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Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

**POSSIBLE VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
ACQUISITION OF THE REMAINING INTEREST IN THE
LAND**

**DISCLOSEABLE TRANSACTION
INJECTION OF INTEREST IN THE LAND
INTO THE JOINT VENTURE GROUP**

Financial adviser to Melco International Development Limited



VC CAPITAL LIMITED

滙盈融資有限公司

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

SUMMARY

The Directors are pleased to announce that, on 17 March 2005, Melco has entered into two separate conditional agreements, namely the Third Agreement and the Great Wonders Agreement, with STDM and Melco Entertainment respectively for the purposes of acquiring the remaining 30% interest in the Land held by STDM and injecting such interest into the JV Group.

- 1. The Third Agreement in respect of acquiring the remaining interest in the Land**
Pursuant to the Third Agreement with STDM on 17 March 2005, Melco will buy and STDM will sell the remaining 30% equity interests in Great Wonders held by STDM, for a consideration of HK\$400 million. The completion of the Third Agreement is subject to the conditions precedent set out in the paragraph headed "Conditions of the Third Agreement" contained in this announcement. Upon completion of the Third Agreement, STDM will cease to have any equity interest in Great Wonders. Application has been made by Great Wonders to the Macau Government for the concession of the Land.

The consideration of HK\$400 million for the acquisition under the Third Agreement will be satisfied by Melco, as to HK\$200 million, by way of cash payment upon completion and as to the balance of HK\$200 million, by way of issue of 11,111,111 Consideration Shares at an issue price of HK\$18.00 per Share to STDM upon completion or the actual date of the grant of the concession of the Land to Great Wonders, whichever is later. The cash consideration of HK\$200 million payable by Melco to STDM will be financed from the internal resources of Melco. As it is contemplated that the completion of Third Agreement will occur simultaneously with the completion of the Great Wonders Agreement, it is expected that Melco will receive the same amount of sales proceeds from Melco Entertainment upon the relevant completion date. The issue price of each Consideration Share is identical to the closing price of HK\$18.00 per Share as quoted on the Stock Exchange on 17 March 2005 prior to the suspension of trading in Shares on 18 March 2005 and represents a premium of approximately 0.17% over the average closing price of HK\$17.97 per Share for the five trading days up to and including 17 March 2005. Based on the closing price of HK\$18.00 per Share on 17 March 2005, the Consideration Shares had a market value of approximately HK\$200 million.

The Consideration Shares represent approximately 2.38% of all existing issued Shares and approximately 2.32% of the enlarged issued share capital of Melco immediately after the allotment and issue of the Consideration Shares (assuming no other Shares are issued prior to the date of issue of the Consideration Shares). Application will be made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

The completion of the Third Agreement is not conditional upon the completion of the Great Wonders Agreement. However, it is contemplated that Melco will procure Melco Entertainment to proceed with the completion of the Great Wonders Agreement upon the same time of the completion of the Third Agreement.

The Directors (save for the independent non-executive Directors who would reserve their view until receipt of the letter of advice from the independent financial adviser) consider that the terms of the Third Agreement, the payment terms and consideration are fair and reasonable and that they are arrived at after arm's length negotiations taking into account (i) the preliminary valuation made by Savills (Hong Kong) Limited, an independent valuer, in respect of the valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005 and (ii) the confidence of the Directors in the potential prospects of the Hospitality Business mentioned in the paragraph headed "Reasons and benefits for entering into the Third Agreement and the Great Wonders Agreement" contained in this announcement and are upon normal commercial terms and in the interest of the Independent Shareholders as a whole. The proposed allotment and issue of the Consideration Shares will be subject to the approval by the Independent Shareholders (by way of poll) at the EGM.

2. The Great Wonders Agreement

Melco has entered into the Great Wonders Agreement with Melco Entertainment, a non wholly-owned subsidiary of Melco within the JV Group, on 17 March 2005, pursuant to which Melco Entertainment will buy and Melco will sell 30% equity interests in Great Wonders to be acquired from STDM for a consideration of HK\$400 million, which is identical with the amount of consideration payable by Melco to STDM under the Third Agreement. The completion of the Great Wonders Agreement is conditional upon the fulfillment of the conditions precedent of the Third Agreement and the completion thereof as mentioned in the paragraph headed "Conditions of the Third Agreement" contained in this announcement and it is contemplated that the completions of the Third Agreement and the Great Wonders Agreement shall occur simultaneously.

