun Tak Shipping Company Limited	Corporate	39,083,147	–	7.96%

Notes:

- As at the Latest Practicable Date, the total number of issued shares of the Company are 491,019,270 Shares.
- The Shares held by Better Joy and Lasting Legend also represent the corporate interest of Mr. Lawrence Ho in the Company.
- Dr. Stanley Ho is taken to be interested in 3,649,228 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.74% of the issued share capital of the Company.
- Two convertible notes respectively for the principal amounts of HK\$100 million and HK\$56 million carrying the respectively rights to subscribe for new Shares at an initial conversion price of HK\$4.00 and HK\$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005 respectively pursuant to the First Agreement and the Second Agreement as disclosed in the announcements and the circulars of the Company respectively dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes was HK\$156 million. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 31,829,268 Shares will be issued to STDM. As Dr. Stanley Ho's direct and corporate interests in STDM is in excess of 30%, under the SFO, he is deemed to be interested in these 31,829,268 underlying Shares.
- Mr. Lawrence Ho is taken to be interested in 57,754,512 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend which in turn holds approximately 11.76% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 144,266,303 Shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy which in turn holds approximately 29.38% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the Shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho were effectively interested in 9.82% and 34.94% respectively of the issued share capital of the Company.
- Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 April 2004. The total principal amount of the said convertible notes was HK\$45 million. On 11 April 2005, Better Joy exercised the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share resulting in a total of 19,565,216 Shares issued to Better Joy.
- The underlying Shares held by STDM also represent the corporate interest of Dr. Stanley Ho in the Company.

Save as disclosed herein, so far as the Directors were aware, as at the Latest Practicable Date, no other persons had interests or short positions in the Shares, underlying Shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, nor were there any other persons, required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited financial statements of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERT

- (i) The following is the qualification of the expert who has given opinion or advice which is contained in the circular.

Name	Qualification
Sun Hung Kai	A deemed licensed corporation under transitional arrangement within the meaning of the SFO to carry out types 1, 4, 6 and 9 regulated activities under the SFO

- (ii) As at the Latest Practicable Date, Sun Hung Kai did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (iii) As at the Latest Practicable Date, Sun Hung Kai did not have any interest, direct or indirect, in any assets which have been, since 31 December 2004 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (iv) Sun Hung Kai has given, and has not withdrawn, its written consent to the issue of this circular, with inclusion of their respective documents including the letter of the Independent Financial Adviser set out in the section headed “Letter from Sun Hung Kai” in this circular and the references to its name included herein in the form and context in which they respectively appear.

7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 74 of the articles of association of the Company provides that at any general meeting a resolution put to the vote of the meeting shall be decided by a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

8. COMPETING INTERESTS

Dr. Stanley Ho, the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of STDM and SJM. As part of the businesses of STDM and SJM include gaming, hospitality, food and beverage and property businesses in Macau, there is a possibility that such part of businesses of STDM and SJM may compete with the gaming, hospitality, food and beverage and property business of the Group. Save as disclosed, as at the date of this circular, none of the Directors and their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

9. SERVICE CONTRACTS

There is no existing or proposed service contracts between any of the directors of the Company and any of its subsidiaries, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

10. MISCELLANEOUS

- (i) The registered office of the Company is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (ii) The secretary of the Company is Mr. Samuel Tsang, a solicitor admitted in Hong Kong, England and Wales and Australia.

- (iii) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, during normal business hours on any weekday, except Saturday, Sunday and public holidays, from the date hereof up to and including 18 May 2005:

- (i) the memorandum and articles of association of the Company;
- (ii) the letter dated 29 April 2005 from the Independent Board Committee, the text of which is set out on page 26 of this circular;
- (iii) the letter of advice dated 29 April 2005 from Sun Hung Kai to the Independent Board Committee, the text of which is set out on pages 27 to 39 of this circular;
- (iv) the written consent of Sun Hung Kai as referred to in the paragraph headed “Qualification and consent of Expert” in this appendix;
- (v) the four separate agreements constituting the Slot Halls Service Arrangement, entered into between Mocha Management and SJM on the respective dates of 21 March 2005 and 22 March 2005 regarding the provision of Slot Halls Services by Mocha Management to the Existing Sites;
- (vi) the three separate agreements constituting the SJM IT Service Arrangement, entered into between Elixir and SJM, all dated 13 April 2005, regarding the respective provision of: (i) System Integration Services and Maintenance Services for the digital surveillance camera system; (ii) System Integration Services for the finger print access control system; and (iii) System Integration Services for the electronic gaming machines, by Elixir to SJM; and
- (vii) the three separate agreements constituting the Mocha IT Service Arrangement, entered into between Elixir and Mocha Slot, all dated 13 April 2005, regarding the respective provision of: (i) System Integration Services and Maintenance Services for the digital surveillance camera system; (ii) System Integration Services for the finger print access control system; and (iii) System Integration Services for the electronic gaming machines, by Elixir to Mocha Slot.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.melco.hk.cn>

(Stock Code: 200)

NOTICE IS HEREBY GIVEN (the “Notice”) that an extraordinary general meeting (the “Meeting”) of Melco International Development Limited (the “Company”) will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, on Wednesday, 18 May 2005 at 4:15 p.m. (or immediately after the conclusion or adjournment of the annual general meeting of the Company to be held at 3:30 p.m. on the same day) for the purpose of considering and, if thought fit, passing (with or without amendments) the following as ordinary resolutions of the Company:–

ORDINARY RESOLUTIONS

- 1 “**THAT** the Continuing Connected Transaction (as defined and more particularly described in the circular dated 29 April 2005 dispatched to the shareholders of the Company (the “Circular”)) under or pursuant to the Slot Halls Service Arrangement (as defined in the Circular) between the Company’s subsidiary, Mocha Slot Management Limited (“Mocha Management”) and Sociedade de Jogos de Macau, S.A. (“SJM”) with the maximum aggregate annual value of Slot Halls Services (as defined in the Circular) provided or to be provided by Mocha Management to SJM for the three financial years of the Company ending 31 December 2007 to be subject to the annual caps as stated below:

Annual Cap		
for the year ending 31 December		
2005	2006	2007
HK\$146,820,000	HK\$238,910,000	HK\$528,490,000

be and is hereby approved, ratified and confirmed.”

- 2 “**THAT** the SJM IT Service Arrangement (as defined and more particularly described in the circular dated 29 April 2005 dispatched to the shareholders of the Company) together with all transactions contemplated thereunder between the Company’s subsidiary, Elixir Group (Macau) Limited and Sociedade de Jogos de Macau, S.A. be and is hereby approved, ratified and confirmed.”
- 3 “**THAT** the Mocha IT Service Arrangement (as defined and more particularly described in the circular dated 29 April 2005 dispatched to the shareholders of the Company) together with all transactions contemplated thereunder between the Company’s subsidiary, Elixir

NOTICE OF EXTRAORDINARY GENERAL MEETING

Group (Macau) Limited and Mocha Slot Group Limited be and is hereby approved, ratified and confirmed.”

By order of the Board
Melco International Development Limited
Samuel Tsang
Company Secretary

Hong Kong, 29 April 2005

Registered Office:

38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the proxy form, it will be deemed to have been revoked.