

CONNECTED PERSONS

We have entered into certain agreements or transactions with entities which will become Connected Persons (as defined under Chapter 14A of the Listing Rules) of our Company upon listing, and such agreements or transactions will constitute connected transactions or continuing connected transactions of our Company under the Listing Rules. These entities include:

- (i) **STDM:** Immediately following completion of the Global Offering, STDM will, through its wholly owned subsidiary STDM - Investments, own approximately 61% of our Company's then issued share capital if the Over-Allotment Option is not exercised (or 58.795% if the Over-Allotment Option is exercised in full). STDM will therefore be the Controlling Shareholder, and hence a Connected Person, of our Company by virtue of Rule 14A.11(1) of the Listing Rules.
- (ii) Certain associates (as defined under Chapter 14A of the Listing Rules) of STDM, excluding our Group: Such associates will be Connected Persons of our Company by virtue of Rule 14A.11(4) of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into certain agreements or transactions which will, upon our listing, constitute exempt continuing connected transactions of our Company.

Non-Competition Undertakings by STDM

Pursuant to undertakings dated 18 June 2008 (the "STDM Undertakings"), STDM has undertaken to us that, apart from maintaining its current investments in Melco, it will not compete with the casino gaming businesses currently engaged, or will from time to time be engaged, by us in Macau. (See "Relationship with our Controlling Shareholders — Undertakings by STDM and Dr. Ho — Undertakings by STDM").

Since there is no consideration payable by the Group to STDM under the STDM Undertakings, the connected transactions under the STDM Undertakings will be de minimis transactions which will be exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

Non-Competition Undertakings by Dr. Ho

The Company entered into a non-competition agreement dated 18 June 2008 with Dr. Ho (the "Non-Competition Agreement"), under which Dr. Ho has undertaken to us that, apart from maintaining his current investments in Melco, he will not compete with the operation of casino gaming businesses currently engaged, or will from time to time be engaged, by us in Macau. (See "Relationship with our Controlling Shareholders — Undertakings by STDM and Dr. Ho — Non-Competition Undertakings by Dr. Ho").

Since there is no consideration payable by the Group to Dr. Ho under the Non-Competition Agreement, the connected transactions under the Non-Competition Agreement will be de minimis transactions which will be exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

Sharing of Administrative Services

The Group has been sharing, and will continue to share, with STDM and its associates (the “STDM Group”) certain services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services. Such services will be provided by STDM through the following departments of STDM: Public Relations Department, Services Department, Transportation Department and General Services Department. Accordingly, SJM entered into an agreement with STDM dated 18 June 2008 (the “Administrative Cost Sharing Agreement”) whereby STDM has agreed to continue to share the above administrative services with us and we have agreed to pay for the shared services on a cost basis.

For the fiscal years 2005, 2006 and 2007, the aggregate fees paid by the Group for the sharing of such administrative services amounted to approximately HK\$61.5 million, HK\$41.4 million and HK\$41.2 million, respectively.

The amount of administrative costs shared between the Group and the STDM Group is calculated based on an estimate of (i) the actual time spent by each department for providing services to us and the STDM Group respectively, recorded on time sheets during a trial period of three months and (ii) the floor area occupied, respectively, by the Group and the STDM Group for storage services. Our Directors are of the view that the cost of such administrative services is allocated to the Group and the STDM Group on a fair and equitable basis. Since the transactions under the Administrative Cost Sharing Agreement fall within the meaning of sharing of administrative services under Rule 14A.31(8) of the Listing Rules, the transactions are exempt from reporting, announcement and independent shareholders’ approval requirements.

Macau Success Security Arrangements

Pier 16 - Property Development, a subsidiary of our Company, was incorporated in Macau and is held 51% by the Group and 49% by World Fortune. World Fortune is a subsidiary of Macau Success Limited (“MSL”), where MSL, being the holding company of World Fortune, and World Fortune, a substantial shareholder of Pier 16 - Property Development, are Connected Persons of our Company.

CONNECTED TRANSACTIONS

Pursuant to a facility agreement dated 28 June 2007 (the “Pier 16 Facility Agreement”) entered into between, among others, Pier 16 - Property Development and a group of financial institutions (the “Lenders”), the Lenders have agreed to grant a syndicated loan facility of HK\$1.6 billion to Pier 16 - Property Development for the development of Ponte 16 (the “Project”) on the condition that certain securities have to be provided by the shareholders of Pier 16 - Property Development and MSL. On the same day, SJM - Investment executed a share pledge over all the shares in Pier 16 - Property Development in favour of the security agent (the “Security Agent”). Also, on the same day, MSL and World Fortune executed certain security documents (collectively the “MSL Securities”) in favour of a Security Agent for the Lenders in order to support the borrowings of Pier 16 - Property Development. Details of the MSL Securities are set out as follows:

<u>Security document</u>	<u>Main terms of the obligation</u>
Corporate guarantee	MSL provides a guarantee to the Lenders up to a maximum amount of HK\$860 million.
Funding undertaking	an unconditional and irrevocable undertaking by MSL to provide or procure the provision of funds required by Pier 16 - Property Development in relation to the Project, proportional to MSL’s 49% equity interest.
Completion undertaking	an unconditional and irrevocable undertaking by MSL to the Security Agent that Pier 16 - Property Development will duly perform and comply with the completion of the Project.
Share pledge over MSL’s shares in Pier 16 - Property Development	Share pledge has been given by World Fortune in favour of the Security Agent.