The whole consideration of HK\$400 million for the acquisition under the Great Wonders Agreement will be satisfied by Melco Entertainment in cash financing from the internal resources of the JV Group and will be payable upon completion of the Great Wonders Agreement provided that if the concession of the Land has not yet been granted on or before the relevant completion date, then half of the said consideration, namely, HK\$200 million will be payable upon the actual date of grant of the concession of the Land by the Macau Government to Great Wonders.

It is contemplated that immediately following the completions of the Third Agreement and the Great Wonders Agreement, the respective attributable interests in Great Wonders owned by Melco and PBL will be increased from 42% and 28% respectively to 60% and 40% respectively.

The Directors and the directors of Melco PBL Holdings consider that the terms of the Great Wonders Agreement, the payment terms and the consideration are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms and in the interest of the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The Third Agreement

STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has an equity interest in, as well as being a director of, STDM. As a result, and based on the preliminary valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005, the Land Acquisition Agreements and the issue of the Consideration Shares constitute a possible very substantial acquisition transaction and non-exempt connected transaction of Melco under Rule 14.08 and Rule 14A.16(5) of the Listing Rules respectively (by virtue of the fact that the asset ratio as specified in Rule 14.07 of the Listing Rules may be 100% or more) 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 approximately 3.21% shareholding interest in Melco, 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 Third Agreement and the transactions contemplated thereunder including the proposed allotment and issue of Consideration Shares at the EGM.

The Great Wonders Agreement

The injection of 30% equity interests in Great Wonders by Melco to Melco Entertainment after acquisition of the same from STDM is treated as a deemed disposal under the Listing Rules, which constitutes a discloseable transaction of Melco under Rule 14.06 of the Listing Rules and is subject to the requirements of reporting, announcement and issue of a circular as set out in Chapter 14 of the Listing Rules.

An independent board committee of Melco comprising its independent non-executive Directors will be appointed to advise the Independent Shareholders on whether or not the terms of the Third Agreement and the transactions contemplated thereunder, including the proposed allotment and issue of Consideration Shares are fair and reasonable and in the interests of the Independent Shareholders as a whole. An independent financial adviser will be appointed to advise the independent board committee thereon.

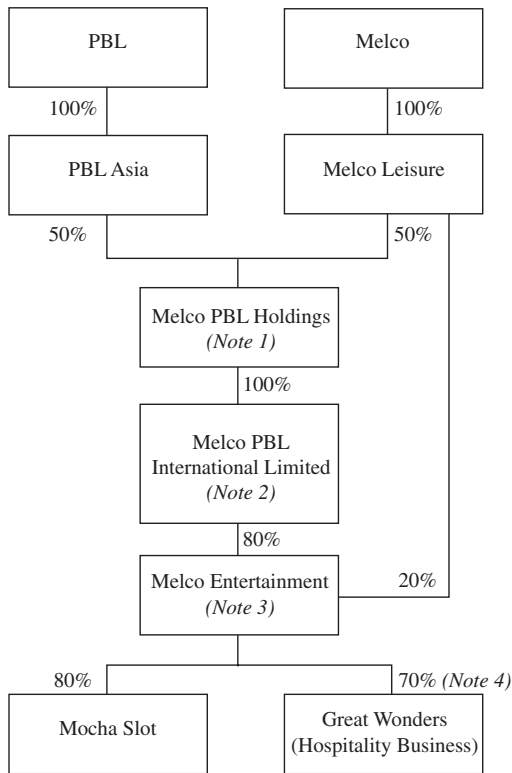
A circular containing, among other things, (i) the principal terms of the Third Agreement; (ii) the principal terms of the Great Wonders Agreement; (iii) the valuation report of the Land; (iv) the recommendation from the independent board committee of Melco in respect of the Third Agreement and the transactions contemplated thereunder; (v) a letter of advice from the independent financial adviser to the independent board committee of Melco in respect of the Third Agreement and the transactions contemplated thereunder; and (vi) a notice of the EGM will be dispatched to the Shareholders within 21 days from the publication date of this announcement.

