THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer 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 (the "Company"), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, the licensed securities dealer 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.

Melco

Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)

Website: http://www.melco.hk.cn

(Stock Code: 200)

MAJOR TRANSACTION
ESTABLISHMENT OF A JOINT VENTURE GROUP FOR PURSUANCE OF GAMING AND HOSPITALITY BUSINESSES
AND
MAJOR AND CONNECTED TRANSACTION
FURTHER ACQUISITION OF INTEREST IN THE LAND
AND
REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

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

道亨證券有限公司

DaoHeng Securities Ltd.

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders concerning the Connected Transaction and the Refreshment of General Mandate is set out on pages 36 to 37 of this circular. A letter from Dao Heng Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 38 to 59 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company to be held at 4:00 p.m. on Thursday, 20, January 2005 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, is set out on pages 134 to 136 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 the Company's registered office, 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding 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.

5 January 2005

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DEFINITIONS

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

"associate"	has the same meaning as ascribed to it in the Listing Rules
"AGM"	the annual general meeting of the Company held on 20 May 2004
"Better Joy"	Better Joy Overseas Limited, a company owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
"Board"	the board of Directors
"Company"	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
"connected person"	has the same meaning as ascribed to it in the Listing Rules
"Connected Transaction"	the Second Agreement and all transactions contemplated thereunder including the issue of the Second Convertible Bond by the Company to STDM and the allotment and issue of Shares upon conversion of the Second Convertible Bond
"Controlling Shareholders"	Mr. Lawrence Ho and his associates, namely, Dr. Stanley Ho, Madam Lucina Laam King Ying, Lasting Legend and Better Joy
"Convertible Bonds"	the First Convertible Bond and the Second Convertible Bond
"Dao Heng Securities" or "Independent Financial Adviser"	Dao Heng Securities Limited, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Connected Transaction and the Refreshment of General Mandate
"Definitive Agreements"	the Subscription Agreement and the Proposed Shareholders Deed
"Director(s)"	the director(s) of the Company
"Dr. Stanley Ho"	Dr. Ho Hung Sun, Stanley, the Chairman and an Executive Director of the Company
"EGM"	an extraordinary general meeting of the Company to be convened on Thursday, 20, January 2005 for the purpose of considering and approving the Definitive Agreements and all transactions contemplated thereunder, the Connected Transaction and the Refreshment of General Mandate

"Enlarged Group"	the Group as enlarged immediately after the establishment of the JV Group as contemplated under the Subscription Agreement
"First Convertible Bond"	a redeemable HK$100 million 5-year convertible bond carrying a right to subscribe for the new Shares at HK$4.00 per Share issued by the Company on 9 November 2004 pursuant to the First Agreement
"First Agreement"	an agreement dated 8 September 2004 entered into between STDM and the Company for the purpose of acquiring 50% equity interests of Great Wonders which has applied for the concession of the Land for developing the Hospitality Business
"Gaming Business"	the business currently engaged by Mocha Slot including the leasing of electronic gaming machines and the provision of related management services by Mocha Slot to casino operators in Macau
"Greater China region"	such territorial regions covering the PRC, Hong Kong, Macau and Taiwan
"Great Wonders"	Great Wonders, Investments, Limited, a joint venture company formed by STDM and the Company in Macau pursuant to the First Agreement
"Group"	the Company and its subsidiaries from time to time
"Heads of Agreement"	the legally binding heads of agreement dated 11 November 2004 entered into between the Company and PBL in relation to the proposed establishment of the JV Group, details of which are set out in the announcements of the Company respectively dated 23 November 2004 and 7 December 2004
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hospitality Business"	the equity interests of the Company from time to time in Great Wonders and all rights, benefits and obligations of the Company in respect of all transactions related to the development of the luxury hotel housing a casino and an electronic gaming machine lounge on the Land through Great Wonders in accordance with the Land Acquisition Agreements
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Independent Board Committee"	the independent board committee of the Company 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 Connected Transaction and the Refreshment of General Mandate
"Independent Shareholders"	Shareholders other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend and Better Joy or, as the case may be, the Controlling Shareholders
"Independent Third Party(ies)"	independent third party(ies) not connected with the Company and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of the Company and its subsidiaries, or an associate of any of them under the Listing Rules
"JV1" or "JV2" or "JV3"	the proposed subsidiary(ies) of JVCo to be established pursuant to the Subscription Agreement
"JV Group"	the proposed group of companies comprising Melco PBL Holdings, JV1, JV2 and JV3 together with such other subsidiaries of Melco PBL Holdings, if any, from time to time
"Lasting Legend"	Lasting Legend Limited, a company wholly-owned by Mr. Lawrence Ho
"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 no 21407, folio 125 of the Book B49.
"Land Acquisition Agreements"	the First Agreement and the Second Agreement
"Latest Practicable Date"	30 December 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Letter of Confirmation"	the confirmation letter dated 11 November 2004 issued by SJM to Great Wonders (and counter-signed by Great Wonders) in relation to the proposed execution of the Proposed Lease Agreement between SJM and Great Wonders
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC

"Melco Entertainment"	a company with the proposed name of Melco Entertainment Limited to be established by the Company on or before the date of completion of the Subscription Agreement as its wholly-owned subsidiary for the purpose of holding (i) 80% equity interests in Mocha Slot and (ii) either 50% (assuming the Second Agreement is not completed) or 70% (assuming the Second Agreement is completed) equity interests in Great Wonders
"Melco Leisure"	Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, used for the purpose of holding the relevant equity interests of the Company in the JV Group companies upon establishment of the JV Group
"Melco PBL Holdings" or "JVCo"	Melco PBL Holdings Limited, a company incorporated on 17 December 2004 under the laws of Cayman Islands with the entire issued share capital currently owned by the Company. Pursuant to the Subscription Agreement, it is intended that Melco PBL Holdings will become the principal holding company within the JV Group
"Mr. Lawrence Ho"	Mr. Ho, Lawrence Yau Lung, the Managing Director and Executive Director of the Company and son of Dr. Stanley Ho
"Mocha Slot"	Mocha Slot Group Limited, a company incorporated under the laws of the British Virgin Islands and the equity interests in which are held as to 80% by the Company directly and 20% by Dr. Stanley Ho as at the date of this circular
"MOP$"	pataca, the lawful currency of Macau
"Nasdaq"	the electronic stock exchange operated by the National Association of Securities Dealers in the United States of America
"New General Mandate"	the proposed general mandate to be sought for the approval of the Independent Shareholders (by way of poll) at the EGM to authorize the Directors to allot and issue securities in the manner as set out in the Notice of EGM included in this circular
"PBL"	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange
"PBL Asia"	PBL Asia Investments Limited, a wholly owned subsidiary of PBL, used for the purpose of holding the relevant equity interests of PBL in the JV Group companies upon establishment of the JV Group

"Placing"	the top-up placing of 75,900,000 Shares at a price of HK$5.20 per Share on 15 October 2004 as disclosed in the announcement of the Company dated 15 October 2004
"Previous General Mandate"	the general mandate approved at the extraordinary general meeting of the Company held on 15 October 2004 to authorize the Directors to allot and issue securities up to 20% of the issued share capital of the Company as at the date of passing the relevant ordinary resolution
"Proposed Lease Agreement"	the proposed lease agreement to be entered into between SJM and Great Wonders, in respect of a proposed lease by SJM from Great Wonders for an area of approximately 18,000 square meters at the hotel to be developed on the Land for the purpose of operating a casino with not less than 160 gaming tables
"Proposed Shareholders Deed"	the proposed shareholders deed substantially in the form of the draft annexed to the Subscription Agreement with such amendments as the Directors may make or agree to make, to be entered into amongst the Company, Melco Leisure, PBL, PBL Asia and Melco PBL Holdings on or before the date of completion of the Subscription Agreement for the purpose of regulating the respective rights and obligations of the shareholders of the JV Group
"PRC"	The People's Republic of China
"Refreshment of General Mandate"	the proposed grant of the New General Mandate to the Directors in replacement of the Previous General Mandate
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Second Convertible Bond"	a redeemable HK$56 million 5-year convertible bond carrying a right to subscribe for the new Shares at HK$8.20 per Share proposed to be issued by the Company to STDM pursuant to the Second Agreement
"Second Agreement"	an agreement entered into between STDM and the Company on 11 November 2004 regarding the further acquisition of 20% equity interests of Great Wonders for a consideration of HK$56 million
"SFO"	Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong)

"SJM"	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau
"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
"Subscription Agreement"	the subscription agreement dated 23 December 2004 entered into amongst the Company, Melco PBL Holdings, PBL and PBL Asia in relation to the proposed establishment of the JV Group, which has the effect of superseding the Heads of Agreement. Information of this Subscription Agreement is set out in the announcement of the Company dated 23 December 2004
"US$"	United States dollars, the lawful currency of the United States of America
"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 the Company
"%"	per cent.

For the purpose of this circular, the amount in US$ and MOP$ are respectively translated into HK$ at the following exchange rates:

US$1.00: HK$7.78
MOP$1.03:HK$1.00.

Melco

Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)

Website: http://www.melco.hk.cn

(Stock Code: 200)

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

Non-executive Directors:
Mr. Ng Ching Wo
Mr. Ho Cheuk Yuet

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

5 January 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION ESTABLISHMENT OF A JOINT VENTURE GROUP FOR PURSUANCE OF GAMING AND HOSPITALITY BUSINESSES AND MAJOR AND CONNECTED TRANSACTION FURTHER ACQUISITION OF INTEREST IN THE LAND AND REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

By the announcement of the Company dated 23 November 2004, the Board announced that on 11 November 2004, the Company has entered into two separate agreements, namely the Heads of Agreement and the Second Agreement, with PBL and STDM respectively in relation to, inter alia, the Gaming Business and the Hospitality Business. Supplemental information on the Heads of Agreement has also been provided by the Company in its clarification announcement dated 7 December 2004.

Subsequent to the execution of the Heads of Agreement, the Company and PBL proceeded with the negotiations on the terms of the Definitive Agreements in accordance with the terms laid down in the Heads of Agreement. Also, pursuant to the Heads of Agreement, the Company has incorporated JVCo under the laws of Cayman Islands on 17 December 2004 bearing the name of Melco PBL Holdings with a view that Melco PBL Holdings will ultimately become the principal holding company within the JV Group. As at the date of this circular and subject to the completion of the Subscription Agreement, Melco PBL Holdings is and shall remain as a wholly-owned subsidiary of Melco.

As disclosed in the further announcement of the Company dated 23 December 2004, Melco and Melco PBL Holdings, have entered into the Subscription Agreement with PBL and PBL Asia, a wholly-owned subsidiary of PBL, which has the effect of superseding the Heads of Agreement. At the same time, the Company and the PBL have agreed upon the principal terms of the Proposed Shareholders Deed. The Subscription Agreement has incorporated and the Proposed Shareholders Deed, when executed, will incorporate substantially the same terms as contained in the Heads of Agreement relating to the establishment of the JV Group and seek to expand and specify those terms in greater details. According to the Subscription Agreement, the terms of the Definitive Agreements embody the entire agreement between the relevant parties with regard to the establishment of the JV Group.

In addition to the above, the Board proposes to seek Independent Shareholders' approval (by way of poll) at the EGM for the Refreshment of General Mandate since the Previous General Mandate has, to a substantial extent, been utilized by the Company as a result of the Placing as disclosed in the announcement of the Company dated 15 October 2004.

The purpose of this circular is to set out (i) further information on the Definitive Agreements in respect of the proposed establishment of the JV Group; (ii) the principal terms of the Second Agreement; (iii) the principal terms of the Second Convertible Bond; (iv) the valuation report of the Land; (v) details of the Refreshment of General Mandate; (vi) the recommendation from the Independent Board Committee in respect of the Connected Transaction and the Refreshment of General Mandate; (vii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transaction and the Refreshment of General Mandate; and (viii) the notice convening the EGM at which necessary resolution(s) will be proposed to the Shareholders or the Independent Shareholders (as the case may be) to consider and if thought fit, approve the Definitive Agreements and the transactions contemplated thereunder, the Connected Transaction and the Refreshment of General Mandate.

THE DEFINITIVE AGREEMENTS REGARDING PROPOSED ESTABLISHMENT OF THE JV GROUP

The Purpose of the JV Group

The Definitive Agreements set out the principal terms agreed by the Company and PBL in connection with the establishment of the JV Group that intends to become a premier gaming and entertainment group for pursuance and development of the gaming, entertainment and hospitality businesses in Asia Pacific region and the Greater China Region including, but not limited to, Macau, Thailand, Japan, Singapore, Philippines, Vietnam and Indonesia (but excluding Australia and New Zealand).

The Subscription Agreement

Date : 23 December 2004

Parties : The Company (as guarantor)
Melco PBL Holdings (as issuer)
PBL, an Independent Third Party (as guarantor)
PBL Asia, an Independent Third Party (as subscriber for shares of Melco PBL Holdings)

The principal terms of the Subscription Agreement agreed by the Company, Melco PBL Holdings, PBL and PBL Asia include the followings:

Principal terms :

(i) Melco PBL Holdings is currently 100% indirectly owned by the Company. It is contemplated that under Melco PBL Holdings, certain subsidiaries will be incorporated, including but not limited to, JV1;

(ii) It is contemplated that JV1 will be established as a wholly-owned subsidiary of Melco PBL Holdings. The Company will take the necessary steps to transfer to and procure JV1 to acquire, 80% equity interests in Melco Entertainment, a wholly-owned subsidiary of the Company to be formed for the purpose of holding (i) 80% equity interests in Mocha Slot and (ii) either 50% (assuming the Second Agreement is not completed) or 70% (assuming the Second Agreement is completed) equity interests in Great Wonders pursuant to the Land Acquisition Agreements. It is anticipated that the Company will retain the control of the composition of the board of directors of Melco Entertainment and hence it is expected that Melco Entertainment and its subsidiaries shall remain the indirect subsidiaries of the Company after establishment of the JV Group;

(iii) Upon completion of the Subscription Agreement (which is subject to the fulfillment of the conditions precedent mentioned in the paragraph headed "Conditions precedent of the Subscription Agreement" below), PBL Asia will subscribe such number of new shares representing 50% equity interests in Melco PBL Holdings for a total consideration of US$163 million (equivalent to approximately HK$1.27 billion) in case the Independent Shareholders approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM (which such amount remains the same as contained in the Heads of Agreement) or a total consideration of US$105 million (equivalent to approximately HK$817 million) in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM. The different amounts of capital contribution to be made by the PBL Asia reflect the strategic importance valued by PBL and PBL Asia in the acquisition of additional 20% equity interests in Great Wonders by the Company pursuant to the Second Agreement as with the additional 20% equity interests, Melco PBL Holdings will obtain a controlling interest of 56% in Great Wonders upon establishment of the JV Group while without the successful acquisition of 20% equity interests of Great Wonders by the Company, Melco PBL Holdings will only have an equity interest of 40% in Great Wonders. Save for the lesser amount of capital contribution of US$105 million to be made by PBL Asia in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement, the original amount of capital contribution of US$163 million to be made by PBL Asia to the JV Group (assuming the Second Agreement is completed) remains the same as contained in the Heads of Agreement;

(iv) Following the proposed subscription of such number of new shares representing 50% equity interests in Melco PBL Holdings by PBL Asia, the equity interests in Melco PBL Holdings will be owned as to 50% by the Company, via Melco Leisure and 50% by PBL with PBL Asia and upon such time, Melco PBL Holdings will cease to be a wholly-owned subsidiary of the Company and become a jointly controlled company in the consolidated accounts of the Company;

(v) It is contemplated that apart from managing and operating the businesses of Melco Entertainment, namely the Gaming Business and the Hospitality Business jointly with the Company, JV1 shall become the principal investment vehicle for all future expansion and acquisition activities, if any, in the gaming, entertainment and hospitality industries in the Asia Pacific region (excluding Australia and New Zealand) and the Greater China Region;

(vi) After establishment of the JV Group, if the relevant authority in Macau does not grant the concession of the Land to Great Wonders by the deadline of 1 September 2005 (or such other date as may be agreed between the Company and PBL Asia), then PBL Asia may by written notice require the Company to (a) reimburse PBL Asia, within 10 business days of such deadline, 60% of any sum utilized from the capital contribution made by PBL Asia in the Gaming Business, and Hospitality Business; and either (b) purchase, within 10 business days of the date of the relevant notice given by PBL Asia, all the equity interests held by PBL Asia in Melco PBL Holdings at a consideration equivalent to the total capital contribution originally made by PBL Asia less the total sum utilized from the said capital contribution in the Gaming Business and Hospitality Business or (c) procure Melco PBL Holdings, within 10 business days of the date of the relevant notice given by PBL Asia (or such later date as may be agreed by PBL Asia), to return an amount equivalent to the total capital contribution originally made by PBL Asia less the total sum utilized from the said capital contribution in the Gaming Business and Hospitality Business, whether by way of share buy-back, capital reduction or other suitable method of return of capital in consideration for PBL Asia agreeing all its shares in Melco PBL Holdings to be bought back or cancelled by Melco PBL Holdings; and

(vii) As guarantors to the Subscription Agreement, the Company and PBL respectively guarantee the due performance of the obligations of their respective subsidiaries, namely, Melco PBL Holdings and PBL Asia, under the Subscription Agreement.

Conditions precedent of the Subscription Agreement

Completion of the Subscription Agreement is conditional on, amongst other things :

(i) satisfactory completion of the due diligence in terms of business operation, financial and legal status performed by PBL on the Gaming Business and the Hospitality Business;

(ii) the issuance of a letter by the relevant authority in Macau to STDM and/ or Great Wonders confirming that it intends to grant the concession of the Land to Great Wonders for use of the development of the luxury hotel housing a casino and an electronic gaming machine lounge on the Land on terms reasonably satisfactory to PBL Asia;

(iii) each of the Company and PBL having obtained all requisite consents and approvals, if required, from the relevant regulatory authorities, including but not limited to the relevant gaming regulatory authorities in Macau and/ or Australia and approval from the Shareholders in connection with the Definitive Agreements and the transactions contemplated thereby; and

(iv) the warranties and representations given by the Company under the Subscription Agreement remaining true and accurate in all material respects.

If the conditions precedent set out above are not fulfilled or waived (as the case may be) on or before 30 June 2005 or such later date as may be agreed in writing between the parties to the Subscription Agreement, any party may by written notice to the other parties at any time thereafter to terminate the Subscription Agreement. Completion of the Subscription Agreement is expected to occur two business days after satisfaction (or waiver by the relevant party, as the case may be) of the conditions precedent.

On the date of completion of the Subscription Agreement, PBL Asia will make the relevant capital contribution to Melco PBL Holdings in one lump sum payment and each party to the Subscription Agreement will deliver certain completion documents to the others, including the executed counterparts of the Proposed Shareholders Deed, to implement completion.

The Proposed Shareholders Deed

Upon completion of the Subscription Agreement, the Company (as guarantor), Melco Leisure (as shareholder of Melco PBL Holdings), PBL (as guarantor), PBL Asia (as shareholder of Melco PBL Holdings) and Melco PBL Holdings shall execute the Proposed Shareholders Deed for the purpose of regulating the respective rights and obligations of the shareholders of the JV Group.

The principal terms of the Proposed Shareholders Deed include the following:

Principal terms :

(i) Unless Melco Leisure and PBL Asia unanimously agree otherwise, the board of Melco PBL Holdings shall comprise six directors to be identified, each of Melco Leisure and PBL Asia shall have the right to appoint three directors to the board. Each shareholder of Melco PBL Holdings may remove the director(s) nominated by it. The chairperson of the board to be identified will be initially appointed by Melco Leisure who will hold office for a period of twelve months. Thereafter, the right to appoint and remove the chairperson shall rotate between PBL Asia and Melco Leisure on a twelve-month rotating basis. The chairperson does not have a casting vote;

(ii) There shall be an executive board committee, which will consist of four members to be identified, out of which two will be appointed by Melco Leisure and the remaining two will be appointed by PBL Asia. The executive board committee will be charged with the overall responsibilities for formulating business strategies of the JV Group, appointing senior management (if any) of Melco PBL Holdings as well as implementing the relevant business plan and yearly budget of the JV Group;

(iii) Each of the Company, Melco Leisure, PBL and PBL Asia shall endeavour to achieve a listing of the JV Group on Nasdaq as soon as reasonably practicable and within a desired timeframe of 30 June 2005. However, it is anticipated by the relevant parties that the intention to have the JV Group listed on Nasdaq will be subject to a whole range of contingencies and unknown future events, and whether a listing could be achieved at all, or on Nasdaq, or within the desired timeframe of 30 June 2005, are all presently unclear. As at the date of this circular, the proposal remains at a very preliminary stage and no listing application has yet been filed. **Shareholders are cautioned that there can be no assurance that the intention of the Company, Melco Leisure, PBL and PBL Asia in this regard will ultimately be realized;**

(iv) It is contemplated that under JV1, certain subsidiaries including but not limited to JV2 and JV3 will be formed for pursuance of the JV Group's gaming, entertainment and hospitality businesses (other than the Gaming Business and the Hospitality Business of Melco Entertainment) in the Greater China Region and/ or other countries in the Asia Pacific region (excluding Australia and New Zealand and the Greater China Region);

(v) It is proposed that if established, JV2 will be held as to 80% by JV1 and 20% by the Company. It is intended that JV2 shall be the immediate holding company of all gaming, entertainment and hospitability ventures and businesses, including but not limited to operation and/ or management of casino(s) and/ or hotel(s), of the JV Group (other than the businesses of Melco Entertainment , namely the joint operation of the respective Gaming Business and the Hospitality Business by it with the Company) in the Greater China region. Upon incorporation of JV2, the Company and PBL will respectively have an indirect attributable interests in JV2 as to 60% and 40% respectively;

(vi) It is proposed that if established, JV3 will be held as to 80% by JV1 and 20% by PBL. It is intended that JV3 shall be the immediate holding company of all gaming, entertainment and hospitability ventures and businesses, including but not limited to operation and/ or management of casino(s) and/ or hotel(s), of the JV Group in the Asia Pacific region other than the Greater China region, Australia and New Zealand. Upon incorporation of JV3, the Company and PBL will respectively have an indirect attributable interests in JV3 as to 40% and 60% respectively;

(vii) As long as Melco Leisure holds a direct separate interest of 20% (in addition to the relevant attributable interests therein held via Melco PBL Holdings) in any JV Group companies, including but not limited to Melco Entertainment and JV2, the board of such JV Group companies shall comprise seven directors to be identified of whom four directors will be nominated by Melco Leisure and three directors will be nominated by PBL Asia;

(viii) As long as PBL Asia holds a direct separate interest of 20% (in addition to the relevant attributable interests therein held via Melco PBL Holdings) in any JV Group companies, including but not limited to JV3, the board of such JV Group companies shall comprise seven directors to be identified of whom four directors will be nominated by PBL Asia and three directors will be nominated by Melco Leisure;

(ix) During the term of the Proposed Shareholders Deed, unless with the prior written consent of the other, each of Melco or PBL will not, other than through the JV Group, whether directly or indirectly, carry on the business of owning, operating or managing a casino; a gaming slots business; or a hotel with a casino in such territories in which the JV Group operates or intends to operate save and except for a passive investment of a limited amount in any public company that engages in such business;

(x) If a potential business opportunity is rejected by the board of Melco PBL Holdings and subject to certain preventive measures against conflict of interests, any shareholder or its affiliates may, notwithstanding the restrictions mentioned in paragraph (ix) above, separately participates in such potential business opportunity provided that such participating shareholder or its affiliates shall grant a five-year term option to the other shareholder(s) to allow either such other shareholder(s) or Melco PBL Holdings to reconsider the situation and participate again in the relevant business opportunity;

(xi) In case the relevant gaming authorities in Australia directs PBL and/or PBL Asia to terminate any Definitive Agreements or otherwise end the joint venture relationship with the Group or any connected persons of the Group, PBL Asia may by written notice request the other shareholder(s) of Melco PBL Holdings to purchase, within a prescribed timeframe, all the shares of Melco PBL Holdings held by PBL Asia under the customary pre-emptive rights provisions . As at the date of this circular, so far as the Directors are aware, PBL and/or PBL Asia have not received any direction or indication from any gaming authorities in Australia requiring PBL and/ or PBL Asia to terminate any Definitive Agreements or to cease the joint venture relationship with the Group or any connected persons of the Group;

(xii) Subject to the situation mentioned in paragraph (xi) above and other exceptional circumstances, including deadlock for a continuous period of 90 days without resolution or, any events of default by the other shareholder(s), no shareholder is allowed to dispose any shares of Melco PBL Holdings within a period of five years from the date of execution of the Proposed Shareholders Deed unless the disposal or transfer of shares are made to the wholly-owned subsidiary of either the transferring shareholder or Melco or PBL (as the case may be);

(xiii) Each shareholder of Melco PBL Holdings is entitled to the customary pre-emptive rights, namely, the first right of refusal entitled by a shareholder to decide whether or not to purchase any shares of Melco PBL Holdings from the other shareholder who wants to dispose those shares and tag-along rights, namely, in case the other shareholder is allowed to sell any shares of Melco PBL Holdings (the "seller") to a third party buyer, the rights of the shareholder to sell to the buyer the same proportion of its shares of Melco PBL Holdings as the number of shares to be sold by the seller bears to the total number of shares held by the seller on the same terms and conditions as the buyer purchases any of the shares from the seller, in case of permitted disposal of shares of Melco PBL Holdings by the other shareholder(s) under certain circumstances;

(xiv) As guarantor to the Proposed Shareholders Deed, the Company will guarantee to PBL Asia the due performance of the obligations of Melco Leisure under the Proposed Shareholders Deed; and

(xv) As guarantor to the Proposed Shareholders Deed, PBL will guarantee to Melco Leisure the due performance of the obligations of PBL Asia under the Proposed Shareholders Deed.

