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Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)
(Stock code: 200)

DISCLOSEABLE AND CONNECTED TRANSACTION

Financial adviser to Melco International Development Limited



VC CAPITAL LIMITED

滙盈融資有限公司

(A wholly-owned subsidiary of Value Convergence Holdings Limited)

SUMMARY

The Directors are pleased to announce that on 8 September 2004, Melco has entered into the Agreement with STDM, pursuant to which Melco will acquire a 50% equity interest in the Joint Venture Company for a consideration of HK\$100 million. The Joint Venture Company will apply for the concession of the Land located at Baixa da Taipa, Macau to be granted to it to develop a luxury hotel. Melco will issue the HK\$100 million 5-year Convertible Bond to STDM to satisfy the purchase consideration. The purchase consideration and the terms of the Convertible Bond are determined by the parties to the Agreement after arm's length negotiations.

STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has an equity interest in, as well as being a director of, STDM. As a result, the Agreement and the issuance of the Convertible Bond constitute discloseable and non-exempt connected transaction of Melco under Rule 14.08 and Rule 14A.16(5) of the Listing Rules respectively (by virtue of the fact that some of the relevant percentage ratios as specified in Rule 14.07 of the Listing Rules are more than 2.5% but less than 25% and the purchase consideration payable to STDM pursuant to the Agreement exceeds HK\$10,000,000) and are subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM as set out in Chapter 14A of the Listing Rules.

Dr. Stanley Ho, who beneficially owns 3.98% shareholding interest in Melco, and his associates will abstain from voting on the resolution(s) regarding the Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, (i) further information on the Agreement; (ii) the principal terms of the Convertible Bond; (iii) the recommendation from the independent board committee of Melco; (iv) a letter of advice from the independent financial adviser to the independent board committee of Melco; and (v) a notice of the EGM will be dispatched to the Shareholders within 21 days from the publication date of this announcement.

At the request of Melco, the Shares have been suspended from trading on the Stock Exchange at 9:43 a.m. on 9 September 2004 pending the release of this announcement. Application has been made by Melco for resumption of trading in the Shares from 9:30 a.m. on 14 September 2004.

PRINCIPAL TERMS OF THE AGREEMENT

Date: 8 September 2004

Parties: STDM
Melco

Principal terms:

- (i) As soon as practicable after the signing of the Agreement, STDM will incorporate the Joint Venture Company to be owned 100% by it initially;
- (ii) STDM will take the necessary steps, including causing the Joint Venture Company to apply for the concession of the Land, so as to enable the concession of the Land is granted to the Joint Venture Company; and

- (iii) Within 7 days after the incorporation of the Joint Venture Company and the fulfillment of the condition as set out in the paragraph headed "Condition" below, STDM will transfer to Melco and Melco shall acquire from STDM a 50% equity interest of the Joint Venture Company at a consideration of HK\$100,000,000.

Consideration: HK\$100,000,000. The consideration is determined after arm's length negotiation and on normal commercial terms, being 50% of the consideration payable by STDM for the Land as referred to in the section headed "Information on the Land" below. Upon the transfer of 50% equity interest in the Joint Venture Company to Melco, Melco will satisfy the purchase consideration by issuing the Convertible Bond with terms set out in the following section headed "Principal terms of the Convertible Bond".

Condition: The Agreement is conditional upon the approval by the Independent Shareholders (by way of poll) at the EGM in compliance with the Listing Rules on or before 15 November 2004. If this condition is not fulfilled on or before 15 November 2004, unless the parties otherwise agree, STDM may, by notice to Melco, terminate the Agreement and the obligations of the parties thereunder.

- Other terms:
- (i) Both parties to the Agreement, namely STDM and Melco, shall take equal part in the management of the Joint Venture Company and will provide funding for the development of the Land into a luxury hotel as well as operation of the Joint Venture Company equally;
 - (ii) All costs and expenses (including, but not limited to, any premium payable to Macau Government for change of usage of the Land and all costs and expenses for building, decorating and fitting out the hotel incurred or to be incurred in relation to the development of the hotel shall be borne by the parties as shareholders of the Joint Venture Company equally;
 - (iii) Melco shall be the coordinator of the development of the hotel to be erected on the Land;
 - (iv) The development of the Land will consist of a luxury hotel with a casino and an electronic gaming machine lounge; and
 - (v) The hotel shall be managed by a reputable international hotel management company. Subject to Macau Government's approval, the casino therein shall be operated by SJM whereas the electronic gaming machine lounge shall be managed by Mocha Slot Group Limited, a 80% owned subsidiary of Melco.