At the request of Melco, the Shares have been suspended from trading on the Stock Exchange at 9:30 a.m. on 18 March 2005 pending the release of this announcement. Application has been made by Melco to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 23 March 2005.

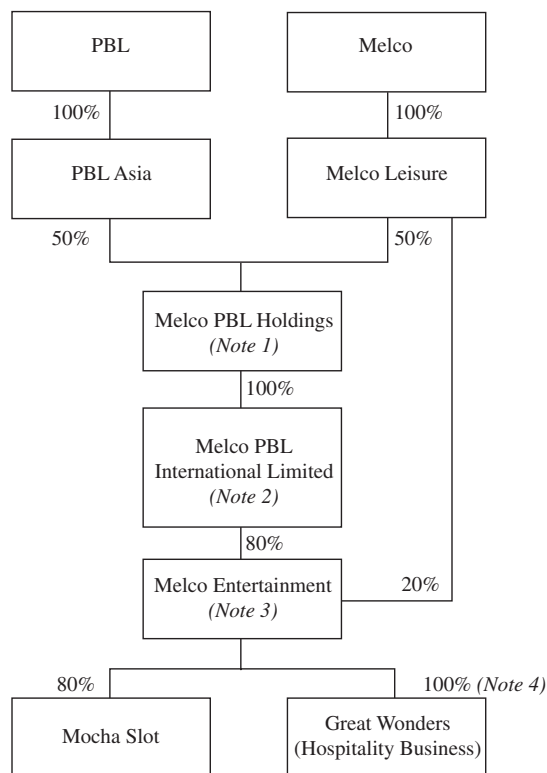
BACKGROUND

As disclosed in the announcement and circular of Melco respectively dated 13 September 2004 and 11 October 2004, Melco has entered into the First Agreement with STDM to acquire 50% equity interests in Great Wonders from STDM for a consideration of HK\$100 million. Subsequent to the completion of the First Agreement, and by the announcement and circular of Melco respectively dated 23 November 2004 and 5 January 2005, Melco entered into the Second Agreement with STDM to acquire an additional 20% equity interests in Great Wonders from STDM for a consideration of HK\$56 million. Immediately following the completions of the First Agreement and the Second Agreement, Great Wonders was owned as to 70% by Melco (with the same subsequently transferred to Melco Entertainment prior to the formation of the JV Group pursuant to the Subscription Agreement) and 30% by STDM.

Pursuant to the completion of the Subscription Agreement in respect of the formation of the JV Group, as disclosed in the announcements and circular of Melco respectively dated 23 November 2004, 23 December 2004 and 5 January 2005, which took place on 8 March 2005, the JV Group has been formed and the existing structure of which is as follow:



Immediately after completions of the Third Agreement and the Great Wonders Agreement, the structure of the JV Group will become as follows:



Notes:

1. Pursuant to the Subscription Agreement, PBL Asia has made the capital contribution of US\$163 million (equivalent to HK\$1,270 million) to Melco PBL Holdings, which is the principal holding company of the JV Group.
2. Melco PBL International Limited is an intermediary company newly formed pursuant to the Subscription Agreement.
3. Pursuant to the terms of the Shareholders Deed, Melco Leisure holds 20% direct interest in Melco Entertainment and hence, the total attributable interest held by Melco in Melco Entertainment is 60%. In addition, since Melco continues to retain the control of the composition of the board of directors of Melco Entertainment, Melco Entertainment, Great Wonders and Mocha Slot are non wholly-owned subsidiaries of Melco.
4. As at the date of this announcement, the respective attributable interests in Great Wonders owned by Melco and PBL are 42% and 28% respectively and the remaining 30% equity interests in Great Wonders are owned by STDM. Subject to the completion of the Third Agreement and the Great Wonders Agreement, the entire issued share capital of Great Wonders will be owned by Melco Entertainment and the respective attributable interests in Great Wonders owned by Melco and PBL will be increased to 60% and 40% respectively.

