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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

The Directors are pleased to announce that Melco Investment, a wholly-owned subsidiary of Melco, has acquired the title to the Macau Property on 30 August 2005 from the Registered Owner pursuant to a sale and purchase agreement dated 29 July 2005 for a consideration of HK\$45,000,000. The Macau Property was acquired by Melco Investment for investment purpose and the consideration has been satisfied by cash out from the internal resources of the Group. Prior to the acquisition, the Macau Property has been leased by the Registered Owner to Mocha Slot, which in turn sub-leased such property to SJM for operation of an electronic gaming machines lounge. The Lease and the Sub-Lease remain valid and effective and binding on Melco Investment after its acquisition of the Macau Property.

The acquisition of the Macau Property does not constitute a notifiable transaction for Melco under the Listing Rules (by virtue of the fact that the relevant percentage ratios are less than 5% as stipulated under the Listing Rules and that the Registered Owner is an Independent Third Party).

In view of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has (i) 20% equity interests in Mocha Slot; and (ii) an equity interest in, as well as being a director of, SJM and STDM respectively, both Mocha Slot and SJM are connected persons of Melco for the purpose of the Listing Rules. As a result of the acquisition, the Lease and the Sub-Lease constitute a continuing connected transaction for Melco under Rule 14A.34 of the Listing Rules and is exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios is on an annual basis equal to or more than 2.5% but less than 25% and the annual consideration is less than HK\$10,000,000.

The Directors (including the independent non-executive Directors) are of the opinion that the respective terms of the Lease and the Sub-Lease are fair and reasonable and in the interest of the Shareholders as a whole. The Lease and the Sub-Lease will be subject to the annual review requirement and the reporting requirement under Rules 14A.37 to 14A.41 and Rules 14A.45 and 14A.46 of the Listing Rules respectively.

THE LEASE AND THE SUB-LEASE

The Directors are pleased to announce that Melco Investment, a wholly-owned subsidiary of Melco, has acquired the title to the Macau Property from the Registered Owner on 30 August 2005 pursuant to a sale and purchase agreement dated 29 July 2005 for a consideration of HK\$45,000,000. Such consideration has been arrived at after arm's length negotiations between the parties by reference to the prevailing property market condition and prices of comparable properties in Macau with similar size, location and floor level of the Macau Property. The Macau Property was acquired by Melco Investment for investment purpose and the consideration has been satisfied by cash out from the internal resources of the Group. Prior to the acquisition, the Registered Owner has leased the Macau Property to Mocha Slot for operation of an electronic gaming machines lounge by SJM.

Principal terms of the Lease

Date: 28 December 2003

Parties: the Registered Owner, an Independent Third Party, as landlord
Mocha Slot, as tenant

Leased property:	The Macau Property, namely, Units C, D and E of Ground Floor of Hotel Kingsway at Rua de Luis Gonzaga Gomes No.176-230, Rua de Nagasaki No.64A to 82 and Rua de Xiamen No.37A to 59, Macau with an aggregate gross floor area of approximately 11,000 sq feet
Term:	Ten years from 29 December 2003 to 28 December 2013 (both days inclusive)
Rental (management fee exclusive):	<p>MOP\$164,800 (equivalent to HK\$160,000) per month (i.e. HK\$1,920,000 per annum) for the first two years of the Lease, namely from 29 December 2003 to 28 December 2005;</p> <p>MOP\$181,280 (equivalent to HK\$176,000) per month (i.e. HK\$2,112,000 per annum) for the third and fourth years of the Lease, namely from 29 December 2005 to 28 December 2007;</p> <p>MOP\$199,408 (equivalent to HK\$193,600) per month (i.e. HK\$2,323,200 per annum) for the fifth and sixth years of the Lease, namely from 29 December 2007 to 28 December 2009;</p> <p>MOP\$219,349 (equivalent to HK\$212,960) per month (i.e. HK\$2,555,520 per annum) for the seventh and eighth years of the Lease, namely from 29 December 2009 to 28 December 2011; and</p> <p>MOP\$241,288 (equivalent to HK\$234,260) per month (i.e. HK\$2,811,120 per annum) for the ninth and the last years of the Lease, namely from 29 December 2011 to 28 December 2013</p>
Other terms:	Neither party is entitled to unilaterally terminate the Lease prior to 28 December 2008, otherwise the terminating party will be required to pay a compensation equivalent to the aggregate rentals for the outstanding term of the Lease to the other party.