The board composition of the Joint Venture Company has not been determined as at the date of this announcement. However, the Directors expected that each party to the Agreement, namely STDM and Melco, will appoint equal number of directors to the board of directors of the Joint Venture Company.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

Principal amount: HK\$100,000,000

Tenor: 5 years from the date of issue

Coupon: 4% per annum from 1 March 2005

Commencement date of interest payment: Subject to the previous principal term, date on which the concession of the Land is granted to the Joint Venture Company

Conversion price: HK\$4.00 per Share.

This initial conversion price is determined after arm's length negotiation taking into account the 5-year tenor of the Convertible Bond and the potential dilution effect on the shareholding structure of Melco and represents (i) a premium of approximately 50.9% over the closing price of the Shares of HK\$2.65 on 8 September 2004; (ii) a premium of approximately 62.6% over the average closing price of the Shares on the Stock Exchange for the 5 trading days immediately before the date of this announcement; and (iii) a premium of approximately 92.7% over the net asset value per Share of approximately HK\$2.08, based on the audited consolidated net assets Melco as at 31 December 2003 and the then Shares in issue.

Exercise period: 3 years from the date of issue.

Shares to be issued under the Convertible Bond will rank pari passu in all respects with the Shares in issue as at the conversion date.

Based on the initial conversion price of HK\$4.00 per Share, a maximum amount of 25,000,000 new Shares will fall to be allotted and issued upon full conversion of the whole of HK\$100 million Convertible Bond, representing approximately 6.62% of the existing issued share capital of Melco or approximately 6.21% of the enlarged issued share capital of Melco upon full exercise of the Convertible Bond.

Early redemption: Melco has the option to redeem the Convertible Bond commencing 2 years from the date of its issue till the maturity date of the Convertible Bond.

Forced conversion: Melco has the option to require STDM to convert the Convertible Bond into new Shares if the 60-day average price of the Shares is over HK\$4.00 per Share as quoted on the Stock Exchange provided that the option may not be exercised unless the concession of the Land has been granted to the Joint Venture Company.

Put option: If the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005, Melco shall have the right to terminate the Convertible Bond. In such event, any and all liabilities of Melco to pay the consideration under the Agreement shall cease and all sums of money due under the Convertible Bond shall cease to be payable immediately, and Melco shall forthwith transfer the 50% equity interest in the Joint Venture Company back to STDM.

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

Melco will, subject to the conditions of the Agreement as stated in the previous section headed "Principal terms of the Agreement", issue the Convertible Bond to STDM. The detailed terms of the Convertible Bond will be contained in the circular to the Shareholders. The Shares to be issued upon exercise of the Convertible Bond will be subject to the approval by the Shareholders in the EGM. An announcement will be made to disclose further details of the Convertible Bond upon its issue.

SHAREHOLDING STRUCTURE OF MELCO BEFORE AND AFTER FULL CONVERSION OF THE CONVERTIBLE BOND

	Issued Shares as at the date hereof		Upon exercise of the conversion rights attached to the Convertible Bonds in full	
	(No. of Shares)	%	(No. of Shares)	%
Better Joy Overseas Limited (note a)	124,701,087	33.03%	124,701,087	30.98%
Lawrence Ho (note b)	59,570,818	15.78%	59,570,818	14.80%
Shun Tak Shipping Company Limited (note c)	39,083,147	10.35%	39,083,147	9.71%
STDM	–	0.00%	25,000,000	6.21%
Dr. Stanley Ho (note d)	15,023,867	3.98%	15,023,867	3.73%
Madam Lucina Laam King Ying	222,287	0.06%	222,287	0.06%
Other (Public)	138,915,368	36.80%	138,915,368	34.51%
Total	<u>377,516,574</u>	<u>100.00%</u>	<u>402,516,574</u>	<u>100.00%</u>