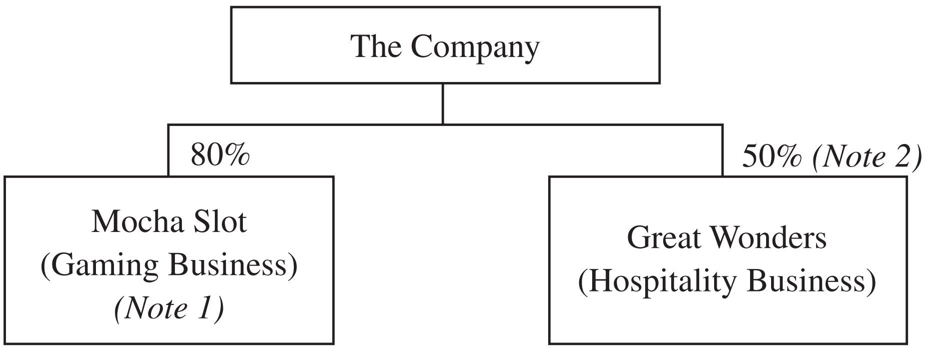
Basis of determination of the capital contribution from PBL

According to the Subscription Agreement, PBL will make a capital contribution of US$163 million (equivalent to approximately HK$1.27 billion) in case the Independent Shareholders (by way of poll) approve the relevant resolution(s) regarding the Second Agreement at the EGM, or a total consideration of US$105 million (equivalent to approximately HK$817 million) in case the Independent Shareholders (by way of poll) do not approve the relevant resolution(s) regarding the Second Agreement at the EGM, to the Melco PBL Holdings which such amounts were arrived at after arm's length negotiations between the Company and PBL for financing the future potential business development of the JV Group. Upon establishment of the JV Group, Melco PBL Holdings will indirectly own 64% equity interests in Mocha Slot and either 56% equity interests in Great Wonders (in case the Second Agreement is completed) or 40% equity interests in Great Wonders (in case the Second Agreement is not completed). The relevant capital contribution amounts were determined with reference to (i) the confidence of PBL in the market potential of the gaming and hospitality industries in the Asia Pacific region and the Greater China Region; (ii) the invaluable established business reputation, expertise and connection possessed by Dr. Stanley Ho and Mr. Lawrence Ho in the gaming and hospitality businesses in the Greater China Region; and (iii) the injection of the 64% in Mocha Slot and either 56% or 40% equity interests in Great Wonders (depending on whether or not the Second Agreement is completed) by the Company into the JV Group. The Directors believe the fact that PBL Asia will make a capital contribution of US$163 million in case the Independent Shareholders (by way of poll) approve the relevant resolution(s) regarding the Second Agreement at the EGM, as opposed to a capital contribution of US$105 million in case the Independent Shareholders (by way of poll) do not approve such relevant resolution(s) reflects the strategic importance valued by PBL and PBL Asia in the Hospitality Business as the same may be considered as a milestone of PBL group to extend its gaming and hospitality business to the Greater China Region and with the acquisition of additional 20% equity interests in Great Wonders by the Company pursuant to the Second Agreement, Melco PBL Holdings will ultimately be able to obtain a control of 56% equity interests in Great Wonders, which in turn represents a majority interest in the Hospitality Business. The Directors also consider that the JV Group, if established pursuant to the Definitive Agreements, will be an unprecedented new venture formed for pursuance of gaming, entertainment and hospitality businesses in the whole Asia Pacific region (excluding Australia and New Zealand) and the Greater China Region and the relevant amount of capital contribution agreed to be made by PBL was generally based on the same vision shared by the Company and PBL for setting up a joint venture with sufficient available resources enabling it to become a prominent market player in the said industries. Save for the terms of the Definitive Agreements disclosed herein, the Directors confirm that as at the date of this circular, no separate negotiation or agreement has been entered into between the Company and PBL or any third party with regard to the development of the Land that requires disclosure under Rule 13.09 or Rule 13.23 of the Listing Rules.

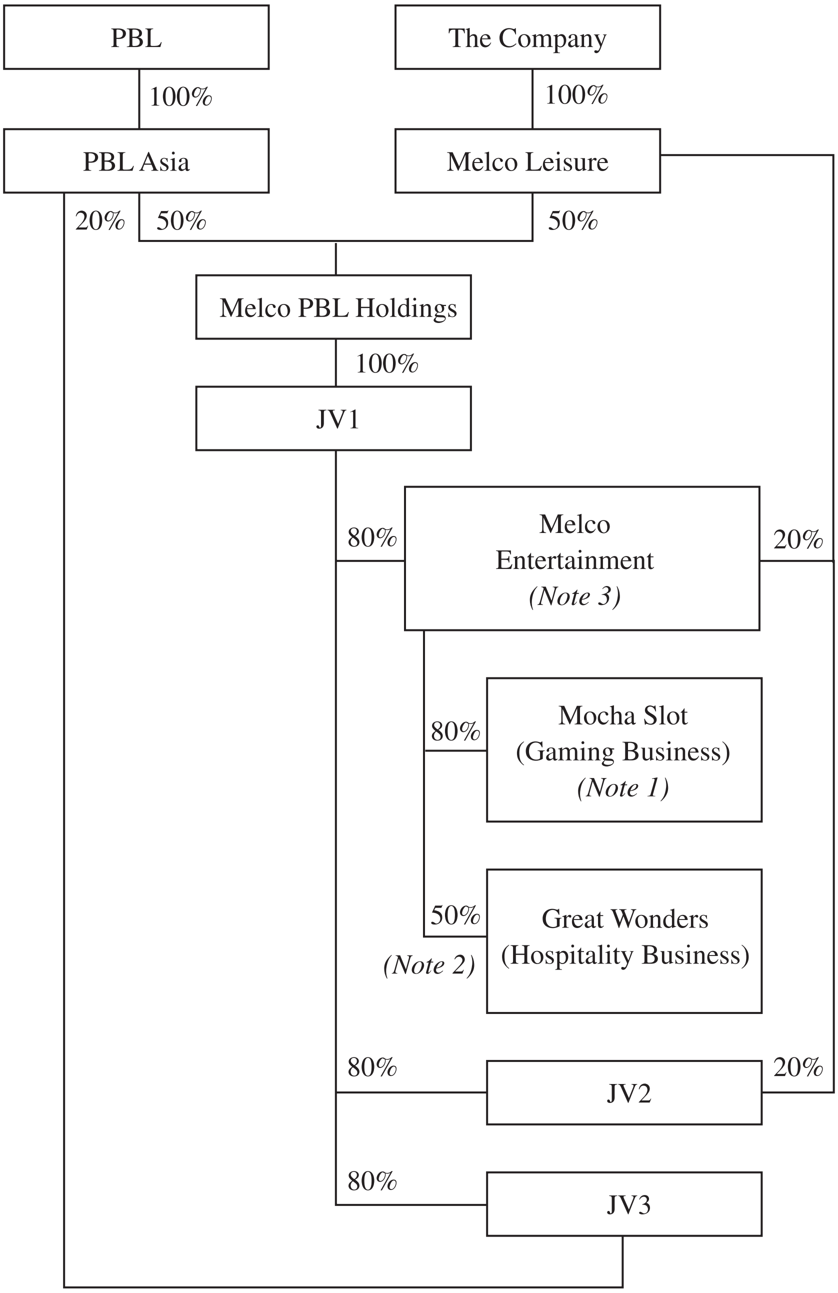
The corporate structure before and after the establishment of the JV Group

Set out below are the respective corporate charts of the Gaming Business and the Hospitality Business currently held by the Group and the proposed corporate structure of the JV Group:

Existing corporate structure of the Gaming Business and the Hospitality Business held by the Group:



Proposed corporate structure of the JV Group:



Notes:

1. The remaining 20% equity interests in Mocha Slot are held by Dr. Stanley Ho.

2. Great Wonders is a joint venture company formed between the Company and STDM for the purpose of development of the Land. As at the date of this circular, Great Wonders is held as to 50% by the Company and 50% by STDM. Subject to the completion of the Second Agreement as mentioned in this circular, Great Wonders will be owned as to 70% by the Company and 30% by STDM.

3. Melco Entertainment is a company to be formed by the Company as its wholly-owned subsidiary. Upon the incorporation of Melco Entertainment and subject to the establishment of the JV Group, the Company will transfer to and procure Melco Entertainment to acquire (i) 80% equity interests in Mocha Slot and (ii) 50% (assuming the Second Agreement is not completed) or 70% (assuming the Second Agreement is completed) equity interests in Great Wonders.

Currently, the Company owns 80% and 50% equity interests in Mocha Slot and Great Wonders respectively and accordingly, treats Mocha Slot a non wholly-owned subsidiary and Great Wonders a jointly controlled company in the consolidated accounts of the Company respectively. Upon completion of the Second Agreement, Great Wonders will also become a non wholly-owned subsidiary of the Company.

Upon establishment of the JV Group, Melco PBL Holdings will indirectly hold 80% equity interests in Melco Entertainment which, in turn, will own (i) 80% equity interests in Mocha Slot; and (ii) either 50% or 70% equity interests in Great Wonders, depending on whether the Second Agreement is completed or not. JVCo will be owned as to 50% by PBL via PBL Asia and as to 50% by the Company via Melco Leisure and will be treated as a jointly controlled company by the Company. The Company will then indirectly own (i) 48% attributable interests in Mocha Slot and (ii) either 30% or 42% attributable interests in Great Wonders, depending on whether the Second Agreement is completed or not, respectively. As it is anticipated that the Company will retain the control of the composition of the board of directors of Melco Entertainment, it is expected that Melco Entertainment, Mocha Slot and Great Wonders (assuming the Second Completion is completed) shall remain as the indirect subsidiaries of the Company after establishment of the JV Group.

The Company will use its best endeavours to ensure that throughout the holding of its investment in the Gaming Business together with other gaming ventures and business through the proposed JV Group, the operation of the proposed JV Group will comply with the applicable laws in the relevant jurisdictions. As the JV Group has not been established yet, the parties have not entered into detailed discussion with regard to mode of implementing the relevant systems or measures against money laundering. However, it is expected that after establishment of the JV Group and upon its commencement of any gaming ventures and businesses, including but not limited to operation and/ or management of casino(s) (other than the Hospitality Business as the casino in the hotel to be constructed on the Land will be operated by SJM), PBL, which has already engaged in the gaming business in Australia for years and at all times, is subject to the stringent supervision and control by the gaming authorities in Australia, will contribute its expertise and knowledge of the operation and/ or management of casinos to the JV Group, in particular, the expertise and knowledge that relates to anti-money laundering measures with a view to formulating the relevant internal control systems and risk management measures for the JV Group to counter and prevent any potential money laundering activities or other crimes that related to the gaming business. Shareholders are reminded that, in accordance with the Stock Exchange’s guidelines on gambling business, that if the operation of the proposed JV Group does not comply with applicable laws in the relevant jurisdictions, the Stock Exchange may, depending on the circumstances of the case, direct the Company to take remedial action, and/ or may suspend dealings in, or may cancel the listing of, Shares under Rule 6.01 of the Listing Rules. As the Group’s business includes financial services, information technology and other leisure and entertainment business, if the Company cannot take the requisite remedial action in the circumstance aforementioned, it is the Company’s intention to maintain active trading and listing status of Shares by divesting its investment in the proposed JV Group.

Deemed profit accrued to the Group

The Directors estimate that the Company will generate a deemed profit of approximately HK$425.9 million (assuming the Second Agreement is completed) by virtue of allotting shares of JVCo, which represents 50% equity interests in Melco PBL Holdings, for a consideration of US$163 million (equivalent to approximately HK$1.27 billion), being the capital contribution to be made by PBL Asia in case the Independent Shareholders (by way of poll) approve the relevant resolution(s) regarding the Second

Agreement at the EGM, and if the Independent Shareholders (by way of poll) do not approve the relevant resolution(s) regarding the Second Agreement at the EGM, the deemed profit generated will be approximately HK$221.8 million in the light of the lesser capital contribution amount of US$105 million (equivalent to approximately HK$817 million) to be made by PBL Asia in such case. The relevent allotment of shares of Melco PBL Holdings is treated as a deemed disposal by the Group under the Listing Rules. The deemed profit is arrived at by deducting the decrease in attributable interests of the Company in net asset value of Mocha Slot and Great Wonders and proportional goodwill arising from the deemed disposal of equity interests in Mocha Slot from the attributable cash contribution to be made by PBL in Melco PBL Holdings to the Group. Melco PBL Holdings will apply the cash contribution to be made by PBL for pursuance of the gaming, entertainment and hospitality businesses in Asia Pacific region and the Greater China Region, including but not limited to, Macau, Thailand, Japan, Singapore, Philippines, Vietnam and Indonesia (excluding Australia and New Zealand). Set out below are the respective calculations of the relevant deemed profits of the Group arising from the proposed establishment of the JV Group based on two different scenarios, namely, with successful completion of the Second Agreement ("Scenario I") and without completion of the Second Agreement ("Scenario II") :

	Scenario I (Approximately) *HK$'000*	Scenario II (Approximately) *HK$'000*
50% of the capital contribution to be made by PBL to Melco PBL Holdings	635,000	408,500
Less: 50% of the net assets contributed by the Group to Melco PBL Holdings		
– unaudited net asset value of Mocha Slot *(Note 1)*	(1,736)	(1,736)
– unaudited net asset value of Great Wonders *(Note 2)*	(62,400)	(40,000)
– goodwill arising from the deemed disposal of 80% equity interests in Mocha Slot *(Note 3)*	(145,000)	(145,000)
Deemed profits arising from allotting the shares of Melco PBL Holdings to PBL *(Note 4)*	425,864	221,764

Notes:

1. Based on unaudited management accounts as at 30 June 2004

2. Based on total consideration paid or to be paid by the Group to acquire the equity interests of Great Wonders, i.e. approximately HK$156 million and HK$100 million in Scenario I and II respectively

3. Based on the unamortised goodwill of Mocha Slot as shown in the interim report of the Company set out in the Appendix II to this circular

4. The deemed profits were S0.96 wafd odwi(Austrationurroposup)]TJ344.027 0 TDonvel4757..nd 18.1(ThfChilhe deemed profitsdwil

Second Agreement, the Group's equity interests in Great Wonders will increase from 50% to 70%. Great Wonders is a joint venture company formed by the Company and STDM pursuant to the First Agreement, which has applied to the Macau Government for the concession of the Land for the purpose of developing a luxury hotel in pursuance of the Hospitality Business. According to the Second Agreement, the Company will issue the Second Convertible Bond to STDM to satisfy the purchase consideration.

Principal terms of the Second Agreement

Date	:	11 November 2004
Parties	:	STDM, as vendor The Company, as purchaser
Principal terms	:	As soon as practicable and in any event not later than 21 days after the fulfillment of the condition precedent mentioned in "Condition of the Second Agreement" below, the Company will buy and STDM will sell 20% issued share capital of Great Wonders for a purchase consideration of HK$56 million
Consideration	:	HK$56 million. The consideration was determined after arm's length negotiation and on normal commercial terms and with reference to the 20% interest in the Land with the total valuation of HK$288 million as at 5 August 2004 as disclosed in the circular of the Company dated 11 October 2004. The consideration of HK$56 million payable under the Second Agreement represents an approximately 2.77% discount to HK$57.6 million, being 20% of the valuation of the Land of HK$288 million as at 5 August 2004 and an approximately 23.5% discount to HK$73.2 million, being 20% of the valuation of the Land of HK$366 million as at 10 December 2004 according to the valuation report as contained in Appendix III to this circular. The aggregate consideration of HK$156 million paid or payable by the Company under the Land Acquisition Agreements represents an approximately 22.62% discount to HK$201.6 million, being 70% of the valuation of the Land of HK$288 million as at 5 August 2004 and an approximately 39.11% discount to HK$256.2 million, being 70% of the valuation of the Land of HK$366 million as at 10 December 2004. While the amount of HK$100 million previously paid by the Company for the 50% equity interests in Great Wonders pursuant to the First Agreement represented an approximately 30.55% discount to the 50% interest in the Land based on the valuation of the Land of HK$288 million as at 5 August 2004, the Directors consider that the consideration with a discount of approximately 23.5% granted by STDM in the Second Agreement is fair and reasonable, particularly with reference to the fact that a controlling interest in Great Wonders will be conferred on the Company after completion of the Second Agreement. The Company will satisfy the purchase consideration by issuing the Second Convertible Bond with terms set out in the section headed "Principal terms of the Second Convertible Bond" in this "Letter from the Board".

Condition of the Second Agreement	:	The Second Agreement is conditional upon the approval by the Independent Shareholders (by way of poll) at the EGM in compliance with the Listing Rules before 31 January 2005. If this condition is not fulfilled before 31 January 2005, unless the parties otherwise agree, STDM may, by notice to the Company, terminate the Second Agreement and the obligations of the parties thereunder.
Other terms	:	The following terms will supersede the relevant terms in the First Agreement to give effect to the increase in equity interests in Great Wonders by the Company.

(i) Each of the Company and STDM shall take part in the management of Great Wonders as a company owned as to 70% by the Company and as to 30% by STDM upon the completion of the Second Agreement. STDM acknowledges that, as the majority shareholder, the Company may control the operation and management of Great Wonders;

(ii) STDM and the Company will provide funding for the development of the Land as well as operation of Great Wonders on a 70% by the Company and 30% by STDM basis;

(iii) 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 Great Wonders on a 70% by the Company and 30% by STDM basis;

(iv) The Company shall be the coordinator of the development of the hotel to be erected on the Land;

(v) The development of the Land will consist of a luxury hotel with a casino and an electronic gaming machine lounge; and

(vi) 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 Management Limited, a wholly-owned subsidiary of Mocha Slot.

Board composition of Great Wonders

As at the date of this circular, Great Wonders is owned as to 50% by the Company and as to 50% by STDM and the board of directors of Great Wonders comprises five directors, one of them is Dr. Stanley Ho who is jointly appointed by the Company and STDM as the chairperson representing both companies. The other four directors, two of whom, namely, Mr. Lawrence Ho and Mr. Frank Tsui, who are Executive Directors of the Company, are nominated by the Company and the remaining two directors are nominated by STDM. Upon completion of the Second Agreement, it was agreed between the Company and STDM that the Company will appoint additional directors to control the board of directors of Great Wonders to reflect its majority shareholding interest in Great Wonders. It is currently expected that the Company will not charge a fee for acting as coordinator of the development of the Land.

Principal terms of the Second Convertible Bond

Principal amount	:	HK$56 million
Tenor	:	5 years from the date of issue
Coupon	:	4% per annum from 1 March, 2005
Commencement date of interest payment	:	Subject to the term specified in paragraph headed "Coupon" above, the date on which the concession of the Land is granted to Great Wonders and thereafter to be paid on a 6-month basis.
Conversion price	:	HK$8.2 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 Second Convertible Bond, the current increase in the price performance of the Shares as reflected in the increase in average prices of the Shares below and the potential dilution effect on the shareholding structure of the Company. This initial conversion price represents:

(i) a discount of approximately 16.75% to the closing price of the Shares of HK$9.85 on 11 November 2004, being the last trading day of the Shares immediately before the release of the announcement of the Company dated 23 November 2004 regarding, inter alia, the Heads of Agreement and the Connected Transaction;

(ii) a premium of approximately 19.37% over the average closing price of the Shares on the Stock Exchange for the 5 trading days immediately before the date of the announcement of the Company referred to sub-paragraph (i) above;

(iii) a discount of approximately 56.38% to the closing price of the Shares of HK$18.80 on the Latest Practicable Date; and

(iv) a premium of approximately 333.86% over the net asset value per Share of approximately HK$1.81, based on the audited consolidated net assets of the Company as at 31 December 2003 and the then Shares in issue.

Exercise period	:	The period commencing 3 years from the date of issue of the Second Convertible Bond up to and including the maturity date of the Second Convertible Bond. The holder of the Second Convertible Bond will have the right at any time during the exercise period to convert in whole or, subject to prior written consent by the Company, in part the Second Convertible Bond into new Shares at the initial conversion price of HK$8.2 per Share (subject to adjustments). Shares to be issued under the Second 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$8.2 per Share, a maximum amount of 6,829,268 new Shares will fall to be allotted and issued upon full conversion of the whole of HK$56 million Second Convertible Bond, representing approximately 1.48% of the existing issued share capital of the Company or approximately 1.46% of the enlarged issued share capital of the Company upon full conversion of the Second Convertible Bond. No fraction of a Share shall be issued on conversion and in lieu thereof, the Company shall pay such amount in Hong Kong dollars equal to such amount of the Second Convertible Bond that is not converted.
Early redemption	:	The Company has the option to redeem the Second Convertible Bond commencing 2 years from the date of its issue till the maturity date of the Second Convertible Bond.
Forced conversion	:	The Company has the option to require STDM to convert the Second Convertible Bond into new Shares if the 60-day average price of the Shares is over HK$8.2 per Share as quoted on the Stock Exchange provided that the option may not be exercised unless the concession of the Land has been granted to Great Wonders.
Put option	:	If the concession of the Land is not granted to Great Wonders on or before 1 September 2005, the Company shall have the right to terminate the Second Convertible Bond. In such event, any and all liabilities of the Company to pay the consideration under the Second Agreement shall cease and all sums of money due under the Second Convertible Bond shall cease to be payable immediately, and the Company shall forthwith transfer the 20% equity interest in Great Wonders back to STDM. If any interest has been paid by the Company to STDM pursuant to the Second Convertible Bond, STDM shall forthwith repay such interest to the Company.

Voting	:	The holder of the Second Convertible Bond shall not be entitled to attend or vote at any meeting of the Company by reason of its being the holder of the Second Convertible Bond
Transferability	:	The Second Convertible Bond is not transferable
Application for listing	:	Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued under the Second Convertible Bond. However, no application will be made for the listing of the Second Convertible Bond on any stock exchange
Termination clause	:	Other than the term specified in paragraph headed "Put option" above, there is no termination clause of the Second Convertible Bond

The Shares to be allotted and issued upon conversion of the Second Convertible Bond will be subject to the approval by the Independent Shareholders (by way of poll) at the EGM. The issue of the Second Convertible Bond shall have no impact on the conversion prices of the other convertible securities previously issued by the Company, including but not limited to, the First Convertible Bond or the exercise prices of any outstanding share options as at the Latest Practicable Date.

Fund raising exercises carried out by the Company in the past twelve months

Save for the following fund raising exercises, the Company has not undertaken any fund raising exercise over the past twelve months :

(i) as part of the Group reorganization as disclosed in two announcements and circular of the Company respectively dated 23 March 2004, 1 April 2004 and 23 April 2004, the Company acquired 80% equity interests in Mocha Slot on 9 June 2004 for a total consideration of HK$398 million (comprising HK$353 million for 80% equity interests in Mocha Slot which was settled by way of issue of a total of 153,478,261 Shares at the then issue price of HK$2.3 per Share and HK$45 million for a shareholder's loan of the same face value previously granted by Better Joy to Mocha Slot which was settled by way of issue of two convertible notes by the Company to Better Joy in the aggregate sum of HK$45 million with a conversion right to convert the same into 19,565,216 Shares at an initial conversion price (subject to adjustment, if any) of HK$2.3 per Share);

(ii) as disclosed in the announcement and circular of the Company respectively dated 13 September 2004 and 11 October 2004, the Company has entered into the First Agreement with STDM pursuant to which the Company has agreed to acquire 50% equity interests in Great Wonders from STDM for a consideration of HK$100 million, which would be settled by way of issue of the First Convertible Bond to STDM with the principal amount of HK$100 million with a conversion right to convert the same into 25,000,000 Shares at an initial conversion price (subject to adjustment, if any) of HK$4.0 per Share. After obtaining the Independent Shareholders' approval (by way of poll) of the First Agreement, the First Convertible Bond and the issue and allotment of Shares upon conversion of the First

Convertible Bond at the extraordinary general meeting of the Company held on 2 November 2004, the Company issued the First Convertible Bond to STDM on 9 November 2004; and

(iii) as disclosed in the announcement of the Company dated 15 October 2004, the Company has carried out a top-up placing of 75,900,000 Shares at a placing price of HK$5.2 per Share on 15 October 2004. The net proceeds generated from the Placing were approximately HK$377 million, out of which approximately HK$94 million was earmarked for the expansion of the Gaming Business, as to approximately HK$207 million for the development of the Hospitality Business and as to the remaining approximately HK$75 million as working capital for the Group. As at the Latest Practicable Date, the Company has utilized a total sum of approximately HK$3.5 million for acquisition of hardware and systems for the Gaming Business and a total sum of approximately HK$17.2 million, mainly for engaging the relevant independent professionals, including architects and surveyors, in relation to the relevant application for the concession of the Land in respect of the Hospitality Business. It is the present intention of the Company to utilize the net proceeds of Placing according to the intended application thereof as disclosed in the announcement dated 15 October 2004. To the extent that the net proceeds from Placing are not immediately required for the above purposes, the Company has placed such funds in short-term deposits with banks and/ or financial institutions.

Shareholding structure of the Company before and after full conversion of the Convertible Bonds

	Issued Shares as at the date of the Latest Practicable Date		**Upon conversion of the First Convertible Bond in full**		**Upon conversion of the Second Convertible Bond in full**		**Upon conversion of the Convertible Bonds in full**	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Better Joy *(Note 1)*	124,701,087	26.92	124,701,087	25.54	124,701,087	26.53	124,701,087	25.19
Mr. Lawrence Ho *(Note 2)*	59,570,818	12.86	59,570,818	12.20	59,570,818	12.67	59,570,818	12.03
Shun Tak Shipping Company Limited *(Note 3)*	39,083,147	8.44	39,083,147	8.00	39,083,147	8.31	39,083,147	7.89
Dr. Stanley Ho *(Note 4)*	15,023,867	3.24	15,023,867	3.08	15,023,867	3.19	15,023,867	3.03
Madam Lucina Laam King Ying	222,287	0.05	222,287	0.05	222,287	0.05	222,287	0.04
STDM *(Note 5)*	–	–	25,000,000	5.12	6,829,268	1.45	31,829,268	6.43
Others (Public)	224,642,848	48.49	224,642,848	46.01	224,642,848	47.79	224,642,848	45.38
Total	463,244,054	100.00	488,244,054	100.00	470,073,322	100.00	495,073,322	100.00

Notes:

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

2. Interest of Mr. Lawrence Ho includes his personal interest and interest held through Lasting Legend, a company controlled and wholly-owned by him.

