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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about any aspect of 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 transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for your information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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 under the Companies Ordinance)

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

(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)

### Independent financial adviser to the Independent Board Committee

VINCO<sup>城高</sup>

Grand Vinco Capital Limited

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A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on page 13 of this circular. A letter from Grand Vinco Capital Limited, the Independent Financial Adviser to the Independent Board Committee is set out on pages 14 to 28 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of Melco to be held at 4:00 p.m. on Tuesday, 2nd November 2004 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, is set out on page 45 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to Melco’s registered office, 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

11th October 2004

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## DEFINITIONS

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

“Agreement”	an agreement entered into between Melco and STDM on 8th September 2004 regarding the acquisition of 50% equity interest in the Joint Venture Company for a consideration of HK\$100 million by Melco
“Announcement”	the announcement of the Company dated 13 September 2004 relating to the Agreement and the transactions contemplated thereunder
“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 thereunder (including the issue of the Convertible Bond and the issue of the Shares to be allotted and issued upon exercise of the Convertible Bond)
“Grand Vinco”	Grand Vinco Capital Limited, the independent financial adviser to advise the Independent Board Committee in connection with the terms of Agreement and transactions contemplated thereunder (including the issue of the Convertible Bond and the issue of the Shares to be allotted and issued upon exercise of the Convertible Bond)
“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 comprising the Independent Non-executive Directors, namely Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, to advise the Independent Shareholders in respect of the Agreement and all transactions contemplated thereunder

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## DEFINITIONS

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“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
“Latest Practicable Date”	8th October 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Melco” or “Company”	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
“Value Convergence”	Value Convergence Holdings Limited, a company incorporated in Hong Kong, the securities of which are listed on the Growth Enterprise Market operated by the Stock Exchange (Stock code: 8101) and a 67.57% owned subsidiary of Melco
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	Per cent

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## LETTER FROM THE BOARD

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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 under the Companies Ordinance)

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

(Stock Code: 200)

*Executive Directors:*

Dr. Stanley Ho (Chairman)

Mr. Lawrence Ho (Managing Director)

Mr. Tsui Che Yin, Frank

*Non-executive Directors:*

Mr. Ho Cheuk Yuet

Mr. Ng Ching Wo

*Independent Non-executive Directors:*

Sir Roger Lobo

Mr. Robert Kwan

Dr. Lo Ka Shui

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

Penthouse

38th Floor

The Centrium

60 Wyndham Street

Central

Hong Kong

11th October 2004

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

The Board announced on 13th September 2004 that Melco entered into the Agreement with STDM on 8th September 2004, 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 to be granted to it to develop a luxury hotel. Melco will issue the Convertible Bond to STDM to satisfy the purchase consideration.

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.

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## LETTER FROM THE BOARD

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The purpose of this circular is to set out (i) further information on the Agreement; (ii) the principal terms of the Convertible Bond; (iii) the recommendation from the Independent Board Committee; (iv) a letter of advice from Grand Vinco; and (v) a notice of the EGM at which necessary resolution will be proposed to the Independent Shareholders to consider and if thought fit, approve the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of the Shares to be allotted and issued upon conversion of the Convertible Bond.

### PRINCIPAL TERMS OF THE AGREEMENT

- Date: 8th 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 all the purchase consideration by issuing the Convertible Bond with terms set out in the section headed “Principal terms of the Convertible Bond” in this circular.
- 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 15th November 2004. If this condition is not fulfilled on or before 15th November 2004, unless the parties otherwise agree, STDM may, by notice to Melco, terminate the Agreement and the obligations of the parties thereunder.

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## LETTER FROM THE BOARD

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- 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 and an independent 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 company owned as to 80% by Melco and 20% by Dr. Stanley Ho.

As at the Latest Practicable Date, the Joint Venture Company has been set up and is solely owned by STDM. However, the board composition of the Joint Venture Company has not been determined. 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.

As at the Latest Practicable Date, the concession of the Land has not been formally applied yet. Pursuant to the Agreement, STDM will cause 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. The Directors expected such concession will be granted on or before 1st September 2005. It is currently expected that Melco will not charge a fee for acting as coordinator of the development of the Land.

**Shareholders are reminded to be cautious in dealing in the Shares as the application for concession of the Land and its subsequent development may or may not be successful.**

### 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 1st March 2005

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## LETTER FROM THE BOARD

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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, and thereafter to be paid on a six-month basis

Conversion price: HK\$4.00 per Share.

The initial conversion price 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.

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. This initial conversion price represents:

- (i) a premium of approximately 50.9% over the closing price of the Shares of HK\$2.65 on 8th 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 the Announcement;
- (iii) a discount of approximately 29.82% to the closing price of the Shares of HK\$5.7 on the Latest Practicable Date; and
- (iv) 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 31st December 2003 and the then Shares in issue.

Exercise period: The period commencing 3 years from the date of issue of the Convertible Bond up to and including the maturity date of the Convertible Bond

The holder of the Convertible Bond will have the right at any time during the exercise period to convert in whole or, subject to prior written approval by the issuer of the Convertible Bond, in part the Convertible Bond into new Shares at the initial conversion price of HK\$4.00 per Share (subject to adjustments). 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,



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## LETTER FROM THE BOARD

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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. No fraction of a Share shall be issued on conversion and in lieu thereof Melco shall pay such amount in Hong Kong dollar equal to such amount of the Convertible Bond that is not converted. The Shares to be issued upon conversion of the Convertible Bond will be subject to the approval by the Independent Shareholders in the EGM.

- Early redemption: Melco has the option to redeem the whole 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 STD M to convert the Convertible Bond into new Shares if the 60-day average price of the Shares is over the initial conversion price of HK\$4.00 per Share (subject to adjustments) 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 1st 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 (including the principal and interest thereon) shall cease to be payable immediately, and Melco shall forthwith transfer the 50% equity interest in the Joint Venture Company back to STD M.
- Voting: The holder of the Convertible Bond shall not be entitled to attend or vote at any meeting of Melco by reason only of its being the holder of the Convertible Bond
- Transferability: The Convertible Bond is not transferable
- 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.

There is no termination clause of the Convertible Bond. 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 STD M. For the past 12 months ended on the Latest Practicable Date, Melco had not raise any fund for cash.

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## LETTER FROM THE BOARD

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### SHAREHOLDING STRUCTURE

The follow table shows the change in shareholding structure of Melco before and after full conversion of the Convertible Bond based on the initial conversion price of HK\$4.00 per Share.

	Issued Shares as at the Latest Practicable Date		Upon full conversion of the Convertible Bond 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	–	–	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)	138,952,868	36.80%	138,952,868	34.51%
<b>Total</b>	<b>377,554,074</b>	<b>100.00%</b>	<b>402,554,074</b>	<b>100.00%</b>

*Notes:*

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

Upon full conversion of the Convertible Bond, STDM will be interested in approximately 6.21% of the enlarged issued share capital of Melco and hence will not result in change in control of Melco.