The MSL Securities provided by MSL and World Fortune are on normal commercial terms and for the benefit of Pier 16 - Property Development. No security over the assets of our Group is granted with respect to the MSL Securities. Based on the above, the MSL Securities will constitute connected transactions of our Company after the Listing Date which are exempted from reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As a result of our Reorganisation, we have also entered into certain other agreements or transactions with members of STDM Group which will, upon our listing, constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules. These transactions include:

<u>Transactions</u>	<u>Parties</u>
<i>Continuing connected transactions between our Company (and our subsidiaries) and the STDM Group</i>	
Services provided by the STDM Group to the Group	
Products and Services Master Agreement	The Company and STDM
Premises Leasing Master Agreement	The Company and STDM
Chips Agreement	SJM and STDM
Purchase Option Agreements	SJM and STDM
Services provided by the Group to the STDM Group	
Aircraft Sublease Agreements	Sky Reach and Jet Asia

Details of these continuing connected transactions and the associated annual caps, and certain principal terms of the relevant agreements are set out below.

Products and Services Master Agreement

After SJM was granted the Concession from the MSAR and the STDM Group transferred the assets for the operation of the casino gaming to SJM in 2002, the STDM Group retained certain assets and businesses, including hotel and transportation operations, which are only indirectly related to SJM's casino gaming business. In the view of our Directors, various members of the STDM Group have been and will continue to provide certain products and services from these assets and businesses to the Group after the listing. As STDM is our Controlling Shareholder and therefore a Connected Person of our Company under the Listing Rules, the Company plans to regulate our relationship in this regard by entering into an agreement dated 18 June 2008 with STDM (the "Products and Services Master Agreement") which contains the principles, guidelines, terms and conditions for the provision of such products and services by the STDM Group to us. The main terms and conditions of the Products and Services Master Agreement are summarised below:

Types of products and services. The products and services to be provided by various members of the STDM Group to us can be categorised as follows:

- (i) hotel accommodation⁽¹⁾
- (ii) hotel management and operation⁽²⁾
- (iii) entertainment and staff messing⁽³⁾
- (iv) dredging services⁽⁴⁾
- (v) transportation⁽⁵⁾
- (vi) promotional and advertising services⁽⁶⁾
- (vii) travel agency services⁽⁷⁾
- (viii) maintenance services⁽⁸⁾

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- (1) Provision of hotel accommodation to SJM's gaming patrons and guests.
 - (2) Provision of hotel management and operation services to the Group and assist in the purchase of fixed assets and consumables for Grand Lisboa Hotel.
 - (3) Provision of food and beverages and other entertainment services for SJM's staff.
 - (4) Provision of dredging services.
 - (5) Provision of jetfoil tickets, vehicle transportation services, helicopter services and private jet services for SJM's gaming patrons and guests.
 - (6) Provision of sponsoring of gaming events and advertising services.
 - (7) Provision of ticketing services for members of the Group.
 - (8) Provision of electrical and engineering maintenance services for casinos and other premises and other engineering services including tender reviewing and construction related services (engineering services).

General terms and price. The Products and Services Master Agreement provides that:

- the quality of the relevant products and services to be provided will be satisfactory to us;
- the price at which the relevant products and services are to be provided must be fair and reasonable; and
- the terms and conditions on which such products and services are to be provided should be no less favourable to us than those offered to Independent Third Parties.

Price determination. Under the Products and Services Master Agreement, the provision of each type of product or service must be made in accordance with and not exceeding the relevant market price; or where there is no relevant market price, then according to and not exceeding the contractual price.

CONNECTED TRANSACTIONS

For the provision of products or services under the Products and Services Master Agreement:

- “market price” means the price at which the same or comparable type of products or services are provided by Independent Third Parties in the place where such products or services are provided, or in the vicinities thereof, in the ordinary course of business; and
- “contractual price” means the actual cost incurred in providing such products or services plus a profit margin not exceeding 6%.

Rights and obligations. Pursuant to the Products and Services Master Agreement, we reserve our right to choose to receive products and services from Independent Third Parties other than those for dredging services for the Macau Government provided by STDM to SJM as required under the Concession Contract. Similarly, the STDM Group may provide products and services to other third parties, subject always to the obligation on the part of the STDM Group to give us priority in the provision of those products and services required by us in accordance with the Products and Services Master Agreement.

Term and termination. The Products and Services Master Agreement is for a term of three years, provided that we may at any time, by giving at least three months’ prior written notice of termination to STDM, terminate the agreement earlier. The Products and Services Master Agreement may be renewed by the parties before expiry provided that the requirements of the Listing Rules in relation to connected transactions are always complied with.

Implementation agreements. It is envisaged that from time to time and as required, an implementation agreement for a particular type of product or services will be entered into between the relevant service companies providing the relevant products or services and us. Termination of an implementation agreement may be effected from time to time by the parties to the relevant product and service implementation agreement by giving at least three months’ written notice of termination to the other party or parties in relation to any one or more categories of products or services.

Pursuant to the Products and Services Master Agreement, each product and service implementation agreement sets out the specific product or service, quantity, price, duration and other relevant specifications, which reflect the requirements of our Company or our subsidiaries, and the market conditions at the time. The terms and conditions of these implementation agreements strictly follow the terms as set out in the Products and Services Master Agreement. If any of the provisions of any implementation agreement conflicts with any provisions of the Products and Services Master Agreement, the provisions of the Products and Services Master Agreement will prevail.

CONNECTED TRANSACTIONS

Historical figures. The following table sets out the historical expenditures in relation to the provision of the products and services which are the subject matters of the Products and Services Master Agreement for the fiscal years 2005, 2006 and 2007:

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions)		
Expenditures			
(i) Hotel accommodation ⁽¹⁾	159.6	156.1	129.3
(ii) Hotel management and operation ⁽²⁾	0.1	5.6	126.2
(iii) Entertainment and staff messing ⁽³⁾	117.2	100.2	79.9
(iv) Dredging services	70.0	75.7	83.5
(v) Transportation ⁽⁴⁾	612.7	527.7	492.0
(vi) Promotional and advertising services ⁽⁵⁾	4.7	6.3	17.0
(vii) Travel agency services ⁽⁶⁾	1.2	0.9	0.8
(viii) Maintenance services ⁽⁷⁾	39.7	59.3	67.4