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

4. 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.

5. Upon full conversion of the First Convertible Bond at the initial conversion price at HK$4.00 per share , there will be an additional 25,000,000 Shares in issue.

As at the date of this circular, Mr. Lawrence Ho is the controlling Shareholder of the Company. Upon conversion of the Convertible Bonds in full, the control of the Company would not be changed.

Effects of the Second Agreement

Following the acquisition under the First Agreement as disclosed in the announcement and the circular of the Company respectively dated 13 September 2004 and 11 October 2004, the Company currently owns 50% equity interests in Great Wonders and treats Great Wonders as a jointly controlled company in the consolidated accounts of the Company. Upon completion of the Second Agreement, the Group's equity interests in Great Wonders will increase from 50% to 70% and Great Wonders will therefore become a non-wholly-owned subsidiary of the Company.

According to the paragraph headed "I. Unaudited pro forma statement of assets and liabilities of the Enlarged Group" as contained in Appendix IV to this circular, the Group's net tangible assets (assuming the JV Group is established) would be approximately HK$1,112.2 million upon completion of the First Agreement and the Second Agreement as opposed to approximately HK$807.9 million if the Second Agreement cannot be completed and based on 463,244,054 Shares in issue as at the Latest Practicable Date, the net tangible asset per Share will increase from approximately HK$1.74 to HK$2.40 representing an increase of approximately 37.9% should the Second Agreement is completed. Reference should be made to the said paragraph contained in Appendix IV to this circular for the effect of the inclusion of Great Wonders as a subsidiary of the Company on the assets and liabilities of the Company and the underlying assumptions on preparing the said statement.

INFORMATION ON PBL

PBL is a company incorporated in Australia and whose securities are listed on the Australian Stock Exchange. PBL is one of Australia's largest diversified media and entertainment companies, the core businesses of which include television production and broadcasting, magazine publishing and distribution, as well as gaming and entertainment. Through its wholly-owned subsidiary, Crown Limited, PBL operates one of the largest entertainment complex in Australia including, the Crown Casino, which is the largest casino in the Southern Hemisphere and two luxury hotels, namely, the Crown Towers and the Crown Promenade Hotel, both located in Melbourne, Australia.

INFORMATION OF THE GROUP

Currently, the Group's business is broadly divided into three divisions, namely, (i) leisure and entertainment division; (ii) investment banking and financial services division; and (iii) technology division. The leisure and entertainment division of the Group comprises the operation of two floating restaurants, namely, Jumbo and Tai Pak, in Aberdeen, Hong Kong, the Gaming Business and the Hospitality Business.

Information on the Gaming Business

As part of the Group reorganization as disclosed in two announcements and circular of the Company respectively dated 23 March 2004, 1 April 2004 and 23 April 2004, the Company acquired 80% equity interests in Mocha Slot on 9 June 2004 for a total consideration of HK$398 million (comprising HK$353 million for 80% equity interests in Mocha Slot which was settled by way of issue of a total of 153,478,261 Shares at the then issue price of HK$2.3 per Share and HK$45 million for a shareholder's loan of the same face value previously granted by Better Joy to Mocha Slot which was settled by way of issue of two convertible notes by the Company to Better Joy in the aggregate sum of HK$45 million with a conversion right to convert the same into Shares at an initial conversion price (subject to adjustment, if any) of HK$2.3 per Share). The Gaming Business of the Group currently includes the leasing of a wide variety of electronic gaming machines and the provision of related management services by Mocha Slot to casino operators in Macau. Currently, Mocha Slot manages three slot machine lounges in Macau for SJM, which is one of the three concessionaires to engage in casino gaming operations in Macau, all under the "Mocha Slot" brand with over 500 slot machines in total.

Information on Mocha Slot

Mocha Slot and its wholly-owned subsidiary, Mocha Slot Management Limited, were established in March 2003 and have been in operation since September 2003. As disclosed in the circular of the Company dated 23 April 2004, the audited consolidated net assets value of Mocha Slot as at 31 December 2003 was approximately HK$1.25 million and the audited consolidated net profit before tax and after tax for the period from 20 March 2003 (date of incorporation) to 31 December 2003 were approximately HK$1.47 million and HK$1.25 million respectively. Based on its unaudited consolidated management accounts, the net asset value of Mocha Slot was approximately HK$8 million as at 30 September 2004 and the consolidated net profit before tax and after tax for the period from 1 January 2004 to 30 September 2004 were approximately HK$8 million and HK$6.8 million respectively. Since the acquisition of Mocha Slot was completed on 9 June 2004, according to the unaudited consolidated management accounts of Mocha Slot as at 30 September 2004, the contribution from Mocha Slot to the Group was approximately HK$3.3 million.

Information on the Hospitality Business

The Hospitality Business is concerned with the entering into of the Land Acquisition Agreements to acquire altogether 70% equity interests in Great Wonders, which has applied for the concession of the Land, for developing a luxury hotel housing a casino and an electronic gaming machine lounge. It is agreed between the Company and STDM that upon completion of the hotel, the casino will be operated by SJM and the electronic gaming machine lounge will be managed by Mocha Slot (subject to the approvals of the Macau government authorities). On 11 November 2004, SJM issued a Letter of Confirmation to Great Wonders (which was counter-signed by Great Wonders), regarding a confirmation given by SJM to enter into the Proposed Lease Agreement upon (i) the successful grant of the concession of the Land to Great Wonders and (ii) obtaining of the relevant approvals by SJM from the Macau government authorities, in respect of a proposed lease by SJM from Great Wonders for an area of approximately 18,000 square meters at the hotel to be developed on the Land for the purpose of operating a casino with not less than 160 gaming tables. According to the Letter of Confirmation and subject to the terms of the Proposed Lease Agreement, the expected duration of the lease shall be a period from the commencement of business of the hotel to the expiry of SJM's concession to operate casinos in Macau and as the proposed monthly rental, Great Wonders shall receive an amount equal to the aggregate of (i) 40% of the gross monthly revenue generated from 60 gaming tables and (ii) such percentage to be further agreed between SJM and Great Wonders (but in any case not less than 30%) of the gross monthly revenue generated from the remaining gaming tables.

SJM is a company incorporated under the laws of Macau and is majority owned by STDM with Dr. Stanley Ho as its managing director. SJM has been selected by the Macau government authorities as one of the three concessionaires to engage in casino gaming operations in Macau from 1 April 2002 to 31 March 2020. By reason of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, SJM and STDM respectively, SJM is considered as a connected person under the Listing Rules. Accordingly, upon (i) completion of the Second Agreement (which will then render Great Wonders to become a 70% owned subsidiary of the Company) and (ii) fulfillment of the conditions as set out in the Letter of Confirmation, namely, the successful grant of the concession of the Land to Great Wonders and obtaining of the relevant approvals by SJM from the Macau government authorities, the proposed execution of the Proposed Lease Agreement may constitute a possible non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules and if such circumstances arise, the Company will comply with the relevant requirements of the Listing Rules as to reporting, announcement and the Independent Shareholders' approval (by way of poll) (as the case may be).

Information on Great Wonders

Great Wonders was a company initially established by STDM on 15 September 2004 pursuant to the First Agreement. According to the First Agreement, STDM subsequently transferred 50% equity interests in Great Wonders to the Company to make Great Wonders a joint venture company between STDM and the Company. Currently, except for applying the concession of the Land for developing a luxury hotel and the signing of the Letter of Confirmation with SJM as well as a development contract with an independent contractor to develop the hotel on the Land with the contract amount of approximately HK$1,500 million, Great Wonders does not carry out any other business and thus it does not have any contribution to the Group. Also, as the concession of the Land has not yet been granted, Great Wonders only has a net asset value of MOP$ 1 million (equivalent to approximately HK$0.97 million) representing its issued share capital as at the Latest Practicable Date.

As disclosed in the announcement of the Company dated 15 October 2004 regarding the Placing, the Company expected to apply the net proceeds of the Placing of approximately HK$377 million, as to approximately HK$94 million for expansion of the Gaming Business, as to approximately HK$207 million for the development of the Hospitality Business and as to the remaining approximately HK$75 million as working capital for the Group. As at the Latest Practicable Date, the Company has utilized a total sum of approximately HK$3.5 million for acquisition of hardware and systems for the Gaming Business and a total sum of approximately HK$17.2 million, mainly for engaging the independent professionals, including architects and surveyors, in relation to the relevant application for the concession of the Land in respect of the Hospitality Business. It is the present intention of the Company to utilize the net proceeds of Placing according to the intended application thereof as disclosed in the announcement dated 15 October 2004.

REASONS AND BENEFITS FOR THE PROPOSED ESTABLISHMENT OF THE JV GROUP

The Directors believe that the Gaming Business and the Hospitality Business have marked a cornerstone of success for the Group to tap the burgeoning leisure and entertainment market in Macau and provided the Group with a strategic springboard to expand its leisure and entertainment business to overseas countries if opportunities arise.

The Directors consider that the proposed establishment of the JV Group has provided a good opportunity for the Group to extend its operation coverage into the leisure and entertainment industry in the Asia Pacific region. Through the establishment of the JV Group, the Company intends to utilize the combined expertise and knowledge of the Group and PBL to achieve its objectives of establishing a foothold beyond its existing market turf and becoming one of the prominent regional market players in the leisure and entertainment industry, thereby enhancing its growth potential and long-term profitability. The Directors believe that choosing PBL as the partner of the JV Group is due to the remarkable performance, reputation and business knowledge of PBL in relation to the casino and hotels operated by it, which can help to enhance the brand recognition of the Group in the Asia Pacific region and improve the services standard of the Group in its leisure and entertainment business. Upon formation, it is intended that the proposed JV Group will become a premier gaming and entertainment group for pursuance and development of the gaming, entertainment and hospitality businesses in Asia Pacific region and the Greater China Region including, but not limited to, Macau, Thailand, Japan, Singapore, Philippines, Vietnam and Indonesia (but excluding Australia and New Zealand). The Directors currently expect the JV Group to achieve significant operational synergies between the Group and PBL's group, particularly with synergies driven by the expansion of geographical footprints and business networks as well as enhancement of services quality. In addition, the Directors believe that the relevant capital contribution by PBL to the JV Group, will increase the financial resources available to the Group for development of its leisure and entertainment business and will create significant value for the Shareholders in the long-term.

The Directors consider that the terms of the Definitive Agreements are entered into or agreed upon, as the case may be, after arm's length negotiation between parties thereto and the terms of the Definitive Agreements and all transactions contemplated thereby are fair and reasonable and in the interest of the Group and of the Shareholders as a whole.

INFORMATION ON STDM AND THE LAND

STDM is a company engaged in a wide range of businesses including gaming and hospitality businesses in Macau. As disclosed in the announcement of the Company relating to the First Agreement on 13 September 2004, the Company acquired 50% equity interests in Great Wonders which has applied to the concession of the Land. The Land is 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 no 21407, folio 125 of the Book B49. The Land is currently vacant and owned by a joint venture company, which is held as to 50% by an Independent Third Party, as to 25% by STDM and as to 25% by a company of which STDM is a substantial shareholder (as defined under the Listing Rules.). This joint venture company has applied to the Macau Government to give up or renounce the rights and obligations relating to the Land in order to enable Great Wonders 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 million and will be paid by installments by 1 September 2005. As disclosed in the circular of the Company relating to the First Agreement dated 11 October 2004, the Land is valuated at HK$288 million by Jones Lang LaSalle Limited, an independent valuer as at 5 August 2004. According to the valuation report as contained in Appendix III to this circular, Jones Lang LaSalle Limited revaluated the Land as at 10 December 2004 at HK$366 million. 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. As at the Latest Practicable Date, Great Wonders has applied to the relevant Macau government authorities for the grant of the concession of the Land. However since the concession of the Land has not yet granted to Great Wonders, no application has been made for the change of use of the Land from residential purpose to hotel development and hence the premium payable by Great Wonders for the new leasehold of the Land with the proposed use thereof as hotel development that replace the existing one has not been assessed by the relevant Macau government authorities. It is expected that the concession of the Land to Great Wonders will be granted on or before 1 September 2005. The total investment amount for development of the Land is expected to be approximately HK$1,500 million. On 24 November 2004 Great Wonders entered into a development contract with an independent contractor to develop the hotel on the Land. Without taking into account of the proposed establishment of the JV Group, the estimated capital commitment shared by the Group will be HK$1,050 million, being 70% of the total investment amount for development of the Land, should the Second Agreement be completed. As disclosed in the announcement of the Company regarding the Placing on 15 October 2004, the Company expected to apply approximately HK$207 million raised from the Placing in the development of the Land. The Company will consider various financing methods including debts/equity financing to fund the remaining balance of the estimated capital commitment for developing the hotel on the Land.

As at the date of this circular, the Company does not have any contractual commitment to the development of the Land except for the obligations under the Land Acquisition Agreements, being the aggregate consideration of HK$156 million paid and/ or payable to STDM for an aggregate of 70% equity interests in Great Wonders and the related contribution of approximately HK$750 million, being 50% of the total estimated investment amount of HK$1,500 million for the development of the Land (assuming the Second Agreement is not completed) or approximately HK$1,050 million, being 70% of the said investment amount (assuming the Second Agreement is completed). The Company will notify the Stock Exchange when it has made any capital commitment to Great Wonders that exceeds the estimated capital commitment shared by the Group of HK$1,050 million, representing 70% of the total investment amount for development of the Land (assuming the Second Agreement is completed), in the light of Rule 14.07 of the Listing Rules. The Stock Exchange has indicated that it will reserve the rights to aggregate any further capital commitment of the Company, if any, to the development of the hotel on the Land for the purpose of Rule 14.15(2) of the Listing Rules and in such case, the Company will take necessary steps to fulfill the relevant disclosure and/ or approval requirements in the light of Rule 14.06 of the Listing Rules.

REASONS AND BENEFITS OF ENTERING INTO THE SECOND AGREEMENT

Based on the Second Agreement per se, the Directors consider that the acquisition as contemplated by the Second Agreement will facilitate the Group to obtain control of Great Wonders and will enable the Group to have more operational flexibility in the Hospitality Business. Taking into account of the proposed establishment of the JV Group pursuant to the Subscription Agreement, the acquisition will also benefit the Group in terms of allowing the Group to retain a higher effective interest in Great Wonders and thus, the Hospitality Business, after the same being injected into the JV Group as, with the successful completion of the Second Agreement, the effective interests in Great Wonders held by the Company via the JV Group would be 42%, whereas, without the successful completion of the Second Agreement, the effective interests held by the Company in Great Wonders via the JV Group would only be 30%.

The Directors are of the view that the terms of the Second Agreement including the terms of the Second Convertible Bond are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms and in the interests of the Independent Shareholders as a whole.

THE REFRESHMENT OF GENERAL MANDATE

Previous General Mandate

At the AGM held on 20 May 2004, the Shareholders approved, amongst other things, an ordinary resolution to grant to the Directors a general mandate to issue securities not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution. At the date of the passing of that resolution, there were 223,888,313 Shares in issue and thus that general mandate granted at the AGM entitled the Directors to issue and allot a total of 44,777,662 Shares, representing 20% of 223,888,313 Shares then in issue. No Share has ever been allotted and issued under the said general mandate granted at the AGM.

At the extraordinary general meeting held on 15 October 2004, the Independent Shareholders approved an ordinary resolution to grant to the Directors the Previous General Mandate to issue securities not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution. At the date of passing of that resolution, there were 379,557,880 Shares in issue and thus the Previous General Mandate entitled the Directors to issue and allot a total of 75,911,576 Shares, representing 20% of 379,557,880 Shares then in issue.

As a result of the Placing as disclosed in the announcement of the Company dated 15 October 2004, 75,900,000 Shares were issued and placed to not less than six institutional investors who are all Independent Third Parties and hence, the Previous General Mandate has, to a substantial extent, been utilized by the Company.

Save for the Placing, the issue of securities and convertible notes by the Company for acquisition of 80% equity interests in Mocha Slot as disclosed in the announcement and the circular of the Company respectively dated 23 March 2004 and 23 April 2004 and the issue of the First Convertible Bond by the Company for acquisition of 50% equity interests in Great Wonders as disclosed in the announcement and circular of the Company respectively dated 13 September 2004 and 11 October 2004 (a summary of the details of which is contained in the paragraph headed "Fund raising exercises carried out by the Company in the past twelve months" above), the Company has not undertaken any fund raising exercise over the past twelve months.

New General Mandate to allot and issue securities

As the Previous General Mandate granted to the Directors at the extraordinary general meeting held on 15 October 2004 has, to a substantial extent, been utilized for the issue of 75,900,000 Shares pursuant to the Placing, the Board proposed to put forward an ordinary resolution for approval by the Independent Shareholders (by way of poll) at the EGM to consider and, if thought fit, to approve the following:

(i) the Directors be granted with the New General Mandate to allot and issue securities not exceeding 20% of the issued share capital of the Company as at the date of passing of the relevant resolution; and

(ii) such mandate be extended to Shares repurchased by the Company pursuant to the general mandate to repurchase Shares granted to the Directors at the annual general meeting of the Company held on 20 May 2004.

As at the date of the announcement of the Company dated 23 November 2004 regarding, inter alia, the establishment of the JV Group and the Second Agreement, the then number of Shares in issue was 459,887,882 Shares. Subsequent to the date of such announcement, a total of 3,356,172 Shares have been issued by the Company pursuant to the exercise of the share options under the share option scheme of the Company. As at the Latest Practicable Date, the Company had an aggregate of 463,244,054 Shares in issue. Subject to the passing of the ordinary resolution for the approval of the Refreshment of General Mandate by the Independent Shareholders (by way of poll) at the EGM and on the basis that no further Shares are issued and/ or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 92,648,810 Shares, being 20% of 463,244,054 Shares in issue as at the Latest Practicable Date.

Since the date of the last extraordinary general meeting of the Company held on 15 October 2004, the Company has not arranged for any refreshment of any general mandate for issue of securities save for the Refreshment of General Mandate. The New General Mandate, if granted, will be the second refreshment of general mandate after the AGM held on 20 May 2004. Also, the New General Mandate, if granted, will have the effect of replacing the Previous General Mandate and any unused part of the Previous General Mandate will be revoked.

Reasons for the Refreshment of General Mandate

As mentioned above, although the Previous General Mandate was recently granted on 15 October 2004, it has been substantially utilized after the Placing as 75,900,000 Shares have been issued out from the maximum number of 75,911,576 Shares entitled to be issued under the Previous General Mandate, the Directors consider that the granting of the New General Mandate could enhance the financing flexibility of the Company to raise capital, if and when required, through placing of Shares for further development of the Group. In addition, the Directors consider that if investment opportunities arise, investment decisions may have to be made in a timely manner and under this circumstance, the New General Mandate would provide the Group with the flexibility as allowed under the Listing Rules to allot and issue new Shares to raise capital through placing of new Shares as consideration for funding such potential investments, including but not limited to, any potential acquisitions in the future as and when opportunities arise. The

Directors confirmed that as at the date of this circular, no such potential acquisitions have been identified and there are no negotiations or agreements entered into by the Company relating to any such potential acquisitions. The increased amount of capital which may be raised under the exercise of the New General Mandate would provide the Group with more options of financing, apart from other financing methods, such as debt financing and funding through internal resources, when any funding need is required for further development of the Group in future.

As at the Latest Practicable Date, the Directors considered that there was no immediate funding need for the Group's current operations and the Directors confirmed that they have no present intention of exercising the New General Mandate to allot and issue securities of the Company.

IMPLICATIONS UNDER THE LISTING RULES

The proposed establishment of the JV Group pursuant to the Definitive Agreements

Based on the proposed capital contribution of US$163 million (equivalent to approximately HK$1.27 billion) by PBL (assuming the Second Agreement is completed) and the market capitalization of the Company before the execution of the Heads of Agreement on 11 November 2004, the proposed establishment of the JV Group constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules and is subject to the requirements of reporting, announcement and the approval of the Shareholders as set out in Chapter 14 of the Listing Rules. Pursuant to Rule 14.46 of the Listing Rules, the Stock Exchange will require any shareholder and his associates to abstain from voting at the relevant general meeting on the relevant resolution(s) if such shareholder has a material interest in the transaction. Since Dr. Stanley Ho and his respective associates, namely Mr. Lawrence Ho, Madam Lucina Laam King Ying, Better Joy and Lasting Legend, do not have any interest other than the interest as being the Shareholders in the proposed establishment of the JV Group pursuant to the Definitive Agreements, all Shareholders are entitled to vote on the relevant resolution(s) regarding the Definitive Agreements at the EGM.

The Connected Transaction

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 the Company, has an equity interest in, as well as being a director of, STDM. As a result, the Land Acquisition Agreements, the issuance of the Convertible Bonds and the estimated capital commitment shared by the Company in developing the Land constitute a major transaction and non-exempt connected transaction of the Company 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 25% but less than 100% and the purchase consideration payable to STDM pursuant to the Land Acquisition Agreements exceeds HK$10,000,000) and hence, the Connected Transaction is 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 approximately 3.27% shareholding interest in the Company, and his associates, including Madam Lucina Laam King Ying, Mr. Lawrence Ho, Better Joy and Lasting Legend, will abstain from voting on the relevant resolution(s) regarding the Second Agreement and the transactions contemplated thereunder at the EGM.

The Refreshment of General Mandate

Pursuant to Rule 13.36(4) of the Listing Rules, the Refreshment of General Mandate requires the approval of the Independent Shareholders (by way of poll) at the EGM at which the controlling Shareholders and their associates shall abstain from voting. As at the Latest Practicable Date, Mr. Lawrence Ho was the controlling Shareholder of the Company and therefore Mr. Lawrence Ho together with his associates, namely, Dr. Stanley Ho, Madam Lucina Laam King Ying, Lasting Legend and Better Joy will abstain from voting on the relevant resolution concerning the Refreshment of General Mandate at the EGM.

As at the Latest Practicable Date, the total number of issued shares of the Company were 463,244,054 Shares and were held as to approximately 3.24% by Dr. Stanley Ho, approximately 0.05% by Madam Lucina Laam King Ying, approximately 0.39% by Mr. Lawrence Ho personally, approximately 12.47% by Lasting Legend, approximately 26.92% by Better Joy and approximately 8.44% 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(s) regarding the Connected Transaction and the Refreshment of General Mandate at the EGM.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 4:00 p.m. on Thursday, 20 January 2005 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on pages 134 to 136 of this circular at which ordinary resolution(s) will be proposed and, if thought fit, passed by the Shareholders or, as the case may be, the Independent Shareholders (by way of poll), to approve the Definitive Agreements and the transactions contemplated thereunder, the Connected Transaction and the Refreshment of General Mandate.

Dr. Stanley Ho and his associates, namely, Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend and Better Joy will abstain from voting on the relevant resolution(s) regarding the Connected Transaction and the Refreshment of General Mandate 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 Connected Transaction and the Refreshment of General Mandate are fair and reasonable and in the interests of the Independent Shareholders as a whole. Dao Heng Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Connected Transaction and the Refreshment of General Mandate.

A proxy form for use by the 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.

RECOMMENDATION

The Board considers that the terms of the Definitive Agreements are entered into or agreed upon, as the case may, after arm's length negotiation between parties thereto and the terms of the Definitive Agreements and all transactions contemplated thereby are fair and reasonable and in the interest of the Group and of the Shareholders as a whole and accordingly recommends the Shareholders to vote in favour of the relevant resolution(s) regarding the Definitve Agreements and the transactions contemplated thereunder to be proposed at the EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 36 to 37 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Connected Transaction and the Refreshment of General Mandate; and (ii) the letter from Dao Heng Securities to the Independent Board Committee set out on pages 38 to 59 of this circular containing its advice to the Independent Board Committee in this regard.

The Independent Board Committee, having taking into account the advice from Dao Heng Securities in relation to the Connected Transaction and the Refreshment of General Mandate, considers that both the Connected Transaction and the Refreshment of General Mandate are fair and reasonable so far as the Independent Shareholders are concerned and that the Connected Transaction and the Refreshment of General Mandate are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Connected Transaction and the Refreshment of General Mandate.

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. Ng Ching Wo and Mr. Ho Cheuk Yuet 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
Ho, Lawrence Yau Lung
Managing Director

Melco
Melco International Development Limited
新 濠 國 際 發 展 有 限 公 司
(Incorporated in Hong Kong with limited liability)
Website: http://www.melco.hk.cn

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

5 January 2005

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
FURTHER ACQUISITION OF INTEREST IN THE LAND
AND
REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

We have been appointed as members of the Independent Board Committee to advise you in connection with the Connected Transaction and the Refreshment of General Mandate, details of which are set out in the "Letter from the Board" in the circular dated 5 January 2005, 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 Dao Heng Securities as set out on pages 38 to 59 of this circular, which contains its advice and recommendation to us as to whether or not the Connected Transaction and the Refreshment of General Mandate 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, Dao Heng Securities as stated in its aforementioned letter of advice, we are of the opinion that the Connected Transaction and the Refreshment of General Mandate are fair and reasonable so far as the Independent Shareholders are concerned and the Connected Transaction and the Refreshment of General Mandate are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Connected Transaction and the Refreshment of General Mandate.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Sir Roger Lobo **Robert Kwan** **Dr. Lo Ka Shui**
Independent Non-executive Directors

The following is the text of the letter of advice to the Independent Board Committee from Dao Heng Securities in connection with the terms of the Second Agreement and the Refreshment of General Mandate, which has been prepared for the purpose of inclusion in this circular.

