THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

Melco

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)

PROPOSED GROUP REORGANIZATION
ASSETS ACQUISITION
INVOLVING ISSUE OF CONSIDERATION SHARES
& CONVERTIBLE NOTES
AND
INCREASE OF AUTHORIZED SHARE CAPITAL
MAJOR AND CONNECTED TRANSACTION

Financial Adviser to Melco International Development Limited

VC CEF CAPITAL LIMITED
滙盈加怡融資有限公司
A wholly-owned subsidiary of Value Convergence Holdings Limited

Independent Financial Adviser to the Independent Board Committee

SUN HUNG KAI INTERNATIONAL LIMITED

A notice convening an Extraordinary general meeting of Melco International Development Limited (the "Company") to be held at 38/F, The Centrium, 60 Wyndham Street, Central, Hong Kong on Thursday, 20 May 2004 at 3:30 p.m. is set out on pages 124 and 128 of this circular. Whether or not you are able to attend such meeting, please complete the enclosed proxy form in accordance with the instructions printed thereon and return the same 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 such meeting or any adjourned meeting as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting as the case may be should you so wish.

23 April 2004

CONTENTS

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

"2005 Convertible Note"	the 4% convertible loan note constituted by the 2005 Convertible Note Instrument to be issued by Melco to Better Joy in the sum of HK$22,500,000
"2005 Convertible Note Instrument"	the 2005 Convertible Note instrument to be executed by Melco
"2006 Convertible Note"	4% convertible loan note constituted by the 2006 Convertible Note Instrument to be issued by Melco to Better Joy in the sum of HK$22,500,000
"2006 Convertible Note Instrument"	the 2006 Convertible Note instrument to be executed by Melco
"associate(s)"	has the same meaning as defined in the Main Board Listing Rules and/or the GEM Listing Rules (as the context may requires)
"Bailey"	Bailey Development Limited, a company incorporated in Hong Kong and the issued shares of which are owned as to 65% by Dr. Stanley Ho, 5% by Dr. Lee Jun Sing (an executive director of VC), 20% by Dr. Lee Jun Sing's parents, 5% by Ms. Leong On Kei, Angela (a non-executive director of VC), and the remaining 5% by two independent persons not connected with the directors, chief executive or substantial shareholders of VC or any of their respective associates
"Better Joy"	Better Joy Overseas Limited, a company incorporated in the BVI and is owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
"Better Joy Consideration Shares"	the 124,701,087 Melco Shares to be issued to Better Joy in relation to the Better Joy Sale Shares at an issue price of HK$2.30 per Melco Share
"Better Joy Sale Shares"	65 Mocha Shares to be sold by Better Joy under the Better Joy Sale Shares Agreement
"Better Joy Sale Shares Agreement"	the conditional sale and purchase agreement entered into between Melco (as purchaser), Better Joy (as vendor) and Lawrence Ho (as warrantor), pursuant to which Better Joy has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Better Joy Sale Shares

"Better Joy Shareholder's Loan"	principal amount of HK$45 million unsecured on-demand shareholder's loan granted by Better Joy to Mocha and bearing interest at a rate of 4% per annum from the date of grant
"BVI"	British Virgin Islands
"Chang Tan"	Mr. Chang Tan, a party independent of and not connected with the directors, chief executive and substantial shareholders of Melco or its subsidiaries
"Chang Tan Consideration Shares"	the 15,347,826 Melco Shares to be issued to Chang Tan under and subject to the Chang Tan Sale Shares Agreement
"Chang Tan Sale Shares"	8 Mocha Shares to be sold by Chang Tan under the Chang Tan Sale Shares Agreement
"Chang Tan Sale Shares Agreement"	the conditional sale and purchase agreement entered into between Melco and Chang Tan, pursuant to which Chang Tan has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Chang Tan Sale Shares
"Chang Wang"	Mr. Chang Wang, a party independent of and not connected with the directors, chief executive and substantial shareholders of Melco or its subsidiaries
"Chang Wang Consideration Shares"	the 13,429,348 Melco Shares to be issued to Chang Wang under and subject to the Chang Wang Sale Shares Agreement
"Chang Wang Sale Shares"	7 Mocha Shares to be sold by Chang Wang under the Chang Wang Sale Shares Agreement
"Chang Wang Sale Shares Agreement"	the conditional sale and purchase agreement entered into between Melco and Chang Wang, pursuant to which Chang Wang has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Chang Wang Sale Shares
"Concert Group"	Mr. Ho Yau Lung, Lawrence ("Lawrence Ho"), Lasting Legend, Dr. Ho, Madam Lucina Laam King Ying (an associate of Dr. Ho), Shun Tak Shipping and their respective relevant associates (as defined in the Takeovers Code)
"Conditions"	the conditions set out in the Mocha Acquisition Agreements

"connected person"	has the same meaning as defined in the Main Board Listing Rules or the GEM Listing Rules (as the context may require)
"Consideration Shares"	153,478,261 Melco Shares comprising (i) 124,701,087 Melco Shares to be issued to Better Joy, (ii) 13,429,348 Melco Shares to be issued to Chang Wang and (iii) 15,347,826 Melco Shares to be issued to Chang Tan under the Mocha Acquisition Agreements
"Continuing Connected Transactions"	as defined in the section headed "D. Continuing Connected Transactions" in this circular
"Continuing Connected Transaction Waiver"	a waiver by the Stock Exchange to Melco from strict compliance with the relevant requirements under the Main Board Listing Rules in respect of the performance by the relevant member(s) of the Melco Group of its/their obligations under the Equipment Leases
"Convertible Notes"	collectively the 2005 Convertible Note and the 2006 Convertible Note
"Dr. Ho" or "Dr. Stanley Ho"	Dr. Ho Hung Sun, Stanley, the chairman and an executive director of Melco and VC
"Elixir"	Elixir Group Limited, a company incorporated in Hong Kong with limited liability which is owned as to about 77.5% by VC and as to about 22.5% by independent third parties who are not connected with the directors, chief executive, substantial shareholders or management shareholders of VC or any of their respective associates
"Enlarged Group"	the Melco Group as enlarged by the completion of the Mocha Acquisition Agreements and the iAsia Group Disposal Agreement
"Equipment Leases"	the leasing of gaming machines by Mocha to SJM pursuant to the lease agreements entered into between them in respect of the gaming machine lounge operated at Hotel Royal, Macau and two new gaming machine lounges to be opened at Kingsway Commercial Centre and San Kin Yip Building, Macau
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and/or any delegate of the Executive Director

"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM (as amended from time to time)
"Golden Mate"	Golden Mate Co., Ltd., a company incorporated in BVI with limited liability and is controlled by Mr. Lawrence Ho
"Group Reorganization"	the proposed conditional group reorganization including the Mocha Acquisition Agreements and the iAsia Group Disposal Agreement and all transactions contemplated therein in relation to assets acquisition and assets disposal of the Melco Group and the VC Group (as the case may be)
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"iAsia"	iAsia Technology Ltd, a company incorporated in Hong Kong and wholly owned by VC
"iAsia Group"	iAsia and its subsidiaries, namely iAsia Online Systems Limited, iAsia Solutions Limited, iAsia Networks Solutions Limited, Elixir Group Limited and Elixir Group (Macau) Limited
"iAsia Group Disposal Agreement"	the conditional sale and purchase agreement entered into between Melco and VC, pursuant to which VC has agreed to sell, and Melco has agreed to purchase or procure the purchase of the iAsia Sale Shares
"iAisa Group Disposal Longstop Date"	18 June 2004 or such other date as Melco and VC may agree in writing
"iAsia Sale Shares"	the entire issued share capital of iAsia
"Independent Financial Adviser" or "Sun Hung Kai"	Sun Hung Kai International Limited, a deemed licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO
"Lasting Legend"	Lasting Legend Limited, a company controlled by Mr. Lawrence Ho

"Latest Practicable Date"	20 April 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	The Main Board Listing Rules or the GEM Listing Rules, as the context may require
"Macau"	The Macau Special Administrative Region of the People's Republic of China
"Main Board"	The stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
"Main Board Listing Rules"	the Rules Governing the Listing of Securities on the Main Board (as amended from time to time)
"Melco" or the "Company"	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on Main Board
"Melco EGM"	the extraordinary general meeting of Melco to be convened on 20 May 2004 for the purpose of considering and approving the relevant transactions contemplated under the Group Reorganization and concerning Melco
"Melco Group"	Melco and its subsidiaries (including the VC Group) from time to time
"Melco Independent Board Committee"	the independent board committee of Melco comprising the independent non-executive Directors namely Sir Roger Lobo, Mr. Robert Kwan and Mr. Ng Ching Wo
"Melco Independent Shareholders"	shareholders of Melco, including Shun Tak Shipping but other than Mr. Lawrence Ho, Lasting Legend and Dr. Stanley Ho and his associates
"Melco Shares"	the ordinary shares of HK$1.00 each in the share capital of Melco
"Mocha"	Mocha Slot Group Limited, a company incorporated in the BVI and is owned as to 65% by Better Joy, as to 27% by Chang Wang and as to 8% by Chang Tan as at the date of the Mocha Acquisitions Agreements

"Mocha Acquisition Agreements"	the Better Joy Sale Shares Agreement, the Chang Wang Sale Shares Agreement and the Chang Tan Sale Shares Agreement
"Mocha Acquisition Completion"	completion of the Mocha Acquisition Agreements
"Mocha Acquisition Longstop Date"	18 June 2004 or such other date as Melco and each of Better Joy, Chang Wang and Chang Tan may agree in writing separately
"Mocha Group"	Mocha and its subsidiary from time to time
"Mocha Shares"	the ordinary shares of US$1.00 each in the capital of Mocha
"Messrs. Chang"	Chang Wang and Chang Tan, being parties independent of and not connected with the directors, chief executive and substantial shareholders of Melco and its subsidiaries
"PRC"	the People's Republic of China (but, for the purpose of this circular, excluding Hong Kong and Macau)
"Shun Tak Shipping"	Shun Tak Shipping Company Limited, a company incorporated in Hong Kong
"Sale Shares"	an aggregate of 80 Mocha Shares comprising the Better Joy Sale Shares (being 65 Mocha Shares), the Chang Wang Sale Shares (being 7 Mocha Shares) and the Chang Tan Sale Shares (being 8 Mocha Shares), and together representing 80% of the entire issue share capital of Mocha
"SJM"	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau
"SFC"	the Securities and Futures Commission of Hong Kong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Transactions"	all the transactions in connection with the Mocha Acquisition Agreements, iAsia Group Disposal Agreement and all transactions contemplated therein in relation to the Group Reorganization and the Continuing Connected Transactions
"Vendors"	collectively Better Joy, Mr. Chang Wang and Mr. Chang Tan agreeing to sell the Sale Shares to Melco

"VC"	Value Convergence Holdings Limited, a company incorporated in Hong Kong, the securities of which are listed on the GEM and a 67.57% owned subsidiary of Melco
"VC EGM"	the extraordinary general meeting of VC to be convened on 20 May 2004 for the purpose of considering and approving the relevant transactions contemplated under the Group Reorganization and concerning VC
"VC Group"	VC and its subsidiaries
"VC Independent Board Committee"	the independent board committee of VC comprising the independent non-executive directors of VC, namely Mr. Tsui Yiu Wa, Alec and Attorney Patajo-Kapunan, Lorna
"VC Independent Shareholders"	shareholders of VC other than, Melco, Bailey and Golden Mate
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

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

Directors:
Dr. Stanley Ho *(Chairman)*
Sir Roger Lobo*
Mr. Robert Kwan*
Mr. Ng Ching Wo*
Mr. Ho Cheuk Yuet**

Mr. Lawrence Ho *(Managing Director)*
Mr. Frank Tsui

* *Independent non-executive Director*
** *Non-executive Director*

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

23 April 2004

To the Shareholders

Dear Sir or Madam,

PROPOSED GROUP REORGANIZATION ASSETS ACQUISITION INVOLVING ISSUE OF CONSIDERATION SHARES & CONVERTIBLE NOTES AND INCREASE OF AUTHORIZED SHARE CAPITAL MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

On 19 March 2004, the respective boards of directors of Melco and VC put forward a conditional Group Reorganization that, among other things, involves the entering into of the Mocha Acquisition Agreements and the iAsia Group Disposal Agreement. On 2 April 2003, Melco further announced details of the continuing connected transactions arising from the Equipment Leases upon completion of the Mocha Acquisition Agreements.

IMPLICATION OF THE LISTING RULES

The Mocha Acquisition Agreements and the iAsia Group Disposal Agreement are not inter-conditional, but are subject to the satisfaction of certain conditions, a summary of which is set out below in this circular. The Mocha Acquisition Agreements together constitute a major transaction of Melco. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of Melco, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of Melco's issued shares) and, accordingly, the Better Joy Sale Shares Agreement constitutes a connected transaction of Melco.

After the completion of the Mocha Acquisition Agreements, Mocha will become a 80% owned subsidiary of Melco, and Mocha's Equipment Leases with SJM (being a connected person of Melco) will constitute continuing connected transactions of Melco.

Since VC is a non-wholly owned subsidiary of Melco, therefore, the iAsia Group Disposal Agreement is a connected transaction of Melco. It is expected that Elixir (a non-wholly owned subsidiary of iAsia) will continue to provide information technology services to SJM after the completion of the iAsia Group Disposal Agreement. Such provision of services will also constitute continuing connected transactions of Melco.

The Mocha Acquisition Agreements, the issue of the Consideration Shares and the Convertible Notes and the iAsia Group Disposal Agreement, being the proposed Group Reorganization of Melco and VC, and the Continuing Connected Transactions are subject to, among other things, the approval by the Melco Independent Shareholders at the Melco EGM.

The iAsia Group Disposal Agreement constitutes a discloseable transaction of VC. Furthermore, as Melco is the controlling shareholder of VC, the iAsia Group Disposal Agreement also constitutes a connected transaction of VC under Chapter 20 of the GEM Listing Rules. Accordingly, the iAsia Group Disposal Agreement is subject to, among other things, the approval by the VC Independent Shareholders at the VC EGM.

The purpose of this circular is to provide you with (i) further information on the relevant transactions comprised in the Group Reorganization; (ii) details of the Continuing Connected Transactions; (iii) the recommendation from Melco Independent Board Committee; (iv) the advice from the Independent Financial Adviser to Melco Independent Board Committee; and (v) the notice of the Melco EGM.

PROPOSED GROUP REORGANIZATION

The relevant agreements in relation to the conditional proposed group reorganization are set out below:

A. The Mocha Acquisition Agreements

Summary of the principal terms of the Mocha Acquisition Agreements

	Better Joy Sale Shares Agreement	**Chang Wang Sale Shares Agreement**	**Chang Tan Sale Shares Agreement**
Date	19 March 2004	19 March 2004	19 March 2004
Purchaser	Melco	Melco	Melco
Vendor	Better Joy	Chang Wang	Chang Tan
Assets to be acquired	65 Mocha Shares, representing 65% of the issued share .capital of Mocha	7 Mocha Shares, representing 7% of the issued share capital of Mocha	8 Mocha Shares, representing 8% of the issued share capital of Mocha
Consideration for the acquisition of the relevant Mocha Shares	Approximately HK$286.81 million	Approximately HK$30.89 million	HK$35.30 million
Consideration Shares to be issued and allotted at an issue price of HK$2.30 per Melco Share	124,701,087 Melco Shares	13,429,348 Melco Shares	15,347,826 Melco Shares
Consideration Shares as a percentage of the total issued Melco Shares as enlarged by the issue of the Consideration Shares	33.05%	3.56%	4.07%
Assignment of shareholder’s loan made to Mocha	Better Joy Shareholder’s Loan	Nil	Nil
Issue of Convertible Notes to acquire Better Joy Shareholder’s Loan	HK$45 million	Nil	Nil

Consideration

The aggregate consideration of HK$353 million payable for the acquisition of the Better Joy Sale Shares, Chang Wang Sale Shares and Chang Tan Sale Shares and the issue of the Convertible Notes (aggregating HK$45 million in principal amount) to acquire the Better Joy Shareholder's Loan, were arrived at after arm's length negotiations between the relevant parties and is by reference to the valuation of about HK$594 million (the "Valuation") performed by American Appraisal China Limited, an independent business valuer on the Mocha Group as at 29 February 2004. Such aggregate consideration represents a discount of approximately 15.95% to the Valuation. The HK$353 million purchase consideration will be satisfied by the issue of Consideration Shares by Melco to Better Joy, Chang Wang and Chang Tan as set out in the above table.

Information of the Mocha Group

The Mocha Group was established in March 2003 and has been in operation since September 2003. It is principally engaged in the business of leasing gaming machines and the provision of ancillary management services to the lessees of its gaming machines in Macau. In September 2003, Mocha commenced leasing gaming machines to SJM in Macau and it currently leases 65 gaming machines under the Equipment Leases to SJM (the number of gaming machines leased to SJM is expected to increase to about 500 in June 2004). Pursuant to the Equipment Leases, Mocha will, in addition to a fixed monthly rent, receive percentage rent for the gaming machines leased, and related management services provided, to SJM at an agreed percentage of net win from each machine leased and operated.

SJM has obtained the necessary approvals from the Government of Macau in respect of the Equipment Leases and so far as Melco is aware, such approvals are still valid and subsisting. Apart from such approvals, Mocha's business of leasing gaming machines and providing ancillary management services to SJM is not subject to any regulatory or licensing requirement in Macau. As the Mocha Group's business is all carried on in Macau, it is not subject to the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong) and, hence, will not constitute unlawful activities under the laws of Hong Kong. Melco is not aware of any specific risks in relation to the operation of Mocha's business as aforesaid.

As a condition to the Mocha Acquisition Completion, Better Joy, Chang Wang and Chang Tan are required to deliver to Melco a legal opinion issued by a qualified Macau legal counsel confirming, inter alia, that each of the Equipment Leases is legal, valid and enforceable against the parties thereto and will not be adversely affected by the Mocha Acquisition Completion. Therefore, Melco will not be obliged to complete the Mocha Acquisition Completion if the Equipment Leases or any of them do not comply with the applicable laws and regulations in Macau. In the event that the relevant legal opinions cannot confirm the legality of the Equipment Leases, Melco will issue an announcement as to whether the conditions relating to the Mocha Acquisition Agreements can be fulfilled.

Melco will use its best endeavors to ensure that, throughout the holding of its investment in Mocha, the operation of Mocha will comply with the applicable laws in Macau. Shareholders of Melco are reminded that, in accordance with the Stock Exchange's guidelines on gambling business, that if the operation of Mocha does not comply with applicable laws in Macau, the Stock Exchange may, depending on the circumstances of the case, direct Melco to take remedial action, and/or may suspend dealings in, or may cancel the listing of, Melco's shares under Rule 6.01 of the Main Board Listing Rules. As the Melco Group's business consists of financial services, information technology and other leisure and entertainment business, if Melco cannot take the requisite remedial action in the circumstance aforementioned, it is Melco's intention to maintain active trading and listing status of Melco Shares by divesting its investment in the Mocha Group.

Based on the audited consolidated financial information of the Mocha Group, the audited consolidated net asset value of the Mocha Group as at 31 December 2003 was approximately HK$1.25 million and the audited consolidated net profit before tax and after tax for the period from 20 March 2003 to 31 December 2003 were approximately HK$1.47 million and HK$1.25 million respectively. The financial information of the Mocha Group is set out in Appendix II to this circular. Also, the consolidated net profits before tax and after tax of the Mocha Group for the period from 1st January, 2004 to 29th February, 2004 were approximately HK$2.85 million and HK$2.43 million respectively.

As at the date hereof, Mocha has outstanding shareholder's loans aggregating approximately HK$69 million in principal amount due to Better Joy and Chang Wang. Such shareholder's loans are repayable on demand and bear interest at the rate of 4% per annum from the date of grant.

Conditions

Completion of the Better Joy Sale Shares Agreement is conditional upon the fulfillment of, inter alia, the following conditions on or before the Mocha Acquisition Longstop Date:

(i) the issued Melco Shares remaining listed and traded on the Main Board at all times from the date of the Better Joy Sale Shares Agreement up to Mocha Acquisition Completion, save for (a) any suspension not exceeding 10 consecutive trading days of the Stock Exchange for whatever cause, or (b) any suspension in connection with the clearance of this announcement or any other announcement(s) or circular in connection with the Better Joy Sale Shares Agreement;

(ii) no indication being received at or before Mocha Acquisition Completion from the SFC and/or the Stock Exchange to the effect that the listing of the issued Melco Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of the Mocha Acquisition Completion or in connection with any transactions contemplated by the Better Joy Sale Shares Agreement;

(iii) an ordinary resolution being passed by the Melco Independent Shareholders at the Melco EGM to approve the Better Joy Sale Shares Agreement, the issue of the Convertible Notes (and the Melco Shares issuable thereunder) and the Continuing Connected Transactions;

(iv) all necessary consents and approvals which are considered by Melco to be necessary for the completion of the Better Joy Sale Shares Agreement having been obtained;

(v) the granting by the Stock Exchange of the listing of and permission to deal in the Better Joy Consideration Shares and the Melco Shares that may fall to be issued upon any exercise of the conversion rights under the Convertible Notes, and the granting by the Stock Exchange of a waiver (in terms acceptable to Melco) in respect of the Continuing Connected Transaction(s).

The conditions to which the Chang Wang Sale Shares Agreement and the Chang Tan Sale Shares Agreement are subject are (except for the conditions relating to the Convertible Notes and the new Melco Shares issuable thereunder) substantially the same as those listed above.

None of the conditions listed above (other than paragraph (iv)) can be waived by Melco.

Other terms of the Mocha Acquisition Agreements

Each of Better Joy, Chang Wang and Chang Tan has respectively under the Better Joy Sale Shares Agreement, Chang Wang Sale Shares Agreement and Chang Tan Sale Shares Agreement given a non-disposal undertaking in favour of Melco.

In respect of Better Joy, it has undertaken to Melco that it will not during a period of 12 months immediately after the Mocha Acquisition Completion, effect any transfer or disposal of the Better Joy Consideration Shares and during the following 12-month period, not to effect any transfer or disposal so that it will cease to be interested in at least 50% of the Better Joy Consideration Shares (i.e. 62,350,544 Melco Shares).

In respect of Chang Wang and Chang Tan, each of them has undertaken to Melco that none of them shall during a period of 12 months from the Mocha Acquisition Completion, effect any transfer or disposal of the Chang Wang Consideration Shares and Chang Tan Consideration Shares (as the case may be) so that they will cease to be interested in at least 50% of the Chang Wang Consideration Shares (i.e. 6,714,674 Melco Shares) and Chang Tan Consideration Shares (i.e. 7,673,913 Melco Shares), as the case may be.

Subsequent to Mocha Acquisition Completion, Chang Wang will remain as the legal and beneficial owner of 20% of the issued share capital of Mocha. Under the Chang Wang Sales Share Agreement, Chang Wang has granted a right of first refusal to Melco so that effective from the Mocha Acquisition Completion, in the event that Chang Wang wishes to transfer or dispose of any of his said 20% interest in Mocha, Chang Wang shall first offer such shares to Melco. If Melco declines to exercise such first right, Chang Wang may only transfer his interest in Mocha to a transferee which is more than 50% owned by Chang Wang and is not engaged in any business or activities which competes or are likely to compete with the businesses of the Melco Group and the Mocha Group.

Application for listing

Application has been made to the Main Board Listing Committee for the listing of, and permission to deal in, the Consideration Shares, which will be issued upon completion of the Mocha Acquisition Agreements, and the Melco Shares that may fall to be issued upon any exercise of the conversion rights attached to the Convertible Notes.