Notes:

- Better Joy Overseas Limited is owned as to 77% by Lawrence Ho and as to 23% by Dr. Stanley Ho.
- Interest of Lawrence Ho includes his personal interest and interest held through Lasting Legend Limited, a company controlled and wholly-owned by him.
- Interest of Shun Tak Shipping Company Limited includes interest held by itself and its wholly-owned subsidiaries.
- Interest of Dr. Stanley Ho includes his personal interest and interest held through two companies controlled and wholly-owned by him, namely, Sharikat Investments Limited and Dareset Limited.

INFORMATION ON THE LAND

A parcel of land with an area of 5,230 square meters located at Baixa da Taipa, Macau, described with the Land Registry Office of Macau under the n° 21407, folio 125 of the Book B49. The Land is currently vacant and owned by a joint venture company, which is held as to 50% by an Independent Third Party, as to 25% by STDM and as to 25% by a company of which STDM is a substantial shareholder (as defined under the Listing Rules). This joint venture company will apply to the Macau Government to give up or renounce the rights and obligations relating to the Land in order to enable STDM or its designated company to apply to the Macau Government for a new concession relating to the Land. The consideration payable by STDM to this joint venture company for such renunciation is HK\$200,000,000 and will be paid by installments by 1 September 2005. The price payable by STDM is comparable to the market price of similar property in Macau. An independent valuer will be appointed to assess the valuation of the Land shortly and the valuation report on the Land will be included in the circular to the Shareholders in this regard. It is expected that the concession of the Land to STDM or its designated company will be granted on or before 1 September 2005. The total investment amount for development of the Land is preliminarily expected to be approximately HK\$1,500 million. This investment amount is subject to further study and finalization. It is contemplated that the Joint Venture Company will take various financing methods including debt and/or equity financing to fund the investment. As at the date of this announcement, Melco does not have any contractual commitment to the development of the Land except for the obligations under the Agreement, being the consideration of HK\$100 million payable to STDM for 50% equity interest of the Joint Venture Company. The Stock Exchange has indicated that it will reserve the rights to aggregate the capital commitment of Melco for the purpose of Rule 14.15(2) of the Listing Rules. Melco will also take necessary steps to fulfill the relevant disclosure and/or approval requirements in the light of Rule 14.06 of the Listing Rules.

CONNECTED PERSON AND INDEPENDENT SHAREHOLDERS' APPROVAL

STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has an equity interest in, as well as being a director of, STDM. As a result, the Agreement and the issuance of the Convertible Bond constitute discloseable and non-exempt connected transaction of Melco under Rule 14.08 and Rule 14A.16(5) of the Listing Rules respectively (by virtue of the fact that the some of the relevant percentage ratios as specified in Rule 14.07 of the Listing Rules are more than 2.5% but less than 25% and the purchase consideration payable to STDM pursuant to the Agreement exceeds HK\$10,000,000) and are subject to the requirements of reporting, announcement and approval by the Independent Shareholders (by way of poll) at the EGM as set out in Chapter 14A of the Listing Rules.

Dr. Stanley Ho, who beneficially owns 3.98% shareholding interest in Melco, and his associates, namely, Madam Lucina Laam King Ying, Mr. Lawrence Ho (son of Dr. Stanley Ho), Lasting Legend Limited (a company controlled by Mr. Lawrence Ho) and Better Joy Overseas Limited (a company owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho) will abstain from voting on the resolution(s) regarding the Agreement and the transaction contemplated thereunder at the EGM.

REASONS FOR ENTERING INTO THE AGREEMENT

Currently, the Group's business is broadly divided into three divisions, namely, (i) leisure and entertainment division; (ii) investment banking and financial services division; and (iii) technology division. By entering into the Agreement, the Group can participate in the development of the hotel on the Land and subsequently manage the electronic gaming machine lounge in the hotel. This will expand the scope and size of the Group's leisure and entertainment business in Macau. STDM is engaged in a wide range of businesses including gaming and hospitality businesses in Macau.