道亨證券有限公司
DaoHengSecurities Ltd.

5 January 2005

To the Independent Board Committee
Melco International Development Limited
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
FURTHER ACQUISITION OF INTEREST IN THE LAND
AND
REFRESHMENT OF GENERAL MANDATE
TO ALLOT AND ISSUE SHARES

INTRODUCTION

We refer to our engagement by Melco International Development Limited (the "Company", together with its subsidiaries, the "Group") as an independent financial adviser to advise the Independent Board Committee with respect to the Second Agreement and the Refreshment of General Mandate. Details of the principal terms of the Second Agreement and the Refreshment of General Mandate are contained in the letter from the Board in the circular dated 5 January 2005 to the Shareholders (the "Circular"), of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

On 11 November 2004, the Company has conditionally agreed to acquire from STDM an additional 20% issued share capital of Great Wonders at a consideration of HK$56 million. The Company will issue the Second 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 an executive Director of the Company, has an equity interest in, as well as being a director of, STDM. As a result, the Second Agreement together with the First Agreement, the issuance of the Convertible Bonds and the estimated capital commitment shared by the Company in developing the Land constitute a major transaction 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 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 3.27% shareholding interest in the Company, and his associates, including Madam Lucina Laam King Ying, Mr. Lawrence Ho, Better Joy and Lasting Legend, will abstain from voting on the relevant resolution(s) regarding the Second Agreement and the transaction contemplated thereunder at the EGM.

The Board also proposed to put forward an ordinary resolution for approval by the Independent Shareholders (by way of poll) at the EGM to consider and, if thought fit, to approve the followings:

(i) the Directors be granted with the New General Mandate to allot and issue securities not exceeding 20% of the issued share capital of the Company as at the date of passing of the relevant resolution; and

(ii) such mandate to be extended to Shares repurchased by the Company pursuant to the general mandate to repurchase Shares granted to the Directors at the annual general meeting of the Company held on 20 May 2004.

Pursuant to Rule 13.36(4) of the Listing Rules, the Refreshment of General Mandate requires the approval of the Independent Shareholders (by way of poll) at the EGM at which the controlling Shareholders and their associates shall abstain from voting. As at the Latest Practicable Date, Mr. Lawrence Ho was the controlling Shareholders and therefore Mr. Lawrence Ho together with his associates, namely Dr. Stanley Ho, Madam Lucina Laam King Ying, Lasting Legend and Better Joy will abstain from voting on the relevant resolution concerning the Refreshment of General Mandate at the EGM.

Our role as the independent financial adviser to the Independent Board Committee is to give our opinion as to whether the terms of the Second Agreement and the Refreshment of General Mandate are fair and reasonable so far as the Independent Shareholders are concerned.

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors and have assumed that all information and representations made or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group.

I. THE SECOND AGREEMENT

Background

On 11 November 2004, the Company entered into the Second Agreement with STDM, pursuant to which the Company will buy and STDM will sell 20% issued share capital of Great Wonders for a consideration of HK$56 million. The Company will issue the Second Convertible Bond to STDM to satisfy the purchase consideration. The Second Agreement is conditional upon the approval by the Independent Shareholders (by way of poll) at the EGM in compliance with the Listing Rules before 31 January 2005. If this condition is not fulfilled before 31 January 2005, unless the parties otherwise agree, STDM may, by notice to the Company, terminate the Second Agreement and the obligations of the parties thereunder.

As stated in the letter from the Board, Great Wonders was a new company initially established by STDM on 15 September 2004 pursuant to the First Agreement. Pursuant to the First Agreement, the Company acquired a 50% equity interest in Great Wonders at a consideration of HK$100,000,000 which was settled by issuance of a 5-year convertible bond carrying an interest rate of 4% per annum with conversion price at HK$4.00 per Share. As disclosed in the announcement of the Company relating to the First Agreement on 13 September 2004, the Company acquired 50% equity interests in Great Wonders which has applied to Macau Government for the concession of the Land. The Land is a parcel of land with an area of 5,230 square metres in Macau. The Land is currently vacant and owned by a joint venture company, which is held as to 50% by an Independent Third Party, as to 25% by STDM and as to 25% by a company of which STDM is a substantial shareholder (as defined under the Listing Rules). This joint venture company has applied to the Macau Government to give up or renounce the rights and obligations relating to the Land in order to enable Great Wonders to apply to the Macau Government for a new concession. It is expected that the concession of the Land to Great Wonders will be granted on or before 1 September 2005.

Independent Shareholders should note that under the terms of the Second Convertible Bond, if the concession of the Land is not granted to Great Wonders on or before 1 September 2005, the Company shall have the right to terminate the Second Convertible Bond. In such event, any and all liability of the Company to pay the consideration under the Second Agreement shall cease and all sums of money due under the Second Convertible Bond shall cease to be payable immediately, and the Company shall forthwith transfer the 20% equity interests in Great Wonders back to STDM. If any interest has been paid by the Company to STDM pursuant to the Second Convertible Bond, STDM shall forthwith repay such interest to the Company.

Principal factors and reasons considered

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Second Agreement, we have considered the following principal factors and reasons:

1. Reasons for and benefits of the Second Agreement

As stated in the letter from the Board, currently, the Group's business is broadly divided into three divisions, namely (i) leisure and entertainment division; (ii) investment banking and financial services division; and (iii) technology division. The leisure and entertainment division of the Group comprises the operation of two floating restaurants, namely, Jumbo and Tai Pak, in Aberdeen, Hong Kong, the Gaming Business and the Hospitality Business.

Based on the Second Agreement per se, the Directors consider that the acquisition as contemplated by the Second Agreement will facilitate the Group to obtain control of Great Wonders from 50% to 70% (assuming no Subscription Agreement) or from 40% to 56% (assuming completion of Subscription Agreement) and will enable the Group to have more operational flexibility in the Hospitality Business as it is agreed under the Second Agreement that each of the Company and STDM shall take part in the management of Great Wonders as a company owned as to 70% by the Company and as to 30% by STDM upon completion of the Second Agreement. Taking into account the proposed establishment of the JV Group pursuant to the Subscription Agreement, the acquisition will also benefit the Group in terms of allowing the Group to retain a higher effective interest in Great Wonders and thus, the Hospitality Business, after the same being injected into the JV Group as, with the successful completion of the Second Agreement, the effective interests in Great Wonders held by the Company via the JV Group would be 42%, whereas, without the successful completion of the Second Agreement, the effective interests held by the Company in Great Wonders via the JV Group would only be 30%.

It is stated in the letter from the Board that according to the Subscription Agreement, the JV Group will be owned as to 50% by the Company and 50% by PBL. PBL will make a capital contribution of US$163 million (equivalent to HK$1,270 million) in case the Independent Shareholders approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM or a total consideration of US$105 million (equivalent to approximately HK$817 million) in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM whilst the Company will transfer to the JV Group 80% equity interests in Melco Entertainment, a wholly-owned subsidiary of the Company to be formed for the purpose of holding (i) 80% equity interests in Mocha Slot and (ii) either 50% (assuming the Second Agreement is not completed) or 70% (assuming the Second Agreement is completed) equity interests in Great Wonders. It is stated in the letter from the Board that the different amounts of capital contribution to be made by PBL Asia reflect the strategic importance valued by PBL and PBL Asia in the acquisition of additional 20% equity interests in Great Wonders by the Company pursuant to the Second Agreement as with the additional 20% equity interests, Melco PBL Holdings will obtain a controlling interest of 56% in Great Wonders upon establishment of the JV Group while without the successful acquisition of 20% equity interests of Great Wonders by the Company, Melco PBL Holdings will only have an equity interest of 40% in Great Wonders. Independent Shareholders are advised to refer to the letter from the Board for details of the Subscription Agreement in respect of establishment of the JV Group for pursuance of the Gaming Business and the Hospitality Business.

The Company acquired 80% equity interests in Mocha Slot on 9 June 2004 for the total consideration of HK$398 million and 50% interests in Great Wonders on 9 November 2004 for a consideration of HK$100 million and will acquire additional 20% interests in

Great Wonders under the Second Agreement for a consideration of HK$56 million. Therefore, the cost of the Company's capital contribution to the JV Group by way of transfer its 80% equity interests in Melco Entertainment, a company to be established for holding (i) 80% equity interests in Mocha Slot for pursuance of the Gaming Business; and (ii) 70% equity interests in Great Wonders for pursuance of Hospitality Business amounted to approximately HK$443.2 million (assuming the Second Agreement is completed) or approximately HK$398.4 million (assuming the Second Agreement is not completed), representing approximately 34.9% or 48.8% of the capital contribution by PBL to the JV Group respectively whilst the JV Group is owned equally between the Company and PBL. We concur with the Board's view that the different amounts of capital contribution to be made by PBL Asia reflect the strategic importance valued by PBL and PBL Asia in acquisition of Great Wonders. In view of the capital contribution by the Company to the JV Group which represents approximately 34.9% (assuming the Second Agreement is completed) or 48.8% (assuming the Second Agreement is not completed) of the capital contribution by PBL to the JV Group, we consider that it is beneficial for the Company to obtain further 20% in Great Wonders in order to have PBL Asia contributed additional HK$453 million to Melco PBL Holdings in which the Company will own 50% interests.

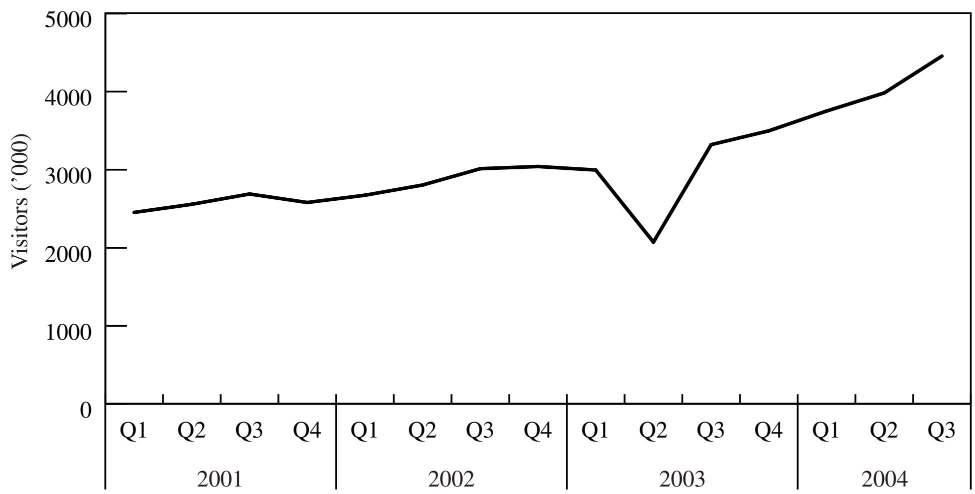
Also, it is stated in the letter from the Board that the Company anticipated that after establishment of the JV Group, it will retain the control of the composition of the board of directors of Melco Entertainment and in case the Second Agreement is completed, Melco Entertainment together with, inter alia, Great Wonders, shall remain as indirect subsidiaries of the Company after establishment of the JV Group. It is stated in the letter from the Board that the Company owns 50% equity interests in Great Wonders and accordingly, treats Great Wonders a jointly controlled company in the consolidated accounts of the Company. Upon completion of the Second Agreement and establishment of the JV Group, Great Wonders will also become an indirect non wholly-owned subsidiary of the Company thereby enabling the Group to consolidate the results, assets and liabilities of Great Wonders. Given the above, together with a deemed profit of approximately HK$425.9 million (assuming successful completion of the Second Agreement) or approximately HK$221.8 million (without completion of the Second Agreement) as a result of the proposed establishment of the JV Group to be accrued to the Group (details are set out in the paragraph headed "Deemed profit accrued to the Group" in the letter from the Board in the Circular), we concur with the Directors' view that although the Subscription Agreement is not conditional upon the successful completion of the Second Agreement, it is beneficial for the Company to obtain additional 20% interests in Great Wonders for a consideration of HK$56 million as opposed to the additional capital contribution of HK$453 million to the JV Group by PBL Asia.

Independent Shareholders are advised to refer to the letter from the Board for the conditions precedent of the Subscription Agreement and should note that the Subscription Agreement is conditional upon, amongst others, the issuance of a letter by the relevant authority in Macau to STDM and/ or Great Wonders confirming that it intends to grant the concession of the Land to Great Wonders for use of the development of the luxury hotel housing a casino and an electronic gaming machine lounge on the Land on terms reasonably satisfactory to PBL Asia.

2. *Operating environment of Great Wonders*

It is stated in the letter from the Board that the Hospitality Business is concerned with the entering into of the Land Acquisition Agreements to acquire altogether 70% equity interests in Great Wonders, which has applied for the concession of the Land, for developing a luxury hotel housing a casino and an electronic gaming machine lounge. In order to assess the operating environment of Great Wonders, we have looked into the tourism industry in Macau by visitor arrivals during the period from 2001 to 2004.

Chart 1: Visitor arrivals in Macau during 2001-2004



Source: Statistics and Census Service, Government of Macau Special Administrative Region

As shown in Chart 1 above, the number of visitors rose significantly during the period from 2001 to 2004 except for the outbreak of severe acute respiratory syndrome in Asia in the first quarter of 2003. Total number of visitor arrivals in the first three quarters of 2004 rose approximately 37.1% as compared with the corresponding period in 2003. The increase might be due to the influx of visitors from China after the mainland government eased travel restrictions. We are of the view that the relaxation of travel restrictions in the PRC helps to stimulate the tourism industry as well as casinos and hotels business in Macau and provide a favourable operating environment for Great Wonders. Therefore, we concur with the Directors' view that the Second Agreement by its own, will have the merits of facilitating the Group to obtain control of Great Wonders and rendering Great Wonders to become a 70% non-wholly owned subsidiary of the Company thereby enabling the Group to consolidate the results, assets and liabilities of Great Wonders, whilst Great Wonders has applied for the concession of the Land for development of a luxury hotel housing a casino and an electronic gaming machine lounge, which help broadening the potential earning base of the Group.

3. Basis of consideration

The consideration of HK$56 million was determined after arm's length negotiation and on normal commercial terms and with reference to the 20% interest in the Land with the total valuation of HK$288 million ("Previous Valuation") as at 5 August 2004 as disclosed in the circular of the Company dated 11 October 2004. The consideration of HK$56 million payable under the Second Agreement represents a discount of approximately 2.8% to HK$57.6 million, being 20% of the Previous Valuation. As stated in the valuation report by Jones Lang LaSalle Limited (which is set out in the Appendix III to the Circular), the Land has been valued at HK$366 million ("Current Valuation") as at 10 December 2004 and therefore, the consideration of HK$56 million under the Second Agreement for the acquisition of 20% interests in Great Wonders represents a discount of approximately 23.5% to HK$73.2 million, being 20% of the Current Valuation. Having discussed with the valuer, the key financial parameters adopted in the residual valuation of the Land as extracted from the property valuation reports set out in Appendix III to the Circular and Appendix II to the circular of the Company dated 11 October 2004 are set out as follows:

	Previous Valuation as at 5 August 2004 *(HK$ million)*	**Current Valuation as at 10 December 2004** *(HK$ million)*
Estimated gross development value of the proposed development	851.2	978.0
Less:		
Estimated construction cost	360.5	378.0
Estimated professional fees, legal costs, stamp duty, etc.	48.0	54.0
Estimated interest charges	45.9	55.0
Estimated developer's profit and risk margin	108.8	125.0
Valuation of the Land	288.0	366.0

It is stated in the valuation report (which is set out in Appendix III to the Circular), the Land has been valued for use as residential properties as the application for change of use from residential to other uses has not been made to the Macau Government. Having discussed with the valuer, the Macau residential properties rose significantly during the period between the dates of the Previous Valuation and the Current Valuation ranging from 10% to 25% depending on the quality of the housing. Based on the aforesaid and the above table, we consider the estimated gross development value of the proposed development under the Current Valuation which rose 14.9% as compared to that under the Previous Valuation to be reasonable. Therefore, the difference between the Previous Valuation and the Current Valuation is primarily due to the fact that the surge in Macau property prices outgrew the increase in other estimated costs such as construction cost, professional fees and interest charges (such estimated costs of the proposed development have been computed based on the prevailing market construction cost for residential properties and the prevailing market interest rate) in four months' time.

The Company will satisfy the consideration by issuing the Second Convertible Bond with terms set out in the letter from the Board and major terms of which are summarised as follows:

Tenor	:	5 years from the date of issue
Coupon	:	4% per annum from 1 March 2005
Conversion price	:	HK$8.2 per Share ("Conversion Price")
Exercise period	:	the period commencing 3 years from the date of issue of the Second Convertible Bond up to and including the maturity date of the Second Convertible Bond
Early redemption	:	the Company has the option to redeem the Second Convertible Bond commencing 2 years from the date of its issue till the maturity date of the Second Convertible Bond
Forced conversion	:	the Company has the option to require STDM to convert the Second Convertible Bond into new Shares if the 60-day average price of the Shares is over HK$8.2 per Share as quoted on the Stock Exchange provided that the option may not be exercised unless the concession of the Land has been granted to Great Wonders
Put option	:	if the concession of the Land is not granted to Great Wonders on or before 1 September 2005, the Company shall have the right to terminate the Second Convertible Bond. In such event, any and all liability of the Company to pay the consideration under the Second Agreement shall cease and all sums of money due under the Second Convertible Bond shall cease to be payable immediately, and the Company shall forthwith transfer the 20% equity interests in Great Wonders back to STDM. If any interest has been paid by the Company to STDM pursuant to the Second Convertible Bond, STDM shall forthwith repay such interest to the Company

(i) Conversion Price

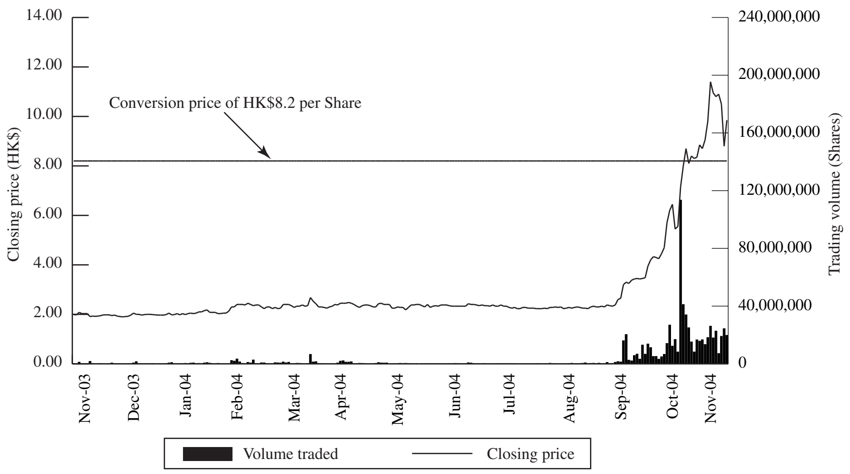
The premiums/ discounts of the conversion prices over/ to the closing prices of the Share for different periods are set out in the following table.

Table 1: Comparison of Conversion Price with the Share closing prices in different periods

Date/period	**Closing price /average closing price per Share for the period/ NTA per Share** *(HK$)*	**Premium/ (Discount) of the Conversion Price over/to the closing price/ average closing price per Share in the respective period/ NTA per Share** *(%)*
As at 11 November 2004 (being the last trading day prior to the date of the Second Agreement)	9.85	(16.8)
5 days up to and including 11 November 2004	10.08	19.4
One month up to and including 11 November 2004	8.76	(6.4)
Three months up to and including 11 November 2004	5.14	59.5
Six months up to and including 11 November 2004	3.68	122.8
One year up to and including 11 November 2004 (the "One-year Period")	2.94	178.9
As at the Latest Practicable Date	18.80	(56.4)
From 25 November 2004 (being the first trading day after the issue of the announcement regarding the Second Agreement) to the Latest Practicable Date (the "Latest Period")	14.03	(41.6)
Net tangible asset value ("NTA") of the Group as at 30 June 2004 based on 463,244,054 Shares in issue as at the Latest Practicable Date	0.952	761.3

The table above shows that the conversion price represents substantial premiums ranging from approximately 19.4% to 178.9% over the average Share closing price of (i) the five days up to 11 November 2004; (ii) the three months up to 11 November 2004; (iii) the six months up to 11 November 2004; and (iv) the One-year Period, while it represents discounts of approximately 6.4% and 16.8% to (i) the Share closing price on 11 November 2004; and (ii) average Share closing price for the one month ended 11 November 2004.

Chart 2: The closing prices and the trading volume of the Share for the One-year Period



As shown in Chart 2, the Shares were traded at prices substantially lower than the conversion price within the range from HK$1.90 to HK$2.65 during most of the time in the One-year Period. The Share price has surged since 14 September 2004 and attained the highest price in the One-year Period of HK$11.40 recorded on 3 November 2004. We have looked at the announcements published by the Company during such period to look for the reason for such surge in Share prices. On 13 September 2004, the Company published an announcement in relation to its entering into of the First Agreement and on 15 October 2004, the Company published an announcement in relation to a top-up placing exercise with fund raising amount of approximately HK$377 million, which was intended to be applied on the expansion of the Company's "Mocha" slot machine operations in Macau and for development of the luxury hotel to be established on the Land. We consider that the upsurge of the Share price in recent months might reflect the market response to these corporate action exercised by the Company.

In order to assess the fairness and reasonableness of the conversion price of the Second Convertible Bond, we have looked into the recent issuance of convertible notes by listed companies in Hong Kong. We have identified 52 convertible note issues during the One-year Period and we consider that it would be more appropriate to compare the convertible bonds by other Hong Kong listed companies with issue size comparable to that of the Second Convertible Bond in the One-Year Period as there might be correlation among the issue size, the interest rate, maturity as well as the conversion price. Of these 52 convertible note issues, ten of them have maturity from three to six years and have issue size of less than HK$80 million and fixed conversion prices while the Second Convertible Bond has issue size of HK$56 million and fixed conversion price of HK$8.2 per share, which are considered comparable issues ("Comparable Issues") to the Second Convertible Bond. Set out below is a summary of the ten Comparable Issues.

Table 2: Summary of the Comparable Issues

Date of announcement	Stock code	Company	Principal business	Principal amount of convertible note	Maturity	Premium/ (discount) of the conversion price over/to the average closing price of shares in the last five trading days prior to the related announcement	Interest rate per annum
				(HK$ million)	*(Year)*	*(%)*	*(%)*
23 November 2004	**200**	**The Company**	**Leisure and entertainment, investment banking and financial services; and technology**	**56.0**	**5**	**19.4**	**4.0**
8 January 2004	76	South Sea Petroleum Holdings Ltd. (formerly known as Sen Hong Resources Holdings Limited)	Development, exploration and production of crude oil and electronics manufacturing services	72.0	3	(18.0)	5.0
20 February 2004	959	A-max Holdings Limited	Manufacture, development and sales of liquid crystal display, modules and panels and other electronic consumables	14.6	5	(91.3)	1.5
29 March 2004	8119	Thiz Technology Group Limited	Developer and provider of a range of Linux solutions	10.0	3	24.2	2.5
13 April 2004	1051	Credit Card DNA Security (Holdings) System	Manufacture and sale of food products, development of e-business security, provision of management services, provision of financial information services, manufacture and sale of financial pagers	69.0	3	6.7	2.0
8 April 2004	547	Sun Innovation Holdings Limited	Installation, maintenance and servicing, manufacturing and trading of fire prevention suppression systems and equipment and property investment	69.0	5.5	2.3	1.0

Date of announcement	Stock code	Company	Principal business	Principal amount of convertible note	Maturity	Premium/ (discount) of the conversion price over/to the average closing price of shares in the last five trading days prior to the related announcement	Interest rate per annum
				(HK$ million)	*(Year)*	*(%)*	*(%)*
15 May 2004	613	Yugang International Limited	Packaging business, property investment business and infrastructure business	70.0	3	(Note) 18.2	3.0
11 June 2004	273	China United International Holdings Limited	Manufacture of gift packaging and switching power supply, property investment and development, investment in marketable securities, securities brokerage and investment holding	55.0	5	(12.9)	7.8
24 June 2004	351	Central China Enterprises Limited	Telecommunication and technology based businesses	20.0	3	(18.3)	8.5
29 June 2004	8091	Universal Technologies Holdings Limited	Provision of enterprise solutions with a focus on online payment logistics	4.0	3	13.6	3.5
11 November 2004	1215	Guo Xin Group Limited	Trading of consumer goods and operation of commodity futures trading in the PRC	32.1	3	8.1	3.0

Note: Average conversion price

Four Comparable Issues had their conversion price set at a discount ranging from approximately 12.9% to 91.3% to the average closing price of shares in the last five trading days prior to the publish of the related announcement, while six Comparable Issues had their conversion price set at a premium ranging from approximately 2.3% to 24.2%. The conversion price of the Second Convertible Bond represents a premium of approximately 19.4% over the average closing price of the Shares in the last five trading days prior to the date of the Second Agreement, which lies in the high end of the range of that of the ten Comparable Issues. Given that (i) the Conversion Price is higher than the Share price most of the time in the One-year Period; (ii) the Conversion Price is significantly higher than the NTA per Share based on the financial statements of the Group as at 30 June 2004; and (iii) the Conversion Price represents a premium of approximately 19.4% over the average closing price of the Shares in the last five trading days prior to the date of the Second Agreement, which lies in the high end of the range of the Comparable Issues, we consider that the conversion price as stipulated under the Second Convertible Bond is acceptable.