Completion date

It is expected that completion of the Mocha Acquisition Agreements will take place on the third business day from the date (or such other date as the parties may agree in writing) on which the relevant conditions have been satisfied (or waived, as the case may be).

Shareholding structure of Melco

In the event that the Mocha Acquisition Agreements are completed and Better Joy exercises the conversion rights attached to the Convertible Notes in full, the shareholding structure of Melco will be as follows:

	Melco Shares as at the date hereof		Upon issue and allotment of them Consideration Shares		Upon exercise of the conversion rights attached to the 2005 Convertible Note in full		Upon exercise of the conversion rights attached to the 2006 Convertible Note in full	
	No. of shares	*%*	*No. of shares*	*%*	*No. of shares*	*%*	*No. of shares*	*%*
Lawrence Ho *(note a)*	59,570,818	26.61%	59,570,818	15.79%	59,570,818	15.39%	59,570,818	15.01%
Shun Tak Shipping *(note b)*	39,083,147	17.46%	39,083,147	10.36%	39,083,147	10.10%	39,083,147	9.85%
Dr. Stanley Ho *(note c)*	15,023,867	6.71%	15,023,867	3.98%	15,023,867	3.88%	15,023,867	3.79%
Madam Laam	222,287	0.10%	222,287	0.06%	222,287	0.06%	222,287	0.06%
Better Joy *(note d)*	–	0.00%	124,701,087	33.05%	134,483,695	34.74%	144,266,303	36.35%
Chang Wang	–	0.00%	13,429,348	3.56%	13,429,348	3.47%	13,429,348	3.38%
Chang Tan	–	0.00%	15,347,826	4.07%	15,347,826	3.96%	15,347,826	3.87%
Other (Public)	109,950,694	49.12%	109,950,694	29.13%	109,950,694	28.40%	109,950,694	27.69%
Total	223,850,813	100.00%	377,329,074	100.00%	387,111,682	100.00%	396,894,290	100.00%

Notes:

a. Interest of Lawrence Ho includes his personal interest and interest held through Lasting Legend.

b. Interest of Shun Tak Shipping includes interest held by itself and its wholly-owned subsidiaries.

c. Interest of Dr. Stanley Ho includes his personal interest and interest held through his associates.

d. Better Joy is owned as to 77% by Lawrence Ho and as to 23% by Dr. Stanley Ho.

On 11 March 2004, a confirmation has been received from the Executive that the Concert Group will not be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code to acquire all the Melco Shares (other than those owned and to be acquired by certain members of the Concert Group) upon issue and allotment of the Better Joy Consideration Shares (being 124,701,087 Melco Shares) to Better Joy upon completion of the Mocha Acquisition.

Summary of the principal terms of, and other information concerning, the Convertible Notes

The principal terms of the 2005 Convertible Note and the 2006 Convertible Note are identical (save and except for their respective maturity dates as specified below) and were determined after arm's length negotiation between the relevant parties.

Principal amount

2005 Convertible Note – HK$22.50 million

2006 Convertible Note – HK$22.50 million

Interest

4% per annum payable quarterly in arrear on the outstanding principal amount.

Maturity Date

2005 Convertible Note – 30 June 2005
2006 Convertible Note – 30 June 2006

Redemption right

Melco does not have a right to early redeem the Convertible Notes (whether in whole or in part) save that on their respective maturity dates, any outstanding Convertible Notes will be automatically redeemed by Melco. Upon the occurrence of certain customary events of default, the holder of the Convertible Notes may at its option require Melco to redeem the outstanding principal amount of the Convertible Notes in whole or in part.

Conversion Period

The period starting from the date of issue of the Convertible Notes until (and including) the day immediately before their respective maturity dates.

Conversion Rights

The holder of the Convertible Notes will have the right at any time during the Conversion Period to convert in whole or in part the Convertible Notes into new Melco Shares at the initial Conversion Price (subject to adjustments). The Conversion Shares to be allotted and issued by Melco upon the exercise of the Conversion Rights in respect of the Convertible Notes will rank pari passu in all respects with the Melco Shares in issue as at the date of conversion.

Conversion Price

The Convertible Notes are convertible into Melco Shares at the option of the holder of the Convertible Notes at any time during the Conversion Period at an initial Conversion Price of HK$2.30 per Melco Share and is subject to adjustments in the event of, among others, consolidation, sub-division or re-classification, capitalization of profits or reserves, capital distribution, rights issue and other dilutive events.

Conversion Shares

Based on the initial conversion price of HK$2.30 per new Melco Share, 19,565,216 new Melco Shares will fall to be issued upon full exercise of the conversion rights attached to the Convertible Notes, representing approximately 8.74% of the existing issued Melco Shares as at the date hereof, and approximately 5.19% of the issued Melco Shares as enlarged by the issue of the Consideration Shares.

The initial Conversion Price was determined after arm's length negotiation between the relevant parties and represents a discount of approximately 2.13% to the closing price of HK$2.35 per Melco Share as quoted on the Stock Exchange on 18 March 2004 (being the last trading day on which the Shares were traded prior to the suspension of trading in the Melco Shares on 19 March 2004) and a discount of approximately 1.25% to the average closing price of HK$2.3292 per Melco Share over the 30 trading days up to and including 18 March 2004. The Conversion Price also represents a discount of approximately 4.17% to the closing price of HK$2.4 per Melco Share on the Latest Practicable Date.

Final redemption and repayment

On the respective maturity dates, Melco shall pay to the holder of the Convertible Notes at par of the principal amount of the Convertible Notes outstanding and the unpaid interest due other than on the interest payment date.

Voting

The holder of the Convertible Notes shall not be entitled to attend or vote at any meeting of Melco by reason only of its being the holder of the Convertible Notes.

Transferability

The Convertible Notes are transferable except that they are not transferable to connected persons (as defined in the Main Board Listing Rules) of Melco.

Application for listing

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Melco Shares which may be issued under the Convertible Notes. However, no application will be made for the listing of Convertible Notes on any stock exchange.

B. The iAsia Group Disposal Agreement

Date: 19 March 2004

Parties: Purchaser – Melco

Vendor – VC

Assets: Entire issued share capital of iAsia (being 2 shares of HK$1.00 each)

Transaction

Pursuant to the iAsia Group Disposal Agreement, VC has conditionally agreed to sell and Melco has conditionally agreed to purchase the entire issued share capital of iAsia.

Consideration

The consideration payable under the iAsia Group Disposal Agreement is HK$27.90 million which was arrived at after arm's length negotiation between the parties thereto and is based on the prospective price earning multiples of 6.98 times of the guaranteed net profit after tax of not less than HK$4 million of the iAsia Group for the year ending 31 December 2004. Such consideration will be settled in cash and will be financed by internal financial resources of Melco. VC will apply such consideration to repay a shareholder's loan owed by one of its subsidiaries to Melco or one of its subsidiaries. VC group will realize a gain of approximately HK$28.36 million from the disposal of the iAsia Group which is calculated by reference to the negative carrying value of approximately HK$0.46 million as computed from the audited consolidated financial statements of VC for the fifteen months ended 31 December 2003.

iAsia is a wholly owned subsidiary of VC and is engaged in (i) the provision of comprehensive online trading and related system to financial institutions and intermediaries; (ii) supplying computer hardware equipment and intelligent surveillance system; (iii) the provision of enterprise portal solutions, business process workflow re-engineering, information technology consultancy services and ecommerce infrastructure to clients in Macau and the Pearl River Delta Area of the PRC; and (iv) the provision of tailor-made information technology related systems and services to gaming companies and other industries, such as the retail, entertainment and hospitality industries.

Financial information of iAsia Group

	Twelve months ended/as at 30 September 2002 *HK$*	Fifteen months ended/as at 31 December 2003 *HK$*
Loss before tax during the period	(17,136,749)	(7,230,011)
Loss attributable to shareholders during the period	(16,981,940)	(7,159,820)
Net deficit as at end of period	(15,088,545)	(26,249,060)
Inter-company loans waived by VC *(note)*		25,791,394
Unaudited pro forma combined net deficit immediately after the waiver of inter-company loans by VC		(457,666)

Note: VC has agreed to waive the inter-company loans advanced to iAsia Group amounting to HK$25,791,394 before the disposal of iAsia Group to Melco in 2004. The inter-company loans waived is accounted for in the books of iAsia Group by directly crediting its net deficit.

Conditions

The iAsia Group Disposal Agreement is subject to, inter alia, the following conditions being fulfilled on or before the iAsia Group Disposal Long Stop Date:

(i) an ordinary resolution being passed by the Melco Independent Shareholders at the Melco EGM to approve the iAsia Group Disposal Agreement; and

(ii) an ordinary resolution being passed by the VC Independent Shareholders (by way of poll) at the VC EGM to approve the iAsia Group Disposal Agreement.

Profit Guarantee

Under the iAsia Group Disposal Agreement, VC has agreed to guarantee to Melco that the net profit (after tax and minority interest) of the iAsia Group shall not be less than HK$4 million for the year ending 31 December 2004, failing which VC shall compensate the shortfall (up to a maximum of HK$4 million) on a dollar for dollar basis.

Expected completion date

It is expected that completion of the iAsia Group Disposal Agreement will take place on the third business day after the date on which all the relevant conditions have been fulfilled. None of the conditions listed above can be waived by Melco.

C. Continuing Connected Transactions

Between Melco and the Mocha Group

As further announced on 2 April 2004, following the completion of the proposed Group Reorganization, members of the Mocha Group will become subsidiaries of Melco. The principal business of the Mocha Group is the leasing of gaming machines under the Equipment Leases with SJM. Dr. Stanley Ho, who is the chairman and executive director of Melco, has an equity interest in, as well as being a director of, SJM. Accordingly, SJM is a connected person of Melco, and the Equipment Leases will constitute non-exempt continuing connected transactions of Melco.

Mocha (as lessor) has entered into the Equipment Leases (dated 24 July 2003 and 3 March 2004, as the case may be) with SJM (as lessee) for a period of ten years from the date of the commencement of operation of the relevant gaming machines at the three different sites under the respective Equipment Leases in Macau, or ending on the expiry of SJM's gambling license or the expiry of the tenancy agreement of the relevant gaming lounge, whichever is the earliest. Pursuant to the Equipment Leases, Mocha will receive a service fee being the aggregate amount of a fixed monthly rent and a pre-agreed percentage of the net win from each machine leased thereunder. The Continuing Connected Transactions have been, and will continue to be, entered into in the ordinary and usual course of business of the Mocha Group.

The directors of Melco are informed by Mocha that the Macau Government has indicated to SJM that the Macau Government is considering the implementation of a review procedure whereby gaming machine leases of this type will be subject to review once every five years. If the Macau Government decides to implement such a review procedure, the term of the Equipment Leases will be shortened accordingly; however the directors of Melco do not foresee any reason that may prejudice the review of Mocha's Equipment Leases at the relevant time.

Proposed annual caps

The Continuing Connected Transactions will extend over a period of time and will take place on a continuing basis. The amount receivable by Mocha from SJM under each Equipment Lease is not fixed, as it comprises a fixed monthly rental and a percentage rent based on a pre-agreed percentage of the net win from each machine leased thereunder. It is not practicable to ascertain the net win from each machine. Accordingly, for the purpose of complying with the relevant requirements of the Main Board Listing Rules in this regard, the directors of Melco have estimated (based on the projected annual revenue of the Mocha Group underlying the appraisal of the fair market value of business enterprise of Mocha as set out in the appraisal report on Mocha as at 29 February 2004 prepared by American Appraisal China Limited) (the "Valuation Report") that the estimated revenue receivable by the Mocha Group from SJM under the Equipment Leases will not exceed the following annual cap for each of the three relevant financial years ending 31 December 2004, 2005 and 2006 respectively (respectively, the "Annual Cap"):

	Proposed annual cap for each of the three financial years ending 31 December		
	2004	**2005**	**2006**
	HK$ million (approximately)	*HK$ million (approximately)*	*HK$ million (approximately)*
Continuing Connected Transactions			
Estimated revenue of the Mocha Group from SJM under the Equipment Leases based on the underlying revenue projection of the Valuation Report	79.89	133.02	139.67
Cushion *(Note)*	11.98	19.95	20.95
Total	91.87	152.97	160.62
Rounded up to the nearest HK$1 million Annual Cap proposed	92.00	153.00	161.00

Note: This represents 15% of the above estimated revenue under the Equipment Leases throughout the relevant period. The directors of Melco consider this to be an appropriate buffer for the purposes of seeking the Stock Exchange's waiver as set out in the following section of this circular.

Compliance with the main board listing rules

In view of the fact that the amounts receivable by Mocha from SJM under the Equipment Leases are not fixed, it would be impracticable for Melco to comply strictly with the disclosure and shareholders' approval requirements of the Main Board Listing Rules as and when the relevant obligation arises. Accordingly, in order to allow the Melco Group to take advantage of the growth opportunities of the Mocha Group's business, Melco will apply to the Stock Exchange for a waiver from strict compliance with the connected transaction requirements of the Main Board Listing Rules in relation to the Equipment Leases subject to the following conditions:

(1) the Continuing Connected Transactions will be:

(i) entered into in the ordinary and usual course of business of the Mocha Group;

(ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of Melco are concerned; and

(iii) entered into either (A) in accordance with the terms of the agreements governing such Continuing Connected Transactions or (B) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties;

(2) the Continuing Connected Transactions will be approved by the Melco Independent Shareholders at the Melco EGM to be convened;

(3) the aggregate value of the consideration receivable by the Mocha Group from SJM under the Continuing Connected Transactions for each of the three financial years ending 31 December 2004, 2005 and 2006 will not exceed the relevant Annual Cap;

(4) details of the Continuing Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Main Board Listing Rules in the annual report of Melco for that financial year together with a statement of the opinion of the independent non-executive directors of Melco referred to in paragraph 5 below;

(5) the independent non-executive directors of Melco shall review the Continuing Connected Transactions annually and confirm in Melco's next annual report that these were conducted in the manner as stated in paragraphs (1) and (3) above; and

(6) Melco's auditors shall review the Continuing Connected Transactions annually and confirm in the letter (the "Letter") to the directors of Melco (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating that:

(i) the Continuing Connected Transactions have received the approval of Melco's board of directors;

(ii) the Continuing Connected Transactions are, where applicable, in accordance with the pricing policies;

(iii) the Continuing Connected Transactions have been entered into in accordance with the terms of the agreements governing the Continuing Connected Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and

(iv) the relevant Annual Cap has not been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the directors of Melco shall contact the Listing Division immediately.

The directors of Melco will seek the approval of the Melco Independent Shareholders for the Continuing Connected Transactions subject to the respective Annual Caps for each of the three financial years ending 31 December 2004, 2005 and 2006.

B. Between Melco and Elixir

Elixir (a non-wholly owned subsidiary of iAsia) is currently a non-wholly owned subsidiary of Melco, indirectly held by Melco through VC. After the completion of the iAsia Group Disposal Agreement which forms part of the conditional Group Reorganization, Elixir will continue to be a non-wholly owned subsidiary of Melco and will continue to provide information technology services to SJM under the Service Arrangements. The Services Arrangements remain valid and are continuing. The provision of these services has previously been approved by the independent shareholders of Melco at an extraordinary general meeting of Melco held on 19 November 2003. Details of the Service Arrangements were set out in Melco's shareholder circular dated 31 October 2003.

D. Reasons for entering into the Group Reorganization

Currently, the Melco Group's businesses are divided into three divisions, namely (i) investment banking and financial services division; (ii) technology division; and (iii) leisure and entertainment division.

The VC Group is engaged in securities, futures and option contracts broking mainly on the Stock Exchange in Hong Kong and the provision of other related financial services including margin financing, securities underwriting, placing arrangement, assets management and corporate finance advisory services focusing on the Hong Kong, Macau and the PRC markets. It is also engaged in the provision of comprehensive online trading services and related systems to financial institutions and intermediaries in Asia.

Each of the boards of directors of Melco and VC considers that the terms of the Group Reorganization are fair and reasonable and that they were arrived at after arm's length negotiations and are upon normal commercial terms and in the interests of the respective shareholders of Melco and VC as a whole.

The purpose of the Group Reorganization is to strengthen the assets and earnings quality of the Melco Group and to rationalize the corporate structure and business of the VC Group so as to enable it to focus on its investment banking and financial services business.

The Transactions constitute a major and connected transaction for the Company pursuant to the Listing Rules and are subject to, among other things, the approvals by the Melco Independent Shareholders at the Melco EGM to be convened on Thursday, 20 May 2004.

A notice convening the EGM to be held at the Penthouse, 38 Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Thursday, 20 May 2004 at 3:30 p.m. is set out on pages 124 and 128 of this circular, at which resolutions will be proposed and, if thought fit, passed by the Melco Independent Shareholders to approve, inter alia, the Transactions.

A proxy form for the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete the enclosed proxy form in accordance with the instructions printed thereon and return the same 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 such meeting or any adjourned meeting as the case may be. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting as the case may be should you so wish.

Dr. Stanley Ho (who beneficially owns an approximately 6.71% shareholding interest in Melco) and his associate (Madam Lucina Laam King Ying), Lawrence Ho and Lasting Legend will abstain from voting at the Melco EGM.

Melco Independent Board Committee has been formed to advise the Melco Independent Shareholders and as to whether or not the terms of the relevant transactions of the Group Reorganization concerning Melco are fair and reasonable and in the interests of the shareholders of Melco as a whole. Sun Hung Kai International Limited has been appointed to advise the Melco independent board committee in respect of the relevant transactions of the Group Reorganization. Your attention is drawn to the letter from the Melco Independent Board Committee set out in this circular.

INCREASE IN AUTHORIZED SHARE CAPITAL

The authorized share capital of Melco consists of 480,000,000 Melco Shares, of which 223,850,813 Shares were in issue as at the Latest Practicable Date. As at the Last Practicable Date, there are 25,012,957 share option outstanding under the share option scheme of Melco adopted by Melco on 8 March 2002. Save as disclosed herein, there are no outstanding warrants, other option or other securities convertible into Melco Shares.

In order to allow for any other future issues of Melco Shares, the directors of Melco propose to increase (upon completion of the Mocha Acquisition Agreements) the authorized share capital of Melco from HK$480,000,000 to HK$700,000,000 by the creation of an additional 220,000,000 Melco Shares. Save and except for the issue and allotment of the Consideration Shares and the Melco Shares upon exercise of the conversion rights attached to the Convertible Notes, the directors of Melco currently have no present intention to issue any further new Melco Shares.

PROCEDURE FOR DEMANDING A POLL AT EGM

Under Melco's Articles of Association, at Melco EGM, a poll may be demanded, before or on the declaration of the result of a show of hands or on the withdrawal of any other demand for a poll, by Melco Independent Shareholders in the following manner:

(a) by at least three Melco Independent Shareholders present in person or by proxy for the time being entitled to vote at the Melco EGM; or

(b) by any Melco Independent Shareholder(s) present in person or by proxy and representing not less than one-tenth of the total voting rights of all Melco Independent Shareholders having the right to vote at the Melco EGM; or

(c) by a Melco Independent Shareholder or Shareholders present in person or by proxy and holding Melco Shares conferring a right to vote at the Melco EGM 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 Melco Shares conferring that right.

The demand for a poll shall not prevent the continuance of the Melco EGM for the transaction of any business other than the question on which a poll has been demanded.

RECOMMENDATION

Melco Independent Board Committee, having considered the terms of the Mocha Acquisition Agreements and the iAsia Group Disposal Agreement and the transactions contemplated thereunder and having taken into the opinion of the Independent Financial Adviser, considers that the Group Reorganization and the Continuing Connected Transactions are in the interests of the Company and its shareholders as a whole and that the terms of each of the Group Reorganization and the Continuing Connected Transactions are fair and reasonable so far as the Company and the independent shareholders of Melco are concerned. Accordingly, Melco Independent Board Committee recommends Melco Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Group Reorganization and the Continuing Connected Transactions. The letter from Melco Independent Board Committee is set out on page 25 of this circular.

ADDITIONAL INFORMATION

You are urged to read carefully the letter from the Melco Independent Board Committee and the letter from the Independent Financial Adviser as set out on page 25 and pages 26 to 44 of this circular respectively, additional information as set out in the appendices to this circular and the notice of the EGM as set out on pages 124 to 128 of this circular.

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

Melco

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

23 April 2004

To the Independent Shareholders
of Melco International Development Limited

Dear Sir or Madam,

PROPOSED GROUP REORGANIZATION
ASSETS ACQUISITION
INVOLVING ISSUE OF CONSIDERATION SHARES
AND CONVERTIBLE NOTES
MAJOR AND CONNECTED TRANSACTION

We have been appointed as the members of the Independent Board Committee to advise the independent shareholders of Melco in respect of the Group Reorganization and the Continuing Connected Transactions, details of which are set out in the Letter from the Board contained in the circular of the Company dated 23 April 2004 to its shareholders (the "Circular"). Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the Letter from the Board, the advice of Sun Hung Kai International Limited in its capacity as the independent financial adviser to the Independent Board Committee in respect of the Group Reorganization and the Continuing Connected Transactions as set out in the Letter from Sun Hung Kai as well as other additional information set out in the appendices to the Circular.

Having taken into account the advice of Sun Hung Kai International Limited, we consider that the Group Reorganization and the Continuing Connected Transactions are in the interests of the Company and its shareholders as a whole and that the terms of each of the Group Reorganization and the Continuing Connected Transactions are fair and reasonable so far as the Company and the independent shareholders of Melco are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the Melco EGM to approve the Group Reorganization and the Continuing Connected Transactions.

Yours faithfully,
Independent Board Committee
Sir Roger Lobo **Mr. Robert Kwan** **Mr. Ng Ching Wo**
Independent non-executive Directors

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

SUN HUNG KAI INTERNATIONAL LIMITED

Melco International Development Limited
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

23rd April, 2004

To the Independent Board Committee of
Melco International Development Limited

Dear Sirs

PROPOSED GROUP REORGANIZATION
ASSETS ACQUISITION
INVOLVING ISSUE OF CONSIDERATION SHARES
AND CONVERTIBLE NOTES
MAJOR AND CONNECTED TRANSACTION

We refer to our engagement under which Sun Hung Kai International Limited ("Sun Hung Kai") has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the relevant transactions of the Group Reorganization concerning Melco and the Continuing Connected Transactions. Terms defined in the circular of the Company to the shareholders of Melco dated 23rd April, 2004 (the "Circular"), of which this letter forms part, bear the same meanings herein unless the context otherwise requires.

The Mocha Acquisition Agreements together constitute a major transaction of Melco. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of Melco, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of Melco's issued shares) and, accordingly, the Better Joy Sale Shares Agreement constitutes a connected transaction of Melco. VC is a non-wholly owned subsidiary of Melco, therefore, the iAsia Group Disposal Agreement is a connected transaction of Melco. The Mocha Acquisition Agreements, the issue of the Consideration Shares and the Convertible Notes and the iAsia Group Disposal Agreement, being the proposed Group Reorganization of Melco and the Continuing Connected Transactions, are subject to, among other things, the approval by the Melco Independent Shareholders at the Melco EGM. Dr. Stanley Ho and his associate (Madam Lucina Laam King Ying), Mr. Lawrence Ho and Lasting Legend will abstain from voting at the Melco EGM.