### 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 Nova Taipa Urbanizacoes Lda, a joint venture company 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 1st September 2005. According to

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## LETTER FROM THE BOARD

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the valuation report as contained in Appendix I to this circular, Jones Lang LaSalle Limited, an independent property valuer, assessed the valuation of the Land on 5th August 2004 at HK\$288,000,000, representing a premium of approximately 44% over the amount payable by STDM for the renunciation. Shareholders are advised to refer to that valuation report for the bases and assumptions on the valuation. The existing leasehold of the Land is for residential purpose and the lease term will expire in March 2005. The premium of the existing leasehold of the Land has been fully settled. However, the development of the Land has not completed under the existing covenant and the Land is currently vacant. The Land is freely assignable subject to the approval of the Macau Government. Such approval is in line with the common practice in Macau and has already been requested by Nova Taipa Urbanizacoes Lda on 14 July 2004, but not being granted yet. As at the Latest Practicable Date, formal application for the concession of the Land, in which a new lease for a new tenor and use of the Land for developing a hotel will be sought, has not been made. The premium for the new lease that will replace the existing one has not been assessed by the Macau Government. It is expected that the concession of the Land to STDM or its designated company will be granted on or before 1st 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 Latest Practicable Date, 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. Melco will notify the Stock Exchange when it has made capital commitment to the Joint Venture Company in the light of Rule 14.07 of the Listing Rules. 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.

Melco will finance the investment of 50% equity interest in the Joint Venture Company by issuing the Convertible Bond. As such, a maximum interest expense of HK\$4 million per annum will be incurred by the Group during the tenor of the Convertible Bond if the Convertible Bond is not being converted and/or redeemed in full or in part. Subject to the confirmation by the auditors of Melco, the investment in the Joint Venture Company will be consolidated in the accounts of the Group under equity method in the relevant financial year of Melco. As at the year ended 31st December 2003, the Group did not have any external borrowings. Based on the 2004 interim report of Melco, as at 30th June 2004, Melco had external borrowings of approximately HK\$137.8 million, including (i) the bank loans and overdrafts of approximately HK\$68.2 million; (ii) convertible notes of HK\$45 million; and (iii) a loan from a minority shareholder of a subsidiary of approximately HK\$24.6 million. The issue of the Convertible Bond will result in an increase in borrowings of the Group by HK\$100,000,000 while the assets, being the equity interest in the Joint Venture Company, of the Group will be increased by approximately the same amount, based on the acquisition cost to be paid by Melco for 50% equity interest in the Joint Venture Company and thus the net asset value of the Group will not materially change. The gearing ratio will be increased from approximately 16.6% as at 30th June 2004 (being the external borrowings of approximately HK\$137.8 million divided by the net asset value of the Group of approximately HK\$831 million as at 30th June 2004) to approximately 28.6% upon the issue of the Convertible Bond and acquisition of 50% equity interest of the Joint Venture Company. Save for this, the Directors are of the view that the entering into of the Agreement including the issue of the Convertible Bond will not have any material effect on its assets and liabilities.

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## LETTER FROM THE BOARD

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### 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 transactions contemplated thereunder including the issue of the Convertible Bond and the issue of the Shares to be allotted and issued upon conversion 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 including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond 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) technology division; and (iii) investment banking and financial services division. By entering into the Agreement, the Group can participate in the development of the hotel on the Land and, subject to Macau Governments approval, 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 Directors (including for the independent non-executive Directors) are of the view that the terms of the Agreement (including the consideration payable for the 50% equity interest in the Joint Venture Company) and the terms of the Convertible Bond 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 transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond.

### EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 4:00 p.m. on Tuesday, 2nd November 2004 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on page 45 of this circular at which ordinary resolution will be proposed and, if thought fit, passed by the Independent Shareholders

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## LETTER FROM THE BOARD

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(by way of poll), to approve the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the approval for issue of Share to be allotted and issued upon conversion of the Convertible Bond.

Dr. Stanley Ho 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 regarding the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond at the EGM.

As at the Latest Practicable Date, there are 377,554,074 Shares in issue and are held as to 3.98% by Dr. Stanley Ho, 0.06% by Madam Lucina Laam King Ying, 0.48% by Mr. Lawrence Ho, 15.30% by Lasting Legend Limited, 33.03% by Better Joy Overseas Limited and 10.35% by Shun Tak Shipping Company Limited (a company in which Dr. Stanley Ho holds 27.78% shareholding interest and is a director). Based on the interest of Dr. Stanley Ho in Shun Tak Shipping Company Limited, Shun Tak Shipping Company Limited is not an associate of Dr. Stanley Ho under the definitions of the Listing Rules. Accordingly, Shun Tak Shipping Company Limited is not required to abstain from voting on the relevant resolution regarding the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond at the EGM.

The Independent Board Committee comprising the three Independent Non-executive Directors namely Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui has been appointed to advise the Independent Shareholders on whether or not the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond are fair and reasonable and in the interests of the Shareholders as a whole. Grand Vinco has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Share to be allotted and issued upon conversion of the Convertible Bond.

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 13 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond and (ii) the letter of advice from Grand Vinco to the Independent Board Committee set out on pages 14 to 28 of this circular.

The Independent Board Committee, having taking into account the advice from Grand Vinco, considers that the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of Melco and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond.

### GENERAL

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

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

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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 under the Companies Ordinance)*

*website: <http://www.melco.hk.cn>*

*(Stock Code: 200)*

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

11th October 2004

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond, details of which are set out in the “Letter from the Board” in the circular dated 11th October 2004, of which this letter forms part. Terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from Grand Vinco as set out on pages 14 to 28 of this circular, which contains its advice and recommendation to us as to whether or not the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond are fair and reasonable and in the interests of the Independent Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Grand Vinco as stated in its aforementioned letter of advice, we are of the opinion that the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of Melco and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue of Shares to be allotted and issued upon conversion of the Convertible Bond.

Yours faithfully,

For and on behalf of

**the Independent Board Committee**

**Sir Roger Lobo      Robert Kwan      Lo Ka Shui**

*Independent Non-executive Directors*

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## LETTER FROM GRAND VINCO

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*The following is the text of a letter of advice from Grand Vinco to the Independent Board Committee in connection with the connected transaction, which has been prepared for the purpose of incorporation in this circular:*

**VINCO**  城高  
**Grand Vinco Capital Limited**

Room 902, 9th Floor, Far East Finance Centre  
16 Harcourt Road, Hong Kong

11th October 2004

*To the Independent Board Committee of  
Melco International Development Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee in connection with the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue and allotment of Shares upon conversion of the Convertible Bond, details of which are set out in the “Letter from the Board” in the circular (the “Circular”) issued by the Company to the Shareholders dated 11th October 2004 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Since Dr. Stanley Ho, the Chairman and Executive Director of the Company, has an equity interest in and is a director of STDM and therefore STDM is a connected person of the Company. As a result, the Agreement and the transactions contemplated thereunder constitute a discloseable and non-exempt connected transaction of the Company under Rule 14.08 and Rule 14A.16(5) of the Listing Rules respectively and are subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. Dr. Stanley Ho and his associates will abstain from voting in the resolution(s) regarding the Agreement and the transactions contemplated thereunder at the EGM. The Independent Board Committee, comprising Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders whether the terms of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue and allotment of Shares upon conversion of the Convertible Bond are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM GRAND VINCO

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In formulating our opinion and recommendation to the Independent Board Committee in relation to the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue and allotment of Shares upon conversion of the Convertible Bond, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We are not aware that any statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were untrue and incorrect in all respects at the time they were made and continued to be so as at the date of the Circular. We are also not aware that any statements of belief, opinion and intention made by the Directors in the Circular were not reasonably made after due and careful enquiry and are not based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have received sufficient information to enable us to reach an informed view 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 opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent in-depth investigation into the business and affairs of the Company, the Group and STDM.