(ii) Interest rate

As stated in the interim report ("Interim Report") of the Company for the six months ended 30 June 2004, the Group has obtained banking facilities of approximately HK$149.8 million from various banks and interest rates for such facilities range from Hong Kong Interbank Offer Rate plus 1.05% to the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation ("Prime Rate"). Based on the average Hong Kong Interbank Offer Rate during November 2004 ranging from approximately 0.21% to 1.07% and the existing Prime Rate of 5.00%, the interest rates of the Group's banking facilities range from approximately 1.26% to 5.00%.

It is also noted from the Interim Report that the Group was provided with a loan from a minority shareholder of a subsidiary amounted to approximately HK$24.6 million. Such loan was unsecured, interest bearing at 4% per annum and the balance was subsequently settled on 7 July 2004. Subsequent to 31 December 2003, the Company has issued convertible bonds with an aggregate amount of HK$145,000,000 carrying interest rate of 4% per annum, which is equivalent to that of the Second Convertible Bond.

As stated in Table 2 above, the interest rates of the Comparable Issues range from 1.0% to 8.5% while the interest rate of 4% carried by the Second Convertible Bond falls within the range of that of the ten Comparable Issues. Based on the fact that (i) the interest rates of the Group's banking facilities range from approximately 1.26% to 5%; (ii) interest on the previous loan from minority shareholder of a subsidiary of 4% per annum; (iii) the interest rate of the existing convertible bonds of the Group is 4% per annum; and (iv) the interest rate of 4% carried by the Second Convertible Bond falls within the range of that of the ten Comparable Issues, we consider that the interest rate of 4% carried by the Second Convertible Bond is acceptable.

Based on the above, we consider that the interest rate as stipulated under the Second Convertible Bond is fair and acceptable.

(iii) Other terms of the Second Convertible Bonds

We note that there are other clauses under the Second Convertible Bond that should be brought to the Shareholders' attention and they are exercise period, early redemption, forced conversion and put option (details of which are set out in this paragraph above). We consider that (i) the exercise period commencing 3 years from the date of issue thereof to its maturity represents a lock-up period for STDM and therefore, no immediate dilution to the Shareholders' interests in the Company; (ii) early redemption clause allows the flexibility to the Company to redeem the Second Convertible Bond commencing 2 years from the date of its issue till the maturity date of the Second Convertible Bond so that it would reduce interest expenditure of the Group should it have sufficient cash to redeem the Second Convertible Bond; (iii) forced conversion clause provides the Company with an option to require STDM to convert the Second Convertible Bond into new Shares if 60-day average price of the Shares is over the Conversion Price so that it would reduce interest expenditure of the Group; and (iv) the put option provides the Company with the right to terminate the Second Agreement if the concession of the Land is not granted to Great Wonders on or before 1 September 2005. Therefore, we are of the view that the aforesaid other terms under the Second Convertible Bond would safeguard the interests of the Company under the Second Agreement as well as the Second Convertible Bond and are in the interests of the Company and its Shareholders as a whole.

(iv) Alternative way of financing

The Directors are of the view that it is beneficial for the Company to lock in a fixed financing cost by issuing the Second Convertible Bond and the consideration under the Second Agreement to be satisfied by issuance of the Second Convertible Bond which is built in with a put option (details of which are out in this paragraph above) and such put option can safeguard the interests of the Company as well as its shareholders as the concession of the Land may or may not be granted to Great Wonders by Macau Government.

In light of the above, we concur with the Directors' view that the Second Convertible Bond is at present a feasible way of raising fund to satisfy the consideration under the Second Agreement.

4. *Effect on the financial position of the Group*

(i) Indebtedness and gearing ratio

Based on the unaudited condensed consolidated balance sheet of the Group for the six months ended 30 June 2004, the unaudited consolidated NTA of the Group as at 30 June 2004 was approximately HK$441.1 million and unaudited condensed consolidated profit attributable to the Shareholders for the six months ended 30 June 2004 was approximately HK$60.1 million. Based on the interest rate of 4.0% carried by the Second Convertible Bond and assuming no conversion of the Second Convertible

Bond, this will translate into interest expense of approximately HK$2.24 million per annum, representing approximately 0.5% of the Group's NTA as at 30 June 2004 and approximately 3.7% of the Group's unaudited condensed consolidated profit attributable to the Shareholders for the six months ended 30 June 2004.

As at 30 June 2004, the Group had total liabilities of approximately HK$254.1 million, which is mainly the current liabilities of approximately HK$231.6 million, and net asset of approximately HK$831.0 million. The Group's indebtedness as at 30 June 2004 amounted to approximately HK$137.8 million, comprising a convertible bond due within one year of HK$22.5 million, a convertible bond due after one year of HK$22.5 million, loan from a minority shareholder of a subsidiary of HK$24.6 million (which was subsequently settled on 7 July 2004) and bank loan and overdraft of HK$68.2 million. Subsequent to 30 June 2004, the Company issued the First Convertible Bond of HK$100 million in order to satisfy the consideration under the First Agreement. Having adjusted for the aforementioned, the gearing ratio of the Group is approximately 28.6% (being the total borrowings divided by the net asset value of the Group). Whilst upon completion of the Second Agreement, the gearing ratio of the Group will be increased to 35.4%. Given the Second Convertible Bond has no immediate effect on its cashflow position and can secure a longer term of financing resources for the Group, we consider the increase in gearing ratio as a result of the Second Agreement to be acceptable.

(ii) Net asset value

It is stated in the Interim Report that the net asset value of the Group amounted to approximately HK$831.0 million. Based on 463,244,054 Shares in issue as at the Latest Practicable Date, the net asset value of the Group as at 30 June 2004 was approximately HK$1.79 per Share. Although the issuance of the Second Convertible Bond will increase the Group's non-current liabilities by HK$56.0 million, the assets of the Group will also increase by the same amount upon completion of the Second Agreement. Therefore, there is no material change to the Group's net asset value as a result of the completion of the Second Agreement and the issuance of the Second Convertible Bond. Assuming full conversion of the Second Convertible Bond, approximately 6,829,268 Shares will be issued and the addition of HK$56.0 million equity capital to the Group, the net asset value per Share of the Group will increase from approximately HK$1.79 to HK$1.89.

However, according to the paragraph headed "I. Unaudited pro forma statement of assets and liabilities of the Enlarged Group" as contained in Appendix IV to the Circular, the Group's net tangible assets would be approximately HK$441.1 million upon completion of the First Agreement as opposed to approximately HK$541.3 million upon completion of the Second Agreement and therefore the net tangible asset per Share will increase from approximately HK$0.95 to HK$1.17 representing an increase of approximately 23.2%. The increase in net tangible assets of the Group is stemmed from a negative goodwill of HK$100.2 million which represents the excess of the fair value of the Land and the total consideration under the Land

Acquisition Agreements. Assuming full conversion of the Second Convertible Bond, approximately 6,829,268 Shares will be issued and the addition of HK$56 million equity capital to the Group, the net tangible asset value per Share of the Group will increase from approximately HK$1.17 to HK$1.27.

5. *Dilution effect on the interests of Independent Shareholders*

A table showing the changes in the shareholding interests of the Group before and after full conversion of the Convertible Bonds is set out in the paragraph headed "Shareholding structure of the Company before and after full conversion of the Convertible Bonds" in the letter from the Board. Based on the Conversion Price of HK$8.2, 6,829,268 Shares will be issued to STDM, representing approximately 1.47% and 1.45% of the existing issued share capital and the issued share capital as enlarged by the full conversion of the Second Convertible Bond of the Group.

As the Conversion Price is significantly higher than that of the First Convertible Bond of HK$4.00 per Share, it is highly likely that the full conversion of the Second Convertible Bond would be following that of the First Convertible Bond. Upon full conversion of the Convertible Bonds, 31,829,268 Shares will be issued to STDM, representing approximately 6.87% and 6.43% of the existing issued share capital and the issued share capital as enlarged by the full conversion of the Convertible Bonds of the Company.

The shareholding interests of public Shareholders will be reduced from approximately 48.49% to:

(i) 47.79% in case of full conversion of the Second Convertible Bond without converting any First Convertible Bond; and

(ii) 45.38% in case of full conversion of the Convertible Bonds.

Given the Conversion Price represents a premium of approximately 358.1% over the net asset value per Share of approximately HK$1.79, based on the unaudited net asset value of the Company as at 30 June 2004 and the Shares in issue as at the Latest Practicable Date and benefits brought to the Group by the Second Agreement as discussed in the paragraph headed "Reasons for and benefits of the Second Agreement" above, we consider that the potential dilution of public Shareholders from approximately 48.49% to utmost 45.38% to be acceptable.

6. *Other areas for Shareholders' attention*

(i) Developing stage of the Group's Gaming Business

The Group first participated in the gaming business by acquisition of 80% equity interests in Mocha Slot in June 2004. Dr. Stanley Ho, the chairman and an executive director of the Company since 1987, is the managing director and founder of STDM, which is a company engaged in a wide range of businesses including gaming and hospitality businesses in Macau with over 40 years of history. Given the extensive experience of Dr. Stanley Ho in the areas of gaming and entertainment, who is a key management of the Group, we are of the view that the Company's management possesses relevant experience which is favourable to the development of the Group's Gaming Business. However, Shareholders should note that, since the Group's Gaming Business is still in developing stage, its turnover and operating performance might fluctuate in near future.

(ii) Regulatory restrictions

It is stated in the letter from the Board that completion of the Subscription Agreement is conditional on, amongst other things, each of the Company and PBL having obtained all requisite consents and approvals, if required, from the relevant regulatory authorities, including but not limited to the relevant gaming regulatory authorities in Macau and or Australia and approval from the Shareholders in connection with the Definitive Agreements and the transactions contemplated thereby. Shareholders should note that there is no assurance for the Company and PBL to obtain all requisite consents and approvals, if required, from the relevant regulatory authorities for pursuance of Gaming Business and the Subscription Agreement may or may not proceed for completion.

(iii) Risk of gaming business

The four-decade monopoly of gaming industry in Macau came to an end since the Macau Government liberalized its gaming and tourism industry in 2002. Recently, about 1 to 1.2 million visitor arrivals in Macau are recorded every month. The increased number of tourists from mainland China and the liberalization of the gaming industry attracts new concessionaires in co-operation to develop Macau's gaming industry and intensifies the competition of the gaming industry in Macau, which may affect the profitability of Melco PBL Holdings in future.

7. *Conclusion*

Despite the fact that the Gaming Business will involve certain business risks as detailed in the paragraph headed "6. Other areas for Shareholders' attention" above, having considered:

(i) that although the Subscription Agreement is not conditional upon the successful completion of the Second Agreement, it is beneficial for the Company to obtain additional 20% interests in Great Wonders for a consideration of HK$56 million as opposed to the additional capital contribution of HK$453 million to the JV Group by PBL Asia;

(ii) that the consideration of the Second Agreement was determined at after arm's length negotiation and on normal commercial terms and with reference to the 20% interest in the Land with the total valuation of HK$288 million as at 5 August 2004 as disclosed in the circular of the Company dated 11 October 2004 while it represents a discount of approximately 23.5% to the 20% interest in the Land with valuation of HK$366 million as at 10 December 2004;

(iii) that the Conversion Price of the Second Convertible Bond represents a substantial premium over the unaudited net tangible asset value of the Company as at 30 June 2004 and significant premium over the closing price during most of the time in the One-year Period and the premium over the average closing price of Shares in the last five trading days prior to the suspension pending the publish of the announcement relating to the Second Agreement is within the range of those of the Comparable Issues;

(iv) that the interest rate of the Second Convertible Bond of 4.0% per annum falls within the range of interest rate carried by the Comparable Issues and is equivalent to other convertible bonds of the Company including the First Convertible Bond;

(v) that other terms of the Second Convertible Bond would safeguard the interests of the Company under the Second Agreement as well as the Second Convertible Bond and are in the interests of the Company and its Shareholders as a whole;

(vi) that the Second Convertible Bond provides the Company with the right to reverse the Second Agreement should the concession of the Land not be granted to Great Wonders by Macau Government;

(vii) that there is no immediate dilution effect on the shareholding interests of the public Shareholders; and

(viii) the Group's net tangible assets would be approximately HK$441.1 million upon completion of the First Agreement as opposed to approximately HK$541.3 million upon completion of the Second Agreement and therefore the net tangible asset per Share will increase from approximately HK$0.95 to HK$1.17 representing an increase of approximately 23.2%,

we consider that the terms of the Second Agreement and the terms of the issue of the Second Convertible Bond are acceptable.

II. REFRESHMENT OF GENERAL MANDATE

Background

At the AGM held on 20 May 2004, the Shareholders approved, amongst other things, an ordinary resolution to grant to the Directors a general mandate to issue securities not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution. At the date of the passing of that resolution, there were 223,888,313 Shares in issue and thus that general mandate granted at the AGM entitled the Directors to issue and allot a total of 44,777,662 Shares, representing 20% of 223,888,313 Shares then in issue. As stated in the letter from board in the Company's circular dated 30 September 2004 in relation to the Previous General Mandate, (i) the issue of 153,478,261 Shares by the Company as the consideration for acquisition of 80% equity interests in Mocha Slot; and (ii) the issue of 150,000 Shares pursuant to the Company's share option scheme during the period from the date of AGM up to and including 28 September 2004, resulted in an increase of Shares in issue by approximately 68.62% from 223,888,313 Shares at the time when the general mandate approved in the AGM to 377,516,574 Shares as at 28 September 2004. Therefore, the Directors, by that time, proposed to seek the then Independent Shareholders' approval on the Previous General Mandate in order to maintain the financial flexibility for the Group's future business development. As stated in the letter from the Board in the Circular, no Share has ever been allotted and issued under the said general mandate granted at the AGM.

On 15 October 2004, the Company announced that it entered into a placing and subscription agreement whereby the Company agreed to issue 75,900,000 new Shares to Better Joy Overseas Limited and Better Joy Overseas Limited agreed to sell to independent third parties an equal amount of Shares, representing 20% of the then existing issued share capital of the Company. It is stated in the letter from the Board that the Company expected to apply the net proceeds of the Placing of approximately HK$377 million, as to approximately HK$94 million for expansion of the Gaming Business, as to approximately HK$207 for development of the Hospitality Business and as to the remaining approximately HK$75 million as working capital for the Group. It is stated in the letter from the Board that, as at the Latest Practicable Date, the Company has utilised a total sum of approximately HK$3.5 million for acquisition of hardware and systems for the Gaming Business and a total sum of approximately HK$17.2 million, mainly for engaging the independent professionals, including architects and surveyors, in relation to the relevant application for the concession of the Land in respect of the Hospitality Business. As advised by the Directors, there is no change in such use of proceeds as the Company is obliged to finance directly the development of Mocha Slot and Great Wonders before the establishment of the JV Group and the Subscription Agreement is yet to become unconditional.

As stated in the letter from the Board, save for the Placing, the issue of securities and convertible notes by the Company for acquisition of 80% equity interests in Mocha Slot as disclosed in the announcement and circular of the Company respectively dated 23 March 2004 and 23 April 2004 and the issue of the First Convertible Bond by the Company for acquisition of 50% equity interests in Great Wonders as disclosed in the announcement and circular of the Company respectively dated 13 September 2004 and 11 October 2004, the Company has not carried out any fund raising exercise over the past twelve months.

The issue of 75,900,000 new Shares under the Placing was pursuant to the general mandate in the announcement dated 15 October 2004, that is approximately 80% of which to be applied for expansion of the Group's Gaming and Hospitality Businesses;

(ii) the issue of securities and convertible notes by the Company for acquisition of 80% equity interests in Mocha Slot announced on 23 March 2004. Such acquisition completed on 9 June 2004; and

(iii) the issue of the First Convertible Bond by the Company for acquisition of 50% equity interests in Great Wonders as announced on 13 September 2004.

As stated in the Company' interim report for the six months ended 30 June 2004, the Group has focused on expanding its principal business of leisure and entertainment in Macau and, by which, the Group's revenue stream has been widened. Given the above, we consider that the fund raising activities of the Company during the past 12 months and the application of net proceeds derived therefrom are in line with the business of the Group and its development strategy.

3. Financial flexibility

As discussed with the management of the Company, the Group will continue to develop and expand its hospitality and gaming businesses in future. However, the management of the Company further advised that the Company at present does not have any concrete fund-raising plan in near future. Despite, as stated in the letter from the Board, there was no immediate funding need for the Group's current operations and the Directors confirmed that they have no present intention of exercising the New General Mandate to allot and issue securities of the Company, the Directors consider that if investment opportunities arise, investment decisions may have to be made in a timely manner and under this circumstance, the New General Mandate would provide the Group with the flexibility as allowed under the Listing Rules to allot and issue new Shares to raise capital through placing of new Shares or convertible bonds as consideration for funding such potential investments, including but not limited to, any potential acquisitions in the future as and when opportunities arise. It is further stated in the letter from the Board in the Circular that the Directors confirmed that, as at the date of the Circular, no such potential acquisitions have been identified and there are no negotiation or agreements entered into by the Company relating to any such potential acquisitions. The increased amount of capital which may be raised under the exercise of the New General Mandate would provide the Group with more options of financing, apart from other financing methods, such as debt financing and funding through internal resources, when any funding need is required for further development of the Group in the future.

4. *Other financing alternatives*

Instead of raising fund by way of issuing equity capital, the Group may consider other financing alternatives such as banking financing and debt issuance in order to meet its financing requirements arising from potential acquisitions. However, these financing alternatives usually will result in the Group incurring financing costs. As such, we concur with the Directors' view that equity financing such as issuance of new Shares and convertible bonds will be one of the suitable means to fund the Group's potential acquisitions and investments as and when such opportunities arise.

Having considered (i) that the Previous General Mandate granted on 15 October 2004 has been substantially utilised to issue 75,900,000 new Shares under the Placing (the net proceeds from which are mainly used for expansion of the Company's "Mocha" slot machine operations in Macau and for development of the luxury hotel and casino on the Land); (ii) the recent business development of the Group; and (iii) the financial flexibility provided by the New General Mandate so as to cope with the Group's further business development in the future, we consider the Refreshment of General Mandate to be reasonable despite the Previous General Mandate has been granted to the Directors in the last three months. Having considered the above factors, we are of the view that the Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above factors and reasons, we consider that (i) the terms of the Second Agreement, including the Second Convertible Bond, are fair and reasonable as far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders as a whole; and (ii) the Refreshment of General Mandate is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote at the EGM in favour of the resolutions in relation to the Second Agreement, including the Second Convertible Bond, and the Refreshment of General Mandate.

Yours faithfully,
For and on behalf of
Dao Heng Securities Limited

Venus Choi	**Jenny Leung**
Executive Director	*Director, Corporate Finance*

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5th January 2005

The Directors
Melco International Development Limited

Dear Sirs,

Great Wonders, Investments, Limited, ("Great Wonders") was established in Macau on 15th September 2004 ("date of establishment") as a limited liability company.

As at 31st October 2004, the registered capital of Great Wonders was MOP$1 million and comprised amount due from shareholders of MOP$1 million. Great Wonders had not commenced operation since the date of establishment to 31st October 2004.

The accounting policy adopted by Great Wonders are consistent with that of the Group.

Up to the date of this report, Great Wonders had entered into a development contract with an independent contractor to develop the hotel on the Land. The contract amount was HK$1,448 million.

No audited accounts have been prepared up to the date of this report.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH JUNE 2004

Set our below is an extract of the financial information of the Group from its interim report for the six months ended 30th June 2004.

Unaudited Condensed Consolidated Profit and Loss Account
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited Six months ended 30th June	
		2004	**2003**
	Note	*HK$'000*	*HK$'000*
Turnover	2	210,865	58,377
Other revenues		4,638	5,223
Cost of inventories sold		(86,312)	(5,629)
Staff costs		(50,108)	(33,223)
Depreciation of fixed assets	7	(5,943)	(7,536)
Amortisation of intangible assets	7	(3,274)	(1,725)
Commission expense		(27,161)	(5,795)
Gain on disposal of investment properties		57,175	–
Other operating expenses		(36,676)	(30,097)
Total operating expenses		(152,299)	(84,005)
Operating profit/(loss)	3	63,204	(20,405)
Finance costs		(1,235)	(344)
Profit/(loss) before taxation		61,969	(20,749)
Taxation credit	4	814	–
Profit/(loss) after taxation		62,783	(20,749)
Minority interests		(2,689)	5,866
Net profit/(loss) attributable to shareholders		60,094	(14,883)
Basic earnings/(loss) per share	5	HK24.84 cents	(HK10.24 cents)
Fully diluted earnings/(loss) per share	5	HK24.09 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2004

	Note	Unaudited 30th June 2004 HK$'000	Audited 31st December 2003 HK$'000
Non-current assets			
Fixed assets	7	183,726	187,916
Investment securities		20,637	20,637
Intangible assets	7	389,860	22,998
Other non-current assets		4,402	9,065
Current assets			
Inventories		2,085	4,137
Trade receivables	8	327,096	236,390
Prepayments, deposits and other receivables		21,667	9,966
Other investments		44,813	40,638
Bank balances and cash		165,814	142,771
		561,475	433,902
Current liabilities			
Trade payables	9	86,492	108,470
Accrued liabilities and other payables		28,780	41,643
Taxation payable		735	–
Deferred tax liabilities		262	324
Loan from a minority shareholder of a subsidiary	10	24,636	–
Bank loans and overdrafts		68,158	–
Convertible notes due within one year	11	22,500	–
		231,563	150,437
Net current assets		329,912	283,465
Total assets less current liabilities		928,537	524,081
Financed by:			
Share capital	12	377,366	221,997
Reserves		453,625	238,725
Shareholders' funds		830,991	460,722
Minority interests		75,046	62,952
Non-current liabilities			
Rental deposits due after one year		–	407
Convertible notes due after one year	11	22,500	–
		928,537	524,081

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited					
	Share Capital	**Share premium**	**Investment properties revaluation reserve**	**Capital reserve**	**Accumulated loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	221,997	49,677	82,948	357,785	(251,685)	460,722
Profit for the period	–	–	–	–	60,094	60,094
Realisation of investment properties revaluation reserve upon disposal of investment properties	–	–	(56,175)	–	–	(56,175)
Issuance of shares	153,478	211,033	–	–	–	364,511
Share issuance expenses	–	(60)	–	–	–	(60)
Exercise of share option	1,891	8	–	–	–	1,899
At 30th June 2004	377,366	260,658	26,773	357,785	(191,591)	830,991

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
Net cash used in operation activities	(125,699)	(34,591)
Net cash generated from/(used in) investing activities	79,900	(334)
Net cash generated from/(used in) financing activities	68,842	(62,301)
Increase/(decrease) in cash and cash equivalents	23,043	(97,226)
Cash and cash equivalents at 1st January	142,771	219,229
Cash and cash equivalents at 30th June	165,814	122,003

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

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

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Segment information

The Group's business can be principally segregated into four segments during this interim period:–

The leisure and entertainment segment, which mainly comprises (a) Mocha – leasing of electronic gaming machines and provision of management services to casino operators in Macau; and (b) Jumbo – restaurant operations.

The technology segment, which mainly comprises (a) Elixir – provision of gaming technology infrastructure and systems in Macau and (b) iAsia – development and sale of financial trading and settlement systems in Asia.

The investment banking and financial services segment (operated through Value Convergence), which mainly comprises (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory services; and (b) broking and dealing for clients in securities, futures and options contracts.

The property and other investments segment, which mainly comprises property investments, other investments and related activities. One of the investment properties of this segment was disposed of during the period at a gain of approximately HK$57 million.

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

	Six months ended 30th June 2004				
	Leisure and entertainment *HK$'000*	**Technology** *HK$'000*	**Investment banking and financial services** *HK$'000*	**Property and other investments** *HK$'000*	**Group** *HK$'000*
Revenue					
Segment turnover	37,741	105,961	65,292	2,096	211,090
Intersegment sales	(38)	(187)	–	–	(225)
	37,703	105,774	65,292	2,096	210,865
Segment results	(5,228)	9,046	9,017	59,180	72,015
Unallocated costs					(8,811)
Operating profit					63,204
Finance costs					(1,235)
Profit before taxation					61,969
Taxation credit					814
Profit after taxation					62,783
Minority interests					(2,689)
Net profit attributable to shareholders					60,094

2. **Segment information** *(Continued)*

	Six months ended 30th June 2003				
	Leisure and entertainment	**Technology**	**Investment banking and financial services**	**Property and other investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
Segment turnover	25,127	10,047	20,693	2,510	58,377
Segment results	(7,126)	(7,515)	(5,922)	5,317	(15,246)
Unallocated costs					(5,159)
Operating profit					(20,405)
Finance costs					(344)
Loss before taxation					(20,749)
Taxation					–
Minority interests					5,866
Net loss attributable to shareholders					(14,883)

Unallocated costs represent corporate expenses.

3. **Operating profit/(loss)**

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

	Six months ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
Crediting:		
Write-back of over-provision for long service payment obligation	–	629
Gain on disposal of fixed assets:		
– investment properties	57,175	–
– other fixed assets	1,526	–
Charging:		
Loss on disposal of fixed assets	–	317

4. Taxation and deferred taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
Current taxation:		
– Provision for overseas taxation	(129)	–
– Over-provision of Hong Kong taxation in prior years	619	–
Deferred taxation relating to the origination and reversal of timing differences	324	–
Taxation credit	814	–

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	Six months ended 30th June	
	2004	**2003**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	61,969	(20,749)
Calculated at a taxation rate of 17.5%	(10,845)	3,631
Effect of different taxation rates in Macau	206	–
Expenses not deductible for taxation purposes	(529)	(265)
Income not assessable for taxation purposes	12,112	141
Over-provision of current taxation in prior years	619	–
Utilisation of previously unrecognised tax losses	2,842	71
Unrecognised deferred tax assets arising from estimated tax losses	(3,591)	(3,578)
Taxation credit	814	–

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The deferred tax liabilities provided for at the balance sheet date mainly arose from accelerated depreciation allowance. The movements during the period are as follows:

	Six months ended 30th June	Year ended
	2004	**2003**
	HK$'000	*HK$'000*
As at 1st January	324	–
Acquisition of subsidiary	262	–
(Credited)/charged to profit and loss account	(324)	324
	262	324

4. Taxation and deferred taxation *(Continued)*

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

	As at 30th June 2004 *HK$'000*	**As at 31st December 2003** *HK$'000*
Accelerated depreciation allowances	2,982	3,147
Tax losses	(78,850)	(78,101)
	(75,868)	(74,954)

The tax losses of the Group as at 30th June 2004 and 31st December 2003 were available for carry forward but subject to the approval of the Inland Revenue Department of Hong Kong and the tax bureau in Macau. These tax losses have no expiry date.

5. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share are based on (i) the Group's net profit attributable to shareholders of approximately HK$60,094,000 (2003: net loss of approximately HK$14,883,000); and (ii) 241,921,542 (2003: 145,287,134) weighted average ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th June 2004 are based on (i) the adjusted net profit attributable to shareholders of approximately HK$60,184,000 which is the net profit attributable to the shareholders for the period adjusted for interest expense of approximately HK$90,000; and (ii) 249,800,077 ordinary shares, being the 241,921,542 weighted average ordinary shares in issue during the period plus the weighted average number of 6,699,262 ordinary shares deemed to be issued at no consideration if all outstanding options with dilutive effect on the basic earnings/(loss) per share had been exercised and the weighted average number of 1,179,273 ordinary shares deemed to be issued if all the convertible notes have been converted into ordinary shares since their issuance. The diluted loss per share for the period ended 30th June 2003 has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to basic loss per share.

6. Interim dividend

The directors declared an interim dividend of 1 HK cent per ordinary share (2003: nil) totalling HK$3.77 million for the period. The declared dividend is not reflected as a dividend payable in the accounts for the period.

7. Capital expenditure

	Goodwill *HK$'000*	Trading rights *HK$'000*	Total intangible assets *HK$'000*	Investment properties *HK$'000*	Construction-in-progress *HK$'000*	Other fixed assets *HK$'000*	Total fixed assets *HK$'000*
Opening net book amount as at 1st January 2004	19,705	3,293	22,998	159,000	–	28,916	187,916
Acquisition of Mocha Slot Group Limited ("Mocha Slot") *(note 13(a))*	361,427	–	361,427	–	–	64,449	64,449
Goodwill arising from acquisition of the technology segment *(note 13(b))*	8,709	–	8,709	–	–	–	–
Other additions	–	–	–	–	12,030	7,934	19,964
Disposals	–	–	–	(82,000)	–	(660)	(82,660)
Depreciation/ amortisation charge	(3,021)	(253)	(3,274)	–	–	(5,943)	(5,943)
Closing net book amount as at 30th June 2004	386,820	3,040	389,860	77,000	12,030	94,696	183,726

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. The goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life ranging from 10 years to 20 years.

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and the HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE. Trading rights are amortised over their estimated useful lives of 10 years.

8. Trade receivables

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

	Within 30 days *HK$'000*	31 to 90 days *HK$'000*	Over 90 days *HK$'000*	Total *HK$'000*
Balance at 30th June 2004	305,564	15,183	13,183	333,930
Provision for doubtful debts				(6,834)
				327,096
Balance at 31st December 2003	233,123	3,312	6,288	242,723
Provision for doubtful debts				(6,333)
				236,390

(a) The Group's leisure and entertainment segment and the property and other investment segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30-60 days would be granted.

8. Trade receivables *(Continued)*

(b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the investment banking and financial services segment as at 30th June 2004 amounted to approximately HK$281,004,000 (31st December 2003: HK$235,922,000). The settlement terms of the trade receivables arising from the broking in securities and equity options transactions are two days after the trade date of those transactions; and the trade receivables arising from the dealing in futures and options are one day after the trade date.

Loans to margin clients (included in investment banking and financial services) are secured by client's pledged securities, repayable on demand and bear interest at commercial rates.

(c) Other trade receivables are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days on average to its customers.

9. Trade payables

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

	Within 30 days *HK$'000*	31 to 90 days *HK$'000*	Over 90 days *HK$'000*	Total *HK$'000*
Balance at 30th June 2004	76,316	6,123	4,044	86,492
Balance at 31st December 2003	104,658	3,416	396	108,470

10. Loan from a minority shareholder of a subsidiary

The loan form a minority shareholder of a subsidiary is unsecured, interest bearing at 4% per annum and repayable on demand. The balance was subsequently settled on 7th July 2004.

11. Convertible notes

	As at 30th June 2004 *HK$'000*	As at 31st December 2003 *HK$'000*
Convertible note due 30th June 2005 ("2005 Convertible Note") at par	22,500	–
Convertible note due 30th June 2006 ("2006 Convertible Note") at par	22,500	–
	45,000	–

On 9th June 2004 ("Date of Issuance"), the Company issued at par the 2005 Convertible Note and 2006 Convertible Note with principal amount of HK$22,500,000 and HK$22,500,000 respectively, which are interest-bearing at 4% per annum. The convertible notes were issued to partially replace the shareholders' loans of Mocha Slot acquired by the Company during the period.

The 2005 Convertible Note and 2006 Convertible Note are convertible into fully paid ordinary shares of HK$1 each of the Company at an initial conversion price of HK$2.3 per share since the Date of Issuance until, and including, the day immediately before 30th June 2005 and 30th June 2006 respectively. As at 30th June 2004, none of the convertible notes had been converted into the ordinary shares of the Company.

12. Share capital

	Authorised Ordinary shares of HK$1 each	
	No. of shares	*HK$'000*
At 1st January 2003 and 2004	480,000,000	480,000
Increase in authorised ordinary share capital *(note a)*	220,000,000	220,000
At 30th June 2004	700,000,000	700,000

	Issued and fully paid Ordinary shares of HK$1 each	
	No. of shares	*HK$'000*
At 1st January 2003	145,287,134	145,287
Issue of right shares	72,643,567	72,644
Exercise of share options	4,066,306	4,066
At 31st December 2003	221,997,007	221,997
Issue of shares *(note b)*	153,478,261	153,478
Exercise of share options	1,891,306	1,891
At 30th June 2004	377,366,574	377,366

(a) By a special resolution passed on 20th May 2004, the authorized ordinary share capital of the Company was increased from HK$480,000,000 to HK$700,000,000 by the creation of an additional 220,000,000 authorised ordinary shares of HK$1 each.

(b) On 9th June 2004, 153,478,261 ordinary shares of HK$1 each were issued at a premium of HK$1.375 each as the purchase consideration for the acquisition of Mocha Slot during the period (see Note 13(a) for details).

13. Acquisitions

(a) On 9th June 2004, the Group completed the acquisition of 80% of the issued share capital of Mocha Slot which is engaged in the leasing of gaming machines and provision of related management services to casino operators in Macau. The purchase consideration was settled by issuance of new shares of the Company (notes 12(b)). The fair value of the net identifiable assets of Mocha Slot at the date of acquisition was approximately HK$4,737,000. Direct costs related to the acquisition amounted to approximately HK$706,000 and were fully settled in cash. The resulting goodwill of approximately HK$361,427,000 is amortised on a straight-line basis of 10 years.

The fair value of the assets and liabilities arising from the acquisition of Mocha Slot are as follows:

	HK$'000
Fixed assets *(note 7)*	64,449
Accounts receivables	5,832
Bank balances and cash	10,971
Other current assets	7,569
Shareholders' loans	(69,556)
Deferred tax liabilities	(262)
Other current liabilities	(14,266)
Fair value of net identifiable assets acquired	4,737
Minority interests	(947)
The Company's share of the fair value of net identifiable assets acquired	3,790
Purchase consideration – settled by issuance of new shares	364,511
Direct costs related to the acquisition – settled by cash	706
Total costs of acquisition	365,217
Less: the Company's share of the fair value of net identifiable assets acquired	3,790
Goodwill arising from acquisition of Mocha Slot	361,427
Payment of direct costs related to the acquisition	(706)
Bank balance and cash acquired	10,971
Net cash inflow from acquisition of Mocha Slot	10,265

(b) On 31st May 2004, the Company completed the acquisition of the subsidiaries comprising the technology segment from Value Convergence and on 1st June 2004, the acquisition of an additional 10% equity interest in EGL from Mr. Gordon Lee and Mr. Leong Van Tat in aggregate consideration of HK$28,227,000. Goodwill arising from these acquisitions, which comprised Value Convergence's minority shareholders' entitlement to the gain on disposal of the companies comprising the technology segment by Value Convergence and the direct costs related to the acquisitions, amounted to approximately HK$8,709,000 and is amortised on a straight-line basis of 20 years.

14. Capital commitments

At 30th June 2004, the Group had contracted commitments in respect of renovation project as follows:

	30th June 2004 *HK$'000*	**31st December 2003** *HK$'000*
Contracted but not provided for	6,092	4,547

15. Related party transactions

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

(a) The trade receivables as at 30th June 2004 include amounts due from related companies in relation to sales of computer hardware and software to related companies of approximately HK$31,535,000 (31st December 2003: HK$1,808,000).

(b) The prepayments, deposits and other receivables as at 30th June 2004 include amounts due from customers on contracts in relation to sales of computer hardware and software to related companies of approximately HK$1,414,000 (31st December 2003: HK$1,702,000).

(c) The accruals and other payables as at 30th June 2004 include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$202,000 (31st December 2003: HK$10,180,000).

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

		Six months ended 30th Jun 2004	
		2004	**2003**
	Note	*HK$'000*	*HK$'000*
Catering income earned from directors and related companies	(i)	1,414	679
Insurance premiums charged by a related company	(ii)	796	453
Property management fees charged by a related company	(iii)	250	204
Brokerage commission income earned from certain directors of the Group or their relatives	(iv)	160	–
Sales of computer hardware and software to related companies	(v)	89,935	–

Notes:

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

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho, a director of the Company, is also a director and has direct and indirect beneficial interests in STHL.

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

(iv) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.

(v) Service fees charged and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

16. Events subsequent to the balance sheet date

Please refer to page 5 of the interim report for the details of significant events subsequent to 30th June 2004.

2. AUDITED CONSOLIDATED RESULTS OF THE GROUP

(i) Consolidated Profit & Loss Accounts

Set our below are the audited consolidated profit and loss accounts of the Group for the years ended 31st December 2003, 2002 and 2001 extracted from the audited financial statements of the Group for the relevant years. Certain of the 2002 and 2001 comparative figures have been reclassified to conform to the presentation of the audited financial statements for the year ended 31st December 2003.

	2003 *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*
Turnover	164,036	82,838	99,409
Other revenues	5,494	4,084	291
Other income	10,186	–	–
Cost of inventories sold	(36,703)	(24,159)	(28,312)
Staff costs (include directors' emoluments)	(76,499)	(55,747)	(60,386)
Depreciation and amortisation	(19,232)	(5,927)	(6,040)
Commission expense	(26,088)	–	–
Other operating expenses	(51,968)	(39,219)	(26,054)
Total operating expenses	(210,490)	(125,052)	(120,792)
Loss before finance costs and taxation	(30,774)	(38,130)	(21,092)
Finance costs	(2,007)	–	–
Loss before taxation	(32,781)	(38,130)	(21,092)
Taxation	(1,201)	–	–
Loss after taxation	(33,982)	(38,130)	(21,092)
Minority interests	7,648	2,534	2,457
Net loss attributable to shareholders	(26,334)	(35,596)	(18,635)
Basic loss per share (HK cents)	(15.9)	(27.1)	(15.4)
Fully diluted loss per share	N/A	N/A	N/A

(ii) Audited Accounts

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for the two years ended 31st December 2002 and 2003, the audited consolidated balance sheets of the Group as at 31st December 2002 and 2003, the audited balance sheets of the Company as at 31st December 2002 and 2003 and the audited consolidated cash flow statement of the Group for the two years ended 31st December 2002 and 2003, together with the relevant notes to the accounts as extracted from the audited financial statements of the Group for the year ended 31st December 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Turnover	2, 26(d)	164,036	82,838
Other revenues	2	5,494	4,084
Other income	3	10,186	–
Cost of inventories sold		(36,703)	(24,159)
Staff costs (include directors' emoluments)		(76,499)	(55,747)
Depreciation and amortisation		(19,232)	(5,927)
Commission expense		(26,088)	–
Other operating expenses	26(d)	(51,968)	(39,219)
Total operating expenses		(210,490)	(125,052)
Loss before finance costs and taxation	4	(30,774)	(38,130)
Finance costs	5	(2,007)	–
Loss before taxation		(32,781)	(38,130)
Taxation	6	(1,201)	–
Loss after taxation		(33,982)	(38,130)
Minority interests		7,648	2,534
Net loss attributable to shareholders	7	(26,334)	(35,596)
Basic loss per share (HK cents)	9	(15.9)	(27.1)
Fully diluted loss per share	9	N/A	N/A

CONSOLIDATED BALANCE SHEET

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Intangible assets	11	22,998	–
Fixed assets	12	187,916	177,326
Investment securities	14	20,637	–
Pledged bank deposits	24	304	1,100
Other non-current assets		8,761	–
		240,616	178,426
Current assets			
Inventories	15	4,137	2,986
Trade receivables	16, 26(a)	236,390	2,782
Prepayment, deposits and other receivables	26(b)	9,537	8,939
Amounts due from related companies	18	429	2,407
Other investments	17	40,638	4,000
Bank balances and cash		142,771	219,229
		433,902	240,343
Current liabilities			
Trade payables	19	108,470	2,356
Accrued liabilities and other payables	26(c)	41,319	15,230
Rental deposits due within one year		324	582
Deferred tax liabilities	6	324	–
		150,437	18,168
Net current assets		283,465	222,175
Total assets less current liabilities		524,081	400,601
Financed by:			
Share capital	20	221,997	145,287
Reserves	22	238,725	230,837
Shareholders' funds		460,722	376,124
Minority interests		62,952	24,258
Non-current liabilities			
Rental deposits due after one year		407	219
		524,081	400,601

BALANCE SHEET

		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Non-current assets			
Fixed assets	12	–	4
Interest in subsidiaries	13	389,624	303,551
		389,624	303,555
Current assets			
Prepayments, deposits and other receivables		673	214
Bank balances and cash		15,440	3,175
		16,113	3,389
Current liabilities			
Accrued liabilities and other payables		3,742	3,462
Net current assets/(liabilities)		12,371	(73)
Total assets less current liabilities		401,995	303,482
Financed by:			
Share capital	20	221,997	145,287
Reserves	22	179,998	158,195
Shareholders' funds		401,995	303,482

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	**2003** *HK$'000*	**2002** *HK$'000*
Total equity as at 1st January		376,124	374,469
Surplus on revaluation of properties	22	3,734	2,600
Net gain not recognised in the profit and loss account		3,734	2,600
Loss for the year	22	(26,334)	(35,596)
Issue of right shares, including share premium	20, 22	105,333	35,090
Share issue expenses	22	(2,441)	(439)
Exercise of share option	20, 22	4,306	–
Total equity as at 31st December		460,722	376,124

CONSOLIDATED CASH FLOW STATEMENT

	Note	2003 HK$'000	2002 HK$'000
Net cash used in operation	23(a)	(43,931)	(22,068)
Hong Kong profits tax paid		(877)	–
Net cash outflow from operating activities		(44,808)	(22,068)
Investing activities			
Purchase of subsidiaries net of cash and cash equivalents acquired	23(c)	22,142	–
Proceeds from partial disposal of investment in a subsidiary		4,200	–
Interest income from authorised financial institutions		712	3,538
Dividend income		200	–
Purchase of fixed assets		(8,366)	(996)
Purchase of long term investment		–	(4,250)
Increase in pledged bank deposits		(184)	(189)
Proceeds from disposal of fixed assets		326	–
Purchase of investment securities – unlisted equity securities		(19,837)	–
Purchases of other investment less proceeds from subsequent disposals		(30,452)	(4,000)
Disposal of other investments acquired in previous years		4,000	–
Increase in other non-current assets		(3,247)	–
Net cash outflow from investing activities		(30,506)	(5,897)
Net cash outflow before financing		(75,314)	(27,965)
Financing activities			
Proceeds from issue of shares	23(b)	109,639	34,651
Share issuance expenses	23(b)	(2,441)	–
Interest paid		(2,007)	–
Repayment of bank loan	23(b)	(106,335)	–
Net cash (outflow)/inflow from financing		(1,144)	34,651
(Decrease)/increase in cash and cash equivalents		(76,458)	6,686
Cash and cash equivalents at the beginning of year		219,229	212,543
Cash and cash equivalents at the end of year		142,771	219,229
Analysis of balances of cash and cash equivalents			
Bank balances and cash		125,770	14,394
Time deposits with original maturity of less than three months when acquired		17,001	204,835
		142,771	219,229

NOTES TO THE ACCOUNTS

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.

In the current year, the Group has adopted SSAP12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. Management considered that the adoption of SSAP 12 does not have material impact to the accounts of the Group.

The principal accounting policies below have taken into account the adoption of the new standard.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Revenue recognition

Revenue from the provision of catering services, technology consultation services and investment banking and financial services and underwriting commission income are recognised when the services are rendered.

Revenue from sales of computer hardware and software are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

Revenue from the sale of other products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

All transactions related to securities trading, futures and options contracts dealings and the related commission income are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.

Operating lease rental income is recognised on a straight-line basis over the lease terms.

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

Dividend income is recognised when the right to receive payment is established.

1. Principal accounting policies *(Continued)*

(e) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

(ii) Trading rights

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE. Trading rights were recognised as intangible assets and are amortised using the straight-line method over their estimated useful lives.

(f) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, and rental income being negotiated at arm's length.

Investment properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land of other properties is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

1. **Principal accounting policies** *(Continued)*

(f) Fixed assets *(Continued)*

(iv) Gain or loss on sale

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the investment property is transferred to retained earnings and is shown as a movement in reserves.

(g) Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the tangible and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(h) Investments securities and other investments

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Trade receivables

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

(j) Contracts in progress

Contract revenue and contract costs are recognised based on the percentage of completion method as detailed in note 1(d). When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on contracts, under current liabilities. Costs incurred in the period in connection with future activity on a contract are excluded and shown as work-in-progress included in inventories.

Amounts due from customers on contracts are included in prepayments, deposits and other receivables.

1. **Principal accounting policies** *(Continued)*

(k) Inventories

Inventories comprise stocks and work in progress.

Stocks are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Accounting policy for work-in-progress is set out in note 1(j).

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

(m) Operating leases

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

When the Group is the lessor, assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income (net of any incentives) given to lessees is recognised on a straight line basis over the lease terms.

(n) Translation of foreign currencies

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

The balance sheet of subsidiaries expressed in foreign currencies are translated in Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(o) Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off balance sheet items. As at 31st December 2003, the Group maintained trust accounts with Hong Kong Futures Exchange Clearing Corporation Limited in conjunction with its future brokerage business and authorised institutions as a result of its normal business transactions with amounts of approximately HK$6,116,000 (2002: nil) and HK$249,349,000 (2002: nil) respectively, which are not dealt with in the accounts.

1. Principal accounting policies *(Continued)*

(p) Employee benefits

(i) Pension obligations

The Group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The Group also contributes to the Mandatory Provident Fund ("MPF") scheme which is available to all Hong Kong employees. Contributions to the MPF scheme by the employees are calculated as a percentage of employees' basic salaries with a maximum of HK$1,000 per employee per month and are expensed as incurred. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

(ii) Employee leave and long service payment entitlements

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

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

(q) Borrowing costs

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

(r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, investments in securities, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

2. Turnover, revenue and segment information

Turnover and revenue are principally arising from the following business segments:

The investment banking and financial services segment, which mainly comprises broking and dealing for clients in securities and future and option contracts mainly on the HKSE and HKFE and the provision of other related financial services including margin financing, securities underwriting, placing, advisory services and investment holding.

The technology segment, which mainly comprises sales of technology solution systems and related services to customers principally in Asia.

The leisure and entertainment segment, which mainly comprises restaurant operations and related activities.

The property and other investments segment, which mainly comprises property investment, other investments and related activities.

2. Turnover, revenue and segment information *(Continued)*

Revenue recognised during the year are as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Turnover (see primary reporting formal – business segments for details)	164,036	82,838
Other revenues		
Proceeds from insurance claim	93	1
2		

Othees

2. Turnover, revenue and segment information *(Continued)*

Primary reporting formal – business segments *(Continued)*

	Year ended/As at 31st December 2002		
	Leisure and entertainment	**Property and other investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Revenues			
Turnover	77,929	4,909	82,838
Other revenues	1,633	2,451	4,084
	79,562	7,360	86,922
Segment results	(21,395)	(8,684)	(30,079)
Unallocated costs			(8,051)
Loss before finance cost and taxation			(38,130)
Segment assets	36,482	382,287	418,769
Segment liabilities	12,367	6,020	18,387
Other segment information:			
Depreciation	5,580	347	5,927
Capital expenditures	207	789	996
Impairment of assets	–	9,054	9,054
Fixed assets written off	3,858	–	3,858
Provision against deposit paid	–	3,500	3,500

Secondary reporting format – geographical segments

	Year ended 31st December 2003			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	143,674	(15,715)	631,548	24,504
The People's Republic of China excluding Hong Kong ("PRC")	–	(501)	614	564
United Kingdom	–	–	992	–
Macau	20,362	353	20,727	1,775
	164,036	(15,863)	653,881	26,843
Unallocated costs		(14,911)		
Loss before finance costs and taxation		(30,774)		
Investment securities			20,637	
Total assets			674,518	

No geographical segment analysis for the year ended 31st December 2002 is presented as the Group's revenues, assets and liabilities are principally derived from operations carried out in Hong Kong for the year ended 31st December 2002.

3. Other income

	2003 *HK$'000*	2002 *HK$'000*
Realised gain on trading of other investments	9,228	–
Unrealised gain on holding of other investments	958	–
Total	10,186	–

4. Loss before finance costs and taxation

Loss before finance costs and taxation is stated after crediting and charging the following:

	2003 *HK$'000*	2002 *HK$'000*
Charging		
Auditors' remuneration	674	437
Loss on disposal of fixed assets	478	–
Fixed assets written off	–	3,858
Impairment of fixed assets	3,080	143
Impairment of investment securities – unlisted equity securities	1,200	8,912
Provision for doubtful receivables	2,056	–
Provision against deposit paid	–	3,500
Depreciation of fixed assets	16,154	5,927
Amortisation of intangible assets	3,078	–
Operating leases in respect of land and buildings	6,009	375
Termination benefits	1,175	3,638
Pension costs – contributions to defined contribution plans	3,056	1,967
Forfeiture of pension contributions	(2,127)	–
Crediting		
Rental income:		
Gross	(5,467)	(6,180)
Outgoings	84	300
Net of outgoings	(5,383)	(5,880)

5. Finance costs

	2003 *HK$'000*	2002 *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	1,967	–
Others	40	–
	2,007	–

6. Taxation and deferred taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2003	**2002**
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	(354)	–
– Under provisions in prior years	(523)	–
Deferred taxation relating to the origination and reversal of timing differences	(324)	–
Taxation charges	(1,201)	–

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Loss before taxation	(32,781)	(38,130)
Calculated at a taxation rate of 17.5% (2002: 16%)	5,737	6,101
Effect of different taxation rates in Macau	(5)	–
Expenses not deductible for taxation purposes	(457)	–
Utilisation of previously unrecognised tax losses	71	–
Under-provision of current taxation in prior years	(523)	–
Unrecognised deferred tax assets arising from estimated tax losses	(6,024)	(6,101)
Taxation charge	(1,201)	–

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The deferred tax liabilities provided for at the balance sheet date arose from accelerated depreciation allowance. The movements during the year are as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
As at 1st January	–	–
Charged to profit and loss account	324	–
	324	–

6. Taxation and deferred taxation *(Continued)*

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

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Accelerated depreciation allowances	3,147	582
Tax losses	(78,101)	(20,258)
	(74,954)	(19,676)

Included in the Group's net deferred assets not provided for as at 31st December 2003 was an amount of approximately HK$49,982,000 attributable to the tax losses of Value Convergence Holdings Limited and its subsidiaries, which have become subsidiaries of the Group during the year.

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Accelerated depreciation allowances	–	(1)
Tax losses	(2,513)	(2,268)
	(2,513)	(2,269)

The tax losses of the Group and the Company as at 31st December 2003 were available for carry forward but subject to the approval of the Hong Kong Inland Revenue Department and the tax bureau in Macau. These tax losses have no expiry date.

7. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the company to the extent of a loss of HK$8,685,000 (2002: HK$10,933,000).

8. Dividends

No dividends have been paid or declared by the Company during the year ended 31st December 2003 (2002: nil).

9. Loss per share

The calculation of basic loss per share is based on the Group's net loss attributable to shareholders of HK$26,334,000 (2002: HK$35,596,000) and the weighted average number of 165,762,626 (2002: HK$131,231,244) ordinary shares in issue during the year, taking into account the issuance of rights shares in August 2003 (Note 20(b)).

Diluted loss per share has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share (2002: anti-dilutive).

10. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Fees	951	1,745
Other emoluments:		
Basic salaries, allowances, share options and benefits in kind	3,557	1,984
Retirement benefits scheme contributions	27	42
	3,584	2,026
	4,535	3,771

Directors' fees disclosed above include approximately HK$854,000 (2002: HK$600,000) paid to independent non-executive directors.