In order to rationalize the shareholding structure for the purpose of strengthening the cooperation between Melco and PBL in the Hospitality Business, Melco has entered into the Third Agreement and the Great Wonders Agreement, with STDM and Melco Entertainment respectively on 17 March 2005, in relation to the acquisition of the remaining interest of the Land held by STDM and injecting the same into the JV Group, details for these two agreements are as follows:

THE THIRD AGREEMENT

Date : 17 March 2005

Parties : STDM, as vendor
 Melco, as purchaser
 Melco Entertainment, as existing holder of 70% equity interests in Great Wonders

Interest to be acquired : 30% equity interests in Great Wonders held by STDM

Consideration : HK\$400 million

Term of payment : (i) HK\$200 million in cash; and
(ii) HK\$200 million by way of allotment and issue of the Consideration Shares.

Please refer to the paragraph headed "Financing Sources" below for the financing source and settlement of the consideration under the Third Agreement.

Basis of determination of the consideration

As at the date of this announcement, application has been made by Great Wonders to the Macau Government for the concession of the Land for the purpose of developing a luxury hotel thereon in pursuance of the Hospitality Business. Although the concession of the Land for hotel use has not yet been granted, to the best of the Directors' knowledge, belief and information having made all reasonable enquiries, the Macau Government shall have no objection to the change of usage of the Land from residential to hotel. As such, Melco has commissioned Savills (Hong Kong) Limited, an independent valuer, to re-assess the value of the Land for hotel use and has obtained a preliminary valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005. Melco will include the final valuation report in the circular to be dispatched to the Shareholders.

The consideration of HK\$400 million was arrived at after arm's length negotiations between Melco and STDM with reference to said revised amount of valuation, and in this regard:

- the consideration of HK\$400 million for 30% equity interests in Great Wonders represents an approximately 21.21% premium over HK\$330 million, being 30% of the valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005 according to the said preliminary valuation; and
- the aggregate consideration of HK\$556 million paid or payable by Melco under the Land Acquisition Agreements represents an approximately 49.45% discount to HK\$1,100 million, being the estimated preliminary valuation of the Land for hotel use as at 17 March 2005;

In determining the consideration under the Third Agreement, the Directors also noted that:

- by referring to the valuation of the Land for residential use of HK\$366 million as at 10 December 2004 conducted by Jones Lang LaSalle Limited, an independent valuer, as disclosed in the circular of Melco dated 5 January 2005, the consideration of HK\$400 million for 30% equity interests in Great Wonders (which corresponds 30% interest in the Land) represents an approximately 264.30% premium over HK\$109.8 million, being 30% of the valuation of the Land for residential use of HK\$366 million as at 10 December 2004 according to the said valuation report;
- the aggregate consideration of HK\$556 million paid or payable by Melco under the Land Acquisition Agreements represents an approximately 52% premium over HK\$366 million, being the valuation of the Land for residential use as at 10 December 2004;
- the amount of HK\$100 million previously paid by Melco for 50% equity interests in Great Wonders pursuant to the First Agreement represented an approximately 30.55% discount to HK\$144 million, being 50% of the valuation of the Land for residential use of HK\$288 million as at 5 August 2004 as disclosed in the circular of Melco dated 11 October 2004; and
- the amount of HK\$56 million previously paid by Melco for additional 20% equity interests in Great Wonders pursuant to the Second Agreement represented an approximately 23.5% discount to HK\$73.2 million, being 20% of the valuation of the Land for residential use of HK\$366 million as at 10 December 2004.

After a preliminary discussion between Melco and the new valuer, Savills (Hong Kong) Limited, the main reasons for the substantial increase in the present preliminary valuation of the Land of not less than HK\$1,100 million as at 17 March 2005 as compared with the previous valuation of HK\$366 million conducted by Jones Lang LaSalle Limited as at 10 December 2004, include (i) change of use of the Land from residential to hotel; and (ii) the continuing rise in the property market in Macau, in particular, the value of hotel property.

Notwithstanding that the consideration payable by Melco under the Third Agreement is considerably higher than the respective considerations paid under the First Agreement and the Second Agreement, the Directors (save for the independent non-executive Directors who would reserve their view until receipt of the letter of advice from the independent financial adviser) consider the amount of consideration is fair and reasonable taking into account (i) the abovementioned preliminary valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005 and (ii) the confidence of the Directors in the potential prospects of the Hospitality Business and the fact that the acquisition of 30% equity interests in Great Wonders under the Third Agreement and the injection of such interests into the JV Group under the Great Wonders Agreement will serve the purposes of rationalizing the shareholding structure in the JV Group and strengthening the cooperation between Melco and PBL in pursuing the Hospitality Business as mentioned in the paragraph headed "Reasons and benefits for entering into the Third Agreement and the Great Wonders Agreement" below.