In formulating our opinion and recommendation, we have relied on the statements, information, opinions, representations and facts supplied to us by the Company and its advisers. We have assumed that all information and representations contained or referred to in the Circular or otherwise supplied to us by the Company were true at the time they were made and continue to be true as at the date of the Circular. We have assumed that all statements of belief, opinion and intention made by the directors of Melco ("Directors") in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth and accuracy of the information and facts provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view regarding the terms of the relevant transactions of the Group Reorganization concerning Melco and the Continuing Connected Transactions, and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to suspect that any relevant information has been withheld by the Company. We have not, however, carried out any independent verification of the information, nor have we conducted any form of investigation into the businesses, operational aspects, financial standing and affairs of the Melco Group or the companies to be acquired by the Melco Group.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

A. Acquisition of 80% interest in the Mocha Group

Information of the Mocha Group

The Mocha Group was established in March 2003 and has been in operation since September 2003. It is principally engaged in the business of leasing gaming machines and provision of ancillary management services to the lessees of its gaming machines in Macau. In September 2003, Mocha commenced leasing gaming machines to SJM in Macau and it currently leases 65 gaming machines under the Equipment Leases to SJM (as advised by the Directors, the number of gaming machines leased to SJM is expected to increase to about 500 in June 2004). Pursuant to the Equipment Leases, Mocha will, in addition to a fixed monthly rent, receive percentage rent for the gaming machines leased, and related management services provided, to SJM at an agreed percentage of net win from each machine leased and operated.

Based on the audited consolidated financial information of the Mocha Group, the audited consolidated net assets value of the Mocha Group as at 31st December, 2003 was approximately HK$1.25 million and the audited consolidated net profit before tax and after tax for the period from 20th March, 2003 (date of incorporation) to 31st December, 2003 were approximately HK$1.47 million and HK$1.25 million respectively. Based on its management accounts, the net asset value of the Mocha Group was approximately HK$3.7 million as at 29th February, 2004 and the consolidated net profit before tax and after tax for the period from 1st January, 2004 to 29th February, 2004 were approximately HK$2.85 million and HK$2.43 million respectively.

As at 23rd March, 2004 (being the date of the announcement), Mocha has outstanding shareholder's loans aggregating approximately HK$69 million in principal amount due to Better Joy and Chang Wang. Such shareholder's loans are repayable on demand and bear interest at the rate of 4% per annum from the date of grant.

Reasons for and benefits of the Mocha Acquisition Agreements

The Melco Group's businesses are divided into three divisions, namely (i) investment banking and financial services division; (ii) technology division; and (iii) leisure and entertainment division. The purpose of the acquisition of Mocha is to strengthen the assets and earnings quality of the Melco Group. The board of directors of Melco considers that the terms of the Mocha Acquisition Agreements are fair and reasonable and that they were arrived at after arm's length negotiations and are upon normal commercial terms and in the interests of the shareholders of Melco as a whole.

1. Diversification into gaming business in Macau

The gambling industry in Macau has a long history. It contributed about 30% of Macau's gross domestic product and employed more than 10,000 local residents in 2002. Mocha is principally engaged in the leasing of gaming machines and it has entered into the Equipment Leases with SJM, which has been selected by the Macau Government as one of the only three concessionaries to engage in casino operations in Macau from 1st April, 2002 to 31st March, 2020, under which Mocha has agreed to lease gaming machines to SJM at three different sites in Macau. The acquisition of the 80% interest in Mocha represents an opportunity for Melco to diversify into the gaming business in Macau.

Despite the benefits of diversification mentioned above, shareholders of Melco should note that if the operation of Mocha does not comply with applicable laws in Macau, the Stock Exchange may direct Melco to take remedial action, and/or may suspend dealings in, or may cancel the listing of, Melco's shares under Rule 6.01 of the Main Board Listing Rules. Melco intend to maintain listing status of Melco Shares by divesting its investment in the Mocha Group if it cannot take the requisite remedial action in the circumstance aforementioned. Nevertheless, we note that SJM has obtained the necessary approvals from the Government of Macau in respect of the Equipment Leases and so far as Melco is aware, such approvals are still valid and subsisting. In addition, Better Joy, Chang Wang and Chang Tan are required to deliver to Melco a legal opinion issued by a qualified Macau legal counsel confirming, inter alia, that each of the Equipment Leases is legal, valid, and enforceable against the parties thereto and will not be adversely affected by the Mocha Acquisition Completion. Therefore, Melco will not be obliged to complete the Mocha Acquisition Completion if the Equipment Leases or any of them do not comply with the applicable laws and regulations in Macau. Such condition should be fulfilled on or before the Mocha Acquisition Longstop Date (i.e. 18th June, 2004). In the event that the relevant legal opinions cannot confirm the legality of the Equipment Leases, Melco will issue an announcement as to whether the conditions relating to the Mocha Acquisition Agreements can be fulfilled.

2. New source of income

As stated in the unaudited interim report of Melco for the six months ended 30th June, 2003, the Melco Group recorded a loss of approximately 14.9 million for the six months ended 30th June, 2003. We consider that it is beneficial for the Melco Group to explore new projects which can provide new source of income and strengthen its core business.

Mocha has entered into the Equipment Leases with SJM for a term of ten years, which would provide new income source for the Melco Group. As stated in the "Letter From the Board" of the Circular, the estimated revenue of the Mocha Group from SJM under the Equipment Leases for the year ending 31st December, 2004, 2005, and 2006 would be approximately HK$79.89 million, HK$133.02 million and HK$139.67 million respectively. According to the audited consolidated financial information of the Mocha Group, the audited consolidated net profit before tax and after tax for the period from 20th March, 2003 to 31st December, 2003 (date of incorporation) were approximately HK$1.47 million and HK$1.25 million respectively. Based on its management accounts, the consolidated net profits before tax and after tax of the Mocha Group for the period from 1st January, 2004 to 29th February, 2004 were approximately HK$2.85 million and HK$2.43 million respectively. We consider that the acquisition of the interest in Mocha Group can provide an additional source of income for the Melco Group.

Nevertheless, it should be noted that the business of the Mocha Group is heavily relied on the leasing of gaming machines under the Equipment Leases with SJM (Please refer to the paragraph headed "Continuing Connected Transactions" below for details of the Equipment Leases) and it was stated in the "Letter from the Board" in the Circular that the Macau Government has indicated to SJM that the Macau Government is considering the implementation of a review procedure whereby Mocha's gaming machines leases of this type will be subject to review once every five years. **If the Macau Government decides to implements such a review procedure, the term of the Equipment Leases will be shortened accordingly.** Despite the above, we note that the Directors have confirmed that they did not foresee any reason that may prejudice the review of Mocha's Equipment Leases at the relevant time.

Given that the Group would be able to strengthen its core business after the acquisition, we are of the view that the acquisition of Mocha is in line with the strategy of the Melco Group and would enhance its future growth prospects in its leisure and entertainment business.

3. Participation in a growing business

The Directors expect that business of Mocha will grow rapidly. It currently leases 65 gaming machines under the Equipment Leases with SJM and the number of gaming machines leased will be increased to about 500 in June 2004. The Directors advised that such business expansion of Mocha has been financed by shareholders' loans, part of which was acquired by Melco pursuant to the Mocha Acquisition Agreements. Based on the above, we consider that Mocha has obtained sufficient financing for such business expansion. The service fee received by Mocha, which comprises a fixed monthly rent and a pre-agreed percentage of the net win from each machine leased, may increase accordingly. The acquisition of the interest in Mocha allows Melco to participate in the growing business of Mocha.

4. Structure of the consideration

According to the terms of the Mocha Acquisition Agreements, the consideration for the acquisition of an interest in the Mocha Group will be satisfied by the issue of Consideration Shares and the acquisition of the Better Joy Shareholder's Loan by issue of Convertible Notes. Such arrangement allows the Melco Group to carry out the acquisition without exerting any immediate pressure on its cashflows. The capital base of the Melco Group may also be strengthened in the event of conversion of the Convertible Notes. In addition, as set out in Appendix I, the

Directors are of the opinion that, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances. Based on the above, we are of the view that the structure of the consideration of the Mocha Acquisition Agreements provides flexibility to the Melco Group and has no material adverse impact to the cashflow position of the Melco Group.

Principal terms of the Mocha Acquisition Agreements

The consideration payable by Melco for the acquisition of the Better Joy Sale shares, Chang Wang Sale Shares and Chang Tan Sale Shares (in aggregate representing 80% of the issued share capital of Mocha) amounts to HK$353 million, which will be satisfied by the issue of the Consideration Shares. Convertible Notes (aggregating HK$45 million in principal amount) will be issued by Melco to acquire the Better Joy Shareholder's Loan.

The above consideration was arrived at after arm's length negotiation between the relevant parties and is by reference to the valuation ("Valuation") of about HK$594 million valued by American Appraisal China Limited, an independent business valuer on the Mocha Group as at 29th February, 2004. We are advised by American Appraisal China Limited that the Valuation is forward-looking and is devised by the present value of future economic benefits as a going concern business instead of historical cost. These economic benefits reflect the replacement cost plus normalized reasonable return of tangible assets as well as the intangible value of contractual relationship/arrangement between Mocha and SJM. The above aggregate consideration represents a discount of approximately 15.95% to the Valuation.

We have discussed with American Appraisal China Limited about the basis of their Valuation and understand that it was based on the market and income approaches. In arriving at the Valuation, American Appraisal China Limited have made a number of assumptions which are as follows:

a. there will be no major changes in the existing political, legal, fiscal and economic conditions in countries in which Mocha will carry on its business;

b. there will be no major changes in the current taxation law in countries in which Mocha operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

c. exchanges rates and interest rates will not differ materially from those presently prevailing;

d. the availability of finance will not be a constraint on the future growth of Mocha's operation;

e. Mocha will successfully negotiate, renew or enter long-term legally binding contractual agreements with strategic partners to secure the future revenues of Mocha's business;

f. Mocha will retain and have competent management, key personnel, and technical staff to support its ongoing operation; and

g. Industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

We understand that American Appraisal China Limited have discussed with management of Mocha about, among other things, the operation, projection assumptions, and future prospects of Mocha. In the course of our discussions with American Appraisal China Limited, nothing material has come to our attention that would lead us to believe that the Valuation was not prepared on a reasonable basis nor reflect estimates and assumptions which have been arrived at after due and careful consideration. Therefore, we consider that the abovementioned assumptions adopted by American Appraisal China Limited in the Valuation are fair and reasonable.

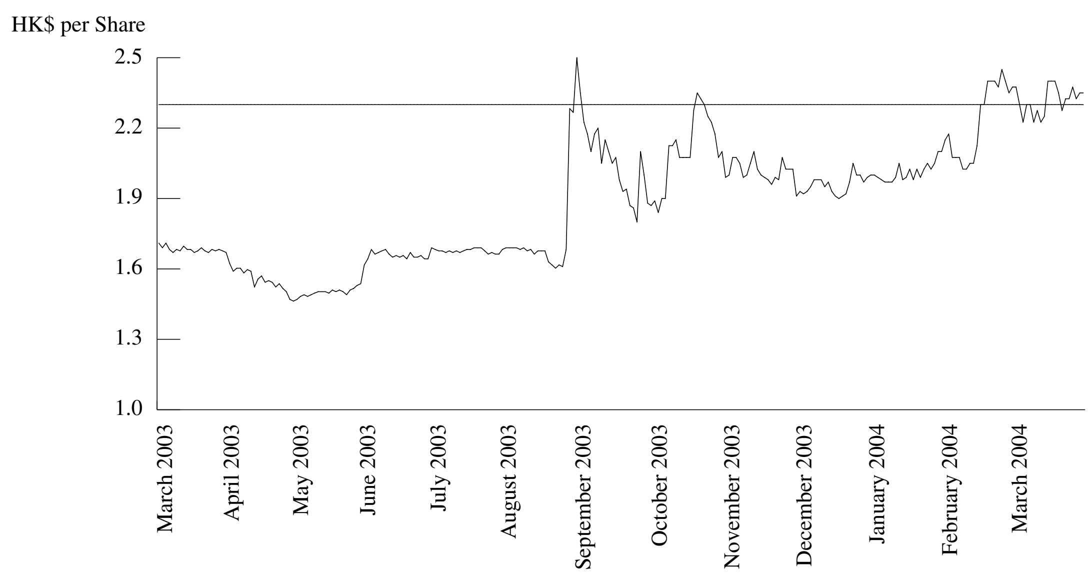
Having considered (a) the basis of the Valuation by American Appraisal China Limited; and (b) the major assumptions adopted in the Valuation, we have no reasons to doubt the fairness and appropriateness of the assumptions, methodology and basis of valuation adopted by American Appraisal China Limited in arriving at the Valuation.

As at 31st December, 2003, the audited consolidated net asset value of the Mocha Group was approximately HK$1.25 million. The consideration of $353 million represents a significant premium over the net asset value of the Mocha Group. Nevertheless, the book value of the Mocha Group does not take into account the future income cashflows to be received by the Mocha Group, nor does it take into account the expansion potential of Mocha (as the Directors advised that the number of gaming machines leased to SJM by Mocha is expected to be increased to about 500 in June 2004). Having considered that the above aggregate consideration represents a discount of approximately 15.95% to the Valuation, we consider that it is fair and reasonable in so far as the Independent shareholders generally are concerned.

1. Consideration shares

The chart below shows the issue price of HK$2.30 per Consideration Share as compared to the daily closing prices of the Melco Shares as quoted on the Stock Exchange from 3rd March, 2003 to 18th March, 2004 (being the last trading day on which the Melco Shares were traded prior to the suspension of trading in the Melco Shares on 19th March, 2004) (the "Relevant Period").

Daily closing prices of the Shares during the Relevant Period



As set out in the chart above, closing prices of the Melco Shares were below HK$2.30 on most of the trading days during the Relevant Period. It is noted that all the closing prices of the Melco Shares on trading days during the period from 3rd March, 2003 to 6th February, 2004 (save for five trading days on which closing prices of the shares were between HK$2.30 to HK$2.50) were below HK$2.30. Closing prices of the Melco Shares on trading days for the period from 9th February, 2004 to 18th March, 2004 were between HK$2.225 to HK$2.45.

The issue price of HK$2.30 per Consideration Share represents:

- a discount of approximately 2.13% to the closing price of HK$2.35 per share as quoted on the Stock Exchange on the 18th March, 2004 (being the last trading day on which the Shares were traded prior to the suspension of trading in the Melco Shares on 19th March, 2004);

- a discount of approximately 2.25% to the average closing price of approximately HK$2.353 per share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 18th March, 2004;

- a premium of approximately 10.00% over the average closing price of approximately HK$2.091 per share as quoted on the Stock Exchange from 1st September, 2003 up to and including 18th March, 2004;

- a premium of approximately 21.89% over the average closing price of approximately HK$1.887 per share as quoted on the Stock Exchange from 3rd March, 2003 up to and including 18th March, 2004; and

- a premium of approximately 16.16% over the unaudited pro forma adjusted consolidated net tangible assets per share of HK$1.98 immediately following the Rights Shares Issuance and sharing of the results of VC and its subsidiaries for the period from 1st July, 2003 to 31st December, 2003 (as set out in Appendix IV to this Circular).

In addition, we note that (i) Better Joy has undertaken to Melco that it will not during a period of 12 months immediately after the Mocha Acquisition Completion, effect any transfer or disposal of the Better Joy Consideration Shares and during the following 12-month period, not to effect any transfer or disposal so that it will cease to be interested in at least 50% of the Better Joy Consideration Shares (i.e. 62,350,544 Melco Shares); and (ii) each of Chang Wang and Chang Tan has undertaken to Melco that none of them shall during a period of 12 months from the Mocha Acquisition Completion, effect any transfer or disposal of the Chang Wang Consideration Shares and Chang Tan Consideration Shares (as the case may be) so that they will cease to be interested in at least 50% of the Chang Wang Consideration Shares (i.e. 6,714,674 Melco Share) and Chang Tan Consideration Shares (i.e. 7,673,913 Melco Shares), as the case may be.

Taking into account the fact that the issue price of HK$2.30 per Consideration Share is above the closing prices on most of the trading days during the Relevant Period and the premiums represented by the issue price of HK$2.30 per Consideration Share as stated above, we consider that the issue price of HK$2.30 per Consideration Share is fair and reasonable in so far as the Melco Independent Shareholders generally are concerned.

2. *Convertible Notes*

Melco will issue two Convertible Notes each in the principal amount of HK$22.5 million, amounting in aggregate amount of HK$45 million, principal terms of which are set out below.

Principal amount

2005 Convertible Note – HK$22.5 million
2006 Convertible Note – HK$22.5 million

Interest

4% per annum payable quarterly in arrear on the outstanding principal amount.

Maturity Date

2005 Convertible Note – 30th June, 2005
2006 Convertible Note – 30th June, 2006

Redemption right

Melco does not have a right to early redeem the Convertible Notes (whether in whole or in part) save that on their respective maturity dates, any outstanding Convertible Notes will be automatically redeemed by Melco. Upon the occurrence of certain customary events of default, the holder of the Convertible Notes may at its option require Melco to redeem the outstanding principal amount of the Convertible Notes in whole or in part.

Conversion Period

The period starting from the date of issue of the Convertible Notes until (and including) the day immediately before their respective maturity dates.

Conversion Rights

The holder of the Convertible Notes will have the rights at any time during the Conversion Period to convert in whole or in part the Conversion Notes into new Melco Shares at the initial Conversion Price (subject to adjustments). The Conversion Shares to be allotted and issued by Melco upon the exercise of the Conversion Rights in respect of the Convertible Notes will rank pari passu in all respects with the Melco Shares in issue as at the date of conversion.

Conversion Price

The Convertible Notes are convertible into Melco Shares at the option of the holder of the Convertible Notes at any time during the Conversion Period at an initial Conversion Price at HK$2.30 per Melco Share and is subject to adjustments in the event of, among others, consolidation, sub-division or re-classification, capitalization of profits or reserves, capital distribution, rights issue and other dilutive events.

Borrowing cost

The Convertible Notes bears an interest rate of 4% per annum, payable quarterly in arrears. The Better Joy Shareholder's Loan also bears interest at a rate of 4% per annum. In order to assess the reasonableness of the interest rate attached to the Convertible Notes, we compared it with the best lending rate offered in Hong Kong. As at the Latest Practicable Date, the best lending rate offered by banks in Hong Kong is about 5% per annum. The interest rate of the Convertible Notes is below the best lending rate offered by banks in Hong Kong.

In addition, we have made comparison to the past borrowing rate of the Melco Group. Based on the interim report of the Melco Group for the six months ended 30th June, 2003, the finance cost of the Melco Group for the six months ended 30th June, 2003 amounted to approximately HK$344,000, whereas the interest-bearing borrowings of the Melco Group amounted to approximately HK$44,378,000 and HK$ nil respectively as at 30th June, 2003 and 31st December, 2002. As such, the average borrowing cost of the Melco Group for the six months ended 30th June, 2003 is approximately 3.10% per annum. It was noted that the interest rate of the Convertible Notes is above the past average borrowing cost of the Melco Group. Shareholders' attention is also drawn to the comparison with other convertible note issue below.

Conversion Price

The Conversion Price of HK$2.30 represents (i) a discount of approximately 2.13% to the closing price of HK$2.35 per share as quoted on the Stock Exchange on the 18th March, 2004; (ii) a discount of approximately 2.25% to the average closing price of approximately HK$2.353 per share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 18th March, 2004; (iii) a premium of approximately 10.00% over the average closing price of approximately HK$2.091 per share as quoted on the Stock Exchange from 1st September, 2003 up to and including 18th March, 2004; (iv) a premium of approximately 21.89% over the average closing price of approximately HK$1.887 per share as quoted on the Stock Exchange from 3rd March, 2003 up to and including 18th March, 2004; and (v) a premium of approximately 16.16% over the unaudited pro forma adjusted consolidated net tangible assets per share of HK$1.98 immediately following the Rights Shares Issuance and sharing of the results of VC and its subsidiaries for the period from 1st July, 2003 to 31st December, 2003.

As the Conversion Price of HK$2.30 was determined after arm's length negotiation between the relevant parties and is above the closing prices on most of the trading days during the Relevant Period, we consider that the Conversion Price is fair and reasonable so far as Melco Independent Shareholders are concerned.

Comparison with other convertible notes

In assessing the reasonableness of the terms of the Convertible Notes, we have reviewed for reference purpose the principal terms of other convertible notes (the "CN Comparables") issued by companies listed on the Stock Exchange recently. Whilst we understand that the principal terms of a convertible issue are principally determined with regard to the particular business and financial position of each issuer, we consider that the CN Comparables would provide an indication as to the fairness of the principal terms of the Convertible Notes. Set out below is a summary of the principal terms of the CN Comparables in comparison with those of the Convertible Notes.

CN Comparables	Principal amount *(HK$ million)*	Life *(year)*	Interest rate per annum	Conversion premium/ (discount) *(note)*	Date of announcement
Softbank Investment International (Strategic) Limited	48	2	5%	29.9%	6th January, 2004
Sen Hong Resources Holdings Limited	72	3	5%	(17%)	8th January, 2004
China Sci-Tech Holdings Limited	22	2	2%	15.79%	13th February, 2004
Neo-China Group (Holdings) Limited	210	3	1%	8.8%	23rd February, 2004
China Eagle Group Company Limited	300	3	2%	(20%)	24th February, 2004
Eagle Nice (International) Holdings Limited	207.06	3	0%	12.0%	3rd March, 2004
Melco	**45**	**1-2**	**4%**	**(2.13%)**	**23rd March, 2004**

Note: The conversion premium/(discount) is the premium/(discount) of the conversion price over the closing price on the last trading day preceding the date of announcement.

As noted above, the 4.0% interest rate of the Convertible Notes falls within the range of CN Comparables and the 2.13% conversion discount of the Convertible Notes also falls within the range of the CN Comparables.

Based on the above, we consider the terms of the Convertible Notes are fair and reasonable so far as Melco Independent Shareholders are concerned.

B. Acquisition of the iAsia Group

Information of the iAsia Group

iAsia is a wholly owned subsidiary of VC and is engaged in (i) the provision of comprehensive online trading and related system to financial institutions and intermediaries; (ii) supplying computer hardware equipment and intelligent surveillance system; (iii) the provision of enterprise portal solutions, business process workflow re-engineering, information technology consultancy services and ecommence infrastructure to client in Macau and the Pearl River Delta Area of the PRC; and (iv) the provision of tailor-made information technology related systems and services to gaming companies and other industries, such as the retail, entertainment and hospitality industries.

The financial information of iAsia Group is set out below:

	Twelve months ended/as at 30th September, 2002	Fifteen months ended/as at 31st December, 2003
	HK$	*HK$*
Loss before tax during the period	(17,136,749)	(7,230,011)
Loss attributable to shareholders during the period	(16,981,940)	(7,159,820)
Net deficit as at end of period	(15,088,545)	(26,249,060)
Unaudited pro forma combined net deficit immediately after the waiver of inter-company loans by VC		(457,666)

Note: VC has agreed to waive the inter-company loans advanced to iAsia Group amounting to HK$25,791,394 before the disposal of iAsia Group to Melco in 2004. The inter-company loans waived is accounted for in the books of iAsia Group by directly crediting its net deficit.

Reasons for and benefits of the acquisition of the iAsia Group

The purpose of the acquisition of the iAsia Group is to rationalize the corporate structure and business of the VC Group so as to enable it to focus on its investment banking and financial services business. We are of the view that such clear delineation of business can emphasize the business focus of the VC Group, and is beneficial to the development of the VC Group and the Melco Group, being its parent, as a whole.

Consideration

The consideration payable under the iAsia Group Disposal Agreement is HK$27.9 million and was arrived at after arm's length negotiation between the parties thereto and is based on the prospective price earning multiple of 6.98 times of the guaranteed net profit after tax of not less than HK$4 million of the iAsia Group for the year ending 31st December, 2004. Such consideration will be settled in cash and will be financed by internal financial resources of Melco.