- (1) In 2007, there was a decrease in the average monthly chip sales for VIP rooms as compared to 2005 and 2006 due to increased competition from other Concessionaires and increased focus by Concessionaires on the VIP market. As the hotel accommodation credit points are based on chip sales made through VIP Room Gaming Promoters, the hotel accommodation credit points given to VIP Room Gaming Promoters decreased accordingly, which in turn, resulted in the decrease in hotel accommodation expenditures in 2007 at designated hotels. This decrease was in line with the decrease in average monthly chip sales.
- (2) SJM engaged the STDM Group to provide hotel management and operation services to the Group and assist in the purchase of fixed assets and consumables for the pre-opening of Grand Lisboa Hotel. The significant increase of the expenditures in 2007 was due to the opening of the restaurants in Grand Lisboa Hotel and the engagement of the STDM Group by SJM to provide hotel management and operation services to run the restaurants in Grand Lisboa Hotel.
- (3) The gradual decrease in entertainment and staff messing in 2006 and 2007 was mainly due to a general decrease in the overall entertainment expenditure of the Company, for which some of the food and beverage operations are no longer run by operators associated with STDM and the Company shifts the entertainment and staff messing to the restaurants in Grand Lisboa Hotel after their opening.
- (4) In 2006, the Company discontinued the offer of free promotional ferry tickets to mass market gaming patrons.
- (5) The increase in promotional and advertising services was mainly due to the entering into of a new contract in March 2007 with the STDM Group regarding the customised advertising on helicopters operated by East Asia Airlines Limited which is a subsidiary of STDM and the increase of promotional events of the Company.
- (6) For each of the fiscal years 2005, 2006 and 2007, each of the percentage ratios (as defined under the Listing Rules) (other than profit ratio) on the expenditure of travel agency services was on an annual basis less than 0.1%. These transactions will constitute de minimis transactions exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules and therefore no waiver from the Stock Exchange is required.
- (7) Maintenance services include electrical and engineering maintenance services for casinos and other premises and other engineering services including tender reviewing and construction related services.

CONNECTED TRANSACTIONS

Annual caps. Our Directors estimate that the amounts payable by us to the STDM Group under the Products and Services Master Agreement in the years ending 31 December 2008, 2009 and 2010 will be as follows:

	Year ending 31 December		
	2008	2009	2010
	HK\$	HK\$	HK\$
	(in millions)		
Expenditures			
(i) Hotel accommodation ⁽¹⁾	110	25	25
(ii) Hotel management and operation ⁽²⁾	150	38	-
(iii) Entertainment and staff messing ⁽³⁾	95	75	85
(iv) Dredging services ⁽⁴⁾	98	114	134
(v) Transportation ⁽⁵⁾	612	693	758
(vi) Promotional and advertising services ⁽⁶⁾	26	29	35
(vii) Maintenance services ⁽⁷⁾	81	89	98

- (1) The amount of hotel accommodation mainly represents the amount payable by us to the relevant hotels for hotel rooms charges attributed to SJM's casino patrons. The proposed annual caps are determined by taking into account the expected change in room night consumption, the opening of Grand Lisboa Hotel in 2008, and the acquisition of Hotel Lisboa in 2008 or 2009. It is expected to have a decrease in room rate consumption from 2008 to 2010 after the opening of our Grand Lisboa Hotel which will reduce our room rate consumption with the STDM Group.
- (2) The proposed annual caps are determined by reference to the 31 December 2007 figure. As Grand Lisboa Hotel is expected to be opened in 2008, it is expected that there will be an increase in hotel management and operation fees due to the increase in around 430 additional hotel rooms. However, SJM exercised its option to purchase the remaining 15/16 portion of the building known as Hotel Lisboa in April 2008. Following the acquisition of Hotel Lisboa, SJM plans to manage it together with Grand Lisboa Hotel on its own and no longer engage STDM to provide management and operation services. Therefore, no cap has been set for 2010.
- (3) The amount of entertainment and staff messing mainly represents the amount payable by us for the entertainment expenses and consumption incurred by our staff, including our management, and VIP card holders. The proposed annual caps are determined by the expected decrease in entertainment expenses and consumption due to the acquisition of Hotel Lisboa. As a result of such acquisition, SJM will own all Hotel Lisboa entertainment facilities and food and beverages outlets which are currently used by its staff.
- (4) The amount of dredging services represents the service fees payable to STDM for their dredging services. The proposed annual caps are determined by reference to the average historical growth rate of approximately 9.2% for the fiscal years 2005, 2006 and 2007 taking into account the expected inflation rate.
- (5) The amount of transportation mainly represents the amount payable by us to the STDM Group for transportation services, including marine transport and air transport, consumed by SJM's VIP gaming patrons. The air transport services provided by the STDM Group include helicopter and jet services. Such jet services are expected to commence in or around the second quarter of 2008. The proposed annual caps are determined by reference to an expected increase in the number of VIP gaming patrons as a result of the opening of additional VIP rooms in Grand Lisboa Hotel and two new casinos in 2008 and the average historical growth rate for the fiscal years 2005, 2006 and 2007.
- (6) The amount of promotional and advertising services represents the amount payable by us to the STDM Group for their promotional and advertising services. The proposed annual caps are determined by the contract for the customised advertising on helicopters operated by East Asia Airlines Limited and determined by reference to an expected increase in the advertising and promotional expenses due to keen competition in the market.
- (7) The proposed annual caps are determined by reference to the 31 December 2007 figure. As Pier 16 was opened in February 2008 and Grand Lisboa Hotel is expected to be opened in 2008, it is expected that there will be an increase in maintenance services fee due to additional maintenance services to be provided for the new casinos and the additional hotel rooms. In 2009, a further increase in maintenance services fee is also expected as Oceanus is currently planned to be opened in 2009.