Financing sources

The consideration of HK\$400 million for the acquisition under the Third Agreement will be satisfied by Melco, as to HK\$200 million, by way of cash payment upon completion and as to the balance of HK\$200 million, by way of issue of 11,111,111 Consideration Shares at an issue price of HK\$18.00 per Share to STDM upon completion or the actual date of the grant of the concession of the Land by the Macau Government to Great Wonders, whichever is later.

The cash consideration of HK\$200 million payable by Melco to STDM will be financed from the internal resources of Melco. As it is contemplated that the completion of Third Agreement will occur simultaneously with the completion of the Great Wonders Agreement, it is expected that Melco will receive the same amount of sales proceeds from Melco Entertainment upon the relevant completion date.

The issue price of each Consideration Share is identical to the closing price of HK\$18.00 per Share as quoted on the Stock Exchange on 17 March 2005 prior to the suspension of trading in Shares on 18 March 2005 and represents a premium of approximately 0.17% over the average closing price of HK\$17.97 per Share for the five trading days up to and including 17 March 2005. Based on the closing price of HK\$18.00 per Share on 17 March 2005, the Consideration Shares had a market value of approximately HK\$200 million. In addition, the issue price of each Consideration Share represents a premium of approximately 894.48% over the net asset value per Share of approximately HK\$1.81, based on the audited consolidated net assets of Melco as at 31 December 2003 and the then Shares in issue.

The Consideration Shares represent approximately 2.38% of all existing issued Shares and approximately 2.32% of the enlarged issued share capital of Melco immediately after the allotment and issue of the Consideration Shares (assuming no other Shares are issued prior to the date of issue of the Consideration Shares). The proposed allotment and issue of the Consideration Shares will be subject to the approval by the Independent Shareholders (by way of poll) at the EGM. Application will be made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distribution and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

Save for the Placing, the issue of securities and convertible notes by Melco for acquisition of 80% equity interests in Mocha Slot as disclosed in the announcement and the circular of Melco respectively dated 23 March 2004 and 23 April 2004 and the issues of the First Convertible Bond and Second Convertible Bond by Melco for acquisition of altogether 70% equity interests in Great Wonders as disclosed in the announcements and circulars of Melco respectively dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005, Melco has not undertaken any fund raising exercise over the past twelve months.

CONDITIONS OF THE THIRD AGREEMENT

Conditions precedent

Completion of the Third Agreement, is conditional on

- (i) the Independent Shareholders having approved, by way of poll, the transactions contemplated under the Third Agreement including the allotment and issue of the Consideration Shares at the EGM; and

- (ii) all necessary authorizations pursuant to the Listing Rules, including but not limited to the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares, having been obtained.

Unless Melco and STDM otherwise agree, if the conditions precedent set out above are not fulfilled on or before 30 June 2005, STDM may, by notice to Melco and Melco Entertainment to terminate the Third Agreement and in which case, the Third Agreement shall forthwith cease to have effect and no party thereunder shall have further liability under the Third Agreement (provided that such termination shall be without prejudice to any rights or remedies of the parties which shall have accrued prior to such termination).

The completion of the Third Agreement is not conditional upon the completion of the Great Wonders Agreement. However, it is contemplated that Melco will procure Melco Entertainment to proceed with the completion of the Great Wonders Agreement at the same time of the completion of the Third Agreement.

Condition subsequent

If the concession of the Land is not granted to Great Wonders on or before 1 September 2005, Melco shall have the right to re-sell STDM's 30% equity interests in Great Wonders to STDM and in such event, STDM shall be obliged to re-purchase the 30% equity interests in Great Wonders for the consideration previously paid by Melco.

Pursuant to the First Agreement and the Second Agreement as disclosed in the announcements and circulars of Melco respectively dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005, if the concession of the Land is not granted to Great Wonders on or before 1 September 2005, Melco shall have the right to terminate the First Convertible Bond and the Second Convertible Bond and forthwith transfer the altogether 70% equity interests in Great Wonders back to STDM.