During the year, no (2002: 4,843,484) share options were granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 21 to the accounts. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' emoluments disclosure.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
Emolument bands		
HK$nil – HK$1,000,000	6	9
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	2	–

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Basic salaries, allowances, share options, and benefits in kind	7,602	2,112
Retirement benefits scheme contribution	28	42
	7,630	2,154

The emoluments fell within the following bands:

	Number of directors	
	2003	2002
Emolument bands		
HK$nil – HK$1,000,000	–	3
HK$1,000,001 – HK$1,500,000	1	–
HK$1,500,001 – HK$2,000,000	1	–
HK$4,000,001 – HK$4,500,000	1	–

10. Directors' and senior management's emoluments *(Continued)*

(c) During the year, no (2002: nil) directors or the above highest paid individuals waived or agreed to 10 Directors' and senior management's emoluments waive any emoluments. No (2002: nil) emoluments have been paid to the directors of the Company or the above highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

11. Intangible assets

		Group	
	Goodwill	**Trading rights**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1st January 2003	–	–	–
Acquisition of subsidiaries *(Note: 23(c))*	22,319	3,757	26,076
At 31st December 2003	22,319	3,757	26,076
Accumulated amortisation			
At 1st January 2003	–	–	–
Charge for the year	(2,614)	(464)	(3,078)
At 31st December 2003	(2,614)	(464)	(3,078)
Net book value			
At 31st December 2003	19,705	3,293	22,998
At 1st January 2003	–	–	–

The addition of goodwill during the year arose from the acquisition of Value Convergence Holdings Limited during the year (see note 23(c) for further details). The goodwill is amortised over their estimated useful lives of 10 years.

Trading rights are amortised over their estimated useful lives of 10 years.

12. Fixed assets

	Group					
	Investment properties	**Restaurant vessels, ferries and pontoons**	**Leasehold land and buildings**	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of valuation						
At 1st January 2003	155,000	43,497	614	686	50,961	250,758
Acquisition of subsidiaries *(Note 23(c))*	–	–	–	2,756	54,732	57,488
Additions	–	168	–	5,230	2,968	8,366
Surplus on revaluation	4,000	–	–	–	–	4,000
Write-off	–	–	–	–	(16,902)	(16,902)
Disposals	–	–	–	(1,421)	(1,247)	(2,668)
Exchange translation	–	–	–	226	73	299
At 31st December 2003	159,000	43,665	614	7,477	90,585	301,341
Accumulated depreciation and impairment						
At 1st January 2003	–	33,193	180	365	39,694	73,432
Acquisition of subsidiaries *(Note 23(c))*	–	–	–	259	38,752	39,011
Charge for the year	–	1,777	9	2,139	12,229	16,154
Impairment charge	–	–	–	–	3,080	3,080
Write-off	–	–	–	–	(16,902)	(16,902)
Disposals	–	–	–	(883)	(746)	(1,629)
Exchange translation	–	–	–	211	68	279
At 31st December 2003	–	34,970	189	2,091	76,175	113,425
Net book value						
At 31st December 2003	159,000	8,695	425	5,386	14,410	187,916
At 31st December 2002	155,000	10,304	434	321	11,267	177,326

The analysis of the cost or valuation at 31st December 2003 of the above asset is as follows:

	Investment properties	**Restaurant vessels, ferries and pontoon**	**Leasehold land and buildings**	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	43,665	614	7,477	90,585	142,341
At valuation	159,000	–	–	–	–	159,000
	159,000	43,665	614	7,477	90,585	301,341

12. Fixed assets *(Continued)*

The analysis of the cost or valuation at 31st December 2002 of the above asset is as follows:

	Investment properties *HK$'000*	Restaurant vessels, ferries and pontoon *HK$'000*	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
At cost	–	43,497	614	686	50,961	95,758
At valuation	155,000	–	–	–	–	155,000
	155,000	43,497	614	686	50,961	250,758

	Company Furniture, fixtures and equipment *HK$'000*
Cost	
At 1st January 2003 and 31st December 2003	6
Accumulated depreciation	
At 1st January 2003	2
Charge for the year	4
At 31st December 2003	6
Net book value	
At 31st December 2003	–
At 31st December 2002	4

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

The Group's investment properties comprise: (i) a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which was revalued on an open market, existing tenancy basis by FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, as at 31st December 2003 at HK$82,000,000 (2002: HK$80,000,000); and (ii) 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong, was revalued on an open market, existing tenancy basis by FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, as at 31st December 2003 at HK$77,000,000 (2002: HK$75,000,000).

The investment properties are leased to third parties under operating leases arrangements, with leases negotiated for terms ranging from 6 months to 3.5 years. As at 31st December 2003, the Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

	Group	
	2003 *HK$'000*	**2002** *HK$'000*
Not later than one year	3,396	3,353
Later than one year and not later than five years	1,953	455
	5,349	3,808

At 31st December 2003, certain investment properties with net book value of HK$82,000,000 (2002: nil) were pledged as security for the Group's banking facilities.

13. Investments in subsidiaries

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	390	390
Provision for impairment	(390)	(390)
	–	–
Due from subsidiaries *(note a)*	707,864	603,551
Due to subsidiaries *(note a)*	(9,498)	–
Provision for amounts due from subsidiaries	(308,742)	(300,000)
	389,624	303,551

Note:

(a) Included in the amounts due from/(to) subsidiaries are loans to subsidiaries of HK$187 million which are interest bearing at prime rate minus two per cent to prime rate per annum. Other amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(b) The following is a list of the principal subsidiaries at 31st December 2003:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued share capital**	**Effective Interest held**
Double Crown Limited[1]	Hong Kong	Property Investment in Hong Kong	2 ordinary shares of HK$1 each	100%
Palmsville Developments Limited[1,4]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Proven Success Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Melco Services Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of HK$1 each	100%
Melco Finance and Technology Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of HK$1 each	100%
Aberdeen Restaurant Enterprises Limited	Hong Kong	Restaurant operations and property investment in Hong Kong	8,060 A shares of HK$1,000 each and 33,930 B shares of HK$500 each	86.68%
Sea Palace, Limited	Hong Kong	Dormant	390 ordinary shares of HK$5 each	86.46%
Tai Pak Sea-Food Restaurant Limited	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK$100 each and 13,495 ordinary shares of HK$100 each	84.76%
Jumbo Watertours Limited	Hong Kong	Inactive	100 ordinary shares of HK$1 each	100%
Jumbo Catering Management Limited	Hong Kong	Provision of management services in Hong Kong	200 ordinary shares of HK$5,000 each	86.68%

13. **Investments in subsidiaries** *(Continued)*

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective Interest held
Value Convergence Holdings Limited[2]	Hong Kong	Investment holding in Hong Kong	238,154,999 ordinary shares of HK$ 0.1 each	67.57%
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1 each	67.57%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	52.37%
Elixir Group (Macau) Limited[2]	Macau	Provision of hardware and software in Macau	2 ordinary shares of MOP450,000 and MOP50,000 each	52.37%
VC CFN Corporation Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	67.57%
VC CEF Brokerage Limited[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	67.57%
VC CEF Futures Limited[2]	Hong Kong	Provision of futures and options contracts dealing in Hong Kong	30,000,000 ordinary shares of HK$1 each	67.57%
VC CEF Capital Limited[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	67.57%
VC CFN Capital (Shenzhen) Limited[3]	PRC	Provision of consultancy services in the PRC	–	67.57%
VC CFN Investments Limited[2]	Hong Kong	Provision of securities investment service to group companies in Hong Kong	2 ordinary shares of HK$1 each	67.57%
iAsia Services Limited[2]	Hong Kong	Provision of management service in Hong Kong	10,000 ordinary shares of HK$1	67.57%
iAsia Network Solutions Limited[2]	British Virgin Islands	Provision of system customisation and network support services in Hong Kong	1 ordinary share of US$1	67.57%
iAsia Technology (Asia) Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	67.57%

1 Share held directly by the company

2 Acquired by the Group during the period (note 23(c))

3 Incorporated in December 2003 and the registered capital amounted to HK$1,000,000 was paid up in March 2004.

4 The company name of Palmsville Developments Limited has been changed to "Melco Leisure and Entertainment Group Limited" with effect from 17th March 2004.

14. Investment securities

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	26,499	4,662
Provision for impairment	(5,862)	(4,662)
	20,637	–
Listed equity investment in Hong Kong, at cost	4,250	4,250
Provision for impairment	(4,250)	(4,250)
Total	20,637	–

15. Inventories

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Food and beverages	2,268	2,947
Consumable stores	52	39
Merchandise	1,776	–
Work in progress	41	–
	4,137	2,986

At 31st December 2003, no inventory was carried at net realisable value (2002: nil).

16. Trade receivables

	2003	**2002**
	HK$'000	*HK$'000*
Trade receivables		
Within 30 days	233,123	1,770
31-90 days	3,312	983
Over 90 days	6,288	29
	242,723	2,782
Less: Provision for doubtful receivables	(6,333)	–
	236,390	2,782

(a) The Group's leisure and entertainment segment and the property and other investments segments are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 60 days would be granted.

16. Trade receivables *(Continued)*

(b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the investment banking and financial services segment as at 31st December 2003 amounted to approximately HK$235,922,000 (2002: nil). The settlement terms of trade receivables arising from the broking in securities and equity options transactions are two days after the trade date of those transactions; and trade receivables arising from the dealing in futures and options are one day after the trade date.

Loans to margin clients (included in investment banking and financial services) are secured by client's pledged securities, repayable on demand and bear interest at commercial rates.

(c) Other trade receivables are due immediately from date of billing but the Group and the Company will generally grant a normal credit period of 30 days on average to its customers.

17. Other investments

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Unlisted debt securities, at fair value	–	4,000
Equity securities listed in Hong Kong, at market value	40,638	–
	40,638	4,000

18. Amounts due from related companies

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

		At 31st December 2003	**Maximum amount outstanding during the year**	**At 1st January 2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Sociedade Turismo e Diversoes de Macau	(a)	429	429	425
iAsia Services Limited	(b)	–	1,982	1,982
		429		2,407

Notes:

(a) The amount due from Sociedade Turismo e Diversoes de Macau ("STDM"), a related company of which Dr. Stanley Ho is director and/or has direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group and remains unsettled (note26(d)(iv)). The balance with STDM is unsecured, interest-free and has no fixed terms of repayment.

(b) iAsia Services Limited ("iAsia Services") has become a subsidiary of the Group during the year and since then the balance due from iAsia Services as at 31st December 2003 were eliminated upon consolidation. iAsia Services was a related company of which Mr. Lawrence Ho and Dr. Stanley Ho are directors and Mr. Lawrence Ho, Dr. Stanley Ho, and Mr. Peter So are beneficial shareholders. The amount due from iAsia Services represented payments for leasehold improvements and rental deposits paid by the Group on behalf of iAsia Services, and is unsecured and interest-free. The amount has been fully repaid before the year end date.

19. Trade payables

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Trade payables		
Within 30 days	104,658	2,356
31-90 days	3,416	–
Over 90 days	396	–
	108,470	2,356

Included in the trade payables aged within 30 days were trade payables in relation to the segment of investment banking and financial services of approximately HK$98,096,000.

20. Share capital

	Authorised Ordinary shares of HK$1 each	
	No. of shares	**Amount**
	'000	*HK$'000*
At 1st January 2003 and 31st December 2003	480,000	480,000

	Issued and fully paid Ordinary shares of HK$1 each	
	No. of shares	**Amount**
	'000	*HK$'000*
At 1st January 2002, ordinary shares of HK$1 each	121,087	121,087
Issue of shares by placement *(note a)*	24,200	24,200
At 31st December 2002, ordinary shares of HK$1 each	145,287	145,287
Issue of rights shares *(note b)*	72,644	72,644
Exercise of share options *(note 21)*	4,066	4,066
At 31st December 2003, ordinary shares of HK$1 each	221,997	221,997

Note:

(a) In August 2002, 24,200,000 ordinary shares of HK$1 each were issued at a price of HK$1.45 per share by way of placement for a total consideration of HK$35,090,000 before related expenses.

(b) In August 2003, the company issued 72,643,567 rights shares of HK$1 each at a price of HK$1.45 per rights share on the basis of one rights shares for every two ordinary shares in issue. Proceeds of approximately HK$105.3 million before issuance expenses were raised.

21. Share option

(a) Melco International Development Limited

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

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

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

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders meetings. No share option has been granted or been lapsed/cancelled during the year.

21. Share option *(Continued)*

(a) Melco International Development Limited

The followings have option were outstanding under the Scheme during the year ended 31st December 2003:

Category of participant	At 1st January 2003	Adjustment in relation to issuance of rights shares[1]	Exercised during the year	At 31st December 2003	Date of grant of share options[2]	Adjusted share price at date of grant of share options[1]	Adjusted exercise price of share options[1,3]
Directors[4,5]	4,843,484	2,421,740	(1,816,306)	5,448,918	8th March 2002	HK$0,82	HK$1.00
Employees[6]	500,000	250,002	–	750,002	8th March 2002	HK$0,82	HK$1.00
Employees[7]	3,805,114	1,902,556	(2,250,000)	3,457,670	13th September 2002	HK$1.1067	HK$1.1067
Sub-total	4,305,114	2,152,558	(2,250,000)	4,207,672			
Others[8]	2,960,115	1,480,057	–	4,440,172	13th September 2002	HK$1.1067	HK$1.1067
Total	12,108,713	6,054,355	(4,066,306)	14,096,762			

1 The number of share options granted, the share price at grant date and the exercise price of the share options were adjusted upon completion of the rights issue in 24th September 2003 as detailed in Note 20(b).

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

3 At 31st December 2003, the Company had 14,096,762 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 14,096,762 additional ordinary shares of the Company and additional share capital of HK$14,097,000 and share premium of HK$8,427,000, before issue expenses.

4 Mr. Peter So, who held 1,816,306 physically settled options as at 31st December 2003, resigned on 1st April 2004.

5 As at 31st December 2003, 5,448,918 physically settled options may be exercised during the period from 8th September 2002 to 7th March 2012.

6 Among 750,002 physically settled options as at 31st December 2003, 375,001 physically settled options may be exercised during the period from 8th March 2003 to 7th March 2012 and the other 375,001 physically settled options may be exercised during the period from 8th March 2004 to 7th March 2012.

7 Among 3,457,670 physically settled options as at 31st December 2003, 1,113,835 physically settled options may be exercised during the period from 13th September 2002 to 7th March 2012; 1,113,835 physically settled options may be exercised during the period from 13th March 2003 to 7th March 2012; 615,000 physically settled options may be exercised during the period from 13th September 2003 to 7th March 2012; and 615,000 physically settled options may be exercised during the period from 13th September 2004 to 7th March 2012.

8 Among 4,440,172 physically settled options as at 31st December 2003, 2,220,085 physically settled options may be exercised during the period from 13th September 2003 to 7th March 2012 and 2,220,085 physically settled options may be exercised during the period from 13th September 2004 to 7th March 2012.

21. Share option *(Continued)*

(b) Value Convergence Holdings Limited ("VC")

(i) Pre-IPO share option plan

As at 31st December 2003, options of VC comprising an aggregate of 9,740,208 underlying shares granted on 6th April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO share option plan adopted by VC on 14th March 2001 ("Pre-IPO Share Option Plan") at an exercise price of HK$3.6 per share, after adjustment arising from the issue of rights and bonus shares and capital reorganisation as detailed in note 20(a) and (b) to the 2003 annual report of VC respectively, were outstanding, which represents 4.1% of the shares of VC in issue as at 31st December 2003. The exercise price represents a discount of 30% of the adjusted IPO offer price. The Pre-IPO Share Options have duration of approximately 4.5 years from the date of grant, i.e. between 6th April 2001 to 8th October 2005. According to the Pre-IPO Share Option Plan, any Pre-IPO Share Option granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by VC and its subsidiaries ("VC Group"). The following are details of the outstanding Pre-IPO Share Options at 31st December 2003 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation):

	As at 31st December 2003	
Categories of grantees	**Total no. of grantees**	**No. of underlying Shares comprised in the Pre-IPO Share Options**
Directors of the Company	5	8,478,020
Employees	3	1,262,188
Total	8	9,740,208

Certain Pre-IPO Share Options comprising a total of 516,979 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation) which had been granted to one employee lapsed during the year as the relevant employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of the VC Group. None of the Pre-IPO Share Options were exercised during the year.

(ii) New share option scheme

The new share option scheme ("New Share Option Scheme") was adopted by VC on 29th November 2001 (which supersedes the previous share option scheme of the Company adopted on 14th March 2001).

As at 31st December 2003, options comprising an aggregate of 4,228,002 underlying Shares granted on 9th July 2002 ("New Share Options") pursuant to the New Share Option Scheme at an exercise price of HK$1.0 per share, after adjustments arising from the issue of rights and bonus shares and capital reorganisation, were outstanding, which represents 1.8% of the shares of VC in issue as at 31st December 2003. The adjusted closing price of the VC's shares immediately before 9th July 2002 was HK$0.65. The New Share Options have duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012. Accordingly to the New Share Option Scheme, any New Share Option's granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by VC Group. The following are details of the outstanding New Share Options as at 31st December 2003 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation):

21. **Share option** *(Continued)*

(b) **Value Convergence Holdings Limited ("VC")** *(Continued)*

Categories of grantees	As at 31st December 2003 Total no. of grantees	No. of underlying Shares comprised in the New Share Options
Directors of the Company	3	1,473,171
Employees	26	1,821,823
Other eligible persons	5	933,008
Total	34	4,228,002

Certain Share Options to subscribe for a total of 682,569 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation) granted to ten employees lapsed during the year as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of VC Group. None of the New Share Options were exercised during the year.

22. **Reserves**

	Group				
	Share premium *HK$'000*	**Investment properties revaluation** *HK$'000*	**Capital reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1st January 2002	8,738	76,614	357,785	(189,755)	253,382
Issue of shares	10,890	–	–	–	10,890
Share issue expenses	(439)	–	–	–	(439)
Surplus on revaluation of investment properties	–	3,000	–	–	3,000
Revaluation surplus attributable to minority shareholders	–	(400)	–	–	(400)
Net loss for the year	–	–	–	(35,596)	(35,596)
At 31st December 2002 and 1st January 2003	19,189	79,214	357,785	(225,351)	230,837
Surplus on revaluation of investment properties	–	4,000	–	–	4,000
Revaluation surplus attributable to minority shareholders	–	(266)	–	–	(266)
Net loss for the year	–	–	–	(26,334)	(26,334)
Issue of right shares	32,689	–	–	–	32,689
Share issuance expenses	(2,441)	–	–	–	(2,441)
Exercise of share option	240	–	–	–	240
At 31st December 2003	49,677	82,948	357,785	(251,685)	238,725

22. Reserves *(Continued)*

	Company			
	Share premium	**Capital reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2002	8,738	357,785	(207,846)	158,677
Issue of shares	10,890	–	–	10,890
Share issue expenses	(439)	–	–	(439)
Net loss for the year	–	–	(10,933)	(10,933)
At 31st December 2002 and 1st January 2003	19,189	357,785	(218,779)	158,195
Issue of rights shares	32,689	–	–	32,689
Share issue expenses	(2,441)	–	–	(2,441)
Exercise of share option	240	–	–	240
Net loss for the year	–	–	(8,685)	(8,685)
At 31st December 2003	49,677	357,785	(227,464)	179,998

23. Consolidated cash flow statement

(a) Reconciliation of operating loss to net cash used in operations

	2003	**2002**
	HK$'000	*HK$'000*
Operating loss	(30,774)	(38,130)
Realised gain on trading of other investments	(9,228)	–
Unrealised gain on holding of other investments	(958)	–
Depreciation and amortisation	19,232	5,927
Gain on partial disposal of investment in a subsidiary	(149)	–
Loss on disposal of fixed assets	478	–
Exchange loss	48	–
Fixed assets written off	–	3,858
Impairment of fixed assets	3,080	142
Impairment of investment securities	1,200	8,912
Provision against deposit paid	–	3,500
Interest income from authorised financial institutions	(712)	(3,538)
Dividend income	(200)	–
Operating loss before working capital changes	(17,983)	(19,329)
(Increase)/decrease in inventories	(749)	166
(Increase)/decrease in accounts receivables	(119,225)	215
Decrease/(increase) in prepayments, deposits and other receivables	7,168	(9,447)
Decrease/(increase) in amount due from related companies	1,978	(1,961)
Increase/(decrease) in accounts payables	58,626	(218)
(Decrease)/increase in rental deposits	(70)	49
Increase in accrued liabilities and other payables	26,324	8,457
Net cash used in operations	(43,931)	(22,068)

23. Consolidated cash flow statement

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loan	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January	164,476	129,825	24,258	26,392	–	–
Minority interests' share of loss	–	–	(7,648)	(2,534)	–	–
Revaluation surplus attributable to minority shareholders	–	–	266	400	–	–
Acquisition of subsidiary attributable to minority interest	–	–	42,025	–	–	–
Partial disposal of investment in subsidiaries attributable to minority interest	–	–	4,051	–	–	–
Cash (outflows)/inflows from financing	107,198	34,651	–	–	(106,335)	–
Bank borrowings of subsidiaries acquired	–	–	–	–	106,335	–
At 31st December	271,674	164,476	62,952	24,258	–	–

(c) Acquisition of subsidiaries

	2003
	HK$'000
Net assets acquired	
Fixed assets	18,477
Intangible assets	25,478
Other long-term assets	6,534
Trade and other receivables	118,428
Bank balances and cash	122,900
Trade and other payables	(43,297)
Bank borrowings	(106,335)
Minority shareholders' interests	(42,025)
	100,160
Goodwill	598
	100,758
Satisfied by	
Cash	100,758
	100,758

Analysis of the net inflow in respect of the acquisition of subsidiaries:

	2003
	HK$'000
Cash consideration	(100,758)
Bank balances and cash in hand acquired	122,900
Net cash inflow in respect of the acquisition of subsidiaries	22,142

24. Pledge bank deposits

As at 31st December 2003, the Group's bank deposits amounting to HK$304,000 (2002: HK$1,100,000) were pledged to secure a letter of guarantee to the extent of HK$120,000 (2002: HK$1,031,000) granted by a bank for the Group's water and electricity deposits and for tendering of contracts with the Macau government by a subsidiary of the Group.

25. Commitments

(a) Capital commitments

At 31st December 2003, the Group had contracted commitments in respect of renovation project as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Contracted but not provided for	4,547	–

(b) Commitments under operating leases

The Group leases certain of its office properties and furniture under operating lease arrangements. At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Not later than one year	4,853	373
Later than one year and not later than five years	4,958	1,349
	9,811	1,722

26. Related party transactions

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

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software to related companies of approximately HK$1,808,000 (2002: nil).

(b) The prepayments, deposits and other receivables include amounts due from customers on contracts in relation to sales of computer hardware and software to related companies of approximately HK$1,702,000 (2002: nil).

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits	5,683	–
Less: Progress billings to date	(3,981)	–
	1,702	–

(c) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$10,180,000 (2002: nil).

26. Related party transactions *(Continued)*

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

		Group	
		2003	**2002**
	Notes	*HK$'000*	*HK$'000*
Catering income received from directors and related companies	(i)	2,486	3,601
Insurance premiums paid to a related company	(ii)	1,173	954
Management fees paid to a related company	(iii)	569	442
Souvenirs sold to a related company	(iv)	418	416
Brokerage commission income earned from certain directors of the Group or their relatives	(v)	106	–
Sales of computer hardware and software to related companies	(vi)	15,634	–

Notes:

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

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

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

(iv) The sales of souvenirs to Sociedade de Turismo e Diversoes de Macau ("STDM"), a related company of which Dr. Stanley Ho is director and/or has direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31st December 2003 was HK$429,000 (2002: HK$425,000) (note 18).

(v) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.

(vi) Service fees charged and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

27. Post Balance Sheet Events

On 19th March 2004, the board of directors of the Company has approved the proposed conditional Group reorganisation and asset acquisition involving issue of consideration shares and convertible notes. The Company has conditionally agreed to purchase the entire interests in the business segment of sales of technology solution systems and related services from Value Convergence Holdings Limited, a 67.57%-owned subsidiary, at a consideration of approximately HK$27.9 million to be settled in cash. In addition, the Company has conditionally agreed to acquire 80% of the issued share capital of Mocha Slot Group Limited from its shareholders at an aggregate consideration of approximately HK$353 million, which will be settled by the issue and allotment of 153,478,261 of new shares of the Company to the sellers.

The said proposed Group reorganisation and asset acquisition are subject to independent shareholders' approval.

28. Comparative figures

The accounts as at and for the year ended 31st December 2002 were audited and reported on by certified public accountants other than PricewaterhouseCoopers, whose report dated 2nd April 2003 expressed an unqualified opinion on those accounts. Certain of the 2002 comparative figures have been reclassified to conform to the current year's presentation

29. Approval of accounts

The accounts were approved by the board of directors on 21st April 2004.

JONES LANG LASALLE 仲量聯行

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

5 January 2005

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 10 December 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 identif

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We have also relied on the legal opinion issued by C & C Advogados, the Company's Macau legal advisor, which opinion was dated 3 January 2005 (the "Macau Legal Opinion") of the Property.

We have carried out on-site inspection as to the exterior of Property on 10 December 2004. 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 10 December 2004
Development site known as Site A1, Baixa da Taipa – Lote BT17, Taipa, Macau	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. According to the site plan prepared by Direccao dos Servicos de Cartografia e Cadastro, the site area of the property is about 5,230 m^2. 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 52,300 m^2. No development plans have been provided to us to indicate the design and layout of the proposed residential development. 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.	Site formation works were underway at the date of our inspection.	HK$366,000,000 (Hong Kong Dollars Three Hundred and Sixty Six Million)

Property	Description, age and tenure	Particulars of occupancy	Open Market Value as at 10 December 2004
	The land is held under a land grant for a term of 25 years from 7 March 1980 (i.e. the land grant will expire by March 2005). According to the land grant of the Property, the annual ground rent payable for the property during the development period is MOP9 per m^2 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^2 on the gross construction area; Parking use: MOP4.5 per m^2 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 of 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 Advisor"):

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 Advisor 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$978,000,000
Estimated construction costs	:	HK$378,000,000
Estimated professional fees, legal costs, stamp duty, etc	:	HK$54,000,000
Estimated interest charges	:	HK$55,000,000
Estimated developer's profit and risk margin	:	HK$125,000,000

I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group. It is based on the unaudited consolidated balance sheet of the Group as at 30th June 2004, as shown in the interim reports of the Company set out in the Appendix II to the Circular, the published information disclosed in the circular despatched to the Shareholders dated 11th October 2004 in respect of the acquisition of 50% of the equity interests in Great Wonders under the First Agreement, and assuming that the agreement to establish the joint venture group with PBL and the further acquisition of 20% of the equity interest in Great Wonders under the Second Agreement ("Scenario I") had been completed as at 30th June 2004 for the purpose of illustrating how the Scenario I might have affected the financial position of the Group as at 30th June 2004. As it is prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group as at 30th June 2004 or any future date.