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## LETTER FROM GRAND VINCO

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in respect of the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue and allotment of Shares upon conversion of the Convertible Bond, we have considered the principal factors and reasons set out below:

#### 1. Background and reasons for the Agreement

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. The following table shows the segment results of the three divisions of the Group for the year ended 31 December 2003, which is extracted from the annual report 2003 of the Group:

	Investment banking and financial services		Leisure and entertainment		Technology		Property and other investments		Group HK\$'000
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
Revenue									
Turnover	75,504	46	54,861	33	29,203	18	4,468	3	164,036
Other revenues	223	4	801	15	108	2	4,362	79	5,494
	<u>75,727</u>	<u>45</u>	<u>55,662</u>	<u>33</u>	<u>29,311</u>	<u>17</u>	<u>8,830</u>	<u>5</u>	<u>169,530</u>
Segment results	<u>3,005</u>	<u>n/a</u>	<u>(11,713)</u>	<u>n/a</u>	<u>(9,413)</u>	<u>n/a</u>	<u>2,258</u>	<u>n/a</u>	(15,863)
Unallocated costs									<u>(14,911)</u>
Loss before finance costs and taxation									<u>(30,774)</u>
Net loss attributable to Shareholders									<u>(26,334)</u>

The Group recorded a net loss attributable to Shareholders of approximately HK\$26 million. Revenue generated from the leisure and entertainment division accounted for approximately HK\$56 million, representing approximately 33% of the total revenue of the Group for the year ended 31 December 2003. Segment result for the leisure and entertainment division was a loss of approximately HK\$12 million. As noted from the interim report of the Group for the six months ended 30th June 2004 (the "Interim Report"), the Group has focused on drastically expanding its leisure and entertainment business in Macau by planning and initiating a few major projects,

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## LETTER FROM GRAND VINCO

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including the Agreement, in this field. The Group is emphasizing and investing additional resources in developing its lines of business in the growing Macau market and during the period, approximately 49% of the Group's turnover was generated from Macau.

STDM is a company incorporated under the laws of Macau and is engaged in a wide range of businesses including gaming and hospitality businesses in Macau.

On 8 September 2004, the Company entered into the Agreement with STDM, pursuant to which the Company will acquire a 50% equity interest in the Joint Venture Company for a consideration of HK\$100 million. The Joint Venture Company has been set up and will apply for the concession of the Land to be granted to it to develop a luxury hotel with a casino and an electronic gaming machine lounge. The Land is with an area of 5,230 square meters located at Baixa da Taipa, Macau. The Company will issue the Convertible Bond to STDM to satisfy the consideration.

According to the Statistics and Census Service of 2003, Macau's gross domestic product ("GDP") per capita in 2003 was US\$17,782, equivalent to an approximate 16.7% growth from 2002. Tourism is the backbone of Macau's economy, contributing to approximately 30% of its GDP. It is expected that the recent relaxation of rules governing the entry of Chinese visitors to Macau under the Individual Travel Scheme will give rise to further increase in the number of tourists visiting Macau in the coming years. Macau's flourishing tourism industry is inextricably linked with the gaming industry which is the signature business of Macau. In 2001, the Macau Government ended the 40-year monopoly of the gaming industry when it granted new concessions to three gaming operators. This diversification and competition is expected to inject new impetus to the gaming industry and further enhance the developments in the casino and hotel resort sectors in Macau.

By entering into the Agreement and subject to the approval by the Macau Government, the Group can participate in the development of a luxury hotel on the Land and subsequently manage the electronic gaming machine lounge in the hotel. 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 the Company. The remaining 20% interest of Mocha Slot Group Limited is owned by Dr. Stanley Ho. The Agreement allows the Group to fully participate and compete in the burgeoning leisure and entertainment industry in Macau. As stated in the Interim Report, the Group expects that substantial income will be generated from such hotel and electronic gaming machine lounge operations, which will contribute significantly to the Group's turnover and profit.

The Directors believe that the Agreement will expand the scope and size of the Group's leisure and entertainment business in Macau and becomes the Group's anchor project. Having considered the abovementioned reasons, in particular the fact that the Agreement is in line with the business objectives of the Group and enables the Group to participate in the flourishing tourism and gaming industries of Macau, we consider that the Agreement is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM GRAND VINCO

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### 2. The Consideration

The Land is currently vacant and owned by a joint venture company (the “JV”), which is held as to 25% by STDM, as to 25% by a company of which STDM is a substantial shareholder and as to 50% by an Independent Third Party. The JV 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 the JV for such renunciation is HK\$200 million and will be paid by installments. The installments will be paid off on or before 1 September 2005. It is expected that the concession of the Land to STDM or its designated company will be granted on or before 1 September 2005.

According to the property valuation as contained in Appendix I to this circular, the Land is valued at HK\$288 million as at 5 August 2004, representing a premium of approximately 44% over the amount payable by STDM for the renunciation.

The consideration payable to STDM by the Group for 50% equity interest of the Joint Venture Company is HK\$100 million. As confirmed by the Directors, the Joint Venture Company will only engage in the development of the Land into a luxury hotel with a casino and an electronic gaming machine lounge.

In view of the above, we are of the opinion that the consideration of \$100 million payable under the Agreement by the Group is fair and reasonable given the open market value of the Land is HK\$288 million as at 5 August 2004, as estimated by Jones Lang LaSalle Limited, an independent property valuer, the consideration payable by STDM to the JV for renunciation of the Land is HK\$200 million and the 50% attributable interest of the Group in the Land will be valued at HK\$144 million accordingly.

As noted from the property valuation of the Land as contained in Appendix I to this circular and the “Letter from the Board”, the existing leasehold of the Land is for residential purpose and the lease term will expire in March 2005. The premium of the existing leasehold of the Land has been fully settled. However, the development of the Land has not completed under the existing covenant and the Land is currently vacant. The Land is freely assignable subject to the approval of the Macau Government. As advised by C&C Advogados, the Macau legal adviser of the Company, such approval is in line with the common practice in Macau and was requested by the existing registered owner on 14 July 2004, but not being granted yet. As at the Latest Practicable Date, formal application for the concession of the Land has not been made. The premium for the new lease that will replace the existing one has not been assessed by the Macau Government. In the event that the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005, the Company shall have the right to terminate the Convertible Bond and any and all liabilities of the Company to pay the consideration under the Agreement shall cease and all sums of money due under the Convertible Bond (including the principal and interest thereon) shall cease to be payable immediately, and the Company shall forthwith transfer the 50% equity interest in the Joint Venture Company back to STDM. We concur with the view of the Directors that the right of the Company pursuant to the put option to terminate the Convertible Bond and the

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## LETTER FROM GRAND VINCO

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payment obligation under the Agreement should the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005 is in the interests of the Company and the Independent Shareholders as a whole. **However, investors and Shareholders shall be cautious in trading the Shares because the approval by the Macau Government for the grant of the concession of the Land may or may not be obtained.**

Pursuant to the terms of the Agreement, the Company and STDM 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. 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 Company and STDM equally. 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 Latest Practicable Date, the Company 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 Company will notify the Stock Exchange when it has made capital commitment to the Joint Venture Company in light of Rule 14.07 of the Listing Rules. The Stock Exchange has indicated that it will reserve the rights to aggregate the capital commitment of the Company for the purpose of Rule 14.15(2) of the Listing Rules. The Company will also take necessary steps to fulfill the relevant disclosure and/or approval requirements in light of Rule 14.06 of the Listing Rules. However, Shareholders should bear the understanding that there may be funding requirement by the Joint Venture Company from the Group for developing the Land in the future.