To the best of the Directors' knowledge, information and belief, the concession of the Land will be granted on or before 1 September 2005.

Completion

Completion of the Third Agreement shall take place as soon as practicable and in any event not later than 21 days after fulfillment of the conditions precedent of the Third Agreement.

Changes to the shareholding structure of Melco as a result of the issue of the Consideration Shares

	Issued Shares as at the date of this announcement		Upon conversion of the First Convertible Bond in full		Upon conversion of the Second Convertible Bond in full		Upon allotment and issue of the Consideration Shares		Upon conversion of the Convertible Bonds in full and allotment and issue of the Consideration Shares	
	<i>Number of Shares</i>		<i>Number of Shares</i>		<i>Number of Shares</i>		<i>Number of Shares</i>		<i>Number of Shares</i>	
		%		%		%		%		%
Better Joy (<i>Note a</i>)	124,701,087	26.68	124,701,087	25.33	124,701,087	26.30	124,701,087	26.06	124,701,087	24.44
Mr. Lawrence Ho (<i>Note b</i>)	59,570,818	12.75	59,570,818	12.10	59,570,818	12.56	59,570,818	12.45	59,570,818	11.67
Shun Tak Shipping Company Limited (<i>Note c</i>)	39,083,147	8.36	39,083,147	7.94	39,083,147	8.24	39,083,147	8.17	39,083,147	7.66
Dr. Stanley Ho (<i>Note d</i>)	15,023,867	3.21	15,023,867	3.05	15,023,867	3.17	15,023,867	3.14	15,023,867	2.94
Madam Lucina Laam King Ying	222,287	0.05	222,287	0.05	222,287	0.05	222,287	0.05	222,287	0.04
STDM (<i>Note e</i>)	–	–	25,000,000	5.08	6,829,268	1.44	11,111,111	2.32	42,940,379	8.41
Others (Public)	228,780,848	48.95	228,780,848	46.46	228,780,848	48.24	228,780,848	47.81	228,780,848	44.83
Total	467,382,054	100.00	492,382,054	100.00	474,211,322	100.00	478,493,165	100.00	510,322,433	100.00

Notes:

- a. Better Joy is owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho.
- b. Interest of Mr. Lawrence Ho includes his personal interest and interest held through Lasting Legend, a company controlled and wholly owned by him.
- c. Interest of Shun Tak Shipping Company Limited includes interest held by itself and its wholly-owned subsidiaries.
- d. Interest of Dr. Stanley Ho includes his personal interest and interest held through two companies controlled and wholly-owned by him, namely, Sharikat Investments Limited and Dareset Limited.
- e. The First Convertible Bond and the Second Convertible Bond have respectively been issued by Melco to STDM on 9 November 2004 and 8 February 2005 pursuant to the First Agreement and Second Agreement respectively. Upon full conversion of the respective First Convertible Bond and the Second Convertible Bond, there will be an additional 25,000,000 Shares and 6,829,268 Shares respectively in issue. As at the date of this announcement, STDM has not exercised any conversion rights attached to the First Convertible Bond or the Second Convertible Bond.

THE GREAT WONDERS AGREEMENT

Date : 17 March 2005

Parties : Melco, as vendor
Melco Entertainment, as purchaser

Interest to be injected into the JV Group : 30% equity interests in Great Wonders

Consideration : HK\$400 million in cash

Term of payment : HK\$ 400 million, payable upon completion provided that if the concession of the Land has not yet been granted on or before the relevant completion date, then half of the said consideration, namely, HK\$200 million will be payable upon the actual date of grant of the concession of the Land by the Macau Government to Great Wonders.

Basis of determination of the consideration

The basis of determination of the consideration under the Great Wonders Agreement is consistent with the basis adopted under the Third Agreement and hence, the consideration of HK\$400 million is identical with the amount of consideration payable by Melco to STDM under the Third Agreement.

Financing sources

The whole consideration of HK\$400 million for the acquisition under the Great Wonders Agreement will be satisfied by Melco Entertainment in cash with the same financed from the internal resources of the JV Group, namely the capital contribution of US\$163 million (equivalent to HK\$1,270 million) previously made by PBL Asia.

Completion

It is contemplated that the completion of the Great Wonders Agreement shall take place simultaneously with the completion of the Third Agreement.