Premises Leasing Master Agreement

For the purpose of its casino gaming operations, the Group has entered into various lease arrangements with STDM or its group members as landlords to lease premises for use as casinos, offices or for other business purposes. STDM and its group members hold and engage in a variety of businesses including hotels, property development and investments. In order to regulate the leasing of properties by STDM or the members of the STDM Group to us, our Company and STDM entered into an agreement dated 18 June 2008 (the "Premises Leasing Master Agreement") which contains terms and conditions for the lease of premises by the STDM Group to us. Payment under the Premises Leasing Master Agreement comprises four components: rental, utility charges, air conditioning

services charges and building management fees. The main terms and conditions of the Premises Leasing Master Agreement are summarised below:

General terms and price. In relation to the premises to be leased or provided by the STDM Group to us:

- the quality and conditions of the premises to be provided should be satisfactory to us;
- the rental, utility charges, air conditioning services charges and building management fees of the relevant premises to be provided must be fair and reasonable; and
- the terms and conditions on which such premises are to be provided should be no less favourable to us than those offered by Independent Third Parties.

Rent determination: The relevant rental of such premises may not be higher than the rental for the same or comparable type of premises provided by Independent Third Parties in the ordinary course of business.

Utility charges determination: The relevant utility charges payable by us are based on the actual utility consumption whereas air conditioning expenses and building management fees of such premises (where the party receiving the building management fees is a member of the STDM Group) are determined in accordance with and not exceeding the relevant market price. Where there is no relevant market price, then such fees are determined according to and not exceeding the contractual price.

With respect to utility charges:

- “market price” means the price at which the same or comparable type of services are provided by Independent Third Parties in the place where such services are provided, or in the vicinities thereof, in the ordinary course of business; and
- “contractual price” means the actual cost incurred in providing such services plus a profit margin not exceeding 6%.

Rights and obligations. It is provided in the Premises Leasing Master Agreement that we have the right to rent premises from Independent Third Parties. Similarly, the STDM Group may provide premises to other third parties, subject always to the obligation on the part of the STDM Group to give priority to lease those premises required by us in accordance with the principles, terms and conditions of the Premises Leasing Master Agreement.

Term and termination. The Premises Leasing Master Agreement is for a term commencing on 18 June 2008 and ending on 31 March 2020 provided that at any time during the term of the Premises Leasing Master Agreement, the Company may, by giving not less than three months’ prior written notice, terminate the agreement.

CONNECTED TRANSACTIONS

Terms of the implementing lease. For each of the premises to be leased to us pursuant to the Premises Leasing Master Agreement, the parties will enter into a separate lease agreement. It is further provided in the Premises Leasing Master Agreement that each implementing lease provides the following principal provisions:

(a) *Term and termination*

The term of each implementing lease will be for a term commencing on a date specified in the relevant implementing lease and ending on a date not later than 31 March 2020 provided that:

- (i) at any time during the contractual term, either party may, by not less than three months' notice in writing, terminate the lease earlier;
- (ii) before the expiry of the contractual term, each party may, by giving not less than 18 months' prior written notice, notify the other party of its intention not to renew the relevant lease; and
- (iii) the requirements of the Listing Rules in relation to connected transactions are always complied with subject to renewal of the relevant lease after expiry of its initial term.

(b) *Rent*

The rent for each of the premises under each implementing lease will not be higher than the rent for the same or comparable type of premises provided by Independent Third Parties in the ordinary course of business. The rent for each of the premises will be subject to review and mutual agreement every three years by the parties to the relevant implementing lease, provided that an independent property valuer to be appointed by the parties to the relevant implementing lease confirms that such updated rental is not higher than the market rent.

(c) *Other terms*

Each implementing lease will set out the details of the lease of each of the premises, including the specific quality, condition, rent, duration and other relevant specifications, which reflect the requirements of the relevant members of the Group, and the market conditions at the material time. The terms and conditions of these implementing leases will strictly follow the binding principles, guidelines and terms as set out in the Premises Leasing Master Agreement.

The term of the Premises Leasing Master Agreement exceeds three years. The contractual term of each implementing lease will also exceed three years given the Group's business needs. The rental for long term leases are generally cheaper than that for short term leases. It is normal business practice to maintain long term leases for casinos in order to reduce renovation and other administrative costs that may be incurred in casino relocation.

Based on the above reasons, our Directors including the independent non-executive Directors and our Sponsor are of the opinion that a term exceeding three years is required for the Premises Leasing Master Agreement and each of the individual implementing leases and confirm that it is normal business practice for contracts of this type to be of such minimum duration.

CONNECTED TRANSACTIONS

During the Track Record Period, we leased premises for the following casino gaming and slot machine operations from the STDM Group:

<u>Casino Gaming and Slot Machine Operations</u>	<u>Floor Area</u> sq.m.	<u>Lease term</u> (years)	<u>Lease expiration date</u>
Casino Lisboa	21,229	18	31 March 2020
Casino Kam Pek—Arabian Nights	2,115	5	31 December 2008
Casino Marina	3,242	10	8 December 2009
Casino Taipa*	795	1	30 June 2008
Tiger Slot Lounge	1,102	5	21 April 2010

* Casino Taipa is situated at the Regency Hotel. As this hotel is going to be refurbished, the term of this lease will expire on 30 June 2008.

Historical figures. For each of the fiscal years 2005, 2006 and 2007, the aggregate fees paid by us to the STDM Group for the leasing of premises amounted to approximately HK\$51.2 million, HK\$49.6 million, and HK\$61.3 million, respectively.

Annual caps. Our Directors estimate that the aggregate fees payable by us to the STDM Group under the Premises Leasing Master Agreement and the individual implementing leases for the years 2008, 2009 and 2010 will be approximately HK\$150 million, HK\$205 million and HK\$206 million, respectively. The proposed annual caps are determined by reference to the terms of the new leasing agreement between the Company or its subsidiaries (as the case may be) and STDM and the existing contractual terms of other rental agreements.