### **3. Form of consideration**

Pursuant to the Agreement, the consideration of HK\$100 million will be satisfied by the issue of the Convertible Bond with a conversion price of HK\$4.00 per Share. We consider that the issue of the Convertible Bond is a prudent decision and is in the interests of the Company as it will not draw on the existing cash resources of the Company for the investment in the Land. However, the issue of the Convertible Bond will have a dilution effect on the shareholding to the Shareholders. Please refer to the paragraph headed “Potential dilution to shareholding of the Independent Shareholders” below for information.

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## LETTER FROM GRAND VINCO

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### 4. Terms of the Convertible Bond

The consideration for the Agreement will be satisfied by the Company by way of the issue of the Convertible Bond in the principal amount of HK\$100 million to STD, principal terms of which are set out as follows:

(i) *Conversion price*

The premiums of the conversion price of HK\$4.00 per Share over the closing price of the Share for different periods are set out in the following table:

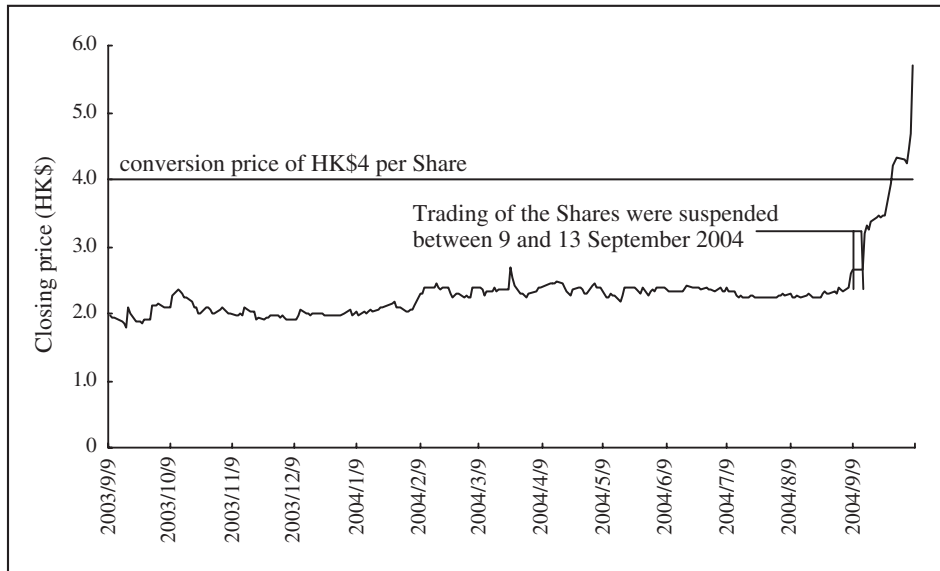
<b>Date/period</b>	<b>Closing price/average closing price per Share for the period</b>	<b>Premium/(Discount) of the conversion price over the closing price/average closing price per Share in the respective period</b>
As at 8 September 2004 (being the last trading day prior to the date of the Announcement)	2.65	50.94%
5 days up to and including 8 September 2004	2.46	62.60%
10 days up to and including 8 September 2004	2.39	67.36%
One month up to and including 8 September 2004	2.32	72.41%
Three months up to and including 8 September 2004	2.31	73.16%
Six months up to and including 8 September 2004	2.33	71.67%
One year up to and including 8 September 2004 (the "One-year Period")	2.21	81.00%
As at the Latest Practicable Date	5.70	(29.82%)

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## LETTER FROM GRAND VINCO

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The above table shows that the conversion price represents premiums over all of the closing prices and average closing prices for all of the periods during the One-year Period ranging from 50.94% to 81.00%.



## LETTER FROM GRAND VINCO

As illustrated in the chart above, the conversion price of HK\$4.00 per Share represents premium over the closing prices of the Shares throughout the One-year Period. Following the publication of the Announcement on newspapers on 14 September 2004, the closing prices of the Shares have been on an increasing trend and rose to over the conversion price of HK\$4.0 per Share since 28 September 2004. In order to assess the fairness and reasonableness of the conversion price of the Convertible Bond, we have looked into the recent issues of convertible bonds/notes (the “Comparables”) nominated in Hong Kong dollars by listed companies in Hong Kong since April 2004. Set out below is a summary of the Comparables.

Date of circular	Stock	Company	Principal amount of convertible bond/note (HK\$ million)	Maturity (years)	Interest rate per annum (%)	Premium/ (discount) of the conversion price over/to the closing price of shares on the last trading day prior to the related announcement (%)
11-Oct	200	The Company	100	5	4	50.9
13-Aug	1031	Medtech Group Company Limited	20	2	4	(23.1)
30-Jul	8180	Golden Meditech Company Limited	226	3	1	2.7
22-Jul	351	Central China Enterprises Limited	20	2	8.5	(20.0)
13-Jul	878	Soundwill Holdings Limited	147	4	Prime - 3	18.3
					(Note 1)	
2-Jul	273	China United International Holdings Limited	80	5	7.8	(7.4)
30-Jun	563	Neo-China Group (Holdings) Limited	210	3	1	6.1
30-Jun	78	Regal Hotels International Holdings Limited	400	3	2	7.3
29-Jun	8091	Universal Technologies Holdings Limited	4	3	3.5	13.64
		(Note 2)				
23-Jun	8112	Angels Technology Company Limited	4	1.5	4	(1.3)
		(Note 2)				
14-Jun	613	Yugang International Limited	70	3	3	(a) 7.1 (b) 17.1 (c) 27.1
						(Note 3)
11-Jun	1184	S.A.S. Dragon Holdings Limited	12	2	0.1	11.0
2-Jun	862	Asia Logistics Technologies Limited	1,200	3	0.75	(72.7)
24-May	1189	Wing On Travel (Holdings) Limited	260	3	2	11
23-Apr	200	The Company	45	1-2	4	(2.13)
19-Apr	8119	Thiz Technology Group Limited	10	3	2.5	28.6
19-Apr	199	Cheung Tai Hong Holdings Limited	15	2	2	(18)

*Notes:*

1. The interest rate per annum is calculated as the Prime Rate – 3%.
2. Date of the relevant announcements.
3. (a), (b) and (c) represent the premium of the first year conversion price, the second year conversion price and the third year conversion price over the closing price prior to the date of the related announcement respectively.



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## LETTER FROM GRAND VINCO

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The conversion prices of seven of the Comparables were set at discounts, ranging from approximately 1.3% to approximately 72.7%, to the closing price of the shares on the last trading day prior to the dates of the related announcements. The conversion price of the Convertible Bond represents a premium of approximately 50.9% over the closing price of the Shares on the last trading day prior to the date of the Announcement, which is the highest among those of the other nine Comparables.