The Board (save for the independent non-executive Directors who would reserve their views until receipt of the letter of advice from the independent financial adviser) is of the view that the terms of the Agreement (including the consideration payable for the 50% equity interest in the Joint Venture Company) are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms, in the ordinary and usual course of the Group and in the interests of the Shareholders as a whole. It is the intention of the Board to seek approval from the Shareholders at the EGM to approve, inter alia, the Agreement and the issue of the Convertible Bond.

GENERAL

An independent board committee of Melco comprising its independent non-executive Directors will be appointed to advise the Independent Shareholders on whether or not the terms of the Agreement and the Convertible Bond are fair and reasonable and in the interests of the Shareholders as a whole. An independent financial adviser will be appointed to advise the independent board committee thereon.

A circular containing, among other things, (i) further information on the Agreement; (ii) the principal terms of the Convertible Bond; (iii) the recommendation from the independent board committee of Melco; (iv) a letter of advice from the independent financial adviser to the independent board committee of Melco; and (v) a notice of the EGM will be dispatched to the Shareholders within 21 days from the publication date of this announcement.

SUSPENSION AND RESUMPTION OF TRADING

As the request of Melco, the Shares have been suspended from trading on the Stock Exchange at 9:43 a.m. on 9 September 2004 pending the release of this announcement. Application has been made by Melco for the resumption of trading in the Shares from 9:30 a.m. on 14 September 2004.

As at the date of this announcement, the Board comprises the following members:

Executive Directors :

Dr. Stanley Ho (*Chairman*)
Mr. Lawrence Ho (*Managing Director*)
Mr. Frank Tsui

Non-executive Director:

Mr. Ho Cheuk Yuet
Mr. Ng Ching Wo

Independent Non-executive Directors :

Sir Roger Lobo
Mr. Robert Kwan
Dr. Lo Ka Shui

DEFINITION

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

“Agreement”	an agreement entered into between Melco and STDM on 8 September 2004 regarding the acquisition of 50% equity interest in the Joint Venture Company for a consideration of HK\$100 million by Melco
“associate”	has the same meaning as ascribed to it in the Listing Rules
“Board”	the board of Directors
“connected person”	has the same meaning as ascribed to it in the Listing Rules
“Convertible Bond”	a redeemable HK\$100,000,000 5-year convertible bond carrying a right to subscribe for the new Shares at HK\$4.00 per Share
“Director(s)”	the director(s) of Melco
“Dr. Stanley Ho”	Dr. Ho Hung Sun, Stanley, the Chairman and an Executive Director of Melco
“EGM”	an extraordinary general meeting of Melco to be convened for the purpose of considering and approving the Agreement and transactions contemplated (including the issue of the Convertible Bond) thereunder
“Group”	Melco and its subsidiaries
“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
“Independent Board Committee”	an independent committee of the Board to be appointed by the Directors to advise the Independent Shareholders in respect of the Agreement and all transactions contemplated thereunder
“Independent Shareholders”	shareholders of Melco other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend Limited and Better Joy Overseas Limited
“Independent Third Party”	an independent third party not connected with Melco and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of Melco, or an associate of any of them under the Listing Rules
“Joint Venture Company”	a company to be established by STDM for purposes stipulated in the Agreement
“Land”	a parcel of land with an area of 5,230 square meters located at Baixa da Taipa, Macau, described with the Land Registry Office of Macau under the n° 21407, folio 125 of the Book B49
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Melco”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lawrence Ho”	Mr. Ho, Lawrence Yau Lung, the Managing Director and Executive Director of Melco and son of Dr. Stanley Ho
“Shares”	ordinary share(s) of HK\$1.00 each in the share capital of Melco
“Shareholders”	shareholders of Melco
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a subsidiary of STDM

“STDM” Sociedade de Turismo e Diversoes de Macau, S.A.R.L. a company
incorporated under the laws of Macau

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“%” Per cent

By order of the board of
**Melco International Development
Limited**
Lawrence Ho
Managing Director

Hong Kong, 13 September 2004

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