Under the iAsia Group Disposal Agreement, VC has agreed to guarantee to Melco that the net profit (after tax and minority interest) of the iAsia Group shall not be less than HK$4 million for the year ending 31st December, 2004, failing which VC shall compensate the shortfall on a dollar for dollar basis.

The iAsia Group recorded a loss of approximately HK$7.2 million for the fifteen months ended 31st December, 2003 and therefore no historical price earning multiples is available. In order to assess the reasonableness of the price earning multiple of 6.98 times, comparison was made against the price earning multiples of listed companies which are engaged in the same or similar business of the iAsia Group. We have identified six companies ("Comparable Companies") listed on the GEM Board of the Stock Exchange engaged in business similar to that of the iAsia Group. The respective price earnings multiples of the Comparable Companies, based on the closing price per share of each Comparable Company as at 18th March, 2004 (being the last trading day on which the Shares were traded prior to the suspension of trading in the Melco Shares on 19th March, 2004) and their audited earnings per share as set out in their latest published annual reports, are summarized in the following table:

Comparable Company	Principal business	Closing price as at 18th March, 2004	Earning per share	Price earning multiple
Soluteck Holdings Limited (8111)	Provision of banking and postal information technology solution in the PRC	HK$0.14	HK1.94 cents (year 2003)	7.2
Chengdu Top Sci-Tech Company Limited (8135)	Provision of information technology solutions	HK$0.4	RMB0.0047 (year 2002)	90.2
IA International Holdings Limited (8047)	Research, development and provision of information-on-demand system solutions	HK$0.54	HK1.39 cents (year 2003)	38.8
Capinfo Company Limited (8157)	Installation of network systems, network design, consultancy and related technical services and sales of computers, related accessories and equipment	HK$0.29	RMB0.3 cents (year 2002)	102.5
Sino Stride Technology (Holdings) Limited (8177)	Development and provision of system integration solutions in the PRC	HK$0.36	RMB0.035 (year 2002)	10.9
Inno-Tech Holdings Limited (8202)	Provision of software application solutions in the property market in the PRC	HK$0.099	HK1.69 cents (year 2003)	5.9
iAsia				**6.98** (based on consideration of HK$27.9 million and the guaranteed profits of HK$4 million for the year ending 31st December, 2004)

As illustrated in the above table, the price earning multiple of 6.98 times is substantially lower than the historical price earning multiples of three of the Comparable Companies, and is on comparable terms with the remaining three Comparable Companies. It is also noted that the price earning multiple of 6.98 times is below the historical price earning multiples of five out of the six Comparable Companies.

According to the terms of the iAsia Group Disposal Agreement, the consideration of HK$27.9 million shall be settled in cash by the Melco Group. As at 31st December, 2002, the audited cash and cash equivalent of the Melco Group amounted to approximately HK$219 million. As at 30th June, 2003, the unaudited bank balance and cash of the Melco Group amounted to approximately HK$122 million. As stated in appendix I to the Circular, the Directors are not aware of any material change in the financial or trading positions or prospects of the Melco Group since 31st December, 2002. In addition, the Melco Group shall settle the consideration of HK$27.9 million in cash by its internal financial resources. As set out in Appendix I, the Directors are of the opinion that, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

Having taken into account that (a) the consideration of HK$27.9 million was determined after arm's length negotiations between the parties to the iAsia Group Disposal Agreement; (b) the consideration of HK$27.9 million was determined based on the prospective price earning multiple of 6.98 times of the guaranteed net profit of the iAsia Group for the year ending 31st December, 2004; (c) the price earning multiple of 6.98 times is at the lower end of the price earning multiples of the Comparable Companies; (d) the Melco Group shall settle the consideration in cash by its internal financial resources, and the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances, we consider that the consideration is fair and reasonable when the Melco Group and the shareholders of Melco are considered as a whole.

C. Financial Effects of the Group Reorganization

Earnings

As confirmed by the Directors, the table below depicts the effect of the Group Reorganization on earning per Share based on the audited consolidated result of the Melco Group for the year ended 31st December, 2002 adjusted for the goodwill arising from the Group Reorganization for 12 months, the estimated annual net income of Mocha as advised by the Directors, the accrued interest arising from the Convertible Notes for 12 months and the annual interest income forgone for cash consideration payable under the iAsia Group Disposal Agreement.

	For the year ended 31st December, 2002	Adjusted results for the year ended 31st December, 2002
Audited consolidated net loss attributable to Shareholders for the year ended 31st December, 2002	(35,596,308)	(35,596,308)
Add: Estimated annual net income of Mocha	–	51,806,000
Less: Amortization of goodwill arising from the Group Reorganization for 12 months	–	(36,119,500)
Accrued interest arising from the Convertible Notes for 12 months	–	(1,800,000)
Annual interest income forgone for cash consideration payable under the iAsia Group Disposal Agreement (based on interest rate of approximately 3% as advised by the Directors)	–	(837,000)
Audited/Adjusted consolidated net loss attributable to Shareholders for the year ended 31st December, 2002	(35,596,308)	(22,546,808)
Number of Shares	131,231,244	284,709,505
Loss per Share	HK27.1 cents	HK7.9 cents
Changes		decreased by 70.8%

We noted from the above table that the loss per share would be decreased by approximately 70.8%. An annual amount of approximately HK$36,119,500 of amortization of goodwill arising from the Group Reorganization for 10 years after completion (based on increase in goodwill of HK$361,195,000), a total of approximately HK$1,800,000 of annual interest expense on the Convertible Notes will be charged to the consolidated income statement of the Melco Group, and an interest income of approximately HK$837,000 for cash consideration payable under the iAsia Group Disposal Agreement will be forgone annually. In addition, an estimated annual net income of HK$51,806,000 as provided by the Directors is added to the consolidated income.

Gearing

The Melco Group's gearing ratio (being total liabilities less creditors and accrued liabilities, rental deposits and tax payable divided by equity) as at 30th June, 2003 amounted to approximately 12.3%. As provided by Melco, the gearing ratio of the Enlarged Group rises to approximately 16.3%.

The issue of Convertible Notes has no immediate effect on the Melco Group's current working capital position and considering the potential possibility of a stronger capital base, we consider that the increase in the gearing ratio to approximately 16.3% is acceptable.

Net tangible assets

As set out in the unaudited statement of pro forma adjusted consolidated net tangible assets of the Melco Group in Appendix IV to the Circular, prior to completion of the Group Reorganization the Melco Group would have an unaudited pro forma adjusted consolidated net tangible assets of approximately HK$1.98 per share (based on 223,850,813 shares).

Upon completion of the Group Reorganization, the unaudited pro forma adjusted consolidated net tangible assets would be approximately HK$1.15 per Share (based on 377,329,074 shares).

It was noted that the unaudited pro forma adjusted consolidated net tangible assets would decrease from approximately HK$1.98 per Share to approximately HK$1.15 per share. Such decrease in net tangible assets per share is mainly attributable to the issuance of new shares pursuant to the Mocha Acquisition Agreements and the increase in goodwill and minority interests of approximately HK$9,195,000 arising from the acquisition of iAsia Group (representing approximately 2.1% of the unaudited pro forma adjusted consolidated net tangible assets of HK$434,406,000 of the Enlarged Group immediately following the acquisitions).

Assuming full conversion of the Convertible Notes at the Conversion Price, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK$1.21 per share (based on 377,329,074 shares plus 19,565,217 shares issued owing to the conversion of the Convertible Notes).

Dilution effect

A table depicting the respective shareholding structures of the Company immediately before and immediately after completion of the Mocha Acquisition Agreements is set out in the paragraph headed "Shareholding structure of Melco" in the "Letter from the Board" of the Circular. As a result of the issue of the Consideration Shares and assuming the full conversion of the Convertible Notes, the percentage shareholding of the public shareholders in the issued share capital of the Company would be diluted by approximately 43.6% (from approximately 49.12% to 27.69%). Having considered the contemplated benefits to the Melco Group that would be derived from the Group Reorganization as discussed above and that the satisfaction of consideration by the issue of the Consideration Shares would provide the Melco Group with greater flexibility in arranging its finance, we consider that the dilution effect on the shareholding as aforesaid is acceptable in so far as the Melco Independent Shareholders generally are concerned.

D. Continuing Connected Transactions

Following the completion of the proposed Group Reorganization, members of the Mocha Group will become subsidiaries of Melco. The principal business of the Mocha Group is the leasing of gaming machines under the Equipment Leases with SJM. Dr. Stanley Ho, who is the chairman and executive director of Melco, has an equity interest, as well as being a director of SJM. Accordingly, SJM is a connected person of Melco, and the Equipment Leases will constitute non-exempt continuing connected transactions ("Continuing Connected Transactions") of Melco. In arriving at our opinion as regards the terms of the Continuing Connected Transactions, we have taken into account the following principal factors:

Background

Mocha (as lessor) has entered into the Equipment Leases (dated 24th July, 2003 and 3rd March, 2004, as the case may be) with SJM (as lessee) for a period of ten years from the date of the commencement of operation of the relevant gaming machines at three different sites under the respective Equipment Leases in Macau, or ending on the expiry of SJM's gaming license or the expiry of the tenancy agreement of the relevant gaming lounge, whichever is the earliest.

The Mocha Group was established in March 2003 and has been in operation since September 2003. Mocha commenced leasing gaming machines to SJM in Macau since September 2003, and it currently leases 65 gaming machines under the Equipment Leases with SJM (the number of gaming machines leased will be increased to about 500 in June 2004).

Benefits and terms of the Continuing Connected Transactions

SJM is a company incorporated under the laws of Macau and has been selected by the Macau Government as one of the three concessionaries to engage in casino operations in Macau from 1st April, 2002 to 31st March, 2020. Mocha is principally engaged in the business of leasing gaming machines and provision of ancillary management services to the lessees of its gaming machines in Macau. The Equipment Leases represent an opportunity for Melco to tap into the gaming business in Macau.

Pursuant to the Equipment Leases, Mocha will receive a service fee being the aggregate amount of a fixed monthly rent and a pre-agreed percentage of the net win from each machine leased thereunder. The Continuing Connected Transactions have been, and will continue to be, entered into in the ordinary and usual course of business of the Mocha Group.

Mocha currently leases 65 gaming machines under the Equipment Leases with SJM and the number of gaming machines leased will be increased to about 500 in June 2004. The Equipment Leases allow Melco to participate in the growing business of Mocha.

Annual Cap

The Directors have estimated (based on the projected annual revenue of the Mocha Group underlying the appraisal of the fair market value of business enterprise of Mocha as set out in the appraisal report on Mocha as at 29th February, 2004 prepared by American Appraisal China Limited) that the estimated revenue receivable by the Mocha Group from SJM under the Equipment Leases will not exceed the following annual cap for each of the three financial years ending 31st December, 2004, 2005 and 2006 respectively (respectively, the "Annual Cap"):

	Proposed annual cap for each of the three financial years ending 31 December		
Continuing Connected Transactions	**2004**	**2005**	**2006**
	HK$ million (approximately)	*HK$ million (approximately)*	*HK$ million (approximately)*
Estimated revenue of the Mocha Group from SJM under the Equipment Leases based on the underlying revenue projection of the Valuation Report	79.89	133.02	139.67
Cushion *(Note)*	11.98	19.95	20.95
Total	91.87	152.97	160.62
Annual Cap proposed	92.00	153.00	161.00

Note: This represent a 15% of the above estimated revenue under the Equipment Leases throughout the relevant period. The Directors consider this to be an appropriate buffer for the purposes of seeking the Stock Exchange's waiver.

As confirmed by the Directors, the projected annual revenue of the Mocha Group underlying the Valuation Report was with reference to, among other matters, the number of gaming machines planned to be leased under the Equipment Leases, the timing of the leased gaming machines becoming operational, the average daily cash-in per gaming machine and the growth rate of average daily cash-in.

As stated in the "Letter from the Board" in the Circular, the estimated revenue of the Mocha Group from SJM under the Equipment Leases for the year ending 31st December, 2004, 2005,and 2006 would be approximately HK$79.89 million, HK$133.02 million and HK$139.67 million respectively. A buffer of 15% has been built in for the purpose of setting the Annual Cap so as to cater for an increase of operating activities under the Equipment Leases during the relevant period.

In consideration of the aforesaid bases of the Annual Cap and that the Equipment Leases were entered into the ordinary and usual course of business of the Mocha Group, we consider that the size of the Annual Cap is fair and reasonable so far as the Company and the shareholders of Melco are concerned.

Conditions of the Annual Cap

Melco will apply to the Stock Exchange for a waiver from strict compliance with the connected transaction requirements of the Main Board Listing Rules in relation to the Equipment Leases subject to the following conditions:

(1) the Continuing Connected Transactions will be:

(i) entered into in the ordinary and usual course of business of the Mocha Group;

(ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of Melco are concerned; and

(iii) entered into either (A) in accordance with the terms of the agreements governing such Continuing Connected Transactions or (B) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties;

(2) the Continuing Connected Transactions will be approved by the Melco Independent Shareholders at the Melco EGM to be convened;

(3) the aggregate value of the consideration receivable by the Mocha Group from SJM under the Continuing Connected Transactions for each of the three financial years ending 31 December 2004, 2005 and 2006 will not exceed the relevant Annual Cap;

(4) details of the Continuing Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Main Board Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraphs 5 below;

(5) the independent non-executive directors of Melco shall review the Continuing Connected Transactions annually and confirm in Melco's next annual report that these were conducted in the manner as stated in paragraphs (1) and (3) above; and

(6) Melco's auditors shall review the Continuing Connected Transactions annually and confirm in the letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating that:

(i) the Continuing Connected Transactions have received the approval of Melco's board of directors;

(ii) the Continuing Connected Transactions are, where applicable, in accordance with the pricing policies, if applicable;

(iii) the Continuing Connected Transactions have been entered into in accordance with the terms of the agreements governing the Continuing Connected Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and

(iv) the relevant Annual Cap has not been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the directors of Melco shall contact the Listing Division immediately.

In light of the conditions attached to the Annual Cap, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Cap; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the terms of the Continuing Connected Transactions and the Annual Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Melco Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons and the terms of the relevant transactions of the Group Reorganization concerning Melco and the Continuing Connected Transactions, we consider the terms of the relevant transactions of the Group Reorganization concerning Melco and the Continuing Connected Transactions to be fair and reasonable so far as the Melco Independent Shareholders are concerned and are in the interest of the Company and the shareholders of Melco as a whole. Accordingly, we advise the Independent Board Committee to recommend the Melco Independent Shareholders to vote in favour of the resolution to be proposed at the Melco EGM to approve the Group Reorganization and the Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
SUN HUNG KAI INTERNATIONAL LIMITED
Eric Shum
Director

I. SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last three financial years, as extracted from the audited financial statements is set out below:

Consolidated Balance Sheets

	As at 31 December		
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
NON-CURRENT ASSETS			
Investment properties	155,000,000	152,000,000	160,000,000
Property, plant and equipment	22,325,890	31,256,754	36,088,841
Long term investments	–	4,661,880	4,661,880
Pledged bank deposits	1,100,000	911,000	911,000
	178,425,890	188,829,634	201,661,721
CURRENT ASSETS			
Inventories	2,986,105	3,152,114	5,410,908
Accounts receivable	2,782,511	2,997,248	4,059,898
Prepayments, deposits and other receivables	8,938,688	2,991,904	2,777,221
Amounts due from related companies	2,407,011	446,000	549,967
Other investment	4,000,000	–	–
Tax recoverable	–	–	48,995
Cash and cash equivalents	219,228,964	212,543,223	231,146,321
	240,343,279	222,130,489	243,993,310
CURRENT LIABILITIES			
Accounts payable	2,356,253	2,574,010	4,987,938
Accrued liabilities and other payables	15,229,845	6,773,053	9,952,675
Rental deposits due within one year	581,997	396,178	699,310
	18,168,095	9,743,241	15,639,923
NET CURRENT ASSETS	222,175,184	212,387,248	228,353,387
TOTAL ASSETS LESS CURRENT LIABILITIES	400,601,074	401,216,882	430,015,108
NON-CURRENT LIABILITIES			
Rental deposits due after one year	218,892	355,870	61,980
MINORITY INTERESTS	24,257,664	26,392,112	28,982,770
	376,124,518	374,468,900	400,970,358
CAPITAL AND RESERVES			
Issued capital	145,287,134	121,087,134	121,087,134
Reserves	230,837,384	253,381,766	279,883,224
	376,124,518	374,468,900	400,970,358

Consolidated Profit and Loss Accounts

	For the year ended 31 December		
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
TURNOVER	86,375,709	99,408,954	109,175,462
Other revenue and gains	545,662	290,880	2,807,498
Cost of food and beverages	(21,989,196)	(25,430,905)	(25,579,573)
Consumable stores used	(2,170,186)	(2,881,306)	(2,824,638)
Staff costs (not including director's remuneration)	(51,975,843)	(55,244,404)	(55,737,334)
Depreciation expense	(5,927,225)	(6,039,904)	(5,619,459)
Fixed assets written off	(3,857,649)	–	–
Impairment of fixed assets	(142,441)	–	–
Impairment of long term investments	(8,911,880)	–	–
Provision against deposit paid	(3,500,000)	–	–
Other operating expenses	(26,577,231)	(31,195,431)	(30,437,319)
Total operating expenses	(125,051,651)	(120,791,950)	(120,198,323)
OPERATING LOSS BEFORE TAX	(38,130,280)	(21,092,116)	(8,215,363)
Tax	–	–	(4,395)
LOSS BEFORE MINORITY INTERESTS	(38,130,280)	(21,092,116)	(8,219,758)
Minority interests	2,533,972	2,457,484	1,651,999
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(35,596,308)	(18,634,632)	(6,567,759)
LOSS PER SHARE			
Basic	HK 27.1 cents	HK 15.4 cents	HK 5.4 cents
Diluted	N/A	N/A	N/A

Consolidated Cash Flow Statements

	For the year ended 31 December		
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss before tax	(38,130,280)	(21,092,116)	(8,215,363)
Adjustments for:			
Interest income	(3,538,308)	(8,003,722)	(13,562,770)
Depreciation	5,927,225	6,039,904	5,619,459
Fixed assets written off	3,857,649	–	–
Impairment of fixed assets	142,441	–	–
Impairment of long term investments	8,911,880	–	–
Provision against deposit paid	3,500,000	–	–
Gain on disposal of vessels	–	–	(1,776,588)
Gain on disposal of property, plant and equipment	–	(9,843)	(136,978)
Operating loss before working capital changes	(19,329,393)	(23,065,777)	(18,072,240)
Decrease/(increase) in inventories	166,009	2,258,794	(2,226,729)
Decrease/(increase) in accounts receivable	214,737	1,062,650	(490,900)
(Increase)/decrease in prepayments, deposits and other receivables	(9,446,784)	(214,683)	4,701,592
Decrease/(increase) in amounts due from related companies	(1,961,011)	103,967	(549,967)
Purchase of other investment	(4,000,000)	–	–
(Decrease)/increase in accounts payable	(217,757)	(2,413,928)	2,480,011
Increase/(decrease) in accrued liabilities and other payables	8,456,792	(3,179,622)	2,322,237
Increase/(decrease) in rental deposits	48,841	(9,242)	(113,229)
Cash used in operations	(26,068,566)	(25,457,841)	(11,949,225)
Hong Kong profits tax refunded/(paid)	–	48,995	(57,037)
Interest received	3,538,308	8,003,722	13,565,597
Net cash outflow from operating activities	(22,530,258)	(17,405,124)	1,559,335
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to investment properties	–	–	(3,139,143)
Additions to property, plant and equipment	(996,451)	(1,220,974)	(11,145,021)
Purchases of long term investment	(4,250,000)	–	–
Proceeds from disposal of vessels, net of relocation costs	–	–	26,186,875
Proceeds from disposal of property, plant and equipment	–	23,000	367,952
Increase in pledged bank deposits	(189,000)	–	–
Net cash outflow from investing activities	(5,435,451)	(1,197,974)	12,270,663

	For the year ended 31 December		
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	35,090,000	–	–
Share issue expenses	(438,550)	–	–
Net cash inflow from financing activities	34,651,450	–	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,685,741	(18,603,098)	13,829,998
Cash and cash equivalents at beginning of year	212,543,223	231,146,321	217,316,323
CASH AND CASH EQUIVALENTS AT END OF YEAR	219,228,964	212,543,223	231,146,321
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	14,393,804	4,990,332	4,435,030
Time deposits with original maturity of less than three months when acquired	204,835,160	207,552,891	226,711,291
	219,228,964	212,543,223	231,146,321

II. SUMMARY OF FINANCIAL RESULTS FOR THE TWO YEARS ENDED 31 DECEMBER 2002

Set out below is a summary of the consolidated profit and loss accounts, the consolidated summary statement of changes in equity, the consolidated cash flow statements for each of the two year ended 31 December 2002 and the consolidated balance sheets as at 31 December 2001 and 31 December 2002 of the Group together with the relevant notes as extracted from the audited financial statements of the Group for the year ended 31 December 2002.