In addition, the conversion price of HK\$4.00 per Share of the Convertible Bond represents approximately 81.8% premium over the unaudited net asset value of the Group of approximately HK\$2.2 per Share as at 30 June 2004. Upon conversion of the Convertible Bond, the net asset value per Share of the Group will be increased accordingly. (Please also refer to the section headed “Net asset value” below for the effect on the net asset value of the Group with the issue of the Convertible Bond)

Given the conversion price of the Convertible Bond is higher than the Share price over the One-year Period and the conversion price of the Convertible Bond represents significant premiums over the closing price of the Share on the last trading day before the date of the Announcement, which is higher than those of the Comparables, we consider that the conversion price as stipulated under the Convertible Bond is fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

*(ii) Interest*

As noted from the Interim Report, as at 30 June 2004, the Group has obtained banking facilities of HK\$149.8 million from various banks. The interest rates for such facilities range from Hong Kong Interbank Offer Rate plus 1.05% to Prime Rate (the “Borrowing Range”). As at the Latest Practicable Date, the Prime Rate was 5.125% while the Hong Kong Interbank Offer Rate ranges from approximately 1.02% to approximately 1.72% depending on the maturity from 1 month to 12 months. In other words, the Borrowing Range is between approximately 2.07% and 5.125%.

During the first half of 2004, the Group has issued convertible notes for the sum of HK\$45 million with interest rate of 4% per annum, which carry the same interest rate as that of the Convertible Bond.

We also looked into the interest rates of the Comparables in order to assess the fairness and reasonableness of the interest rate carried by the Convertible Bond. The Comparables carry annual interest rates ranging from 0.1% to 8.5% (the “Comparables Range”). It should however be noted that the Comparables are not necessarily entirely comparable with the Convertible Bond given differences in (i) the industries and businesses in which the Comparables are engaged in; (ii) the credit rating of the Comparables; (iii) availabilities of securities; and (iv) issue or redemption price, conversion restrictions and/or other features.

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## LETTER FROM GRAND VINCO

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Given the interest rate of 4% per annum for the Convertible Bond is within the Borrowing Range and the Comparables Range, and is equal to the interest rates of the convertible notes of the Group issued during the first half of 2004, we consider that the interest rate of the Convertible Bond is fair and reasonable so far as the Independent Shareholders are concerned.

*(iii) Other terms of the Convertible Bond*

There is no termination clause of the Convertible Bond and the other terms of the Convertible Bond are set out as follows:

(a) Tenor

The Convertible Bond has a tenor of five years from the date of issuance.

(b) Early redemption

The Company has the option to redeem the Convertible Bond commencing 2 years from the date of its issue till the maturity date of Convertible Bond. We concur with the view of the Directors that the right for the Company to redeem the Convertible Bond provides flexibility for the Company to, either redeem the Convertible Bond or allow STDM to convert the Convertible Bond into the Shares after considering the effect of redemption on the then financial position of the Group commencing 2 years from the date of issue. As advised by the Directors, there is no penalty for early redemption of the Convertible Bond. We consider that such option is in the interests of the Company and the Independent Shareholders as a whole.

(c) Exercise period

The whole or, subject to prior written approval by the Company, in part the Convertible Bond may be convertible into new Shares in a period commencing 3 years from the date of issue of the Convertible Bond up to and including the maturity date of the Convertible Bond.

(d) Forced conversion

The Company 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 the initial conversion price of HK\$4.00 per Share (subject to adjustments) 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. Since the term secures that the value of

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## LETTER FROM GRAND VINCO

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the issued shares for the Convertible Bond would not exceed the principal amount of HK\$100 million of the Convertible Bond, we consider that the forced conversation term is in the interests of the Company and the Independent Shareholders as a whole.

(e) Put option

If the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005, the Company shall have the right to terminate the Convertible Bond. In such event, any and all liabilities of the Company to pay the consideration under the Agreement shall cease and all sums of money due under the Convertible Bond (including the principal and interest thereon) shall cease to be payable immediately, and the Company shall forthwith transfer the 50% equity interest in the Joint Venture Company back to STD. We concur with the view of the Directors that the right of the Company to terminate the Convertible Bond should the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005 pursuant to the put option is in the interests of the Company and the Independent Shareholders as a whole.

### 5. Financial effects from the Agreement

(i) *Indebtedness*

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2003, the audited consolidated net asset value of the Group as at 31 December 2003 was approximately HK\$524 million and the net loss attributable to the Shareholders for the year ended 31 December 2003 was approximately HK\$26 million. According to the Interim Report, the unaudited net asset value of the Group for the six months ended 30 June 2004 was approximately HK\$831 million and the net profit attributable to the Shareholders for the six month period was approximately HK\$60 million. With the interest rate of 4% carried by the Convertible Bond and assuming no conversion of the Convertible Bond, the interest expense generated from the Convertible Bond will be HK\$4 million per annum.

(ii) *Net asset value*

As at 31 December 2003, the Group had total liabilities of approximately HK\$150.84 million, of which the current liabilities accounted for approximately HK\$150.44 million. As stated in the "Letter from the Board", as at 30 June 2004, the Group has external borrowings of approximately HK\$137.8 million, including (i) the bank loans and overdrafts of approximately HK\$68.2 million; (ii) convertible notes of HK\$45 million; and (iii) a loan from a minority shareholder of a subsidiary of approximately HK\$24.6 million. The Convertible Bond will bring the Group's non-current liabilities up by HK\$100 million while the assets of the Group will increase by approximately the same amount, based on the acquisition cost to be paid by the Company for 50% equity interest in the Joint Venture Company and thus the net asset value of the Group will not materially change.

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## LETTER FROM GRAND VINCO

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Upon full conversion of the Convertible Bond, with the addition of HK\$100 million equity capital to the Group, the net asset value of the Group will increase by HK\$100 million accordingly while the net asset value per Share will increase from approximately HK\$2.2 as at 30 June 2004 (based on net asset value of approximately HK\$831 million and 377,516,574 Shares in issue) to approximately HK\$2.3.

*(iii) Gearing ratio*

Based on the Interim Report, the gearing ratio of the Group was approximately 16.6% as at 30 June 2004 (being the external borrowings of approximately HK\$137.8 million divided by the net asset value of the Group of approximately HK\$831 million as at 30 June 2004). Upon the issue of the Convertible Bond and acquisition of 50% equity interest of the Joint Venture Company, the gearing ratio of the Group will be increased to approximately 28.6% assuming no conversion of the Convertible Bond. The issue of the Convertible Bond has no immediate effect on the current working capital position of the Group and considering the potential possibility of a stronger capital base upon conversion of the Convertible Bond, we concur with the Directors that the increase in gearing ratio to approximately 28.6% is acceptable. Upon full conversion of the Convertible Bond, the gearing ratio will be decreased by approximately 1.80% from that as at 30 June 2004.

*(iv) Potential dilution to shareholding of the Independent Shareholders*

A table depicting the respective shareholding structures of the Company immediately before and after full conversion of the Convertible Bond is set out in the paragraph headed "Shareholding structure" in the "Letter from the Board" of the Circular. Upon full conversion of the Convertible Bond, 25,000,000 Shares will be issued to STDM, representing approximately 6.62% and approximately 6.21% of the existing issued share capital and the enlarged share capital of the Company respectively. The aggregate shareholding of the existing public Shareholders will decrease from approximately 36.80% to approximately 34.51% upon full conversion of the Convertible Bond, a potential dilution of approximately 2.29%. Taken into account that the Agreement will improve the net asset value per Share and improve the gearing ratio of the Group upon full conversion of the Convertible Bond, we consider such slight dilution or potential dilution of approximately 2.29% to shareholding of the Independent Shareholders acceptable.