The substantial increase in the annual caps is due to the following reasons:

1. Our Group only paid a nominal annual rent of approximately HK\$8.9 million, HK\$10.0 million and HK\$11.4 million for the fiscal years 2005, 2006 and 2007, respectively, to STDM for the leasing of certain premises at Casino Lisboa. However, our Group had, on behalf of STDM, paid removal compensation to the previous tenants for early termination of some of the existing leases between STDM and those tenants which amounted to approximately HK\$18.0 million for the period from 2005 to 2007. Pursuant to the terms of a new leasing agreement between our Company and STDM, the Company will be paying an annual rent, determined according to the market rental of similar premises, of approximately HK\$30.4 million, HK\$11.7 million and nil for the years 2008, 2009 and 2010, respectively.
2. Rental payments for casinos in other hotels, offices and quarters as at 31 December 2007 were HK\$48.8 million.
3. Pursuant to the terms of a new lease agreement for our registered office entered into between our Company and Top Ease (H.K.) Limited, which is a subsidiary of STDM, the Company will be paying an annual rent, determined according to the contractual terms of the lease agreement, of approximately HK\$1.51 million for each of the years 2008 and 2009 and approximately HK\$1.66 million for the year of 2010.
4. Pursuant to the terms of the new lease agreements for New Yaohan Building and Casino L'Hermitage entered or to be entered into between our Company and STDM, the Company will be paying the aggregate annual rent, determined according to the contractual terms of the lease agreements, of approximately HK\$45.6 million for the year 2008 and HK\$97.3 million for each of the years of 2009 and 2010.

The proposed annual caps are expected to remain at the same level in the next three years in accordance with the Premises Leasing Master Agreement and the relevant implementing leases. Savills Valuation and Professional Services Limited, an independent property valuer, has confirmed that the terms and conditions of the Premises Leasing Master Agreement and those of the implementing leases are fair and reasonable to the parties thereto and the rental payment is comparable to the prevailing market rate and is fair and reasonable.

Chips Agreement

Background

As at 1 April 2002, when the Concession was executed with the MSAR under the concession regime, a certain quantity of casino chips of STDM (the “STDM Chips”) were in circulation in the market. Pursuant to its Concession Contract with the MSAR, SJM is permitted to use the STDM Chips, whether they are in treasury or in circulation provided that SJM honours the STDM Chips presented for payment (the “redemption”) by patrons and clients. The aggregate face value of such STDM Chips in circulation as at 1 April 2002 was approximately MOP1,391.5 million (HK\$1,351.0 million) as stated in STDM’s management accounts for the period ended 31 March 2002 as approved by STDM. As at 1 April 2002, an additional amount of STDM Chips of an aggregate face value of approximately MOP16.5 billion (HK\$16.0 billion) was in SJM’s possession, which SJM borrowed from STDM.

Since the beginning of the Concession, SJM has been borrowing additional STDM Chips from STDM for the purpose of its casino gaming operations. As a new Concessionaire whose business commenced immediately in 2002, SJM was not able to acquire sufficient casino chips of its own to meet its business needs. Currently, SJM still does not have sufficient casino chips of its own to meet its business needs owing partly to the limited number and production capacity of chips manufacturers in the past, testing of the latest security features to be included in newly acquired chips, and recent business expansion. It is intended that once SJM has sufficient casino chips of its own, it will no longer borrow casino chips from STDM and the STDM chips will not be resold or used to settle winnings payable to SJM’s gaming patrons. The amount of SJM chips in circulation were HK\$973.1 million, HK\$2,184.6 million and HK\$2,206.6 million as at 31 December 2005, 2006 and 2007, respectively.

SJM continues to order new SJM chips from the chips manufacturers to ensure that it will have sufficient chips to sustain its business operations. SJM generally requires an average of approximately six months to procure necessary chips after placing a purchase order with a chips manufacturer. In circumstances where SJM places multiple purchase orders with a chips manufacturer, less urgent orders may take longer to produce. The longest period SJM has required in the past to procure less urgent chips orders was 16 months. It is expected that by the fourth quarter of 2009, SJM will have sufficient chips of its own and will be able to return all the STDM Chips borrowed from STDM.

To regulate the borrowing and use of STDM Chips, SJM entered into an agreement with STDM dated 18 June 2008 (the “Chips Agreement”) regarding the honouring and borrowing of STDM Chips. The Chips Agreement has no fixed term but may be terminated by mutual agreement or upon termination of SJM’s Concession Contract, whichever is earlier.

For internal control measures relating to chips, see “Internal Controls and Anti-Money Laundering — Internal Control.”

Chips honouring arrangement

Under the Chips Agreement, SJM has agreed to honour the STDM Chips in circulation upon their redemption by patrons or clients. The STDM Chips so redeemed may be resold by SJM or used to settle winnings payable to its patrons. In consideration of SJM's undertaking, STDM has agreed, in turn, to reimburse the STDM Chips presented by SJM to STDM, by paying to SJM the aggregate face value of chips so presented in cheque within the same quarter when such presentation takes place. Pursuant to the Chips Agreement, during the time when the aggregate face value of the STDM Chips in SJM's possession is greater than the aggregate face value of the borrowed STDM Chips as determined from the quarterly chips audit, SJM is entitled to (although it may choose not to) present the STDM Chips to STDM for reimbursement subject to a maximum amount at each time which shall be equal to the difference between the aggregate face value of the STDM Chips in SJM's possession and the aggregate value of the borrowed STDM Chips. However, SJM cannot present the STDM Chips to STDM for reimbursement during the time when the aggregate face value of the STDM Chips held by SJM is less than the aggregate face value of the borrowed STDM Chips.

Pursuant to the Chips Agreement, STDM has also undertaken to indemnify SJM for any losses, claims, damages, costs, expenses or any other liabilities which SJM may suffer as a result of or in connection with the honouring of the STDM Chips in circulation except any losses arising from games of fortune or chances in SJM's casinos.

According to the financial information provided by STDM, STDM currently has shareholders' funds of approximately MOP25.0 billion (HK\$24.3 billion) (without taking into account its interest in the Group). The Directors believe that STDM has the financial ability to perform its payment obligations under the indemnity provided under the Chips Agreement.