Consolidated Profit and Loss Account
Year ended 31 December 2002

	Notes	**2002** *HK$*	**2001** *HK$*
TURNOVER	5	86,375,709	99,408,954
Other revenue and gains	5	545,662	290,880
Cost of food and beverages		(21,989,196)	(25,430,905)
Consumable stores used		(2,170,186)	(2,881,306)
Staff costs (not including director's remuneration)		(51,975,843)	(55,244,404)
Depreciation expense		(5,927,225)	(6,039,904)
Fixed assets written off		(3,857,649)	–
Impairment of fixed assets		(142,441)	–
Impairment of long term investments		(8,911,880)	–
Provision against deposit paid		(3,500,000)	–
Other operating expenses		(26,577,231)	(31,195,431)
Total operating expenses		(125,051,651)	(120,791,950)
OPERATING LOSS BEFORE TAX	6	(38,130,280)	(21,092,116)
Tax	7	–	–
LOSS BEFORE MINORITY INTERESTS		(38,130,280)	(21,092,116)
Minority interests		2,533,972	2,457,484
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	8	(35,596,308)	(18,634,632)
LOSS PER SHARE			
Basic	9	HK27.1 cents	HK15.4 cents
Diluted		N/A	N/A

Consolidated Balance Sheet
31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Investment properties	11	155,000,000	152,000,000
Property, plant and equipment	12	22,325,890	31,256,754
Long term investments	14	–	4,661,880
Pledged bank deposits	26	1,100,000	911,000
		178,425,890	188,829,634
CURRENT ASSETS			
Inventories	15	2,986,105	3,152,114
Accounts receivable	16	2,782,511	2,997,248
Prepayments, deposits and other receivables		8,938,688	2,991,904
Amounts due from related companies	17	2,407,011	446,000
Other investment	18	4,000,000	–
Cash and cash equivalents	19	219,228,964	212,543,223
		240,343,279	222,130,489
CURRENT LIABILITIES			
Accounts payable	20	2,356,253	2,574,010
Accrued liabilities and other payables	21	15,229,845	6,773,053
Rental deposits due within one year		581,997	396,178
		18,168,095	9,743,241
NET CURRENT ASSETS		222,175,184	212,387,248
TOTAL ASSETS LESS CURRENT LIABILITIES		400,601,074	401,216,882
NON-CURRENT LIABILITIES			
Rental deposits due after one year		218,892	355,870
MINORITY INTERESTS		24,257,664	26,392,112
		376,124,518	374,468,900
CAPITAL AND RESERVES			
Issued capital	22	145,287,134	121,087,134
Reserves	24	230,837,384	253,381,766
		376,124,518	374,468,900

Consolidated Summary Statement of Changes in Equity
Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$
Total equity at 1 January		374,468,900	400,970,358
Issue of shares, including share premium	22, 24	35,090,000	–
Share issue expenses	24	(438,550)	–
Surplus/(deficit) on revaluation of investment properties	24	2,600,476	(7,866,826)
Net gains/(losses) not recognised in the profit and loss account		2,600,476	(7,866,826)
Net loss for the year attributable to shareholders		(35,596,308)	(18,634,632)
Total equity at 31 December		376,124,518	374,468,900

Balance Sheet

31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	12	3,418	4,558
Interests in subsidiaries	13	303,551,321	279,541,509
		303,554,739	279,546,067
CURRENT ASSETS			
Prepayments, deposits and other receivables		214,315	–
Cash and cash equivalents	19	3,174,641	585,346
		3,388,956	585,346
CURRENT LIABILITIES			
Accrued liabilities and other payables	21	3,462,062	367,546
NET CURRENT ASSETS/(LIABILITIES)		(73,106)	217,800
		303,481,633	279,763,867
CAPITAL AND RESERVES			
Issued capital	22	145,287,134	121,087,134
Reserves	24	158,194,499	158,676,733
		303,481,633	279,763,867

Consolidated Cash Flow Statement
Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$ (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss before tax		(38,130,280)	(21,092,116)
Adjustments for:			
Interest income	5	(3,538,308)	(8,003,722)
Depreciation	6	5,927,225	6,039,904
Fixed assets written off		3,857,649	–
Impairment of fixed assets		142,441	–
Impairment of long term investments		8,911,880	–
Provision against deposit paid		3,500,000	–
Gain on disposal of property, plant and equipment	5	–	(9,843)
Operating loss before working capital changes		(19,329,393)	(23,065,777)
Decrease in inventories		166,009	2,258,794
Decrease in accounts receivable		214,737	1,062,650
Increase in prepayments, deposits and other receivables		(9,446,784)	(214,683)
Decrease/(increase) in amounts due from related companies		(1,961,011)	103,967
Purchase of other investment	18	(4,000,000)	–
Decrease in accounts payable		(217,757)	(2,413,928)
Increase/(decrease) in accrued liabilities and other payables		8,456,792	(3,179,622)
Increase/(decrease) in rental deposits		48,841	(9,242)
Cash used in operations		(26,068,566)	(25,457,841)
Hong Kong profits tax refunded		–	48,995
Interest received		3,538,308	8,003,722
Net cash outflow from operating activities		(22,530,258)	(17,405,124)

	Notes	2002 HK$	2001 HK$ (restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	12	(996,451)	(1,220,974)
Purchases of long term investment	14	(4,250,000)	–
Proceeds from disposal of property, plant and equipment		–	23,000
Increase in pledged bank deposits		(189,000)	–
Net cash outflow from investing activities		(5,435,451)	(1,197,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	22	35,090,000	–
Share issue expenses	24	(438,550)	–
Net cash inflow from financing activities		34,651,450	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		6,685,741	(18,603,098)
Cash and cash equivalents at beginning of year		212,543,223	231,146,321
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	219,228,964	212,543,223
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	14,393,804	4,990,332
Time deposits with original maturity of less than three months when acquired	19	204,835,160	207,552,891
		219,228,964	212,543,223

Notes to Financial Statements

1. Corporate Information

The registered office of Melco International Development Limited is located at Penthouse 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

2. Impact of New/Revised Statements of Standard Accounting Practice

The following new and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 34 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the revised format for consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, the definition of cash equivalents for the purpose of the cash flow statement has been revised.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 23 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of this SSAP.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) restaurant operations, when catering services are rendered;

(b) rental income, on the straight-line basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years.

SSAP 30 "Business Combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31 December 2001, following which the goodwill previously eliminated against consolidated reserves was retrospectively restated and had been fully amortised prior to 1 January 2001 on a straight-line basis over a period of not more than 20 years. Goodwill on acquisition subsequent to 1 January 2001 is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31 December 2001, following which the negative goodwill previously credited to the capital reserve was transferred to opening retained profits. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the consolidated profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Property, plant and equipment

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Restaurant vessels, ferries and pontoons	5% to 10%
Long term leasehold land	Over the lease terms
Long term leasehold buildings	2.5%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held for a continuing long term purpose.

Long term investments are stated at cost less any impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether their fair values have declined below the carrying amounts. When a decline which is other than temporary in nature has occurred, the carrying amount of the investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account for the period in which it arises.

Other investment

Other investment is investment in unlisted securities, other than long term investment, and is stated at its fair value at the balance sheet date, on an individual investment basis. The fair value of unlisted securities is estimated by the directors having regard to the prices of the most recent reported sales or purchases of the securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair value of other investments are credited or charged to the profit and loss account for the period in which they arise. Other investment is initially included in non-current or current assets depending on their expected holding period at the time of their acquisition.

Inventories

Inventories comprise mainly food, beverages and consumable stores and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated profit and loss account.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the consolidated profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated profit and loss account on the straight-line basis over the lease terms.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employee's salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting in full, in accordance with the rules of the MPF Scheme.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. For the purpose of the balance sheet classification, cash and cash equivalents comprise cash on hand and at banks including term deposits and assets similar in nature to cash, which are not restricted as to use.

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations, products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the restaurant segment, which engages in restaurant operation and related activities;

(b) the property segment, which engages in property investment and related activities; and

(c) the investment segment, which engages in investment and related activities.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There are no material intersegment sales and transfers between the business segments.

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

	Restaurant		Property		Investment		Consolidated	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue:								
Turnover	77,929,043	86,778,267	5,097,822	4,679,929	3,348,844	7,950,758	86,375,709	99,408,954
Other revenue	307,202	272,015	140,000	9,022	98,460	–	545,662	281,037
Gains	–	9,843	–	–	–	–	–	9,843
	78,236,245	87,060,125	5,237,822	4,688,951	3,447,304	7,950,758	86,921,371	99,699,834
Segment results	(21,395,159)	(22,866,392)	3,447,016	2,821,433	(12,131,022)	(1,047,157)	(30,079,165)	(21,092,116)
Unallocated expenses							(8,051,115)	–
Operating loss before tax							(38,130,280)	(21,092,116)
Tax							–	–
Loss before minority interests							(38,130,280)	(21,092,116)
Minority interests							2,533,972	2,457,484
Net loss from ordinary activities attributable to shareholders							(35,596,308)	(18,634,632)
Segment assets	36,482,338	44,379,206	158,825,607	155,613,576	223,461,224	210,967,341	418,769,169	410,960,123
Segment liabilities	12,367,284	7,036,958	2,546,766	2,678,043	3,472,937	384,110	18,386,987	10,099,111
Other segment information:								
Depreciation	5,580,164	5,698,959	345,921	339,805	1,140	1,140	5,927,225	6,039,904
Capital expenditures	206,686	498,155	30,580	522,778	759,185	200,041	996,451	1,220,974
Impairment of fixed assets recognised in the profit and loss account	–	–	–	–	142,441	–	142,441	–
Impairment of long term investments recognised in the profit and loss account	–	–	–	–	8,911,880	–	8,911,880	–
Other non-cash expenses	3,857,649	385,000	–	–	3,500,000	–	7,357,649	385,000

(b) Geographical segments

The Group's revenue, assets and liabilities are principally derived from operations carried out in Hong Kong.

5. Turnover, Revenue and Gains

Turnover represents revenue from restaurant operations together with gross rental income received and receivable from investment properties, and interest income received and receivable during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Turnover		
Catering income	76,657,376	85,391,767
Gross rental income	6,180,025	6,013,465
Interest income	3,538,308	8,003,722
	86,375,709	99,408,954
Other revenue		
Proceeds from insurance claim	177,051	202,020
Others	368,611	79,017
	545,662	281,037
Gains		
Gain on disposal of property, plant and equipment	–	9,843
Total other revenue and gains	545,662	290,880

6. Operating Loss Before Tax

The Group's operating loss before tax is arrived at after charging/(crediting):

	2002	**2001**
	HK$	*HK$*
Cost of inventories sold	24,159,382	28,312,211
Depreciation	5,927,225	6,039,904
Auditors' remuneration	437,000	442,000
Retirement benefits scheme contributions, net	1,783,009	1,913,150
Rental income:		
Gross	(6,180,025)	(6,013,465)
Outgoings	300,360	455,039
Net of outgoings	(5,879,665)	(5,558,426)
Minimum lease payments under operating leases in respect of land and buildings	375,000	375,000

7. Tax

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2001: Nil).

The components of deferred tax liabilities/(assets) provided/not provided for at the balance sheet date are as follows:

	Group				Company	
	Provided		Not provided		Not provided	
	2002	2001	2002	2001	2002	2001
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Accelerated depreciation allowances	1,140,000	2,260,000	582,042	703,000	(403)	–
Tax losses carried forward	(1,140,000)	(2,260,000)	(20,258,079)	(15,918,000)	(2,268,460)	(1,352,000)
	–	–	(19,676,037)	(15,215,000)	(2,268,863)	(1,352,000)

There are no significant potential deferred tax liabilities for which provision has not been made by the Company or the Group.

The revaluation of the Group's investment properties does not constitute a timing difference and consequently, the amount of potential deferred tax thereon has not been quantified.

8. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was HK$10,933,684 (2001: HK$301,546,564).

9. Loss per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$35,596,308 (2001: HK$18,634,632) and the weighted average of 131,231,244 (2001: 121,087,134) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been disclosed as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

A diluted loss per share amount for the year ended 31 December 2001 has not been disclosed as no dilutive events existed during that year.

10. Directors' Remuneration and Emoluments of Five Highest Paid Individuals

Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Fees:		
Executive directors	790,000	463,424
Non-executive directors	355,384	20,000
Independent non-executive directors	600,000	418,904
	1,745,384	902,328
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind		
Executive directors	1,847,895	3,812,656
Non-executive directors	135,714	–
Independent non-executive directors	–	300,000
Retirement benefits scheme contributions		
Executive directors	39,000	127,107
Non-executive directors	3,000	–
	2,025,609	4,239,763
	3,770,993	5,142,091

The number of directors whose remuneration fell within the bands set out below is as follows:

	2002	**2001**
	Number of directors	*Number of directors*
Nil – HK$1,000,000	9	15
HK$1,000,001 – HK$1,500,000	1	1
HK$1,500,001 – HK$2,000,000	–	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 4,843,484 share options were granted to certain directors of the Company in respect of their services provided to the Group, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosure.

Employee costs

The five highest paid individuals during the year included two (2001: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid individuals are analysed as to nature and bands of remuneration below.

	2002	**2001**
	HK$	*HK$*
Basic salaries, housing, other allowances and benefits in kind	2,111,570	1,788,735
Retirement benefits scheme contributions	42,020	49,836
	2,153,590	1,838,571

The remuneration of all the non-director, highest paid individuals fell within the band of nil to HK$1,000,000 for both years.

11. Investment Properties

	Group 2002 HK$	Group 2001 HK$
At valuation:		
At beginning of year	152,000,000	160,000,000
Surplus/(deficit) on revaluation – *note 24*	3,000,000	(8,000,000)
At 31 December	155,000,000	152,000,000

The investment properties are held in Hong Kong under long term leases.

The investment properties include a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which was revalued on an open market, existing tenancy basis by CB Richard Ellis Ltd., an independent firm of professional valuers, as at 31 December 2002 at HK$80,000,000 (2001: HK$80,000,000).

In addition, the investment properties of 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong, was revalued on an open market, existing tenancy basis by Vigers Hong Kong Limited, an independent firm of professional valuers, as at 31 December 2002 at HK$75,000,000 (2001: HK$72,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 27(a) to the financial statements.

12. Property, Plant and Equipment

Group

	Restaurant vessels, ferries and pontoons HK$	Leasehold land and buildings HK$	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Total HK$
Cost:					
At beginning of year	43,300,969	613,996	194,343	58,903,059	103,012,367
Additions	195,746	–	491,759	308,946	996,451
Write off	–	–	–	(8,251,161)	(8,251,161)
At 31 December 2002	43,496,715	613,996	686,102	50,960,844	95,757,657
Accumulated depreciation and impairment:					
At beginning of year	31,406,596	170,390	–	40,178,627	71,755,613
Provided during the year	1,786,326	9,526	222,957	3,908,416	5,927,225
Write back	–	–	–	(4,393,512)	(4,393,512)
Impairment	–	–	142,441	–	142,441
At 31 December 2002	33,192,922	179,916	365,398	39,693,531	73,431,767
Net book value:					
At 31 December 2002	10,303,793	434,080	320,704	11,267,313	22,325,890
At 31 December 2001	11,894,373	443,606	194,343	18,724,432	31,256,754

The Group's leasehold land and buildings are located in Hong Kong and are held under long term leases.

Company

	Furniture, fixtures and equipment
	HK$
Cost:	
At beginning of year and at 31 December 2002	5,698
Accumulated depreciation:	
At beginning of year	1,140
Provided during the year	1,140
At 31 December 2002	2,280
Net book value:	
At 31 December 2002	3,418
At 31 December 2001	4,558

13. Interests in Subsidiaries

	Company	
	2002	**2001**
	HK$	*HK$*
Unlisted shares, at cost	390,033	390,026
Provision for impairment	(390,000)	(390,000)
	33	26
Due from subsidiaries	603,551,296	579,541,483
Due to a subsidiary	(8)	–
Provision	(300,000,000)	(300,000,000)
	303,551,321	279,541,509

The balances with subsidiaries are unsecured and interest-free. In respect of all the balances due from subsidiaries, the Company has undertaken not to demand repayment within a two-year period from the balance sheet date and only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Held directly				
Double Crown Limited	Hong Kong	HK$2	100	Property investment
Palmsville Developments Limited	British Virgin Islands	US$1	100	Investment holding
Proven Success Limited	British Virgin Islands	US$1	100	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Melco Services Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Held indirectly				
Aberdeen Restaurant Enterprises Limited*	Hong Kong	HK$25,025,000	86.68	Restaurant operations and property investment
Sea Palace, Limited*	Hong Kong	HK$1,950,000	86.46	Dormant
Tai Pak Sea-Food Restaurant Limited*	Hong Kong	HK$1,350,000	84.76	Catering, restaurant vessel holding and letting

* Audited by certified public accountants other than Ernst & Young.

The above table lists the subsidiaries of the Company as at 31 December 2002 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. Long Term Investments

	Group	
	2002	**2001**
	HK$	*HK$*
Unlisted equity investment, at cost	4,661,880	4,661,880
Provision for impairment	(4,661,880)	–
	–	4,661,880
Listed equity investment in Hong Kong, at cost	4,250,000	–
Provision for impairment	(4,250,000)	–
	–	–
Total	–	4,661,880

The market value of the Group's long term listed equity investment at 31 December 2002 was approximately HK$4,280,000. Subsequent to the balance sheet date, trading of the listed equity investment has been suspended since mid-February 2003. The market value of the listed equity investment was approximately HK$1,340,000 at the date of trading suspension. Having regard to the circumstances behind the suspension and the fact that the trading of the listed equity investment was still suspended at the date of this report, the directors considered that a full provision for impairment is necessary.

15. Inventories

	Group	
	2002	**2001**
	HK$	*HK$*
Food and beverages	2,947,147	3,056,467
Consumable stores	38,958	95,647
	2,986,105	3,152,114

No inventories were carried at net realisable value at 31 December 2002 (2001: Nil).

16. Accounts Receivable

The aged analysis of the accounts receivable is as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Outstanding balances aged:		
Within 30 days	1,770,388	1,996,239
Between 31 to 60 days	859,616	815,511
Between 61 to 180 days	141,217	185,498
Over 180 days	11,290	–
	2,782,511	2,997,248

The Group's restaurant and property leasing operations are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms are granted. The Group generally allows normal terms of credit of 30 to 60 days to its well-established customers.

17. Amounts due from Related Companies

Particulars of the amounts due from related companies of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Notes	**At 31 December 2002** *HK$*	**Maximum amount outstanding during the year** *HK$*	**At 1 January 2002** *HK$*
Sociedade Turismo e Diversões de Macau	(a)	424,604	446,000	446,000
iAsia Services Limited	(b)	1,982,407	1,982,407	–
		2,407,011		446,000

Notes:

(a) The amount due from Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group and remains unsettled (note 29(v)). The balance with STDM is unsecured, interest-free and has no fixed terms of repayment.

(b) The amount due from iAsia Services Limited ("iAsia Services") as at 31 December 2002, a related company of which Mr. Lawrence Ho and Dr. Stanley Ho are directors and Mr. Lawrence Ho, Dr. Stanley Ho, and Mr. Peter So are beneficial shareholders, represented payments for leasehold improvements and rental deposits paid by the Group on behalf of iAsia Services (note 29(x)). The amount due from iAsia Services is unsecured, bears interest at 2% per annum and has no fixed terms of repayment.

18. Other Investment

	Group 2002	Group 2001
	HK$	*HK$*
Unlisted debt securities, at fair value	4,000,000	–

Subsequent to the balance sheet date, on 23 January 2003, the Group disposed of the entire unlisted debt securities (including the accrued interest income of HK$142,000) to an independent third party for a total consideration HK$4,142,000.

19. Cash and Cash Equivalents

	Group 2002	Group 2001	Company 2002	Company 2001
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	14,393,804	4,990,332	3,174,641	585,346
Short term bank deposits	204,835,160	207,552,891	–	–
	219,228,964	212,543,223	3,174,641	585,346

20. Accounts Payable

The aged analysis of the accounts payable is as follows:

	Group 2002	Group 2001
	HK$	*HK$*
Outstanding balances aged within 30 days	2,356,253	2,574,010

21. Accrued Liabilities and Other Payables

	Group 2002	Group 2001	Company 2002	Company 2001
	HK$	*HK$*	*HK$*	*HK$*
Other payables	3,670,251	4,910,510	1,724,485	–
Accrued liabilities	11,559,594	1,862,543	1,737,577	367,546
	15,229,845	6,773,053	3,462,062	367,546

In particular, the provision for long services payments included in accrued liabilities above is set out below:

	Group 2002	Group 2001
	HK$	*HK$*
Provision for the year and balance at 31 December	3,600,000	–
Portion classified as current liabilities	(3,600,000)	–
Long term portion	–	–

The Group provides for the probable future long service payments to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements, pursuant to a reorganisation of the Group's operations. The long service payments have been settled subsequent to the balance sheet date. The provision is based on the future payments which have been earned by the employees from their service to the Group up to the balance sheet date. Provision for the future long service payments has not been recognised in previous years as the directors did not consider that the situation would result in a material future outflow of resources for the Group.

22. Share Capital

	2002	2001
	HK$	*HK$*
Authorised:		
480,000,000 shares of HK$1.00 each	480,000,000	480,000,000
Issued and fully paid:		
145,287,134 (2001: 121,087,134) shares of HK$1.00 each	145,287,134	121,087,134

On 1 August 2002, 24,200,000 ordinary shares of HK$1.00 each in the capital of the Company were issued by way of placement for HK$1.45 per share for a total cash consideration of HK$35,090,000, before related expenses.

The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$10,451,450, net of issue expenses, was credited to the share premium account (note 24).

The net proceeds from the placement is to be used as either general working capital of the Group or to finance the possible acquisition of a 70% equity interest in Tongda Energy Corporation Limited ("Tongda") (a PRC joint stock limited company and independent to the Group), details of which were set out in an announcement of the Company dated 10 July 2002. All of such net proceeds will be used as general working capital of the Group if the acquisition of Tongda does not proceed. As at the balance sheet date, the conditions stated in the agreement in respect of the acquisition of Tongda had not been satisfied and the Company had not made a decision whether to proceed with the acquisition of Tongda.

23. Share Option Scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, executives, employees, consultants, professional and other advisers of the Group. The Scheme became effective on 8 March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 8 March 2002, i.e. 12,108,713 shares of HK$1.00 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than the expiry date of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders meetings.

The following share options were outstanding under the Scheme during the year:

	Number of share options						
Name or category of participant	At 1 January 2002	Granted during the year	At 31 December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
Directors							
Mr. Lawrence Ho	–	605,435	605,435	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
	–	605,436	605,436	8 March 2002	HK$1.23	HK$1.38	8 March 2003 to 7 March 2012
	–	1,210,871	1,210,871				
Mr. Frank Tsui	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Mr. Peter So	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Mr. Ho Cheuk Yuet	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Sub-total	–	4,843,484	4,843,484				
Employees							
In aggregate	–	250,000	250,000	8 March 2002	HK$1.23	HK$1.38	8 March 2003 to 7 March 2012
	–	250,000	250,000	8 March 2002	HK$1.23	HK$1.38	8 March 2004 to 7 March 2012
	–	1,492,557	1,492,557	13 September 2002	HK$1.66	HK$1.66	13 September 2002 to 7 March 2012
	–	1,492,557	1,492,557	13 September 2002	HK$1.66	HK$1.66	13 March 2003 to 7 March 2012
	–	410,000	410,000	13 September 2002	HK$1.66	HK$1.66	13 September 2003 to 7 March 2012
	–	410,000	410,000	13 September 2002	HK$1.66	HK$1.66	13 September 2004 to 7 March 2012
Sub-total	–	4,305,114	4,305,114				

Name or category of participant	Number of share options: At 1 January 2002	Granted during the year	At 31 December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
Others							
In aggregate	–	1,480,057	1,480,057	13 September 2002	HK$1.66	HK$1.66	13 September 2003 to 7 March 2012
	–	1,480,058	1,480,058	13 September 2002	HK$1.66	HK$1.66	13 September 2004 to 7 March 2012
Sub-total	–	2,960,115	2,960,115				
Total	–	12,108,713	12,108,713				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

*** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option has been exercised, lapsed or cancelled during the year.

At the balance sheet date, the Company had 12,108,713 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,108,713 additional ordinary shares of the Company and additional share capital of HK$12,108,713 and share premium of HK$6,495,575, before issue expenses.

24. Reserves

Group

	Share premium account HK$	Capital reserve account@ HK$	Investment property revaluation reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2001					
As previously reported	8,737,833	117,476,852	84,480,758	69,187,781	279,883,224
Prior year adjustment*	–	240,307,881	–	(240,307,881)	–
As restated	8,737,833	357,784,733	84,480,758	(171,120,100)	279,883,224
Deficit on revaluation of investment properties *(note 11)*	–	–	(8,000,000)	–	(8,000,000)
Revaluation deficit attributable to minority shareholders	–	–	133,174	–	133,174
Net loss for the year	–	–	–	(18,634,632)	(18,634,632)
At 31 December 2001 and 1 January 2002	8,737,833	357,784,733	76,613,932	(189,754,732)	253,381,766
Issue of shares *(note 22)*	10,890,000	–	–	–	10,890,000
Share issue expenses	(438,550)	–	–	–	(438,550)
Surplus on revaluation of investment properties *(note 11)*	–	–	3,000,000	–	3,000,000
Revaluation surplus attributable to minority shareholders	–	–	(399,524)	–	(399,524)
Net loss for the year	–	–	–	(35,596,308)	(35,596,308)
At 31 December 2002	19,189,283	357,784,733	79,214,408	(225,351,040)	230,837,384

Company

	Share premium account HK$	Capital reserve account@ HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2001				
As previously reported	8,737,833	357,784,733	98,700,731	465,223,297
Prior year adjustment #	–	–	(5,000,000)	(5,000,000)
As restated	8,737,833	357,784,733	93,700,731	460,223,297
Net loss for the year	–	–	(301,546,564)	(301,546,564)
At 31 December 2001 and 1 January 2002	8,737,833	357,784,733	(207,845,833)	158,676,733
Issue of shares *(note 22)*	10,890,000	–	–	10,890,000
Share issue expenses	(438,550)	–	–	(438,550)
Net loss for the year	–	–	(10,933,684)	(10,933,684)
Net 31 December 2002	19,189,283	357,784,733	(218,779,517)	158,194,499

* In prior years, goodwill and negative goodwill arising on consolidation of subsidiaries were eliminated against and credited to the capital reserve, respectively, in the year in which they arose. During the year ended 31 December 2001, the Group adopted SSAP 30 "Business combinations". Goodwill was retrospectively restated and had been fully amortised prior to 1 January 2001 on a straight-line basis over a period of not more than 20 years. In addition, negative goodwill had been recognised as an income immediately in the year of acquisition. Accordingly, prior year adjustments were made in the financial statements for the year ended 31 December 2001, the principal effect of which was to reduce the Group's retained profits and increase the Group's capital reserve previously reported as at 1 January 2001, by HK$240,307,881.