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## LETTER FROM GRAND VINCO

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### CONCLUSION

Having taken into consideration of the above principal factors and reasons, in particular:

- (i) the Agreement will expand the scope and size of the Group's leisure and entertainment business in Macau;
- (ii) the attributable interest of the Group in the Land is valued at a premium of approximately 44% over the consideration payable by the Group to STDM for 50% equity interest of the Joint Venture Company;
- (iii) the issue of the Convertible Bond will not draw on the existing cash resources of the Group;
- (iv) the conversion price of HK\$4.00 per Share represents premium over all the closing prices of the Shares throughout the One-year Period;
- (v) the conversion price of HK\$4.00 per Share represents approximately 81.8% premium over the unaudited net asset value of the Group of approximately HK\$2.2 per Share as at 30 June 2004;
- (vi) the interest rate of 4% per annum for the Convertible Bond is within the Borrowing Range and the Comparables Range, and is equal to the interest rates of the convertible notes of the Group issued during the first half of 2004;
- (vii) there is no penalty for early redemption of the Convertible Bond commencing 2 years from the date of its issue till the maturity date of the Convertible Bond;
- (viii) the Company 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;
- (ix) the Company has the right to terminate the Convertible Bond should the concession of the Land is not granted to the Joint Venture Company on or before 1 September 2005;
- (x) the issue of the Convertible Bond will not materially change the net asset value of the Group and the net asset value per Share will be increased by approximately HK\$0.10 upon full conversion of the Convertible Bond;
- (xi) an acceptable increase in gearing ratio of approximately 12% given the Convertible Bond has no immediate effect on the current working capital position of the Group and the potential possibility of a stronger capital base upon conversion of the Convertible Bond; and
- (xii) an acceptable slight potential dilution of approximately 2.29% to the shareholding of the Independent Shareholders,

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## LETTER FROM GRAND VINCO

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we are of the opinion that the terms of the Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond and the issue and allotment of Shares upon conversion of the Convertible Bond are fair and reasonable, so far as the Independent Shareholders are concerned and that the Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the issue and allotment of the Shares upon conversion of the Convertible Bond.

Yours faithfully,  
For and on behalf of  
**Grand Vinco Capital Limited**  
**Hans Wong**  
*Managing Director*  
*Corporate Finance*



Jones Lang LaSalle Limited  
Valuation Advisory Services  
28/F One Pacific Place 88 Queensway Hong Kong  
tel +852 2846 5000 fax +852 2968 0078  
Company Licence No.: C-003464

11th October 2004

The Directors  
Melco International Development Limited  
Penthouse 38/F  
The Centrium  
60 Wyndham Street, Central  
Hong Kong

Dear Sirs

We refer to the instruction by Melco International Development Limited (hereinafter referred to as “the Company”) for us to provide our opinion of the open market value of the property interest in a development site known as Site A1, Baixa da Taipa – Lote BT17, Taipa, Macau (hereinafter referred to as “the Property”) for reference purpose.

As instructed by the Company, we have prepared the valuation on the following assumptions:

- A residential plot ratio of 10 has been allowed for the Property;
- The building covenant of the land grant upon which the Property is held has expired. We have been instructed to disregard any cost and fees, if any for the extension of such building covenant and to assume that the land grant of the Property would not be adversely affected by such expiry;
- The owner of the property is in possession of a proper legal title to the property and is entitled to freely transfer the property within the residual lease term; and
- The subject land grant will be extended for an initial period of 25 years and renewable thereafter in accordance with the laws of Macau and will be subject to payment of applicable ground rent, and that the premium, if any, will not have a significant impact on the value of the property

We have based on our experience of valuing the property interest as “overseas consultants” in Macau. We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we deem necessary to derive our opinion of the open market value of the Property as at 5th August 2004 (“the date of valuation”).

## **1.0 INTRODUCTION**

We would like to point out that the valuation presented in this report represent 100% interest of the Property and not the share holdings within the company holding the property interest.

Unless otherwise stated, our valuation report is prepared in accordance with the “Hong Kong Guidance Notes on The Valuation of Property Assets” published by the Hong Kong Institute of Surveyors (“HKIS”) and the requirements contained in Chapter 5, and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. If the Guidance Notes are silent on subjects requiring guidance, we refer to the “Appraisal and Valuation Standards” published by the Royal Institution of Chartered Surveyors subject to variation to meet local established law, custom, practices and market conditions.

Our valuation is made on the basis of the open market value defined by HKIS as “the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of deferred-terms contract, leaseback, joint venture, management agreements or any similar arrangements which would serve to affect the value of such property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

Unless otherwise stated, we have valued the property interest on the assumption that it is freely disposable and transferable for the existing use to both local and overseas purchasers without payment of any premium to the relevant authorities.

No allowance has been made in our valuation for any compensation, charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature that could affect its value.



We have adopted the direct comparison approach and the residual approach in the course of the assessment.

The direct comparison approach is based on comparing the property to be valued directly with other comparable properties, which have recently transferred its legal ownership. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative and quantitative differences that may affect the price likely to be achieved by the property under consideration.

The residual approach involves firstly the assessment of Gross Development Value (GDV) which is the value of the proposed development, as if completed, as at the date of valuation. The Gross Development Value (GDV) of the residual approach is assessed by reference with the Direct Comparison Approach. Estimated total cost of the construction of the development including fees, plus an allowance for interest and other associated expenditure including developer's risk and profit are deducted from the gross development value. The resultant figure is the residual value. This method is subject to a number of hypothetical assumptions/parameters. A slight change in one or more of the assumptions/parameters would have a significant impact on the conclusions reached.

We have relied to a very considerable extent on the information provided by the Company. We have accepted advice given to us on such matters as the identification of the Property, land tenure and development conditions, premium arrangement for the land grant extension, particulars of occupancy, site area, plot ratio, indicative cost estimate of the proposed residential development, translated document together with all other relevant matters.

We have also had regard to relevant construction costs based on data published by professional quantity surveyors and cost estimates provided by local cost consultants in the course of the assessment.

Dimensions, measurements and areas included in the valuation report are based on information contained in copies of documents provided to us and are therefore only approximations.

We have been advised by the Company that no material factors have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld. Our valuation is totally dependent on the adequacy and accuracy of the information supplied and/or subsequent assumptions made. Should these prove to be incorrect or inadequate, the accuracy of our valuation may be affected.

The Company provided us with a copy of development conditions of the Nova Taipa project (which includes the Property) in Portuguese stipulated in an Official Gazette of Macau – No.9 dated 1st March 1993 together with a translation of the said document in English. This document is hereinafter referred as the “land grant of the Property”.

We have not been provided with any other title document in relation to the Property. We have conducted land search record in Portuguese issued by Conservatoria do Registo Predial (“CRP”) in relation to the Property. We have not examined the original documents to verify ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents have been used for reference only.

We have also relied on the legal opinion issued by C & C Advogados, the Company's Macau legal advisor, which opinion was dated 8 October 2004 (the "Macau Legal Opinion") of the Property.

We have carried out on-site inspection as to the exterior of Property. We noted that there is a single storey structure erected upon the subject site. We had not carried out site measurements to verify the correctness of the site area of the Property. We have assumed that the site area shown on the documents provided by the Company and the identification of the Property are correct.