Background of the Lease and the Sub-Lease

At the time when the Lease was entered into on 28 December 2003, it was contemplated by Mocha Slot that the Macau Property would be used for housing an electronic gaming machines lounge to be operated by SJM. Subsequently in March 2004, Mocha Slot and SJM have entered into an equipment lease agreement under which Mocha Slot has agreed to lease certain electronic gaming machines and provide the Macau Property to SJM for operation of the electronic gaming machines lounge thereon. Details of the equipment lease agreement are disclosed in the announcement and circular of Melco respectively dated 1 April 2004 and 23 April 2004.

Later, for the purpose of formalizing the relationship between Mocha Slot and SJM regarding the operation of the electronic gaming machines lounge on the Macau Property, Mocha Slot has, with the consent of the Registered Owner, sub-leased the Macau Property on identical terms of the Lease to SJM in September 2004. Notwithstanding the Sub-Lease, the rental of the Macau Property continues to be borne by Mocha Slot as part of its obligations under the aforesaid equipment lease agreement and the subsequent Service Arrangement entered into between Mocha Slot and SJM in March 2005, which replaced the said equipment lease agreement. As such, no separate financial commitment has been undertaken whether by Mocha Slot or SJM under the Sub-Lease and hence, the Sub-Lease was a continuing connected transaction exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules. Under the previous equipment lease agreement and the subsequent Service Arrangement, Mocha Slot is required to provide the electronic gaming machines and other equipments to SJM for operation of the electronic gaming machine lounge at the Macau Property and other auxiliary management services and to bear the rentals of the Macau Property and in return, Mocha Slot will receive from SJM a monthly service fee representing 31% of the aggregate gross income of all the electronic gaming machines installed in the Macau Property in the relevant month. Details of the Service Arrangement are disclosed in the announcement and circular of Melco respectively dated 11 April 2005 and 29 April 2005.

LISTING RULES IMPLICATIONS

The acquisition of the Macau Property

The acquisition of the Macau Property does not constitute a notifiable transaction for Melco under the Listing Rules (by virtue of the fact that the relevant percentage ratios are less than 5% as stipulated under the Listing Rules and that the Registered Owner is an Independent Third Party). Upon acquisition of the Macau Property, Melco Investment has also acquired the Lease and the Sub-Lease by operation of laws.

The Continuing Connected Transaction and the Annual Cap

The reasons for entering into the Lease and the Sub-Lease were set out in the paragraph headed “Background of the Lease and the Sub-Lease” above. Since the Lease and the Sub-Lease remain valid and effective and binding on Melco Investment after its acquisition of the Macau Property and both Mocha Slot and SJM are connected persons of Melco for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has (i) 20% equity interests in Mocha Slot; and (ii) an equity interest in, as well as being a director of, SJM and STDM respectively, the Lease and the Sub-Lease constitute a continuing connected transaction for Melco under Rule 14A.34 of the Listing Rules and is exempt from the independent shareholders’ approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios is on an annual basis equal to or more than 2.5% but less than 25% and the annual consideration is less than HK\$10,000,000.

The Lease and the Sub-Lease will be subject to the annual review requirement and the reporting requirement under Rules 14A.37 to 14A.41 and Rules 14A.45 and 14A.46 of the Listing Rules respectively.