During the year ended 31 December 2001, the Group adopted the revised SSAP 18 "Revenue". To comply with the revised SSAP, a prior year adjustment was made to the amount of the Company's financial statements for the year ended 31 December 2000, resulting in a debit of HK$5,000,000 to the Company's net profit for year ended 31 December 2000, and a net credit of the same amount to the dividend receivable in the Company's balance sheet as at 31 December 2000. The prior year adjustment reversed a dividend from a subsidiary which was declared and approved by the subsidiary after the 31 December 2000, which was previously recognised by the Company as revenue in its financial statements for the year ended 31 December 2000.

The effect of this change in accounting policy on the Company's net profit for the year ended 31 December 2001, was to reduce the net loss by HK$5,000,000 to HK$301,546,564, representing the effect of recognising the dividend of HK$5,000,000 declared by the subsidiary after 31 December 2000 as revenue in the financial statements for the year ended 31 December 2001.

@ Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is not freely distributable to the shareholders of the Company unless the conditions set out in the undertaking given to the Supreme Court of Hong Kong in respect of the capital reserve account at the date of the capital reduction have been fulfilled. The undertaking provides that the reserve shall not be treated as realised profits and shall be treated as an undistributable reserve of the Company for so long as there shall remain outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. If those conditions are fulfilled, the reserve could be treated as realised profits for the purpose of calculating the distributable reserve of the Company in accordance with the provisions of Section 79B of the Companies Ordinance.

25. Reserves Available for Distribution to Shareholders

Save as disclosed in note 24 to these financial statements, as at 31 December 2002, the Company had no reserves available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance.

26. Pledge of Assets

As at 31 December 2002, the Group's bank deposits amounting to HK$1,100,000 (2001: HK$911,000) were pledged to secure a letter of guarantee to the extent of HK$1,031,000 (2001: HK$911,000) granted by a bank for the Group's water and electricity deposits.

27. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 11) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Within one year	3,353,366	2,048,712
In the second to fifth years, inclusive	454,871	834,488
	3,808,237	2,883,200

(b) As lessee

The Group leases certain of its office properties and furniture under operating lease arrangements. Leases for properties and furniture are negotiated for a term of 3 years and 2 years, respectively.

At 31 December 2002, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	373,152	379,800	–	375,000
In the second to fifth years, inclusive	1,349,088	2,227	–	–
	1,722,240	382,027	–	375,000

28. Commitments

In addition to the operating lease commitments detailed in note 27(b) above, the Company and the Group had the following commitment at the balance sheet date.

On 28 September 2002, the Company entered into an underwriting agreement (the "Underwriting Agreement") to fully underwrite the proposed rights issue (the "Rights Issue") of Value Convergence Holdings Limited ("VCHL") (formerly iAsia Technology Limited). The Underwriting Agreement is conditional upon certain conditions and pursuant to which the Company is required to acquire, at a maximum, approximately 79.86% issued share capital of VCHL for a total consideration of HK$102,066,428.

Mr. Lawrence Ho and Dr. Stanley Ho, two of the directors and major shareholders of Melco, are also directors and shareholders of VCHL. As a result, the Underwriting Agreement entered into between Melco and VCHL, when completed, would constitute a connected transaction under the Listing Rules. Further details of the transaction were set out in the circular from the Company to its shareholders dated 16 November 2002. The transaction was approved by independent shareholders of the Company on 10 December 2002. The Underwriting Agreement became unconditional and was completed subsequent to the balance sheet date (note 30).

29. Related Party Transactions and Connected Transactions

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2002** *HK$*	**2001** *HK$*
Catering income received from directors and related companies	(i)	3,600,887	3,103,592
Insurance premiums paid to a related company	(ii)	954,076	930,014
Management fees paid to a related company	(iii)	441,572	406,657
Agency services fee paid to a related company	(iv)	55,000	198,142
Souvenirs sold to a related company	(v)	416,400	478,500
Technical support service fees paid to a related company	(vi)	77,745	55,800
Purchase of office equipment from a related company	(vii)	147,998	–
Rental income and management fee received from a related company	(viii)	188,047	–
Reception service fee paid to a related company	(ix)	35,277	–
Expenditure for leasehold improvements and rental deposit paid on behalf of a related company	(x)	1,982,407	–

Notes:

(i) The Group received catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.

(iii) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

(iv) An agency services fee was paid by the Group to Shun Tak Real Estate Limited ("STREL"), a subsidiary of STHL, on a basis determined between the Group and STREL for the introduction of tenants to lease the Group's investment properties.

(v) The sales of souvenirs to Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31 December 2002 was HK$424,604 (2001: HK$446,000) (note 17).

(vi) A service fee was paid to VCHL for the technical support services in respect of the Group's computer system and was determined on the basis agreed between the Group and VCHL. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also directors and beneficial shareholders of VCHL.

(vii) Purchase of office equipment from CFN Hong Kong Limited ("CFNHK"), a wholly-owned subsidiary of VCHL, was made at prices and terms agreed between the Group and CFNHK. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also beneficial shareholders and/or director of CFNHK.

(viii) The Group received rental income and management fee income from iAsia Services, a subsidiary of VCHL, for occupying part of the Group office premises, on a reimbursement basis.

(ix) Reception service fee was paid by the Group to iAsia Services on a basis determined between the Group and iAsia Services for the use of reception service.

(x) The amounts were paid by the Group on behalf of iAsia Services. The amount due from iAsia is unsecured, bears interest at 2% per annum and has no fixed terms of repayment (note 17). The interest income earned by the Group in respect of the amount due from iAsia Services amounted to HK$861 for the year ended 31 December 2002.

30. Post Balance Sheet Events

(a) On 17 January 2003, the Company's wholly-owned subsidiary, Palmsville Developments Limited entered into a loan agreement with a non-wholly owned subsidiary. The principal amount is HK$50,000,000 and the loan is unsecured, bears interest at market rate and has no fixed terms of repayment.

(b) On 20 January 2003, the Company entered into another loan agreement with VCHL with a principal of HK$23,000,000 (the "VCHL Loan"). The VCHL Loan is unsecured, bears interest at market rate and shall be repayable on or before 30 January 2003. The VCHL loan was used to set off against part of the consideration of subscription of VCHL's shares by the Company.

(c) Subsequent to the balance sheet date on 29 January 2003, the Underwriting Agreement, as detailed in note 28, became unconditional and the Company subscribed for the Rights Issue for 1,007,582,287 shares of HK$0.1 each in the share capital of VCHL for a total consideration of HK$100,758,229 pursuant to the Underwriting Agreement.

Following the Rights Issue of VCHL, a total of 1,679,303,811 shares of VCHL (including the bonus shares of VCHL issued under the terms of the Rights Issue) were issued to the Company by VCHL. As a result, the Company held 70.51% in the then share capital of VCHL. As at the date of this report, the Company held 67.57% in the share capital of VCHL. In the opinion of the directors, VCHL is a subsidiary of the Company. As at the date of this report, the Group is unable to estimate the goodwill arising on the acquisition of VCHL.

31. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 2 April 2003.

III. 2003 INTERIM REPORTS

Set out below is the interim consolidated financial statements of the company for the six months ended 30 June 2003 as extracted from the interim report of the Company dated 16 September 2003.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2003

		Unaudited Six months ended 30 June	
		2003	**2002**
	Notes	*HK$'000*	*HK$'000*
Turnover	2	58,377	44,325
Other revenues		5,223	48
Cost of food and beverages		(7,287)	(11,237)
Consumable stores used		(527)	(1,255)
Cost of sales of hardware solutions		(5,629)	–
Changes in work in progress		(116)	–
Staff costs		(33,223)	(24,531)
Depreciation of fixed assets	7	(7,536)	(2,958)
Amortisation of intangible assets	7	(1,725)	–
Commission expense		(5,795)	–
Other operating expenses		(22,167)	(12,509)
Total operating expenses		(84,005)	(52,490)
Operating loss	3	(20,405)	(8,117)
Finance costs		(344)	–
Loss before taxation		(20,749)	(8,117)
Taxation	4	–	–
Loss after taxation		(20,749)	(8,117)
Minority interests		5,866	829
Net loss attributable to shareholders		(14,883)	(7,288)
Basic loss per share	5	HK10.24 cents	HK6.02 cents
Fully diluted loss per share	5	HK10.23 cents	N/A

Condensed Consolidated Balance Sheet
As at 30 June 2003

	Notes	Unaudited 30 June 2003 HK$'000	Audited 31 December 2002 HK$'000
Non-current assets			
Investment properties	7	155,000	155,000
Fixed assets	7	35,262	22,326
Investment securities		21,837	–
Intangible assets	7	24,351	–
Other non-current assets		5,454	–
Current assets			
Inventories		2,324	2,986
Work in progress		286	–
Amounts due from related companies		4	2,407
Trade receivables	9	193,110	2,782
Prepayments, deposits and other receivables		8,531	8,939
Other investments		7,573	4,000
Pledged bank deposits	8	1,100	1,100
Bank balances and cash		122,003	219,229
		334,931	241,443
Current liabilities			
Trade payables	10	84,395	2,356
Accrued liabilities and other payables		21,683	15,230
Rental deposits due within one year		480	582
Bank loans and overdrafts		44,378	–
		150,936	18,168
Net current assets		183,995	223,275
Total assets less current liabilities		425,899	400,601
Financed by:			
Share capital	11	145,287	145,287
Reserves		215,954	230,837
Shareholders' funds		361,241	376,124
Minority interests		64,399	24,258
Non-current liabilities			
Rental deposits due after one year		259	219
		425,899	400,601

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2003

	Unaudited					
	Share capital	Share premium	Investment properties revaluation reserve	Capital reserve	Accumulated deficits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	145,287	19,189	79,214	357,785	(225,351)	376,124
Loss for the period	–	–	–	–	(14,883)	(14,883)
At 30 June 2003	145,287	19,189	79,214	357,785	(240,234)	361,241

	Unaudited					
	Share capital	Share premium	Investment properties revaluation reserve	Capital reserve	Accumulated deficits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	121,087	8,738	76,614	357,785	(189,755)	374,469
Loss for the period	–	–	–	–	(7,288)	(7,288)
At 30 June 2002	121,087	8,738	76,614	357,785	(197,043)	367,181

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2003

	Unaudited Six months ended 30 June 2003	
	2003	**2002**
	HK$'000	*HK$'000*
Net cash used in operating activities	(34,591)	(10,985)
Net cash (used in)/generated from investing activities	(334)	848
Net cash used in financing activities	(62,301)	–
Decrease in cash and cash equivalents	(97,226)	(10,137)
Cash and cash equivalents at 1 January	219,229	212,543
Cash and cash equivalents at 30 June	122,003	202,406

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Management considers that the adoption of the revised SSAP 12 does not have significant impact to the accounts of the Group in the current and prior years.

2. Segment information

The Group is principally engaged in five main business segments:

The investment banking and financial services segment, which comprises securities brokerage, commodities trading and corporate finance business.

The technology segment, which includes customisation and selling of trading and back office systems and solutions to financial institutions and intermediaries.

The fine-dining, leisure and tourism segment, which currently comprises restaurant operation and related activities.

The property investment segment, which comprises property investment and related activities.

The investment and others segment, which comprises investment and related activities.

An analysis of the Group's revenue and results for the period by business segment is as follows:

	6 months ended 30 June 2003 HK$'000					
	Investment banking and financial services	**Technology**	**Fine-dining, leisure and tourism**	**Property investment**	**Investment and others**	**Group**
Revenues						
Turnover	20,693	10,047	25,127	2,310	200	58,377
Segment results	(5,922)	(7,515)	(7,126)	1,416	3,901	(15,246)
Unallocated costs						(5,159)
Operating loss						(20,405)
Finance costs						(344)
Loss before taxation						(20,749)
Taxation						–
Minority interests						5,866
Loss attributable to shareholders						(14,883)

	6 months ended 30 June 2002 HK$'000			
	Fine-dining, leisure and tourism	**Property Investment**	**Investment and others**	**Group**
Revenues				
Turnover	40,226	2,345	1,754	44,325
Segment results	(7,652)	1,706	1,753	(4,193)
Unallocated costs				(3,924)
Operating loss				(8,117)
Finance costs				–
Loss before taxation				(8,117)
Taxation				–
Minority interests				829
Loss attributable to shareholders				(7,288)

Unallocated costs represent corporate expenses.

3. Operating loss

Operating loss is stated after crediting and charging the following:

	6 months ended 30 June 2003 HK$'000	2002 HK$'000
Crediting		
Write-back of over-provision for long service payment obligation	629	–
Charging		
Loss on disposal of fixed assets	317	–

4. Taxation

No Hong Kong profits tax has been provided as the companies comprising the Group did not derive any assessable profits arising in Hong Kong during the period (2002: nil).

No provision for deferred taxation has been made in the accounts during the six months ended 30 June 2003 (2002: nil) as the Group has net potential deferred tax asset at the balance sheet date. The crystallisation of the deferred tax asset in the foreseeable future was uncertain.

5. Loss per share

The calculations of basic and diluted loss per share are based on the Group's net loss attributable to shareholders of HK$14,883,000 (2002: HK$7,288,000).

The basic loss per share is based on 145,287,134 (2002: 121,087,134) ordinary shares in issue during the period. The diluted loss per share is based on 145,287,134 ordinary shares in issue during the period plus the weighted average number of 257,961 ordinary shares deemed to be issued at no consideration if all outstanding options with dilutive effect on the basic loss per share had been exercised.

A diluted loss per share amount for the period ended 30th June 2002 has not been disclosed as the share options outstanding during such period had an anti-dilutive effect on the basic loss per share for such period.

6. Interim dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

7. Capital expenditure

	Goodwill *HK$'000*	Trading rights *HK$'000*	Total intangible assets *HK$'000*	Investment properties *HK$'000*	Fixed assets *HK$'000*
Opening net book amount as at 1 January 2003	–	–	–	155,000	22,326
Additions through acquisition of Value Convergence Holdings Limited *(Note 12)*	21,721	3,757	25,478	–	18,477
Goodwill arising from acquisition of Value Convergence Holdings Limited *(Note 12)*	598	–	598	–	–
Other additions	–	–	–	–	2,870
Disposals	–	–	–	–	(875)
Depreciation/amortisation charge	(1,514)	(211)	(1,725)	–	(7,536)
Closing net book amount as at 30 June 2003	20,805	3,546	24,351	155,000	35,262

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. The goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and the HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE.

8. Pledged bank deposits

As at 30 June 2003, the Group's bank deposits amounting to HK$1,100,000 (31 December 2002: HK$1,100,000) were pledged to secure a letter of guarantee to the extent of HK$1,031,000 (31 December 2002: HK$1,031,000) granted by a bank for the Group's water and electricity deposits.

9. Trade receivables

Included in trade receivables are trade debtors and their ageing analysis is as follows:

	Within 30 days *HK$'000*	31 to 90 days *HK$'000*	Over 90 days *HK$'000*	Total *HK$'000*
Balance at 30 June 2003	187,362	1,205	9,423	197,990
Provision for doubtful debts				(4,880)
				193,110
Balance at 31 December 2002 *(Note 15)*	1,770	983	29	2,782

The Group's fine-dining, leisure and tourism and property investment segments are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms are granted. The Group generally allows normal terms of credit of 30 to 60 days to its well-established customers.

The Group's trade receivables for technology and investment banking and financial services segments are due immediately from date of billing. For the trade receivables for technology segment, the Group will generally grant a normal credit period of 30 days on average to its customers.

Certain companies in the Group maintain trust accounts with HKFE Clearing Corporation Limited ("HKFECC") for their clients as a result of their normal business transactions. As at 30 June 2003, trust accounts with HKFECC not otherwise dealt with in the accounts amounted to approximately HK$7,181,000 (31 December 2002: nil).

10. Trade payables

Included in trade payables are trade creditors and their ageing analysis is as follows:

	Within 30 days	**31 to 90 days**	**Over 90 days**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 30 June 2003	84,094	104	197	84,395
Balance at 31 December 2002 *(Note 15)*	2,356	–	–	2,356

11. Share capital

	Authorised Ordinary shares of HK$1 each	
	No. of shares	*HK$'000*
At 1 January 2003 and 30 June 2003	480,000,000	480,000

	Issued and fully paid Ordinary shares of HK$1 each	
	No. of shares	*HK$'000*
At 1 January 2003 and 30 June 2003	145,287,134	145,287

12. Acquisition

On 5 February 2003, the Group acquired 70.51% equity interests in Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) ("VC") through underwriting of the rights shares issued by VC at HK$0.1 per rights share. On 3rd March 2003, the Group disposed of 2.94% equity interests in VC to an independent third party. As at 30 June 2003, the Group held 67.57% equity interests in VC.

The total consideration for the underwriting of the rights shares of VC was approximately HK$100,758,000 and was settled in cash. The fair value of the acquired net identifiable assets at the date of acquisition was approximately HK$142,045,000, resulting in a goodwill of approximately HK$598,000. The acquired business contributed turnover of approximately HK$30,740,000 and operating loss of approximately $13,437,000 to the Group for the period from 5 February 2003 to 30 June 2003.

The assets and liabilities arising from the acquisition are as follows:

	HK$'000
Fixed assets *(Note 7)*	18,477
Intangible assets *(Note 7)*	25,478
Other non-current assets	6,535
Accounts receivables	110,120
Bank balances and cash	122,900
Other current assets	8,167
Interest-bearing bank borrowings	(106,335)
Other current liabilities	(43,297)
Fair value of net identifiable assets acquired	142,045
Minority interest	(41,885)
Goodwill *(Note 7)*	598
Total purchase consideration	100,758
Total purchase consideration paid	(100,758)
Less: bank balance and cash acquired	122,900
Net cash inflow from acquisition	22,142

13. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

		6 months ended 30 June	
		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Catering income earned from directors and related companies	(a)	679	1,704
Insurance premiums charged by a related company	(b)	453	396
Property management fees charged by a related company	(c)	204	194

(a) The Group earned catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.

(b) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.

(c) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

14. Subsequent event

On 11 August 2003, the Directors announced that the Company proposed to raise approximately HK$105.3 million before expenses by way of rights issue of not less than 72,643,566 rights shares and not more than 78,697,922 rights shares at a price of HK$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue.

The major shareholders of the Company, representing about 50.1% of the existing issued share capital of the Company, has agreed to accept the rights shares to be provisionally allotted to them. Kim Eng Securities (Hong Kong) Limited, the underwriter, has agreed to underwrite the remaining rights shares to be issued.

15. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

IV. STATEMENT OF INDEBTEDNESS

(a) Bank borrowings

As at the close of business on 31 March 2004, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had secured bank borrowings and overdrafts totalling HK$58 million which were secured by margin clients' listed securities with market value of approximately HK$13.5 million, investment properties with open market value of HK$82 million, and a corporate guarantee by a subsidiary of the Enlarged Group.

(b) Loans from shareholders of Mocha

As at the close of business on 31 March 2004, the Enlarged Group had loans from shareholders of Mocha of approximately HK$69.7 million. The loans from shareholders of Mocha are unsecured, interest bearing at 4% per annum and repayable by 2 equal payments on 30 June 2005 and 30 June 2006, respectively.

(c) Contingent liabilities

As at the close of business on 31 March 2004, the Enlarged Group did not have any material contingent liabilities.

(d) Capital commitments

As at the close of business on 31 March 2004, the Enlarged Group had authorized and contracted for capital commitments for renovations amounting to approximately HK$1.2 million.

(e) Guarantees and pledge of assets

Saved as disclosed in (a) above, as at the close of business on 31 March 2004, the Company had also provided corporate guarantees to:

(i) the suppliers of a subsidiary for obtaining normal trading credit in favour of the subsidiary; and

(ii) a bank for obtaining banking facilities granted to a subsidiary

In addition, as at the close of business on 31 March 2004, the Enlarged Group had pledged:

(i) certain bank deposits of approximately HK$0.3 million to secure letters of guarantee granted to a subsidiary for admission to business tender application and for deposits for water and electricity supply services; and

(ii) investment properties with open market value of HK$77 million to a bank for facilities granted to a subsidiary. The facilities were not yet utilised as at 31 March 2004.

Save as aforesaid and apart from intra-group liabilities, no companies within the Enlarged Group had outstanding at the close of business on 31 March 2004 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

V. WORKING CAPITAL

The directors of Melco are of the opinion that, based on the expected cash flows, and taking into account the internal resources of the Enlarged Group, and assuming that the banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

VI. FINANCIAL AND TRADING POSITION

Save as disclosed in this Circular, the director of Melco are not aware of any other material change in the financial or trading position or prospects of Melco Group since 31 December 2002, being the date of the latest published audited accounts of Melco Group.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

23 April 2004

The Directors
Melco International Development Limited

Dear Sirs,

We set out below our report on the financial information relating to Mocha Slot Group Limited (the "Company") and its subsidiary (herein collectively referred to as the "Group") for the period from 20 March 2003 (date of incorporation of the Company) to 31 December 2003 (the "Relevant Period") for inclusion in the circular of Melco International Development Limited ("Melco") dated 23 April 2004 (the "Circular") in connection with the proposed acquisition of 80% of the beneficial interest in the Group by Melco from Better Joy Overseas Limited, Mr. Chang Wang and Mr. Chang Tan.

The Company was incorporated in the British Virgin Islands ("BVI") on 20 March 2003 as a limited liability company under the International Business Companies Act of BVI. As of the date of this report, the Company has direct interest in a subsidiary, details of which are set out in note 10 of section II below. The Company and its subsidiary have adopted 31 December as their respective financial year end date. We acted as the auditors of the Company and its subsidiary for the Relevant Period.

The financial information of the Group as set out in sections I to IV below (the "Financial Information") has been prepared by the directors of the Company based on the audited accounts of the Company and of its subsidiary, on the basis set out in note 1(a) of section II below. The respective directors of the Company and its subsidiary are responsible for preparing such accounts which give a true and fair view. In preparing those accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The directors of the Company are also responsible for preparing the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the consolidated state of affairs of the Group and of the Company as at 31 December 2003 and of the consolidated results and cash flows of the Group for the Relevant Period.

I. ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period from 20 March 2003
(date of incorporation) to 31 December 2003

	Note	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 HK$
Turnover	2, 17(d)	4,766,652
Other revenue	2	38
Depreciation		(335,729)
Staff costs (excluding directors' emoluments)	7	(626,135)
Operating lease rental		(750,002)
Other operating expenses		(1,506,069)
Operating profit	3	1,548,755
Finance costs	4, 17(d)	(80,596)
Profit before taxation		1,468,159
Taxation	5	(220,477)
Profit for the period and carried forward		1,247,682
Earnings per share – Basic	19	12,477
Earnings per share – Diluted	19	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2003

	Note	**2003** *HK$*
Non-current assets		
Fixed assets	9, 17(d)	10,573,994
Current assets		
Accounts receivable	17(c), 20	1,731,750
Prepayments and deposits		1,342,334
Bank balances and cash		3,013,944
		6,088,028
Current liabilities		
Amount due to a related company	17(b)	1,279,205
Accruals and other payables		672,960
Taxation payables		159,228
Finance lease payable, current portion	11	776,580
		2,887,973
Net current assets		3,200,055
Total assets less current liabilities		13,774,049
Financed by:		
Share capital	12	780
Retained earnings		1,247,682
		1,248,462
Non-current liabilities		
Loans from shareholders	17(a)	11,647,029
Deferred tax liabilities	13	61,249
Finance lease payable, non-current portion	11	817,309
		12,525,587
		13,774,049

BALANCE SHEET
As at 31st December 2003

	Note	**2003** *HK$*
Non-current assets		
Fixed assets	9, 17(d)	10,556,802
Investment in a subsidiary	10	24,250
		10,581,052
Current assets		
Accounts receivable	17(c), 20	1,714,550
Prepayments and deposits		1,342,334
Bank balances and cash		2,851,759
		5,908,643
Current liabilities		
Amount due to a subsidiary	10	129,556
Amount due to a related company	17(b)	1,279,205
Accruals and other payables		468,881
Taxation payables		154,582
Finance lease payable, current portion	11	776,580
		2,808,804
Net current assets		3,099,839
Total assets less current liabilities		13,680,891
Financed by:		
Share capital	12	780
Retained earnings		1,154,524
		1,155,304
Non-current liabilities		
Loans from shareholders	17(a)	11,647,029
Deferred tax liabilities	13	61,249
Finance lease payable, non-current portion	11	817,309
		12,525,587
		13,680,891

CONSOLIDATED CASH FLOW STATEMENT
For the period from 20 March 2003
(date of incorporation) to 31 December 2003

	Note	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 HK$
Net cash inflow from operating activities	14(a)	762,527
Investing activities		
Purchase of fixed assets		(9,039,558)
Interest received		38
Net cash outflow from investing activities		(9,039,520)
Net cash outflow before financing		(8,276,993)
Financing activities	14(b)	
Loans from shareholders		11,581,033
Issue of ordinary shares		780
Repayment of interest element of finance lease payable		(14,600)
Repayment of capital element of finance lease payable		(276,276)
Net cash inflow from financing activities		11,290,937
Increase in cash and cash equivalents		3,013,944
Cash and cash equivalents at end of period		3,013,944
Analysis of the balance of cash and cash equivalents		
Bank balances and cash		3,013,944

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 20 March 2003
(date of incorporation) to 31 December 2003

	Note	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 HK$
Issue of shares	12	780
Profit for the period		1,247,682
Total equity as at 31 December 2003		1,248,462

II. NOTES TO THE ACCOUNTS

1. Principal accounting policies

The principal accounting policies adopted in the preparation of the financial information are set out below:

(a) Basis of preparation

The financial information have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

(b) Consolidation

The consolidated financial information includes the financial information of the Company and its subsidiary made up to 31 December 2003. The results of subsidiary acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiary

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less provision for impairment losses, if any. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

(d) Fixed assets

(i) Fixed assets

Fixed assets, comprising leasehold improvements, machinery, and furniture, fixtures and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(ii) Depreciation

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Machinery	10%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	20% to 25%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(g) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(h) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) *Assets under leases*

(i) Finance leases (where the Group is a lessee)

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) Operating leases (where the Group is a lessee)

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(iii) Operating leases (where the Group is a lessor)

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. The basis of revenue recognition for leasing income is set out in note 1(l) to the financial information.

(j) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(k) Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(l) Revenue recognition

Revenue from leasing of gaming machines and provision of ancillary management services to the lessees is recognised on an accrual basis in accordance with the contractual terms of the respective leasing agreements, details of which are set out in note 16 to the financial information.

Revenue from bar operations is recognised when food and beverages are delivered to customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(m) Borrowing costs

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(n) Legal reserve

All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 25% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the profit and loss account and is not available for distribution to the shareholders of the entity.

The appropriation of legal reserve is recorded in the accounts in the period in which it is approved by the board.

2. Turnover and other revenue

The Group is principally engaged in i) leasing of gaming machines and provision of ancillary management services to the lessees of the gaming machines; and ii) bar operations providing food and beverages to customers at the gaming areas.

Revenues recognised during the period are as follows:

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Turnover	
Leasing of gaming machines and provision of ancillary management services	4,710,534
Sales of food and beverages	56,118
	4,766,652
Other revenue	
Interest income	38
Total revenues	4,766,690

3. Operating profit

Operating profit is stated after charging / (crediting) the following:

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Depreciation:	
Owned fixed assets	269,615
Fixed assets under finance lease	66,114
Auditors' remuneration	60,000
Exchange gain, net	(22,678)

4. Finance costs

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Interest on loans from shareholders wholly repayable within five years	65,996
Interest element of finance lease	14,600
	80,596

5. Taxation

Macau Complementary tax has been provided at progressive tax rates ranged from 3.75% to 15.75% on the estimated assessable profits of the companies comprising the Group for the period.

The amount of taxation charged to the consolidated profit and loss account represents:

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Macau Complementary tax	159,228
Deferred taxation	61,249
	220,477

There was no difference between the Group's profit before taxation and the theoretical amount that would arise using the taxation rate of Macau as calculated at progressive tax rates ranged from 3.75% to 15.75%.

6. Dividends

No dividends have been paid or declared by the Company during the period.

7. Staff costs (excluding directors' emoluments)

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Wages and salaries	624,066
Social security costs	2,069
	626,135

8. Directors' emoluments

During the period, none of the directors received or will receive any fees or emoluments in respect of their services to the Group, received or will receive inducements to join or upon joining the Group or compensation for loss of office as director, and waived or has agreed to waive any emoluments.

The emoluments paid to the five highest paid individuals (none of them is a director) of the Group during the period are as follows:

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Salaries and other benefits in kind	253,882
Social securities costs	234
Pension costs	–
	254,116

None of the above individuals received emoluments in excess of HK$1,000,000, received or will receive amounts as inducements to join or upon joining the Group or compensation for loss of office in connection with the management of the affairs of any member of the Group.

9. Fixed assets

	Group			
	Leasehold improvements *HK$*	**Machinery** *HK$*	**Furniture, fixtures and equipment** *HK$*	**Total** *HK$*
Cost				
Additions	1,419,471	8,344,225	1,146,027	10,909,723
At 31 December 2003	1,419,471	8,344,225	1,146,027	10,909,723
Accumulated depreciation				
Charge for the period	85,957	181,048	68,724	335,729
At 31 December 2003	85,957	181,048	68,724	335,729
Net book value				
At 31 December 2003	1,333,514	8,163,177	1,077,303	10,573,994

	Company			
	Leasehold improvements *HK$*	**Machinery** *HK$*	**Furniture, fixtures and equipment** *HK$*	**Total** *HK$*
Cost				
Additions	1,419,471	8,344,225	1,127,727	10,891,423
At 31st December 2003	1,419,471	8,344,225	1,127,727	10,891,423
Accumulated depreciation				
Charge for the period	85,957	181,048	67,616	334,621
At 31st December 2003	85,957	181,048	67,616	334,621
Net book value				
At 31st December 2003	1,333,514	8,163,177	1,060,111	10,556,802

At 31 December 2003, certain machinery of the Group and the Company with net book value of HK$2,362,556 were held under a finance lease.

10. Investment in a subsidiary

	Company 2003 *HK$*
Unlisted shares, at cost	24,250
Amount due to a subsidiary *(note a)*	(129,556)

Note:

(a) The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

(b) The following is the particulars of the subsidiary at 31 December 2003:

Name	Place of incorporation	Principal activity and place of operation	Particulars of issued share capital	Interest held
Mocha Slot Management Limited	Macau	Provision of management services to the holding company in Macau	25,000 Ordinary shares of MOP1 each	100%

11. Finance lease payable

At 31 December 2003, the finance lease liability of the Group and the Company was repayable as follows:

	Group and Company **2003** *HK$*
Finance lease liability – minimum lease payments:	
Within one year	828,828
In the second year	836,981
	1,665,809
Future finance charges on finance lease	(71,920)
Present value of finance lease payable	1,593,889

The present value of finance lease payable is as follows:

Within one year	776,580
In the second year	817,309
	1,593,889

12. Share capital

	Group and Company *No. of shares*	*HK$*
Authorised:		
Ordinary shares of US$1 each	50,000	390,000
	No. of shares	*HK$*
Issued and fully paid:		
Ordinary shares of US$1 each	100	780

The Company was incorporated on 20 March 2003 with an authorised share capital of HK$390,000 divided into 50,000 shares of US$1 each. Upon incorporation, 100 ordinary shares of US$1 each were issued at par for cash.

13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under liability method using progressive tax rates ranged from 3.75% to 15.75%.

The movement on the deferred tax liability account of the Group and the Company is as follows:

	Group and Company Accelerated tax depreciation 2003 *HK$*
Deferred taxation charged to profit and loss account *(note 5)*	61,249
At 31 December 2003	61,249

There was no significant unprovided deferred taxation at 31 December 2003.

14. Notes to the cash flow statement

(a) Reconciliation of the profit before taxation to net cash inflow from operating activities

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003 *HK$*
Profit before taxation	1,468,159
Depreciation	335,729
Interest income	(38)
Interest expense	80,596
Increase in accounts receivable	(1,731,750)
Increase in prepayments and deposits	(1,342,334)
Increase in amount due to a related company	1,279,205
Increase in accruals and other payables	672,960
Net cash inflow from operating activities	762,527

(b) Analysis of changes in financing during the period

	For the period from 20 March 2003 (date of incorporation) to 31 December 2003		
	Share capital *HK$*	**Shareholders' loans** *HK$*	**Finance lease obligation** *HK$*
Purchase of fixed assets under finance lease *(note 14(c)*	–	–	1,870,165
Accrual of interest expense on shareholders' loans	–	65,996	–
Interest element of finance lease charged to the profit and loss account	–	–	14,600
Cash inflow/(outflow)	780	11,581,033	(290,876)
At 31 December 2003	780	11,647,029	1,593,889

(c) Major non-cash transaction

During the period the Group entered into a finance lease arrangement in respect of an asset with the total capital value at the inception of the lease of HK$2,428,670. A cash payment of HK$558,505 was made at the inception of the lease (note 14(b)).

15. Commitments under operating leases

At 31 December 2003, the Group and the Company had future aggregate minimum lease payments under non-cancelable operating leases in respect of land and buildings as follows:

	Group and Company 2003 *HK$*
Not later than one year	2,838,060
Later than one year and not later than five years	13,642,718
	16,480,778

16. Future operating lease arrangements

At 31 December 2003, the Group and the Company had entered into lease arrangements with two lessees for leasing of its owned gaming machines. In addition to a fixed monthly rent of MOP$8,000 (equivalent to HK$7,767) per month for one of the lease arrangements, the Group and the Company will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. The future aggregate minimum lease receipts under such non-cancelable operating lease arrangements at 31 December 2003 are as follows:

	Group and Company 2003 *HK$*
Not later than one year	93,204
Later than one year and not later than five years	372,816
Later than five years	434,952
	900,972

17. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) The loans from shareholders are unsecured, interest bearing at 4% per annum and repayable by 2 equal payments on 30 June 2005 and 30 June 2006, respectively.

(b) The amount due to a related company is unsecured, interest-free and repayable within 12 months.

(c) The accounts receivable include an amount due from Sociedade de Jogos de Macau ("SJM") of HK$1,714,550 in relation to the leasing income from the gaming machines leased. Dr. Stanley Ho, a beneficial shareholder of the Company, is also a beneficial shareholder and director of SJM. The amount due from SJM is unsecured, interest-free and repayable within 30 days (note 20).

(d) Significant related party transactions, which were carried out in the normal course of the Group's business and are expected to be continued in the future, are as follows:

	Note	**For the period from 20 March 2003 (date of incorporation) to 31 December 2003** *HK$*
Purchase of machinery from a related company	(i)	3,722,029
Income from leasing of gaming machines and provision of ancillary management services to a related company	(ii)	4,710,534
Interest expense on loans from shareholders	(iii)	65,996

Note:

(i) Purchases of gaming machines from Elixir Group Limited ("Elixir") was made at normal commercial terms. Dr. Stanley Ho and Mr. Lawrence Ho, the beneficial shareholders and/or director of the Company, are also the beneficial shareholders and/or director of Elixir.

(ii) The amount represents income from leasing of gaming machines and provision of ancillary management services to SJM which was made at normal commercial terms specified in the lease arrangement with SJM. Dr. Stanley Ho, a shareholder and director of the Company, is also a beneficial shareholder and director of SJM.

(iii) Please refer to note 17(a) to the financial information for the details of the loans from shareholders.

18. Segment information

No business segmentation analysis is provided as less than 10% of the consolidated turnover, consolidated operating profit and consolidated total assets of the Group were attributable to business segments other than the leasing of gaming machines and provision of ancillary management services to the lessees of the gaming machines. No geographical segmentation analysis is provided as the Group conducts its business in one single geographical segment, which is Macau, during the period, and the whole of the Group's assets and capital expenditure are located in Macau.

19. Earnings per share information

The calculation of basic earnings per share is based on the Group's profit for the period of HK$1,247,682 and the 100 shares in issue during the period from 20 March 2003 (date of incorporation) to 31 December 2003. No diluted earnings per share information is presented because there were no dilutive potential ordinary shares in issue during the period.

20. Credit policy and aging of accounts receivable

The Group and the Company offer a credit period of 30 days to the customers. At 31 December 2003, the whole balance of the accounts receivable of the Group and the Company were aged less than 30 days.

21. Ultimate holding company

The directors regard Better Joy Overseas Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

III. SIGNIFICANT SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2003 up to the date of this report.

IV. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiary in respect of any period subsequent to 31 December 2003.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from American Appraisal China Limited, an independent business valuer, in connection with its valuation as at 29 February 2004.

The Directors
Melco International Development Limited
38 Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

22 March 2004

Dear Sirs,

APPRAISAL SUMMARY LETTER

In accordance with your instructions, we have made an appraisal of the fair market value of business enterprise of Mocha Slot Group Limited ("the Company" or "Mocha"). It is our understanding that this appraisal is used for the purpose of acquisition. It is inappropriate to use this appraisal for purposes other than its intended use as so stated in this letter.

Melco International Development Ltd ("Melco") requires an independent opinion of the fair market value of business enterprise value of Mocha as of 29 February 2004 ("Appraisal Date"). This executive summary letter identifies the asset appraised, states the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

The full narrative report is intended to comply with the purpose and reporting requirements set forth by the Uniform Standards of Professional Appraisal Practice ("USPAP") for appraisal report and is retained by Melco. As such, appraisal report required by USPAP presents only summary discussions of the data, reasoning, and analyses that are used in the appraisal process to develop the opinion of value of American Appraisal China Limited. Supporting documentation concerning these matters has been retained in our work papers.

The depth of discussion contained in this report is specific to your needs as the client and for the intended use as stated below. American Appraisal China Limited is not responsible for the unauthorized use of this report.

STANDARD OF VALUE

Fair market value is the estimated amount at which a property or enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts.

Business enterprise is defined for this appraisal as the total invested capital, that is equivalent to the combination of all interest-bearing debts and shareholders' equity. The fair market value of the business enterprise of the company is derived based on the expected future economic benefit to which the shareholders and debt holders of the company will be effectively entitled.

COMPANY BACKGROUND

Mocha Slot Group Limited, ("The Company" or "Mocha"), formerly known as Bright Super Management Limited, was incorporated on 20 March 2003. At that time, Mr. Chang Wang was the sole director and sole shareholder of the Company.

In September 2003, 65% of the Company shares was transferred from Mr. Chang Wang to Better Joy Overseas Ltd, which is owned by Dr. Stanley Ho and Mr. Lawrence Ho. Dr. Ho and Mr. Ho were appointed as directors of the Company accordingly. In February 2004, 7% of the Company shares was transferred from Mr. Chang Wang to Mr. Chang Tan. Currently, the Company is owned by Better Joy Overseas Ltd, Mr. Chang Wang and Mr. Chang Tan while the directorship is composed of Dr. Stanley Ho, Mr. Lawrence Ho and Mr. Chang Wang.

The Company is principally engaged in leasing gaming machines and provision of management services to gaming centres in Macau. In September 2003, it ran its maiden slot gaming in Hotel Royal where offered 65 slot machines with coffee and light drinks served in the Mocha Slot Lounge. The Company has entered leasing and management contracts with (licensor) in 2 more locations, namely Hotel Kingsway and San Kin Yip where renovations are being undertaken, in this coming summer. The scale of operation of the two new sites are much larger than the existing one, while with the same aim of providing a cosy environment to enjoy the excitement of slot games.

SCOPE OF WORK

To perform a profound appraisal on the Company, due diligence process has been undergone and relevant documents have been gathered as follows:

- Discussions have been held with the senior management and finance personnel to obtain a better understanding of the Company's operation, projection assumptions, and future prospects
- Lease agreements and pertinent documents were furnished by the management
- A 10-year-projection was provided by the management
- Historical financial statements have been reviewed
- Analysis of the comparable companies has been undertaken for the purpose of price multiples ratio analysis and derivation of discount rate

VALUATION METHODOLOGY

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to value. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Income approach – discounted cashflow method

In this method, the value depends on the present worth of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of value is developed by discounting future free cash flows available for distribution to shareholders and for servicing debt holders to their present worth at market-derived rates of return appropriate for the risks and hazards of investing in similar business.

Market approach – guideline companies method

In applying the guideline companies method, different value measures or market multiples of the comparable companies are calculated and analyzed to induce a series of multiples that are considered representative of the industry average. Then, we applied the relevant industry multiplies to the subject company to determine a value for the subject company that is on a minority and freely-traded basis.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it was our opinion that the fair market value of Mocha Slot Group Limited, as of 29 February 2004, was reasonably stated by the amount of HONG KONG DOLLAR FIVE HUNDRED NINETY FOUR MILLION (HKD 594,000,000) ONLY.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Ricky Lee
Assistant Vice President

Investigated and reported by:
Ricky Lee, *ACCA*
Yvonne Dunn

UNAUDITED STATEMENT OF PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an unaudited statement of pro forma adjusted consolidated net tangible assets of the Group immediately following the completion of acquisitions of 80% equity interests in Mocha Group and 100% equity interests in iAsia Group by Melco (the "Acquisitions"). It is prepared based on the unaudited consolidated net assets of Melco Group as at 30 June 2003, adjusted to reflect the effects of the issuance of rights shares as detailed in the circular of Melco dated 29 August 2003 (the "Rights Shares Issuance"), sharing of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003, the exercise of share options by the directors/employees of Melco, and the Acquisitions:

	HK$'000	*HK$'000* (except for per share data)
Unaudited consolidated net assets of Melco Group as at 30 June 2003		361,241
Intangible asset of Melco Group as at 30 June 2003		(24,351)
Consolidated net tangible asset of Melco Group as at 30 June 2003		336,890
Add: Net proceeds from the Rights Shares Issuance *(Note 1)*		102,833
Add: Net proceeds from the exercise of share options by the directors/employees *(Note 2)*		6,164
Add: Melco Group's 67.57% share of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003 *(Note 3)*		(3,285)
Consolidated net tangible assets of Melco Group immediately following the Rights Shares Issuance and the sharing of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003		442,602
Add: Melco Group's 80% share of audited consolidated net assets of Mocha Group as at 31 December 2003 *(Note 4)*	999	
Less: Considerations for the acquisition of 80% equity interests in Mocha Group *(Note 5)*	(353,000)	
	(352,001)	
Add: Settlement of considerations by issuance of new Melco shares *(Note 5)*	353,000	
		999
Less: Increase in goodwill and minority interests arising from the acquisition of iAsia Group by Melco *(Note 6)*		(9,195)
Unaudited pro forma adjusted consolidated net tangible assets of the enlarged Melco Group immediately following the Rights Shares Issuance, sharing of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003 and the Acquisitions		434,406

	HK$'000	*HK$'000* (except for per share data)
Consolidated net tangible assets per share of Melco Group as at 30 June 2003 *(Note 7)*		HK$2.32
Unaudited pro forma adjusted consolidated net tangible assets per share of Melco Group immediately following the Rights Shares Issuance and sharing of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003 *(Note 8)*		HK$1.98
Unaudited pro forma adjusted consolidated net tangible assets per share of the enlarged Melco Group immediately following the Rights Shares Issuance, sharing of the results of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003 and the Acquisitions *(Note 9)*		HK$1.15

Notes:

(1) This represents the proceeds from the issuance of 72,643,567 rights shares at HK$1.45 per rights share, less the estimated direct expenses payable. For details, please refer to the circular of Melco dated 29 August 2003.

(2) This represents the proceeds from the exercise of 5,920,112 share options with exercise price between HK$1.0 to HK$1.1067 by the employees/directors of Melco since 30th June 2003 up to the Latest Practical Date.

(3) This represents Melco Group's 67.57% sharing of the losses of VC and its subsidiaries for the period from 1 July 2003 to 31 December 2003. This information is derived from the 2003 Annual Report and the 2003 Third Quarterly Report of VC.

(4) This represents Melco Group's 80% share of the audited consolidated net assets of the Mocha Group as at 31 December 2003 of approximately HK$1.25 million. This information is extracted from the Accountants' Report of Mocha Group as set out on pages 89 to 105 of this Circular.

(5) This represents the consideration for Melco's acquisition of 80% equity interests in Mocha Group to be wholly settled by the issuance of 153,478,261 new shares of Melco. For the purpose of the preparation of these unaudited proforma combined financial information, the issued price agreed among Melco and the sellers of HK$2.30 each has been used to determine the fair value of the new shares of Melco to be issued. Upon completion of the acquisition, it will be accounted for in accordance with Statement of Standard Accounting Practice Number 30 "Business Combinations" issued by the Hong Kong Society of Accountants.

(6) This represents goodwill arising from the acquisition of iAsia Group, which represents the minority shareholders' entitlement to 32.43% of the gain on disposal of iAsia Group by VC.

The acquisition of iAsia Group by Melco is an inter-company transaction within Melco Group. The considerations to be paid by Melco represent cash of HK$27,900,000. The net liabilities of iAsia Group as at 31 December 2003 amounted to approximately HK$26,249,000. Since VC agreed to waive the inter-company loans granted to iAsia Group amounting to approximately HK$25,791,000 before its disposal to Melco, the net liabilities of iAsia Group immediately following the waive of inter-company loans was reduced to approximately HK$458,000. A gain on disposal of iAsia Group amounting to approximately HK$28,358,000 would be resulted. Since Melco only holds 67.57% indirect equity interests in VC, the minority shareholders would be entitled to share 32.43% of the gain on disposal.

(7) This is calculated based on 145,287,134 shares in issue by Melco as at the close of business on 30 June 2003.

(8) This is calculated on the basis of 223,850,813 shares, being the 145,287,134 shares in issue by Melco as at the close of business on 30 June 2003 and the 72,643,567 rights shares issued by Melco as mentioned in note (1) and (2) above respectively.