Scenario I

	The Group	Pro forma adjustment for the acquisition of 50% equity shares of Great Wonders[1]	Enlarged Group immediately after acquisition of 50% equity shares of Great Wonders[2]	Pro forma adjustments for the further acquisition of 20% equity interest in Great Wonders[3]	Pro forma adjustments for the deemed disposal of equity interest in Mocha Slot and Great Wonders[4]	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Fixed assets	183,726	–	183,726	366,000	–	549,726
Investment securities	20,637	–	20,637	–	–	20,637
Intangible assets	389,860	–	389,860	(100,200)	(145,000)	144,660
Investment in a jointly controlled entity	–	100,000[1]	100,000	(100,000)	–	–
Other non-current assets	4,402	–	4,402	–	–	4,402
Current assets						
Inventories	2,085	–	2,085	–	–	2,085
Trade receivables	327,096	–	327,096	–	–	327,096
Prepayments, deposits and other receivable	21,667	–	21,667	–	–	21,667
Other investments	44,813	–	44,813	–	–	44,813
Bank balances and cash	165,814	–	165,814	–	1,270,000[4]	1,435,814
	561,475	–	561,475	–	1,270,000	1,831,475
Current liabilities						
Trade payables	86,492	–	86,492	–	–	86,492
Accrued liabilities and other payable	28,780	–	28,780	–	–	28,780
Taxation payable	735	–	735	–	–	735
Deferred tax liabilities	262	–	262	–	–	262
Loan from a minority shareholder of a subsidiary	24,636	–	24,636	–	–	24,636
Bank loans and overdrafts	68,158	–	68,158	–	–	68,158
Convertible notes due within one year	22,500	–	22,500	–	–	22,500
	231,563	–	231,563	–	–	231,563
Net current assets	329,912	–	329,912	–	1,270,000	1,599,912
Total assets less current liabilities	928,537	100,000	1,028,537	165,800	1,125,000	2,319,337
Non-current liabilities						
Convertible notes due after one year	22,500	100,000	122,500	56,000	–	178,500
	906,037	–	906,037	109,800	1,125,000	2,140,837
Minority interests	75,046	–	75,046	109,800	699,136[5]	883,982
Net assets	830,991	–	830,991	–	425,864	1,256,855

Provided that the Second Agreement is not completed ("Scenario II"), the pro forma statement of assets and liabilities of the Enlarged Group will be different from the above. The following is the unaudited pro forma statement of assets and liabilities for Scenario II.

Scenario II

	The Group	Pro forma adjustment for the acquisition of 50% equity shares of Great Wonders[1]	Enlarged Melco Group immediately after acquisition of 50% equity shares of Great Wonders[2]	Pro forma adjustments for the deemed disposal of equity interest in Mocha Slot and Great Wonders[4]	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Fixed assets	183,726	–	183,726	–	183,726
Investment securities	20,637	–	20,637	–	20,637
Intangible assets	389,860	–	389,860	(145,000)	244,860
Investment in a jointly controlled entity	–	100,000	100,000	–	100,000
Other non-current assets	4,402	–	4,402	–	4,402
Current assets					
Inventories	2,085	–	2,085	–	2,085
Trade receivables	327,096	–	327,096	–	327,096
Prepayments, deposits and other receivable	21,667	–	21,667	–	21,667
Other investments	44,813	–	44,813	–	44,813
Bank balances and cash	165,814	–	165,814	817,000[4]	982,814
	561,475	–	561,475	817,000	1,378,475
Current liabilities					
Trade payables	86,492	–	86,492	–	86,492
Accrued liabilities and other payable	28,780	–	28,780	–	28,780
Taxation payable	735	–	735	–	735
Deferred tax liabilities	262	–	262	–	262
Loan from a minority shareholder of a subsidiary	24,636	–	24,636	–	24,636
Bank loans and overdrafts	68,158	–	68,158	–	68,158
Convertible notes due within one year	22,500	–	22,500	–	22,500
	231,563	–	231,563	–	231,563
Net current assets	329,912	–	329,912	817,000	1,146,912
Total assets less current liabilities	928,537	100,000	1,028,537	672,000	1,700,537
Non-current liabilities					
Convertible notes due after one year	22,500	100,000	122,500	–	122,500
	906,037	–	906,037	672,000	1,578,037
Minority interests	75,046	–	75,046	450,236[5]	525,282
Net assets	830,991	–	830,991	221,764	1,052,755

Notes:

(1) These represent the adjustments in relation to the acquisition of 50% equity shares in Great Wonders by issuance of HK$100 million First Convertible Bond, the details of which were disclosed in the circular despatched to the Shareholders dated 11th October 2004.

(2) This column represents the unaudited pro forma statement of assets and liabilities of the enlarged Melco Group immediately after the acquisition of 50% equity shares in Great Wonders and assuming that the acquisition had been completed as at 30th June 2004. As at the Latest Practicable Date, the acquisition has not yet been completed.

(3) These represent the adjustments in relation to the further acquisition of 20% equity shares in Great Wonders. Melco acquired a total of 70% equity interest of Great Wonders which is the aggregate of the acquisition of 50% equity interest as disclosed in Note (1) and the further acquisition of 20% equity interest as described in Second Agreement. The effect in the acquisition of 50% equity interest of Great Wonders was shown in the second column of the above statement of assets and liabilities. It was also assumed that the concession of the Land can be transferred to Great Wonders and the completion of First and Second Agreements are on the same date.

According to the valuation report by an independent property valuer, Jones Lang La Salle Limited, as contained in Appendix III to this Circular, the valuation of the Land is approximately HK$366,000,000 as at 10th December 2004. A negative goodwill of HK$100,200,000, which represents the excess of the fair value of the Land attributable to the Enlarged Group of HK$256,200,000 and the total consideration of HK$156,000,000, is recognised to the balance sheet. The negative goodwill is amortised based on the useful life of the Land. The amount of the Land and the negative goodwill will be varied and depend on the final valuation of the Land upon the completion of the change of the concession to Great Wonders.

(4) The deemed profits on the disposal of the equity interest in Mocha Slot and Great Wonders by alloting such number of shares representing 50% equity interests of Melco PBL Holdings to PBL Asia at approximately HK$1,270 million and HK$817 million respectively in Scenario I and II are calculated as follows:

	Scenario I *HK$'000*	**Scenario II** *HK$'000*
50% of the capital contribution to be made by PBL to Melco PBL Holdings	635,000	408,500
Less: 50% of the net asset contributed by the Group to Melco PBL Holdings		
– unaudited net assets value of Mocha Slot*	(1,736)	(1,736)
– unaudited net assets value of Great Wonders**	(62,400)	(40,000)
– realisation of the goodwill arising from the deemed disposal of 80% equity interests in Mocha Slot***	(145,000)	(145,000)
Deemed profits arising from allotting shares of Melco PBL Holdings to PBL****	425,864	221,764

* Based on unaudited management accounts as at 30th June 2004

** Based on total consideration paid or to be paid by the Group to acquire the equity interests of Great Wonders, i.e. approximately HK$156 million and HK$100 million in Scenario I and II respectively

*** Based on the unamortised goodwill of Mocha Slot as shown in the interim report of the Company set out in the Appendix II to this circular

**** The deemed profits were calculated for illustration purposes only. The final deemed profits will be subject to the amount of the net assets value and the unamortised goodwill of Mocha Slot at the completion date of the disposal.

(5) Minority interests represent the share of the total net assets of the Melco PBL Holdings to the minority shareholders. The 50% of the total net assets consist the capital contributed by PBL Asia as at 30th June 2004 amounting to approximately HK$635,000,000 and HK$408,500,000 for Scenario I and II respectively, unaudited net assets value of Mocha Slot as at 30th June 2004 amounting to approximately HK$1,736,000 and unaudited net assets value of Great Wonders as at 30th June 2004 amounting to approximately HK$62,400,000 and HK$40,000,000 for Scenario I and II respectively.

(6) The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New Accounting Standards"), which are effective for accounting periods beginning on or after 1st January 2005. The New Accounting Standards may result in changes in future as to how the results and financial position are prepared and presented.

II. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

(a) Group

The following is the statement of unaudited net tangible assets of the Group as at 30th June 2004. The unaudited consolidated net assets and the intangible assets figures are extracted from the unaudited interim result of the Group set out in Appendix II to the Circular.

Group

Unaudited consolidated net assets of the Group as at 30th June 2004	Less: Intangible assets of the Group as at 30th June 2004	Unaudited consolidated net tangible assets of the Group as at 30th June 2004
HK$'000	*HK$'000*	*HK$'000*
830,991	(389,860)	441,131

(b) Enlarged Group

The statement of unaudited pro forma adjusted net tangible assets has been prepared to show the effect of the net tangible assets of the Enlarged Group as at 30th June 2004 as if the Scenario I and II had occurred on 30th June 2004.

The unaudited pro forma adjusted net tangible assets of the Enlarged Group has been prepared for illustrative purpose only and, because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30th June 2004 or any future date.

Scenario I

Unaudited pro forma net assets of the Enlarged Group as at 30th June 2004	Less: Pro forma intangible assets of Enlarged Group after completion of the transaction in Scenario I	Unaudited pro forma net tangible assets of the Enlarged Group
(Note 1)	*(Note 1)*	
HK$'000	*HK$'000*	*HK$'000*
1,256,855	(144,660)	1,112,195

Scenario II

Unaudited pro forma net assets of the Enlarged Group as at 30th June 2004	Less: Pro forma intangible assets of the Enlarged Group after completion of the transactions in Scenario II	Unaudited pro forma net tangible assets of the Enlarged Group
(Note 1)	*(Note 1)*	
HK$'000	*HK$'000*	*HK$'000*
1,052,755	(244,860)	807,895

Note:

(1) Please refer to part I of this Appendix for the pro forma net assets and intangible assets value for Scenario I and II respectively.

III. LETTER FROM THE AUDITORS OF THE COMPANY ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

5th January 2005

The Directors
Melco International Development Limited

Dear Sirs

We report on the unaudited pro forma financial information of Melco International Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 115 to 118 under the headings of "I. Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" and part (b) of " II. Unaudited Pro Forma Adjusted Net Tangible Assets" in Appendix IV of the Company's circular dated 5th January 2005 in connection with a major transaction regarding the establishment of a joint venture group for pursuance of gaming and hospitality business and a major and connected transaction regarding the further acquisition of interest in the land ("Major Transactions"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Major Transactions might have affected the relevant financial information of the Group as at 30th June 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out in Section I of Appendix IV for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group at any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

IV. INDEBTEDNESS

(a) Borrowings

As at the close of business on 31st October 2004, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Group had total outstanding borrowings of approximately HK$161.8 million, comprising secured bank borrowings and overdrafts of approximately HK$49.8 million, unsecured bank borrowings and overdrafts of approximately HK$67 million, convertible notes of approximately HK$45 million. All of the secured and unsecured bank borrowings and overdrafts amounting to approximately HK$116.8 million were due within one year. Approximately HK$22.5 million of the total convertible notes were due within one year and the remaining convertible note amounting to HK$22.5 million were due more than one year. The secured bank borrowings were secured by fixed assets of the Group with a net book value of approximately HK$77 million as at 30th June 2003.

There were no borrowings outstanding for Great Wonders as at 31st October 2004.

(b) Contingent liabilities

As at 31st October 2004, the Group did not have any material contingent liabilities.

There were no contingent liabilities for Great Wonders as at 31st October 2004.

(c) Capital commitments

As at 31st October 2004, the Group had capital commitments for a renovation project amounting to approximately HK$2.7 million and the acquisition of 50% equity shares in Great Wonders by the issuance of HK$100 million convertible bonds.

There was no capital commitment outstanding for Great Wonders as at 31st October 2004.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payable, the Group and Great Wonders did not have any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other contingent liabilities outstanding at the close of business on 31st October 2004.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Looking ahead, the Board is optimistic about the prospects of the gaming, hospitality and entertainment businesses in the Asia Pacific region, in particular, in Macau of the Greater China Region, as it is expected that the tourism industry in Macau will continue to expand in the coming years due to the relaxation of the rules governing the entry of visitors from the PRC to Macau under the individual travel scheme, which was introduced by the PRC Government in July 2003 to allow travellers from mainland PRC to visit Macau on an individual basis.

According to the Statistic and Census Service of the Government of Macau, tourist arrivals for the nine months ended 30 September 2004 soared by 45.3% from approximately 8.4 million to approximately 12.2 million and out of these 12.2 million visitors, more than half came from the PRC. Given the increased attractions of various gaming, entertainment and leisure facilities and the increasing number of tourists from the PRC, the Directors are of the view that the future prospects of the Gaming Business and the Hospitality Business as well as other gaming ventures operated or to be operated by the JV Group are promising.

VI. WORKING CAPITAL

As at the Latest Practicable Date, the Directors of the Company were of the opinion that, based on the expected cash flows, and taking into account the internal resources of the Enlarged Group, and assuming that the banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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. PARTICULARS OF DIRECTORS

Name	Address
Executive Directors	
Dr. Stanley Ho, G.B.S.	No. 1 Repulse Bay Road Hong Kong
Mr. Lawrence Ho	35 Black's Link Hong Kong
Mr. Frank Tsui	13A, Block 4 Braemar Hill Mansions 21 Braemar Hill Road Hong Kong
Non-executive Directors	
Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong
Mr. Ho Cheuk Yuet	12A, Kenville Building 32 Kennedy Road Hong Kong
Independent non-executive Directors	
Sir Roger Lobo, C.B.E., LL.D., J.P.	Woodland Heights E1, 2 Wongneichung Gap Road Happy Valley Hong Kong
Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.H.K.S.A., C.P.A., J.P.	Flat 4A, MacDonnell House 6-8 MacDonnell Road Hong Kong
Dr. Lo Ka Shui	Unit 2A, Serenity Place 22 Mount Cameron Road The Peak Hong Kong

3. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the conversion of the Second Convertible Bond (assuming no new Shares have been issued whether pursuant to the exercise of the conversion rights attached to the two convertible notes issued by the Company to Better Joy for acquisition of 80% equity interests in Mocha Slot as disclosed in the announcement and the circular of the Company respectively dated 23 March 2004 and 23 April 2004, or the exercise of the conversion rights attached to the First Convertible Bond issued by the Company for acquisition of 50% equity interests in Great Wonders as disclosed in the announcement and circular of the Company respectively dated 13 September 2004 and 11 October 2004, or exercise of any outstanding share options, subsequent to the Latest Practicable Date) are:

Authorised		*HK$*
700,000,000	Shares of HK$1.00 each in the share capital of the Company	700,000,000
Issued and fully paid up and to be issued		
463,244,054	Shares in issue as at the Latest Practicable Date	463,244,054
6,829,268	Shares to be issued upon full conversion of the Second Convertible Bond *(Note)*	6,829,268
470,073,322	Shares	470,073,322

Note: Based on the initial conversion price of HK$8.2 per Share, a total of 6,829,268 Shares will be issued upon full conversion of the Second Convertible Bond. The Shares to be issued upon conversion of the Second Convertible Bond will rank pari passu in all respects with each other and with the then issued Shares including rights to dividends, voting and return of capital.

4. DISCLOSURE OF DIRECTORS' AND SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of 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 the Company 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)*	–	0.51%
	Personal	12,646,367	–	2.73%
Mr. Lawrence Ho	Corporate	182,455,599 *(Note 3)*	19,565,216 *(Note 4)*	43.61%
	Personal	1,816,306	–	0.39%
Mr. Frank Tsui	Personal	1,800,000	–	0.39%
Mr. Ho Cheuk Yuet	Personal	1,816,306	–	0.39%
Dr. Lo Ka Shui	Personal	1,000,000	–	0.22%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company were 463,244,054 Shares

2. 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 0.51% of the issued share capital of the Company.

3. 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 which in turn holds approximately 12.47% of the issued share capital of the Company. 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 which in turn holds approximately 26.92% of the issued share capital of the Company.

   Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the Shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 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 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. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy, 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 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 the Company.

(ii) Interests in equity derivatives of the Company

Name of Director	**Date of grant of the share options by the Company**	**Expiry date of the share options**	**Exercise Price per underlying Share** *(HK$)*	**Number of underlying Shares comprised in the share options outstanding**
Mr. Lawrence Ho	19 February 2004	7 March 2012	2.405	1,800,000
Mr. Frank Tsui	8 March 2002	7 March 2012	1.00	16,306
	19 February 2004	7 March 2012	2.405	1,800,000

(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 6 April 2001 and may be exercised during the period from 6 April 2001 to 8 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 6 April 2001 and may be exercised during the period from 6 April 2001 to 8 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 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 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 the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company 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 the Company and the Stock Exchange.

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

5. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of the Company and other persons in the Shares, underlying Shares and debentures of the Company which (a) were required to be notified to the Company 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 the Company 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	Corporate	124,701,087 *(Note 2)*	–	26.92%
	Corporate	–	19,565,216 *(Note 2 & 4)*	4.22%
Lasting Legend	Corporate	57,754,512 *(Note 2)*	–	12.47%
Mr. Lawrence Ho	Corporate	182,455,599 *(Note 3)*	–	39.39%
	Corporate	–	19,565,216 *(Note 4)*	4.22%
	Personal	1,816,306	–	0.39%
Shun Tak Shipping Company Limited	Corporate	39,083,147	–	8.44%
JPMorgan Chase & Co.	Corporate	24,630,000	–	5.32%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company are 463,244,054 Shares

2. The Shares (and underlying Shares) held by Better Joy and Lasting Legend also represent the corporate interest of Mr. Lawrence Ho in the Company.

3. 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 which in turn holds approximately 12.47% of the issued share capital of the Company. 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 which in turn holds approximately 26.92% of the issued share capital of the Company.

   Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the Shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 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 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. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy, 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 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 the Company.

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 the Company which were required to be notified to the Company 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 the Company.

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 31 December 2003, being the date to which the latest published audited financial statements of the Group were made up.

7. QUALIFICATION AND CONSENT OF EXPERTS

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

Name	**Qualification**
Dao Heng Securities	A deemed licensed corporation under transitional arrangement within the meaning of the SFO to carry out types 1,4,6,7 and 9 regulated activities under the SFO

PricewaterhouseCoopers	Certified Public Accountants
Jones Lang LaSalle Limited	Chartered Surveyors
C&C Advogados	Macau legal adviser

(ii) As at the Latest Practicable Date, none of Dao Heng Securities, PricewaterhouseCoopers, Jones Lang LaSalle Limited and C&C Advogados 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, none of Dao Heng Securities, PricewaterhouseCoopers, Jones Lang LaSalle Limited and C&C Advogados have any interest, direct or indirect, in any assets which have been, since 31 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 Dao Heng Securities, PricewaterhouseCoopers, Jones Lang LaSalle Limited and C&C Advogados has given, and has not withdrawn, its written consent to the issue of this circular, with inclusion of their respective documents including the letter of the Independent Financial Adviser set out in the section headed "Letter from Dao Heng Securities", and the valuation report prepared by Jones Lang LaSalle Limited set out in Appendix III to this circular and the references to its name included herein in the form and context in which they respectively appear.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 74 of the articles of association of the Company 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 the Company 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.

9. MATERIAL CONTRACTS

Apart from the Subscription Agreement and the Land Acquisition Agreements, during the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group:

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

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

(iii) the sale and purchase agreement dated 19 March 2004 entered into between the Company (as purchaser), Better Joy (as vendor) and Mr. Lawrence Ho (as warrantor), pursuant to which Better Joy has agreed to sell, and the Company has agreed to purchase or procure the purchase of 65% of the then issued share capital of Mocha Slot;

(iv) the sale and purchase agreement dated 19 March 2004 entered into between the Company (as purchaser) and Chang Tan (as vendor), pursuant to which Chang Tan has agreed to sell, and the Company has agreed to purchase or procure the purchase of 8% of the then issued share capital of Mocha Slot;

(v) the sale and purchase agreement dated 19 March 2004 entered into between the Company (as purchaser) and Chang Wang (as vendor), pursuant to which Chang Wang has agreed to sell, and the Company has agreed to purchase or procure the purchase of 7% of the then issued share capital of Mocha Slot;

(vi) the sale and purchase agreement dated 19 March 2004 entered into between the Company (as purchaser) and Value Convergence (as vendor), pursuant to which Value Convergence has agreed to sell, and the Company has agreed to purchase or procure the purchase of the entire issued share capital of iAsia Technology Limited;

(vii) the memorandum of agreement for sale and purchase dated 23 April 2004 entered into between Double Crown Limited, a wholly-owned subsidiary of the Company (as vendor) and Grandford Properties Limited (as purchaser), in relation to the sale of a property, namely, all that piece of ground situated at Tung Shan Terrace, Stubbs Road, Hong Kong and registered in the Land Registry as The Remaining Portion of Inland Lot No. 2937 together with the messages erections and buildings thereon known as "Art Court" No. 5 Tung Shan Terrace; and

(viii) the placing and subscription agreement dated 15 October 2004 entered into between the Company. Better Joy (as Vendor) and Deutsche Bank AG, Hong Kong Branch (as placing agent), in relation to the top-up placing of 75,900,000 Shares at a price of not less than HK$4.95 and not more than HK$5.30.

10. COMPETING INTERESTS

Dr. Stanley Ho, the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of STDM and SJM. As part of the businesses of STDM and SJM include gaming and hospitality businesses in Macau, there is a possibility that such part of businesses of STDM and SJM may compete with the Hospitality Business of the Group and/or the intended business of the JV Group. Save as disclosed, as at the date of this circular, none of the Directors and their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

11. LITIGATION

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

12. SERVICE CONTRACTS

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

13. MISCELLANEOUS

(i) The registered office of the Company is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

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

(iii) The chief financial officer of the Company is Mr. Clarence Chung, a Fellow of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants; and a member of the Society of Management Accountants of Canada.

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

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

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company 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 20 January 2005:

(i) the memorandum and articles of association of the Company;

(ii) the letter dated 5 January 2005 from the Independent Board Committee, the text of which is set out on pages 36 to 37 of this circular;

(iii) the letter of advice dated 5 January 2005 from Dao Heng Securities to the Independent Board Committee, the text of which is set out on pages 38 to 59 of this circular;

(iv) the valuation report on the Land received from Jones Lang LaSalle Limited, the text of which is set out in Appendix III to this circular;

(v) the respective written consents of Dao Heng Securities, PricewaterhouseCoopers, Jones Lang LaSalle Limited and C&C Advogados as referred to in the paragraph headed "Qualification and consent of Experts" in this appendix;

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

(vii) the Subscription Agreement and the Proposed Shareholders Deed;

(viii) the Land Acquisition Agreements; and

(ix) the circulars of the Company respectively dated 23 April 2004, 14 May 2004, 27 August 2004 and 11 October 2004 regarding proposed group reorganisation assets acquisition involving issue of consideration shares and convertible notes and increase of authorised share capital; sale of property; connected transaction in respect of service arrangement with SJM; discloseable and connected transaction in respect of the First Agreement, respectively; and

(x) annual report 2003 of the Company and interim report of the Company for the six months ended 30 June 2004.

Melco

Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)

Website: http://www.melco.hk.cn

(Stock Code: 200)

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 Thursday, 20 January 2005 at 4:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as, as appropriate, ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the Definitive Agreements and all transactions contemplated thereunder including the establishment of the JV Group (all capitalized terms stated herein are defined in the circular dated 5 January 2005 despatched to the shareholders of the Company) be and are hereby approved, ratified and confirmed and the directors of the Company and (as the case may be) Melco Leisure, be and are hereby authorized to do all things and execute such documents as they may consider necessary, expedient or desirable to effect and implement the terms of the Definitive Agreements and all transactions contemplated thereby."

2. "**THAT** the Second Agreement and all transactions contemplated thereunder including the issue of the Second Convertible Bond and the allotment and issue of shares of the Company upon conversion of the Second Convertible Bond (all capitalized terms stated herein are defined in the circular dated 5 January 2005 despatched to the shareholders of the Company) be and are hereby approved, ratified and confirmed."

3. "**THAT** the mandate to issue shares of the Company given to the directors of the Company at the extraordinary general meeting of the Company held on 15th October, 2004 (to the extent that the same has not been utilized) be and is hereby revoked and replaced by the following mandate:

   '(I) **THAT:**

   (a) subject to paragraph (c) of Item (I) of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of Item (I) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of Item (I) of this Resolution, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of any rights of subscription or conversion under any existing warrants, bonds, debentures, notes and other securities issued by the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution; and

(bb) the aggregate nominal amount of share capital of the Company repurchased by the Company after the date of passing this Resolution pursuant to the general mandate to repurchase shares given by the Company to the directors from time to time (subject to a maximum number equivalent to ten per cent. of the then existing issued share capital of the Company),

and the said approval shall be limited accordingly;

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).

(II) **THAT** the directors of the Company be and are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of Item (I) of this Resolution in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of Item (I) of such Resolution.'"

By order of the Board
Melco International Development Limited
Samuel Tsang
Company Secretary

Hong Kong, 5 January 2005

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

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting may appoint 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.