The remaining term of the Lease and the Sub-Lease is approximately eight years and four months commencing from the date of the acquisition to 28 December 2013. Since the term of the Lease and the Sub-Lease exceeds the three-year duration as set out in Rule 14A.35(1) of the Listing Rules, Melco has engaged Hantec Capital Limited (“Hantec”), an independent financial adviser to provide opinion on the existence of special circumstances requiring a longer duration and to confirm that it is normal business practice for the Lease and the Sub-Lease to have a term of 10 years which is more than the three years’ requirements as set out in Rule 14A.35(1) of the Listing Rules. According to Hantec, the special circumstances related to the present case under Rule 14A.35(1) of the Listing Rules include:

- (a) a long term lease is required to enable Mocha Slot and SJM to have smooth operation in a long run for their gaming activities and it is cost-inefficient and commercially undesirable for successful casinos, once established, to move premises every few years, particularly in the light of the considerable fixed capital commitment in electronic gaming machines lounge;
- (b) the long term lease will assist in stabilizing the operating cost of Mocha Slot in respect of the electronic gaming machines lounge at the Macau Property and safeguarding it from any drastic increase of rentals and/ or earlier termination of the lease by the landlord in a rising property market;
- (c) the operation of the electronic gaming machines lounge under the Lease would provide Melco’s group with the maximum opportunity to capture the optimal growth of the gaming and hospitality businesses in Macau; and
- (d) the opinion expressed by Savills Consultancy Limited (“Savills”), an independent property valuer engaged by Melco, that in the light of the special characteristics of casino business that normally require considerable capital investments in the gaming concourses in terms of decoration and equipment facilities and the continuous rising property market in Macau, in particular, for the hotel and commercial properties, it is not unreasonable for the term of the Lease for operation of the electronic gaming machines lounge to have a ten-year duration with agreed rental increment of approximately 10% (which represents a reasonable rate of increase by reference to the then growing property market condition and in line with the rate of annual rental review of two comparable properties adopted by Savills) for every two years during the lease term for the purpose of securing the tenure of the Macau Property.

In view of the above special circumstances and based on the fact that there are other leasing arrangements in Macau entered into by SJM for casino operation which have durations ranging from approximately thirteen to sixteen years as publicly announced by other listed companies in Hong Kong, including:

- (i) the lease of an area at Nape Lots D2 to D5, Macau to SJM for gaming operation from the expected commencement date of business of the casino to the expiry of the concession granted to SJM to operate casinos in Macau on 31 March 2020 (“Concession Expiry Date”);
- (ii) the lease of an area at the property at Lot 2, Zone A da Baia de Paria Grande, Macau to SJM for gaming operation from the completion of the first stage of the property to the Concession Expiry Date;

- (iii) the lease of an area at the Grandview Hotel, Macau to SJM for gaming operation from December 2004 to the Concession Expiry Date; and
- (iv) the lease of an area at Hotel Casa Real, Macau to SJM for gaming operation from March 2004 to the Concession Expiry Date.

Taking into account of the foregoing, Hantec is of the opinion that (i) the Lease and the Sub-Lease are in normal commercial terms and the duration for more than three years is required for a transaction of this nature and it is in the interests of Melco and the Shareholders as a whole to enter into the Lease and the Sub-Lease arrangements for such duration.

The rentals, receivable by Melco Investment from Mocha Slot under the Lease, are subject to the following annual caps:

- (i) HK\$640,000 for year ending 31 December 2005;
- (ii) HK\$2,112,000 for the respective years ending 31 December 2006 and 31 December 2007;
- (iii) HK\$2,323,200 for the respective years ending 31 December 2008 and 31 December 2009;
- (iv) HK\$2,555,520 for the respective years ending 31 December 2010 and 31 December 2011; and
- (v) HK\$2,811,120 for the respective years ending 31 December 2012 and 31 December 2013.

The basis for determination of the above annual cap for each year is by reference to the aggregate amount of rentals for the relevant year during the remaining term of the Lease. Details of the total rentals for the relevant year are set out in the paragraph headed “Principal terms of the Lease” above.