Chips borrowing arrangement

Pursuant to the Chips Agreement, in addition to the STDM Chips lent to SJM on 1 April 2002, STDM also agrees to lend additional STDM Chips to SJM free of charge as required by SJM from time to time to meet the demand for casino chips for the casino gaming operations of SJM. SJM may use the borrowed STDM Chips only for casino gaming purposes, which include, without limitation, selling the borrowed STDM Chips to its patrons and clients for their face value and settling winnings payable to its patrons in the ordinary course of business. SJM's obligation to return the STDM Chips borrowed from STDM will only be discharged by the return of the STDM Chips to STDM in an amount whose aggregate face value is equal to the aggregate face value of the STDM Chips borrowed, and not by any other means.

For any redeemed STDM Chips, SJM may re-circulate the chips or return such chips in kind, i.e., not in cash, to STDM so as to reduce the amount of the STDM Chips borrowed from STDM. There is no distinction between the STDM Chips being put into circulation by STDM prior to 1 April 2002 and those STDM Chips borrowed by SJM which were subsequently put into circulation by SJM. As such, SJM may return any STDM Chips to STDM to settle the chips borrowed from STDM under the chips borrowing arrangement.

The STDM chips in circulation arrangement works in parallel, but is not to be confused, with the chips borrowing arrangement. Under the STDM chips borrowing arrangement, SJM may borrow further STDM Chips from STDM, and return such STDM Chips in kind, not in cash. In other words, what are lent and returned are the physical objects of the STDM Chips, not their face value.

CONNECTED TRANSACTIONS

For the fiscal years 2005, 2006 and 2007, due to business expansion, SJM has borrowed additional STDM Chips from STDM, has re-circulated some STDM Chips redeemed by its patrons and clients and has not presented any chips to STDM for redemption. The net return of aggregate face value of STDM Chips to STDM were approximately HK\$2,382.5 million, HK\$1,938.8 million and HK\$1,434.6 million for the fiscal years 2005, 2006 and 2007, respectively.

As the then aggregate face value of the STDM Chips on hand was less than the then aggregate face value of STDM Chips borrowed as determined from each of the quarterly chips audits for the year ended 31 December 2005, SJM was not entitled to present the STDM Chips to STDM for reimbursement. Accordingly, there was also no maximum quarter-end balance of the amount SJM was entitled to reimburse from STDM on presentation of the STDM Chips in circulation for the year 2005.

As SJM progressively returned the STDM Chips borrowed, the aggregate face value of STDM Chips on hand was greater than the aggregate face value of the STDM Chips borrowed as at 31 December 2006 and 31 December 2007. Although SJM is entitled to redeem such amount, or HK\$434.1 million as at 31 December 2007, SJM has decided not to present any chips to STDM for redemption as SJM intends to set off the redemption amount payable by STDM against the current payables to STDM prior to listing, or HK\$306.9 million as at 31 December 2007. The net balance as at 31 December 2007 was HK\$127.2 million. Such net balance will be settled in cash. The gross physical STDM Chips as at 31 December 2007, of HK\$434.1 million will be presented to STDM prior to listing. As at 31 December 2006 and 2007, the amount SJM is entitled to redeem from STDM on presentation of STDM Chips in circulation was HK\$403.1 million and HK\$434.1 million, respectively. The maximum quarter-end balance of the amount SJM is entitled to redeem from STDM on presentation of the STDM Chips in circulation for the year ended 31 December 2006 and 2007 were HK\$403.1 million and HK\$498.4 million, respectively.

As at 31 December 2007, the aggregate face value of the STDM Chips borrowed from STDM by SJM was approximately HK\$12.8 billion and the aggregate face value of the STDM Chips in SJM's possession was approximately HK\$13.2 billion.

SJM will use its best efforts to replace the STDM Chips as soon as possible. In this regard, SJM has been engaging in regular communications with chips manufacturers independent from the STDM Group for the manufacture of chips for its current usage and future consumption. Under these arrangements, SJM anticipates that it will have sufficient chips of its own by the fourth quarter of 2009. Upon having sufficient SJM chips, SJM will use its own chips and the STDM Chips will be returned to STDM.

The chips borrowing arrangement can be terminated as soon as:

- (i) SJM returns all borrowed STDM Chips to STDM;
- (ii) all STDM Chips in circulation have been redeemed; or
- (iii) SJM has sufficient number of SJM chips in appropriate denominations with an aggregate face value larger than the aggregate face value of the STDM Chips in circulation.

Corporate Governance Measures

The Company and SJM plan to put in place the following corporate governance measures at the Company’s level and at SJM’s level to ensure that any decision by SJM for redemption of the STDM Chips is made in the interests of the Company’s shareholders as a whole and is communicated to the Company’s investors on a timely basis:

At the Company’s level:

- (a) only the Directors who are independent from STDM may vote on matters regarding SJM’s redemption;
- (b) the majority of the Board (including the independent non-executive Directors) is independent from STDM and it is the Board as a whole, and not individual Directors which makes decisions for the Company;
- (c) the Board has four independent non-executive Directors with extensive corporate governance and financial experience to serve as independent non-executive directors of the Company, and to review, enhance and implement measures to manage any conflict of interests between STDM and the Group in order to protect minority shareholders’ interests; and
- (d) the Company will publish in its interim and annual reports the aggregate face value of the STDM Chips redeemed over the preceding period(s).

At SJM’s level:

- (a) all SJM directors are also Directors of the Company; and
- (b) only SJM directors who are independent from STDM may vote when making a decision regarding redemption.

Continuing Connected Transactions

The presentation of the STDM Chips by SJM to STDM for reimbursement constitutes connected transactions for purposes of the Listing Rules.