(9) This is calculated on the basis of 377,329,074 shares, being the 145,287,134 shares in issue by Melco as at the close of business on 30 June 2003, the 72,643,567 rights shares and 5,920,112 shares issued by Melco as mentioned in note (1) and (2) above respectively, and the 153,478,261 new shares to be issued by Melco for the settlement of considerations for the acquisition of Mocha Group.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Melco. The directors of Melco 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, there are no other facts the omission of which would make any statement herein misleading.

2. PARTICULARS OF DIRECTORS

Name	Address
Executive Directors	
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
Non-executive Director	
Mr. Ho Cheuk Yuet	12A, Kenville Building 32 Kennedy Road Hong Kong
Independent non-executive Directors	
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.H.K.S.A., C.P.A., J.P.	Flat 4A, MacDonnell House 6-8 MacDonnell Road Hong Kong
Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong

3. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorized and issued share capital of Melco as at the Latest Practicable Date were, and immediately following completion of the Mocha Acquisition (assuming no outstanding Share Options have been exercised subsequent to the Latest Practicable Date) are:

Authorized		*HK$*
480,000,000	Shares of HK$1.00 each in the share capital of the Company	480,000,000
Issued and fully paid and to be issued		
223,850,813	Shares as at the Latest Practicable Date	223,850,813
153,478,261	Consideration Shares to be issued pursuant to Mocha Acquisition	153,478,261
377,329,074		377,329,074

Upon full exercise of the conversion rights attached to the Convertible Notes and on the basis of the initial conversion price of HK$2.30 per Share, a total of 19,565,217 new Shares will be issued. The Conversion Shares shall rank pari passu in all respects with each other including all rights as to dividends, voting and return of capital.

Save and except disclosed herein, the Company has no options, warrants and conversion rights convertible into shares. No share or loan capital of Melco has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the main board of the Stock Exchange. No part of the securities of Melco is listed or dealt in, nor is listing or permission to deal in the securities of Melco being or proposed to be sought, on any other stock exchange.

All the Shares presently in issue rank pari passu in all respects as regards voting, dividends and return of capital. The Consideration Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

(b) Share Options

(i) Details of the Share Options as at the Latest Practicable Date were as follows:

Name and category of grantee	Number of Shares to be issued upon exercise of the Share Options	Date of grant of Share Options*	Exercise price of Share Options**	Exercise period of Share Options
Directors				
Mr. Lawrence Ho	900,000	19 February 2004	HK$2.405	19 February 2005 to 7 March 2012
	900,000	19 February 2004	HK$2.405	19 February 2006 to 7 March 2012
	1,800,000			
Mr. Frank Tsui	1,816,306	8 March 2002	HK$1.00	8 September 2002 to 7 March 2012
	900,000	19 February 2004	HK$2.405	19 February 2005 to 7 March 2012
	900,000	19 February 2004	HK$2.405	19 February 2006 to 7 March 2012
	3,616,306			
Mr. Ho Cheuk Yuet	1,816,306	8 March 2002	HK$1.00	8 September 2002 to 7 March 2012
Subtotal	7,232,612			

Name and category of grantee	Number of Shares to be issued upon exercise of the Share Options	Date of grant of Share Options*	Exercise price of Share Options**	Exercise period of Share Options
Employees				
In aggregate	375,001	8 March 2002	HK$1.00	8 March 2003 to 7 March 2012
	375,001	8 March 2002	HK$1.00	8 March 2004 to 7 March 2012
	1,113,835	13 September 2002	HK$1.1067	13 September 2002 to 7 March 2012
	1,113,835	13 September 2002	HK$1.1067	13 March 2003 to 7 March 2012
	540,000	13 September 2002	HK$1.1067	13 September 2003 to 7 March 2012
	615,000	13 September 2002	HK$1.1067	13 September 2004 to 7 March 2012
	4,560,000	19 February 2004	HK$2.405	19 February 2005 to 7 March 2012
	4,610,000	19 February 2004	HK$2.405	19 February 2006 to 7 March 2012
Sub-total	13,302,672			
Others				
In aggregate	2,220,085	13 September 2002	HK$1.1067	13 September 2003 to 7 March 2012
	2,220,087	13 September 2002	HK$1.1067	13 September 2004 to 7 March 2012
Sub-total	4,440,172			
Total	24,975,456			

* The vesting period of Share Options is from the date of the grant until the commencement of the exercise period.

** The exercise price of Share Options is subject to adjustment in the cases of rights or bonus issues, or other similar changes in the Company's share capital.

(ii) Details of the share options of VC as at the Latest Practicable Date were as follows:

(A) *Pre-IPO share option plan*

Name of category of grantee	No. of Shares of VC to be issued upon the exercise of the Pre-IPO share options*	Date of grant of share options	Exercise price of share options	Exercise period of share options
Dr. Stanley Ho	735,000	6th April 2001	HK$3.6	6th April 2001 to 8th October 2005
Mr. Lawrence Ho	735, 000	6th April 2001	HK$3.6	6th April 2001 to 8th October 2005
Dr. Lee Jun Sing	3,136,510	6th April 2001	HK$3.6	6th April 2001 to 8th October 2005
Mr. Ko Chun Fung, Henry	3,136,510	6th April 2001	HK$3.6	6th April 2001 to 8th October 2005
Employees	1,997,188	6th April 2001	HK$3.6	6th April 2001 to 8th October 2005
Total	9,740,208			

* As disclosed in the circular of VC concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of share of VC issuable on the exercise of the outstanding options granted pursuant to the Pre-IPO share option plan were adjusted as a result of the share consolidation which took place on 28th May 2003.

(B) Share Option scheme

Name of category of grantee	No. of shares of VC to be issued upon the exercise of the share options*	Date of grant of share options	Exercise price of share options *	Exercise period of share options
Mr. Lawrence Ho	491,057	9th July 2003	HK$1.0	9th July 2002 to 8th July 2012
Dr. Lee Jun Sing	491,057	9th July 2003	HK$1.0	9th July 2002 to 8th July 2012
Mr. Ko Chun Fung, Henry	491,057	9th July 2003	HK$1.0	9th July 2002 to 8th July 2012
Employees	1,802,181	9th July 2003	HK$1.0	9th July 2002 to 8th July 2012
Other eligible persons	933,008	9th July 2003	HK$1.0	9th July 2002 to 8th July 2012
Total	4,208,360			

* As disclosed in the circular of VC concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of the shares of VC issuable on the exercise of the outstanding options granted pursuant to the share option scheme were adjusted as a result of the share consolidation which took place on 28th May 2003.

4. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director 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 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 the Director is 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 Melco and the Stock Exchange were as follows:

(i) Interests in Shares of Melco

Name of Director	**Nature of interest**	*Notes*	**Number and approximate percentage of Shares interested**
Dr. Stanley Ho	Corporate	1	2,377,500 (0.60%)
	Personal	1	12,646,367 (3.19%)
Mr. Lawrence Ho	Corporate	2	202,020,815 (50.90%)
	Personal	2	1,816,306 (0.46%)

Notes:

1. Dr. Stanley Ho is taken to be interested in 2,377,500 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited an Dareset Limited which in turn hold an aggregate of approximately 0.60% of the issued share capital of Melco. Apart from that, Dr. Ho personally holds 12,646,367 Shares.

2. 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 Ltd. which in turn holds approximately 14.55% of the issued share capital of Melco. Apart from that, Mr. Ho personally holds 1,816,306 Shares. By reason of entering the Better Joy Sale Shares Agreement, Mr. Lawrence Ho is 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.

(ii) Interests in equity derivatives of Melco

Name of Director	**Date of grant**	**Expiry date**	**Exercise price** *HK$*	**Number of underlying Shares comprised in the options outstanding**
Mr. Lawrence Ho	19th February 2004	7th March 2012	2.405	1,800,000
Mr. Frank Tsui	8th March 2002	7th March 2012	1.000	1,816,306
	19th February 2004	7th March 2012	2.405	1,800,000
Mr. Ho Cheuk Yuet	8th March 2002	7th March 2012	1.000	1,816,306

(iii) Interests in shares of VC

Name of Director	Nature of interest	*Notes*	Number and approximate percentage of Shares interested
Dr. Stanley Ho	Corporate	1	7,384,651 (3.10%)
Mr. Lawrence Ho	Corporate	2	4,232,627 (1.78%)

Notes:

1. Dr. Stanley Ho is taken to be interested in 7,384,651 shares of VC as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of VC.

2. Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of VC 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 VC.

(iv) Interests in equity derivatives of VC

Name of Director	Nature of interest	*Notes*	Number and approximate percentage of Shares interested
Dr. Stanley Ho	Personal	1	735,000 (0.31%)
Mr. Lawrence Ho	Personal	2	1,226,057 (0.51%)

Notes:

1. The personal interest of Dr. Stanley Ho represents his derivative interest in VC comprising the physically settle options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK$3.60 per VC's share.

2. The personal interest of Mr. Lawrence Ho represents his derivative interest in VC comprising the physically settled options as follows:

   (i) 735,000 physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK$3.60 per VC's share; and

   (ii) 491,057 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK$1.00 per VC's share.

(b) no director of Melco at any time since 31 December 2002, being the date to which the latest published audited financial statements of the Group were made up, have been directly or indirectly, interested in any assets acquired by, disposed of by, or leased to any member of the Group or proposed to be acquired by, disposed of by, or leased to any member of the Group.

(c) Save as disclosed herein, as at the Latest Practicable Date:

(i) none of the directors of Melco and the chief executive of Melco had any interests in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning 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 the Director is 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) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to Melco and the Stock Exchange;

(ii) none of the directors of Melco had any direct or indirect interest in any assets which had been, since 31 December 2002, 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 of Melco 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 Melco or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

5. 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 Melco which (a) were required to be notified to Melco 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 Melco were as follows:

Name	**Number of Shares**	**Approximate Percentage of the total issued share capital of Melco** %
Better Joy Overseas Ltd *(Note 1)*	144,266,303	36.35
Lasting Legend Ltd *(Note 1)*	57,754,512	14.55
Mr. Lawrence Ho (Note 1)	203,837,121	51.35
Shun Tak Shipping Company Limited	39,083,147	9.85
Dr. Stnaley Ho	15,023,867	3.78

Notes:

1. Mr. Lawrence Ho is taken to be interested in 57,754,512 Shares by virtue of the fact that Lasting Legend Ltd. is wholly owned by Mr. Ho. By reason of entering the Better Joy Sale Shares Agreement, Mr. Lawrence Ho is 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.

Save as disclosed herein, so far as the directors of Melco 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 Melco 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 Melco.

6. MATERIAL CHANGES

Save as disclosed in this circular, the directors of Melco are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2002, the date to which the latest published audited financial statements of Melco were made up.

7. EXPERTS

(a) The following are the qualifications of the experts who have given their opinions or advices which are contained in this circular:

Name	Qualifications
Sun Hung Kai International Limited	a deemed licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
American Appraisal China Limited	Independent Valuer

(b) Neither the Sun Hung Kai International Limited, PricewaterhouseCoopers, the American Appraisal China Limited has any shareholding, directly or indirectly, 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.

(c) Each of the Independent Financial Adviser, PricewaterhouseCoopers and the American Appraisal China Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they are included.

(d) Neither the Independent Financial Adviser, PricewaterhouseCoopers and the American Appraisal China Limited has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2002, the date to which the latest published audited financial statements of the Company were made up.

(e) The letter of the Independent Financial Adviser set out in the section headed "Letter from Sun Hung Kai", the accountants' report prepared by PricewaterhouseCoopers set out in Appendix II and the valuation report prepared by American Appraisal China Limited set out in Appendix III, are given for incorporation in the circular.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of this Circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group:

(a) an agreement in principle dated 10 July 2002 entered into between the Company, Mr. Zhang Jiping and Tongda Energy Corporation Limited whereby the Company agreed to, subject to fulfillment of certain conditions precedent, acquire 70% equity interest in Tongda Energy Corporation Limited for a consideration of RMB160 million (HK$151.15 million);

(b) a placing agreement dated 11 July 2002 entered into between the Company and Ong Asia Securities (HK) Limited whereby Ong Asia Securities (HK) Limited agreed to place 24,200,000 new shares of the Company at HK$1.45 each;

(c) a placing agreement dated 15 July 2002 between Value Convergence and Ong Asia Securities (HK) Limited as placing agent, relating to the placing of 106,200,000 new shares of Value Convergence at HK$0.10 each by the placing agent to independent investors;

(d) a sale and purchase agreement dated 28 September 2002 entered into between Value Convergence and CEF Brokerage Holdings Limited and CEF Holdings Limited in relation to the sale and purchase of the entire issued share capital of CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited in consideration of an aggregate sum of HK$126,000,000;

(e) an underwriting agreement and a supplemental agreement dated 28 September 2002 and 9 October 2002 respectively entered into between the Company and Value Convergence, whereby the Company agreed to underwrite the rights issue of not less than 1,020,664,287 new ordinary shares of Value Convergence at HK$0.10 each;

(f) a banking facility letter issued by Standard Chartered Bank dated 4 October 2002 offering to grant to Value Convergence such banking facilities of not exceeding HK$90 million for the purpose of financing the acquisition of CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited;

(g) an additional capital injection agreement dated 16 January 2003 entered into between Jafco Co., Limited and Zonic Technology Limited, a subsidiary of the Company, pursuant to which Zonic Technology Limited agreed to inject a sum of 300,000,000 yens in, and became a limited liability partner of, JAFCO-G9(A) Investment Enterprise (Limited) Partnership; and

(h) the underwriting agreement dated 11 August 2003 entered into between the Company and Kim Eng Securities (Hong Kong) Limited in relation to the issue of 72,643,567 rights shares of HK$1.00 each at HK$1.45 per rights shares on the basis of one rights share for every two shares in issue on 29 August 2003.

9. LITIGATION

As at the Latest Practicable Date, saved as aforesaid or otherwise disclosed herein, neither Melco nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors of Melco to be pending or threatened against Melco or any of its subsidiaries.

10. SERVICE CONTRACTS

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

11. MISCELLANEOUS

(a) The secretary of Melco is Mr. Samuel Tsang, a solicitor admitted in Hong Kong, England and Wales and Australia.

(b) The share registrars and transfer office of Melco in Hong Kong is Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

(d) Save as disclosed in this circular:

   (i) none of the directors of Melco or the experts referred to in paragraph headed “Experts” of this appendix is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group taken as a whole;

   (ii) none of the Directors or the experts referred to in paragraph headed “Experts” of this appendix has any direct or indirect interest in any assets which they have, since 31 December 2002, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by or leased to, any member of the Group, or are proposed to be acquired, disposed of by, or leased to, any member of the Group; and

(iii) The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of the indirect acquisition of Mocha Group by Melco.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of Melco in Hong Kong during normal business hours on any weekday, except public holidays, from the date hereof up to and including 20 May 2004:

(a) the memorandum and articles of association of Melco;

(b) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(c) the annual reports of the Melco Group for the years ended 31 December 2000, 31 December 2001 and 31 December 2002;

(d) the interim report of Melco dated 16 September 2003 for the six months ended 30 June 2003;

(e) the annual reports of VC for the twelve months ended 30th September 2002 and fifteen months ended 31 December 2003;

(f) the Share Option Scheme document;

(g) the circular of Melco dated 31 October 2003;

(h) the Mocha Acquisition Agreements;

(i) the iAsia Group Disposal Agreement;

(j) the lease agreements under the Equipment Leases;

(k) the accountants' report of Mocha received from PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

(l) the business valuation report on Mocha received from American Appraisal China Limited, the text of which is set out in Appendix III to this circular;

(m) the written consents of PricewaterHouseCoopers and American Appraisal China Limited as referred to in the paragraph headed "Consents" of this Appendix; and

(n) the letter from Independent Financial Adviser, the text of which is set out in the section headed "Letter from Sun Hung Kai" of this circular.

Melco

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

NOTICE IS HEREBY GIVEN (the "Notice") that an extraordinary general meeting (the "Meeting") of Melco International Development Limited (the "Company") will be held at 3:30 p.m. on Thursday, 20 May 2004, at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, for the purpose of considering and, if thought fit, passing (with or without amendments) the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT:

(a) the group reorganisation (the "Group Reorganisation") of Melco International Development Limited (the "Company") and its subsidiaries (collectively, the "Group") comprising:

(1) the acquisition (the "Mocha Acquisition") by the Company of 80% of the entire issued share capital of Mocha Slot Group Limited ("Mocha") and a related shareholder's loan pursuant to:

(i) an agreement dated 19th March 2004 (the "Better Joy Mocha SPA") entered into between the Company, Better Joy Overseas Limited ("Better Joy") and Mr. Lawrence Ho, a copy of which has been produced to this meeting marked "A" and initialled by the Chairman of this meeting for the purpose of identification, whereby the Company has conditionally agreed to acquire from Better Joy 65 shares in Mocha (the "Better Joy Sale Shares") representing 65% of the entire issued share capital of Mocha, and a shareholder's loan owed by Mocha to Better Joy ("Better Joy Shareholder's Loan") in the principal amount of HK$45,000,000, for an aggregate consideration of HK$331,812,500, which will be settled as to HK$286,812,500 in relation to the purchase of the Better Joy Sale Shares by the allotment and issue of 124,701,087 shares (the "Better Joy Consideration Shares") of HK$1.00 each of the Company (the "Shares") upon completion of the Better Joy Mocha SPA, and as to HK$45,000,000 in relation to the acquisition of the Better Joy Shareholder's Loan by the issue by the Company upon completion of the Better Joy Mocha SPA of the HK$22,500,000 4% interest bearing convertible loan notes ("2005 Convertible Loan Notes") due on 30th June 2005 and the HK$22,500,000 4% interest bearing convertible loan notes due on 30th June 2006 (which, together with "2005 Convertible Loan Notes" shall be referred to as "Convertible Loan

Notes”), the conversion rights attached to both of which entitle the holders thereof to convert such loan notes into new Shares at an initial conversion price of HK$2.30 per Share (subject to adjustment);

(ii) an agreement dated 19th March 2004 (the “Chang Wang Mocha SPA”) entered into between the Company and Chang Wang, a copy of which has been produced to this meeting marked “B” and initialled by the Chairman of this meeting for the purpose of identification, whereby the Company has conditionally agreed to acquire from Chang Wang 7 shares in Mocha (the “Chang Wang Sale Shares”) representing 7% of the entire issued share capital of Mocha for a consideration of HK$30,887,500 to be satisfied by the allotment and issue by the Company of 13,429,348 Shares (the “Chang Wang Consideration Shares”) upon completion of the Chang Wang Mocha SPA;

(iii) an agreement dated 19th March 2004 (the “Chang Tan Mocha SPA”) entered into between the Company and Chang Tan, a copy of which has been produced to this meeting marked “C” and initialled by the Chairman of this meeting for the purpose of identification, whereby the Company has conditionally agreed to acquire from Chang Tan 8 shares in Mocha (“Chang Tan Sale Shares”) representing 8% of the entire issued share capital of Mocha for a consideration of HK$35,300,000 to be satisfied by the allotment and issue by the Company of 15,347,826 Shares (the “Chang Tan Consideration Shares”) upon completion of the Chang Tan Mocha SPA

(“Better Joy Consideration Shares”, “Chang Wang Consideration Shares” and “Chang Tan Consideration Shares” collectively to be referred to as “Consideration Shares”); and

(2) the acquisition (the “iAsia Acquisition”) by the Company of the entire issued share capital of iAsia Technology Limited (“iAsia”) for a consideration of HK$27,900,000 in accordance with the terms of an agreement for sale and purchase dated 19th March 2004 (“iAsia SPA”) entered into between the Company and its non-wholly owned subsidiary, Value Convergence Holdings Limited (“VC”), a copy of which has been produced to this meeting marked “D” and initialled by the Chairman of this meeting for the purpose of identification,

and the transactions contemplated thereunder (including, without limitation, the allotment and issue of the Consideration Shares, the Convertible Loan Notes and any Shares upon any exercise of the conversion rights attached to the Convertible Loan Notes) be and are hereby approved, ratified and confirmed;

(b) the directors (the “Directors”) of the Company be and are hereby authorised to take all such actions and steps and execute all such other documents or deeds as they may consider necessary or desirable to give full effect to and implement the Group Reorganisation, the

Mocha Acquisition, the iAsia Acquisition, the Better Joy Mocha SPA, the Chang Wang Mocha SPA, the Chang Tan Mocha SPA and the iAsia SPA, including without limitation, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting or agreeing to grant (subject to any condition(s) the Stock Exchange may impose) the listing of, and permission to deal in, the Consideration Shares and the Shares that may fall to be issued upon any exercise of the conversion rights attached to the Convertible Loan Notes on the Stock Exchange, to allot and issue the relevant Consideration Shares in accordance with the terms of the Better Joy Mocha SPA, the Chang Wang Mocha SPA and the Chang Tan Mocha SPA (as the case may be), to issue the Convertible Loan Notes in accordance with the terms of the Better Joy Mocha SPA, and to allot and issue such Shares as may fall to be issued upon the exercise of the conversion rights in accordance with the terms of the Convertible Loan Notes;

(c) subject to the granting of a waiver by the Stock Exchange to the Company from strict compliance with the connected transaction requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the Continuing Connected Transactions (as defined in the circular of the Company of which the notice containing this resolution forms part (the "Circular"), a copy of which has been produced to this meeting marked "E" and initialled by the Chairman of this meeting for the purpose of identification), the Continuing Connected Transactions be and are hereby approved, and the Directors be and are hereby authorized to enter into and implement the Continuing Connected Transactions on such terms as they may determine subject to the following conditions:

(1) the Continuing Connected Transactions will be:

(i) entered into in the ordinary and usual course of business of Mocha and its subsidiaries (the "Mocha Group");

(ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(iii) entered into either (A) in accordance with the terms of the agreements governing such Continuing Connected Transactions or (B) (where there are no such agreements) on terms no less favorable than those available to or from independent third parties;

(2) the Continuing Connected Transactions have been approved by the Melco Independent Shareholders (as defined in the Circular) at the meeting convened to approve such transactions;

(3) the aggregate value of the consideration receivable by the Mocha Group from Sociedade de Jogos de Macau, S.A. under the Continuing Connected Transactions for each of the three financial years ending 31 December 2004, 2005 and 2006 will not exceed the relevant Annual Cap (as defined in the Circular);

(4) details of the Continuing Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules (in force as at 19th March 2004) in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive directors of the Company referred to in paragraph 5 below;

(5) the independent non-executive directors of the Company shall review the Continuing Connected Transactions annually and confirm in the Company's next annual report that these transactions were conducted in the manner as stated in paragraphs (1) and (3) above; and

(6) the Company's auditors shall review the Continuing Connected Transactions annually and confirm in the letter to the directors of the Company (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating that:

(i) the Continuing Connected Transactions have received the approval of the Company's board of directors;

(ii) the Continuing Connected Transactions are, where applicable, in accordance with the pricing policies, if applicable;

(iii) the Continuing Connected Transactions have been entered into in accordance with the terms of the agreements governing the Continuing Connected Transactions or, if there are no such agreements, on terms no less favorable than those available to or from independent third parties; and

(iv) the relevant Annual Cap (as defined in the Circular) has not been exceeded; and

(d) the authorised share capital of the Company be increased from HK$480,000,000 divided into 480,000,000 shares of HK$1.00 each to HK$700,000,000 divided into 700,000,000 shares of HK$1.00 each by the creation of an additional 220,000,000 shares of HK$1.00 each."

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

Hong Kong, 23 April 2004

Registered Office, head office and principal place of business:
Penthouse
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 another person as his 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 Company's registered office, 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting.

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.