We are not instructed to arrange for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Property. However, should it be established subsequently that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use, we reserve the right to adjust the value reported herein.

We are not instructed to carry out any investigations on site in order to determine the suitability of the ground conditions and the services, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

The valuation certificate is attached hereto.

Yours faithfully  
For and on behalf of  
**Jones Lang LaSalle Limited**  
**C K Lau**  
*MRICS, MHKIS, RPS (GP)*  
*Regional Director*  
Licence No.: E-131615

*Note:* Mr Lau is a Chartered Surveyor and a Registered Professional Surveyor. He has over 18 years of valuation and advisory experience in Hong Kong and has more than 5 years experience in valuation of properties in Macau.

## 2.0 VALUATION CERTIFICATE

Property	Description, age and tenure	Particulars of occupancy	Open Market Value as at 5 August 2004
Development site known as Site A1, Baixa da Taipa – Lote BT17, Taipa, Macau	<p>The property comprises a plot of land forming a trapezoidal shaped site. The site is bounded on the northeast by Avenida Dr Sun Yat Sen, the southeast by Rua de Hong Chau, the southwest by Rua de Nam Keng and the northwest by Avenida Kwong Tung.</p> <p>According to the site plan prepared by Direcção dos Serviços de Cartografia e Cadastro, the site area of the property is about 5,230m<sup>2</sup>.</p> <p>As advised by the Company, a residential plot ratio of 10 has been allowed for the Property which would mean a total maximum developable gross floor area (“GFA”) of about 52,300m<sup>2</sup>.</p> <p>No development plans have been provided to us to indicate the design and layout of the proposed residential development.</p> <p>We have been instructed to value the property on the assumption that a residential development of a plot ratio of 10 could be built on the Property. In the course of our valuation, we have further assumed that the development will be finished to a standard commensurate with newly completed residential development in the locality.</p> <p>The land is held under a land grant for a term of 25 years from 7th March 1980 (i.e. the land grant will expire by March 2005).</p>	<p>As per our external inspection, we noted that a single storey building was constructed upon the north-western part of the property.</p> <p>The Property was vacant at the date of our inspection.</p>	<p>HK\$288,000,000 (Hong Kong Dollars Two Hundred and Eighty Eight Million)</p>

## 2.0 VALUATION CERTIFICATE

Property	Description, age and tenure	Particulars of occupancy	Open Market Value as at 5 August 2004
	According to the land grant of the Property, the annual ground rent payable for the property during the development period is MOP9 per m <sup>2</sup> on the site area. After the issuance of occupation permit for the development, the annual ground rent will be payable in the following manner (subject to the revision in accordance with Macau law):	–	–
	Residential use: MOP4.5 per m <sup>2</sup> on the gross construction area;		
	Parking use: MOP4.5 per m <sup>2</sup> on the gross construction area.		

*Notes:*

- (1) According to the Land Registry search record, the registered owner of the property is Nova Taipa Urbanizacoes Lda.
- (2) As instructed by the Company, we have valued the Property with the benefit a developable residential plot ratio of 10. We have not been instructed to value the Property for other uses, such as hotel uses. We have been given to understand that the application for change of use from residential to other uses has not been made to the Macau Government.
- (3) We have in the course of the valuation taken into account the following legal opinion provided by C&C Advogados (the "Macau Legal Adviser"):

1. Lease term

The existing lease term will expire in March 2005. Given the specific circumstances of this case, it is not possible to have it extended. Instead it is necessary to have a new lease replacing the existing one, and that has already been applied by Nova Taipa Urbanizacoes Lda., the holder of the existing lease for the development. It is expected that such new lease will be granted in due time by the Macau Government, subject to the payment of a premium and compliance with development conditions.

2. Land premium

The premium of the existing leasehold has been fully settled. The premium for the new lease that will replace it has not yet been assessed by the Government. The development has not been completed, under the existing covenant. The land is assignable, subject to the approval of the Macau Government and such approval is in Line with the common practice in Macau. The Macau Legal Adviser has been given to understand that such approval has already been requested by Nova Taipa Urbanizacoes Lda on 14th July 2004 but not granted yet.

3. Building covenant

The building covenant of the property has expired and that no construction works have been carried out.

(4) For the purpose of this valuation and in accordance with the instruction by the Company, we have assumed the following:

- The land grant will be extended for an initial term of 25 years and renewable thereafter in accordance with the laws in Macau and will be subject to payment of applicable ground rent, and that the premium, if any, will not have a significant impact on the value of the property.
- The building covenant of the land grant upon which the Property is held has expired. We have been instructed to disregard any cost and fees, if any for the extension of such building covenant and to assume that the land grant of the Property would not be adversely affected by such expiry; and
- The owner of the property is in possession of a proper legal title to the property and is entitled to freely transfer the property within the residual lease term.

(5) The key financial parameters adopted in the residual valuation are as follows:

Estimated gross development value of the proposed development	:	HK\$851,200,000
Estimated construction costs	:	HK\$360,500,000
Estimated professional fees, legal costs, stamp duty, etc	:	HK\$48,000,000
Estimated interest charges	:	HK\$45,900,000
Estimated developer's profit and risk margin	:	HK\$108,800,000

**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 collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

**2. SHARE CAPITAL**

The authorized and issued share capital of Melco as at the Latest Practicable Date were, and immediately following the conversion of the Convertible Bond (assuming no outstanding share options have been exercised subsequent to the Latest Practicable Date) are:

<i>Authorized</i>	<i>HK\$</i>
<u>700,000,000</u> Shares of HK\$1.00 each in the share capital of Melco	<u>700,000,000</u>
 <i>Issued and fully paid up and to be issued</i>	
377,554,074 Shares in issue as at the Latest Practicable Date	377,554,074
<u>25,000,000</u> Shares to be issued upon full conversion of the Convertible Bond ( <i>note</i> )	<u>25,000,000</u>
<u>402,554,074</u>	<u>402,554,074</u>

*Note:* Based on the initial conversion price of HK\$4.00 per Share, a total of 25,000,000 Shares will be issued upon full conversion of the Convertible Bond. The Shares to be issued upon conversion of the Convertible Bond will rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

### 3. DISCLOSURE OF DIRECTORS' AND SHAREHOLDERS' INTERESTS

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

(i) *Interests in Shares and underlying Shares*

Name of Director	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Dr. Stanley Ho	Corporate	2,377,500 (Note 2)	–	0.63%
	Personal	12,646,367	–	3.35%
Mr. Lawrence Ho	Corporate	182,455,599 (Note 3)	–	48.33%
	Corporate	–	19,565,216 (Note 4)	5.18%
	Personal	1,816,306	–	0.48%

*Notes:*

- As at the Latest Practicable Date, the total number of issued shares of Melco is 377,554,074 Shares.
- 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 and Dareset Limited which in turn hold an aggregate of approximately 0.63% of the issued share capital of Melco.
- 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 Limited which in turn holds approximately 15.30% of the issued share capital of Melco. Mr. Lawrence Ho is also taken to be interested in 124,701,087 Shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy Overseas Limited which in turn holds approximately 33.03% of the issued share capital of Melco.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy Overseas Limited respectively. If their indirect shareholding interests in the Shares through Better Joy Overseas Limited are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 11.58% and 41.23% of the Shares.