Annual caps. The following sets out the estimated amount of the total face value of the STDM Chips to be redeemed by SJM for the years 2008, 2009 and 2010:

	<u>Year ending 31 December</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	HK\$	HK\$	HK\$
	(in millions)		
Amount receivable on reimbursement of the STDM Chips in circulation	917	917	917

Purchase Option Agreements

As set out in the section headed “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM” in this Prospectus, on 17 April 2008, SJM exercised its options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A at HK\$4,295 million and HK\$360 million, respectively, pursuant to the two purchase option agreements dated 17 October 2007 entered into between STDM and SJM. Under the relevant

option agreements, each of STDM and SJM is required to enter into a promissory sale and purchase agreement in respect of the remaining 15/16 portion of the building known as Hotel Lisboa, and within 90 days thereafter, they will become mutually bound to execute a deed of sale and purchase and complete the transaction, unless further agreed that the deed be executed on a later date. In respect of Nam Van Lake Lot 11-A, each of SJM and STDM's subsidiaries which holds that property (the "relevant subsidiaries") is similarly required to enter into a promissory sale and purchase agreement relating to the property, failing which, STDM and SJM must enter into a promissory sale and purchase agreement relating to the shares in the relevant subsidiaries. Within 90 days thereafter, the parties concerned will become mutually bound to execute a deed of sale and purchase in respect of the property or a deed of transfer of shares in the relevant subsidiaries and complete the transaction. Whilst no time frame is specified in the option agreements for the entry into the respective promissory sale and purchase agreements, SJM intends to require STDM to enter into such agreements after the Listing Date.

The above-mentioned promissory sale and purchase agreements and deeds will, upon our listing, constitute non-exempt connected transactions of our Company under Chapter 14A of the Listing Rules. For further details, please refer to the section headed "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM" in this Prospectus.

Historical figures. During the Track Record Period, no payment has been made by SJM to STDM under the purchase option agreements.

Annual caps. The amount payable by SJM to STDM or the relevant subsidiaries to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A will be HK\$4,655 million in aggregate. The Directors expect that the purchase monies for the acquisitions of the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A will be payable in 2008 or 2009, and therefore the proposed annual cap for the three years ending 31 December 2010 will be HK\$4,655 million, HK\$4,655 million and nil, respectively.

Aircraft Sublease Agreements

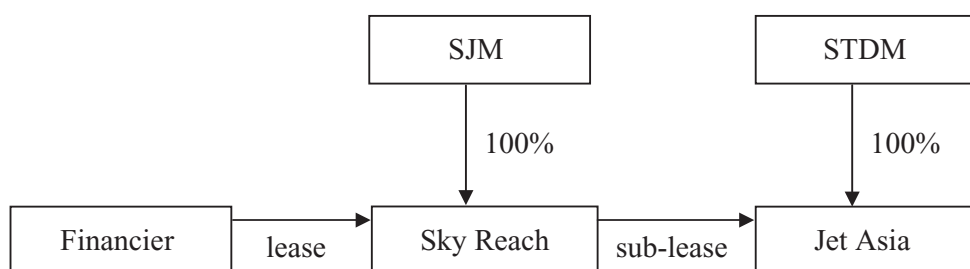
In May 2007, Jet Asia, a wholly owned subsidiary of STDM, entered into a term sheet with a financier, an Independent Third Party, to arrange for a finance lease transaction in respect of six aircraft pursuant to which Sky Reach Investments Limited ("Sky Reach"), a wholly owned subsidiary of the Company, would enter into lease agreements for the six aircraft with this Independent Third Party. In December 2007, two aircraft lease agreements were entered into between Sky Reach and this Independent Third Party for the leasing of two aircraft to Sky Reach, and two aircraft sublease agreements were entered into between Sky Reach and Jet Asia, pursuant to which Sky Reach agreed to sublease two aircraft to Jet Asia. In May 2008, one aircraft lease agreement was entered into between Sky Reach and this Independent Third Party for the leasing of the aircraft to Sky Reach, and one aircraft sublease agreement was entered into between Sky Reach and Jet Asia for the subleasing of the aircraft to Jet Asia. It is anticipated that lease agreements and sublease agreements for the remaining three aircraft between that Independent Third Party and Sky Reach, and between Sky Reach and Jet Asia will take effect in 2008. Upon listing of the Company, the six aircraft sublease agreements between Sky Reach and Jet Asia (the "Aircraft Leases") for the six aircraft (the "Six Aircraft") will constitute connected transactions of the Company.

CONNECTED TRANSACTIONS

The Six Aircraft have been or will be leased by the Group under finance lease arrangements with the aforesaid financier, an Independent Third Party. The finance lease documentation for the first two aircraft took effect in December 2007, the finance lease documentation for the third aircraft took effect in May 2008 and the finance lease documentation for the remaining three aircraft are expected to take effect in 2008.

The rationale for structuring the arrangement in the current way is that the Company would like to provide chartered jet transportation services to cater to and attract new VIP gaming patrons primarily from South East Asian countries to our casinos. The Group currently neither holds any licences nor has any intention to operate chartered jet services and has thus sought to use Jet Asia to provide these services, which is at present one of the licensed chartered jet operators in Macau with the requisite industry experience and all necessary ancillary facilities to operate chartered jet services. In seeking to expand its fleet to accommodate our increased demand, Jet Asia had sought to lease the Six Aircraft from the financier. However, the Group was informed that the financier's preference was to transact through the Group to sublease the Six Aircraft to Jet Asia, as we would be the major customer of the Six Aircraft.

Therefore, the current structure was adopted such that the financier would lease the Six Aircraft to Sky Reach, which would in turn sublease the Six Aircraft to Jet Asia and Jet Asia would provide non-exclusive chartered jet services to our VIP gaming patrons.



The benefit of this arrangement to the Group is that we can ensure adequate chartered jets services for our VIP gaming patrons without having to directly operate the Six Aircraft for which we have no licence and expertise, nor commit additional resources to enter into a non-core business.