Based on the rental level of comparable properties with similar size, location, frontage, lease term and usage of the Macau Property as at December 2003 and 30 August 2005, Savills is of the opinion that the monthly rental payable by Mocha Slot under the Lease in respect of the Macau Property is fair and reasonable and reflect the market rental at the time the lease agreement was entered into and as of 30 August 2005 respectively. Based on the opinion from Savills, Hantec is of the view that at the time of the lease agreement was entered into and as of 30 August 2005 the rental under the Lease is fair and reasonable. The Board (including the independent non-executive Directors) is of the view that the Lease and the Sub-Lease were both entered into after arm’s length negotiation between Mocha Slot and the Registered Owner and SJM respectively on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION OF THE GROUP

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 currently comprises the pursuance of the gaming and hospitality businesses in Macau, including the development of a luxury hotel project with casino facilities in Taipa, Macau, the development of an integrated entertainment resort named “City of Dreams” in Cotai, Macau and four electronic gaming machines lounges (including the one at the Macau Property) operated by SJM and managed by Mocha Slot in Macau under the brand “Mocha Slot Club”.

INFORMATION ON MOCHA SLOT AND SJM

Mocha Slot was established in March 2003 and has been engaged in the business of leasing of electronic gaming machines and the provision of related auxiliary management services to casino operators in Macau since September 2003. As a result of the Group reorganization and formation of the joint venture gaming 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 became the non wholly-owned subsidiary of Melco.

SJM is a company incorporated under the laws of Macau and is majority owned by STDM with Dr. Stanley Ho as its managing director. SJM is one of the five concessionaries/ sub-concessionaries to engage in casino gaming operations in Macau from 1 April 2002 to 31 March 2020.

GENERAL

As at the date of this announcement, the Board comprises three Executive Directors, namely, Dr. Stanley Ho (Chairman), Mr. Lawrence Ho (Managing Director) and Mr. Frank Tsui, one Non-executive Director, namely, Mr. Ng Ching Wo and three Independent Non-executive Directors, namely, Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui.

DEFINITION

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“connected person”	has the same meaning as ascribed to it in the Listing Rules
“Director(s)”	the director(s) of Melco
“Group”	Melco and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	independent third party not connected with Melco and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of Melco and its subsidiaries, or an associate (which has the same meaning as ascribed to it in the Listing Rules) of any of them under the Listing Rules
“Lease”	the lease of the Macau Property dated 28 December 2003 entered into between Mocha Slot and the Registered Owner
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau Property”	Units C, D and E of Ground Floor of Hotel Kingsway at Rua de Luis Gonzaga Gomes No.176-230, Rua de Nagasaki No.64A to 82 and Rua de Xiamen No.37A to 59, Macau
“Melco”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
“Melco Investment”	Melco Investment Holdings Limited, a company incorporated under the laws of British Virgin Islands and a wholly owned subsidiary of Melco
“Mocha Slot”	Mocha Slot Group Limited, a company incorporated under the laws of British Virgin Islands and a non-wholly owned subsidiary of Melco, in which Dr. Stanley Ho personally holds 20% equity interests, or if the context so requires, also refer to Mocha Slot Management Limited, a wholly-owned subsidiary of Mocha Slot Group Limited incorporated under the laws of Macau.
“MOP\$”	pataca, the lawful currency of Macau
“Registered Owner”	San Pong Investment Company Limited, an Independent Third Party which engages in the business of property development in Macau
“Service Arrangement”	the service arrangement entered into between Mocha Slot and SJM in March 2005 regarding the provision of services by Mocha Slot to the electronic gaming machines lounges operated by SJM in Macau, details of which are disclosed in the announcement and circular of Melco respectively dated 11 April 2005 and 29 April 2005.
“Shareholders”	holders of shares of Melco
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a subsidiary of STD M
“STD M”	Sociedade de Turismo e Diversoes de Macau, S.A., a company incorporated under the laws of Macau
“Stock Exchange”	The Stock Exchange of Hong Kong
“Sub-Lease”	the sub-lease of the Macau Property entered into between Mocha Slot and SJM in September 2004

For the purpose of this announcement, the amount in MOP\$ is translated into HK\$ at the exchange rate of MOP\$1.03: HK\$1.00

By order of the board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Managing Director

Hong Kong, 9 September 2005

Please also refer to the published version of this announcement in The Standard.