4. Two convertible notes respectively due 2005 and 2006 were issued by Melco to Better Joy Overseas Limited on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of Melco respectively dated 19th March 2004 and 23rd April 2004. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy Overseas Limited exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy Overseas Limited. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy Overseas Limited, under the SFO, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy Overseas Limited respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of Melco.

(ii) *Interests in equity derivatives of Melco*

<b>Name of Director</b>	<b>Date of grant of the share options by Melco</b>	<b>Expiry date of the share options</b>	<b>Exercise Price per underlying Share (HK\$)</b>	<b>Number of underlying Shares comprised in the share options outstanding</b>
Mr. Lawrence Ho	19th February 2004	7th March 2012	2.405	1,800,000
Mr. Tsui Che Yin, Frank	8th March 2002	7th March 2012	1.00	1,816,306
	19th February 2004	7th March 2012	2.405	1,800,000
Mr. Ho Cheuk Yuet	8th March 2002	7th March 2012	1.00	1,816,306



*(iii) Interests in shares of Value Convergence*

Name of Director	Nature of interest	Number of issued shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Dr. Stanley Ho	Corporate	7,384,651 (Note 1)	3.10%
Mr. Lawrence Ho	Corporate	4,232,627 (Note 2)	1.78%

*Notes:*

1. Dr. Stanley Ho is taken to be interested in 7,384,651 shares of Value Convergence as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of Value Convergence.
2. Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of Value Convergence.

*(iv) Interests in equity derivatives of Value Convergence*

Name of Director	Nature of interest	Number of underlying shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Dr. Stanley Ho	Personal	735,000 (Note 1)	0.31%
Mr. Lawrence Ho	Personal	1,226,057 (Note 2)	0.51%

*Notes:*

1. The personal interest of Dr. Stanley Ho represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 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 Value Convergence's share.
2. The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the physically settled options as follows:
  - (a) 735,000 physically settled options which were granted on 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 Value Convergence's share; and
  - (b) 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 Value Convergence's share.

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

- (i) none of the Directors or chief executives of Melco or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of Melco or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to Melco and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.
- (ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31st December 2003, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which was significant in relation to the business of the Group; and
- (iv) none of the Directors had service contract with Melco or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

#### **4. COMPETING INTERESTS**

Dr. Stanley Ho, the Chairman and an executive Director, is also the chairman and a director of Seng Heng Bank Limited in Macau (“Seng Heng Bank”). As part of the business of Seng Heng Bank consists of securities brokerage and financial advisory services, the Directors believe that there is a potential risk that such part of business of Seng Heng Bank may compete with the investment banking business to be developed by the Group in Macau.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the substantial Shareholders or their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

#### **5. SHAREHOLDERS WITH NOTIFIABLE INTERESTS**

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of Melco 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	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Better Joy Overseas Limited	Corporate	124,701,087 (Note 2)	–	33.03%
	Corporate	–	19,565,216 (Note 2 & 4)	5.18%
Lasting Legend Limited	Corporate	57,754,512 (Note 2)	–	15.30%
Mr. Lawrence Ho	Corporate	182,455,599 (Note 3)	–	48.33%
	Corporate	–	19,565,216 (Note 4)	5.18%
	Personal	1,816,306	–	0.48%
Shun Tak Shipping Company Limited	Corporate	39,083,147	–	10.35%

*Notes:*

- As at the Latest Practicable Date, the total number of issued shares of Melco is 377,554,074 Shares
- The Shares (and underlying Shares) held by Better Joy Overseas Limited and Lasting Legend Limited also represent the corporate interest of Mr. Lawrence Ho in Melco.
- 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 Limited which in turn holds approximately 15.30% of the issued share capital of Melco. Mr. Lawrence Ho is also taken to be interested in 124,701,087 Shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy Overseas Limited which in turn holds approximately 33.03% of the issued share capital of Melco.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy Overseas Limited respectively. If their indirect shareholding interests in the Shares through Better Joy Overseas Limited are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 11.58% and 41.23% of the Shares.

4. Two convertible notes respectively due 2005 and 2006 were issued by Melco to Better Joy Overseas Limited on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of Melco respectively dated 19th March 2004 and 23rd April 2004. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy Overseas Limited exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy Overseas Limited. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy Overseas Limited, under the SFO, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy Overseas Limited respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of Melco.

Save as disclosed herein, so far as the Directors were aware, as at the Latest Practicable Date, no other persons had interests or short positions in the Shares, underlying Shares and debentures of Melco 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 ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December 2003, being the date to which the latest published audited financial statements of the Group were made up.

## 7. QUALIFICATION AND CONSENT OF EXPERT

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

<b>Name</b>	<b>Qualification</b>
Grand Vinco	A corporation licensed in respect of types 1 and 6 regulated activities under the SFO
Jones Lang LaSalle Limited	Chartered Surveyors
C&C Advogados	Macao legal adviser

- (ii) As at the Latest Practicable Date, none of C&C Advogados, Grand Vinco and Jones Lang LaSalle Limited have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (iii) As at the Latest Practicable Date, C&C Advogados, Grand Vinco and Jones Lang LaSalle Limited did not have any interest, direct or indirect, in any assets which have been, since 31st December 2003 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (iv) Each of C&C Advogados, Grand Vinco and Jones Lang LaSalle Limited has given, and has not withdrawn, its written consent to the issue of this circular, with inclusion of its letter dated 11th October 2004 and the references to its name included herein in the form and context in which they respectively appear.

## **8. LITIGATION**

As at the Latest Practicable Date, neither Melco nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Group.

## **9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS**

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

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

## **10. GENERAL**

- (i) The registered office of Melco is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (ii) The secretary of Melco is Mr. Samuel Tsang, a solicitor admitted in Hong Kong, England and Wales and Australia. The qualified accountant of Melco is Mr. Clarence Chung, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants; and a member of the Society of Management Accountants of Canada.
- (iii) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of Melco at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, during normal business hours on any weekday, except Saturday, Sunday and public holidays, from the date hereof up to and including 2nd November 2004:

- (i) the Agreement which contains the principal terms of the Convertible Bond;
- (ii) the letter dated 11th October 2004 from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (iii) the letter of advice dated 11th October 2004 from Grand Vinco to the Independent Board Committee, the text of which is set out on pages 14 to 28 of this circular;
- (iv) the valuation report prepared by Jones Lang LaSalle Limited in respect of the Land, the text of which is set out in Appendix I to this circular;
- (v) the written consent referred to in the paragraph headed “Qualification and consent of Expert” in this appendix; and
- (vi) the memorandum and articles of association of the Company.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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 under the Companies Ordinance)*

*website: <http://www.melco.hk.cn>*

*(Stock Code: 200)*

**NOTICE IS HEREBY GIVEN** (the “Notice”) that an extraordinary general meeting (the “Meeting”) of Melco International Development Limited (the “Company”) will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, on Tuesday, 2nd November 2004 at 4:00 p.m. 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** the Agreement and all transactions contemplated thereunder including the issue of the Convertible Bond and the issue of shares of the Company to be allotted and issued upon conversion of the Convertible Bond (*all capitalized terms stated herein are defined in the circular dated 11th October 2004 despatched to the shareholders of the Company*) be and are hereby approved, ratified and confirmed.”

By order of the Board

**Melco International Development Limited**

**Samuel Tsang**

*Company Secretary*

Hong Kong, 11th October 2004

*Registered Office:*

38th Floor  
The Centrium  
60 Wyndham Street  
Central  
Hong Kong

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

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