The rental for the Six Aircraft which Jet Asia will pay to Sky Reach under the Aircraft Leases would be equivalent to the rental which Sky Reach will pay to the financier in respect of the Six Aircraft. Such rental was agreed at after arms-length negotiation with the financier and represents normal markets rates. Sky Reach is not expected to make a profit or loss under the leasing arrangements.

SJM will pay chartered service fees to Jet Asia. In return, Jet Asia will provide priority service and volume discounts to SJM in respect of the chartered jet services requested. (The provision of the chartered jet services by Jet Asia to SJM will constitute a connected party transaction and be included in the transportation services provided by members of the STDM Group under the Products and Services Master Agreement.)

Term. It is the intention of the parties that each of the Aircraft Leases has an initial term of 10 years. The term may be extended by mutual consent of the parties on such terms as may be agreed between them. The term of each of the Aircraft Leases exceeds three years. It is normal business practice for finance leases to have terms of similar or longer durations.

CONNECTED TRANSACTIONS

Based on the above reasons, our Directors including the independent non-executive Directors and our Sponsor are of the opinion that a term exceeding three years is required for each of the Aircraft Leases and confirm that it is normal business practice for aircraft leases of this type to be of such minimum duration.

Rent. Pursuant to the Aircraft Leases, the aggregate annual amount payable by Jet Asia for the leasing of the Six Aircraft shall be approximately HK\$48.5 million (subject to prevailing interest rates).

Historical figures. During the Track Record Period, there was no consideration paid by Jet Asia because the Aircraft Leases commenced after December 2007.

Annual caps. Our Directors estimate that the aggregate rental payable by Jet Asia under the Aircraft Leases for the year ending 31 December 2008 will be approximately HK\$38.0 million on the basis that all Six Aircraft have been leased. The proposed annual cap is determined by reference to the contractual terms of the Aircraft Leases and subject to prevailing interest rates.

WAIVER APPLICATION

With respect to Rule 14A.35(2) of the Listing Rules, the maximum aggregate annual value (cap) (if any) for each category of non-exempt continuing connected transactions under the section headed “Non-Exempt Continuing Connected Transactions” above must not exceed the applicable limit set out below:

	Year ending 31 December		
	2008	2009	2010
	HK\$	HK\$	HK\$
	(in millions)		
Continuing Connected Transactions with the STDM Group			
Expenditures incurred			
(1) Products and Services Master Agreement			
(i) hotel accommodation	110	25	25
(ii) hotel management and operation	150	38	-
(iii) entertainment and staff messing	95	75	85
(iv) dredging services	98	114	134
(v) transportation	612	693	758
(vi) promotional and advertising services	26	29	35
(vii) maintenance services	81	89	98
(2) Premises Leasing Master Agreement	150	205	206
(3) Chips Agreement	917	917	917
(4) Purchase Option Agreements	4,655	4,655	—
Income generated			
(5) Aircraft Sublease Agreements	38	—	—

The transactions categorised as (1) to (5) above will constitute non-exempt continuing connected transactions under the Listing Rules once the Shares are listed on the Stock Exchange. Pursuant to the Listing Rules, these non-exempt continuing connected transactions categorised as (1)(v), (3), (4) and (5) would normally require full reporting, announcement and independent shareholders’ prior approval requirements. The transactions categorised as (1)(i), (1)(ii), (1)(iii), (1)(iv), (1)(vi), (1)(vii) and (2) above will also constitute non-exempt continuing connected

transactions subject to the announcement and reporting requirements of the Listing Rules. Our Directors, including our independent non-executive Directors, consider that disclosure and approval of these transactions in full compliance with the Listing Rules would be impracticable and, in particular, would add unnecessary administrative costs to us. In addition, our Directors, including our independent non-executive Directors, believe that it is in our interests to continue with these transactions after the listing of our Shares on the Stock Exchange and that such transactions are conducted on normal commercial terms, in our ordinary and usual course of business and are fair and reasonable and in the interests of our Shareholders as a whole and that the annual limits for the non-exempt continuing connected transactions are fair and reasonable.

We have applied to the Stock Exchange for waivers in accordance with Rule 14A.42(3) of the Listing Rules and the Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions categorised as (1)(v), (3)(i), (3)(iii), (4), (5) and (6) above from the announcement and independent shareholders' approval requirements of the Listing Rules pursuant to Rules 14A.47 and 14A.48 of the Listing Rules.

We have applied to the Stock Exchange for waivers in accordance with Rule 14A.42(3) of the Listing Rules and the Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions categorised as (1)(i), (1)(ii), (1)(iii), (1)(iv), (1)(vi), (1)(vii), (2) and (3)(ii) above from the announcement requirement of the Listing Rules pursuant to Rule 14A.47 of the Listing Rules. Pursuant to Rule 14A.34 of the Listing Rules, these transactions are exempt from the independent shareholders' approval requirement of the Listing Rules.

In applying for the waivers, we have agreed that we will comply with the requirements specified under Chapter 14A of the Listing Rules, including Listing Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45. Our Board will also state in our annual report whether our auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules.

Our Directors, including our independent non-executive Directors, consider that the maximum aggregate annual value of all the non-continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of business, will be conducted on normal commercial terms and are fair and reasonable so far as our Shareholders as a whole are concerned.

Confirmation from the Directors and the Sponsor

Each of our Directors (including independent non-executive Directors) is of the view that the non-exempt continuing connected transactions mentioned above are entered into in the ordinary and usual course of our business upon normal commercial terms, and that the terms of such non-exempt continuing connected transactions and the annual caps set out above are fair and reasonable and in the interest of the Shareholders as a whole.

The Sponsor has reviewed relevant documentation, information and historical data provided by us, and has participated in due diligence and discussions among our advisors and us in relation to the connected transactions described above. Based on the foregoing, the Sponsor is of the view that (i) the non-exempt continuing connected transactions set out above for which waivers are sought have been entered into in the ordinary and usual course of our business, on normal commercial terms and are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for these non-exempt continuing connected transactions referred to above are fair and reasonable.