Conditions of the Great Wonders Agreement

The completion of the Great Wonders Agreement is conditional upon the fulfillment of the conditions precedent of the Third Agreement and the completion thereof as mentioned in the paragraph headed "Conditions of the Third Agreement" above.

If the condition subsequent mentioned in the paragraph headed "Conditions of the Third Agreement" above cannot be fulfilled and in the event that Melco has decided to re-sell the 30% equity interests in Great Wonders to STDM, in such case, Melco will procure Melco Entertainment to re-sell such interests to Melco for the consideration previously paid by Melco Entertainment.

EFFECT ON INTEREST HELD IN THE HOSPITALITY BUSINESS BY THE GROUP

Upon completion of the Third Agreement and the Great Wonders Agreement, STDM will cease to hold any interest in Great Wonders and the joint venture established between STDM and Melco (substituted by Melco Entertainment subsequently upon the formation of the JV Group) pursuant to the First Agreement and the Second Agreement shall be terminated and cease to have further force and effect. Melco and PBL will indirectly hold 60% and 40% equity interest in Great Wonders, which is in consistent with the shareholding structure of other joint venture companies within the JV Group indirectly held by Melco and PBL for the purpose of pursuing the Hospitality Business and other gaming business in Greater China region. After completion of the Great Wonders Agreement, Great Wonders will remain as a non wholly-owned subsidiary of Melco within the JV Group.

INFORMATION OF THE GROUP

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

Information on Melco Entertainment and the Hospitality Business

Melco Entertainment is a non wholly-owned subsidiary of Melco within the JV Group and is the immediate holding company of 70% equity interests in Great Wonders as at the date of this announcement. The Hospitality Business is concerned with the business pursued or to be pursued by 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 contemplated 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 on 31 March 2020 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. To the best of Melco's knowledge and belief, the Letter of Confirmation is a validly binding document between Melco and SJM. Save as disclosed above and since the hotel has not been developed, no concrete term of the Proposed Lease Agreement has been reached between Melco and SJM as at the date of this announcement.

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 concessionaries 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 Melco, 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 hotel development on the Land 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 Melco under Chapter 14A of the Listing Rules and if such circumstances arise, Melco 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. As a result of the completions of the First Agreement and the Second Agreement and the formation of the JV Group pursuant to the Subscription Agreement, Great Wonders became a non wholly-owned subsidiary of Melco within the JV Group and in which Melco has an attributable interests of 42% (which will be increased to 60% subject to the completions of the Third Agreement and the Great Wonders Agreement.) Currently, except for applying the concession of the Land for developing a luxury hotel and the signing of the Letter of Confirmation with SJM, 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 date of this announcement. Subject to the grant of the concession of the Land by the Macau Government, the sole asset of Great Wonders will be the Land.

As disclosed in the announcement of Melco dated 15 October 2004 regarding the Placing, Melco expected to apply the net proceeds of the Placing of approximately HK\$377 million, as to HK\$94 million for expansion of the business of Mocha Slot, as to HK\$207 million for the development of the Hospitality Business and as to the remaining HK\$75 million as working capital for the Group. As at the date of this announcement, Melco has utilized a total sum of approximately HK\$9.9 million for acquisition of hardware and systems for the business of Mocha Slot and a total sum of approximately HK\$31.1 million, mainly for engaging the independent professionals, including architects, surveyors and contractors, in relation to the relevant application for the concession of the Land and the Hospitality Business. It is the present intention of Melco to utilize the net proceeds of Placing according to the intended application thereof as disclosed in the announcement dated 15 October 2004.

Melco will use its best endeavours to ensure that throughout the holding of its investment in the gaming ventures and business through the JV Group, the operation of the JV Group will comply with the applicable laws in the relevant jurisdictions. Shareholders are reminded that, in accordance with the Stock Exchange's guidelines on gambling business, that if the operation of the JV Group does not comply with applicable laws in the relevant jurisdictions, the Stock Exchange may, depending on the circumstances of the case, direct Melco to take remedial action, and/ or may suspend dealings in, or may cancel the listing of, 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 Melco cannot take the requisite remedial action in the circumstance aforementioned, it is Melco's intention to maintain active trading and listing status of Shares by divesting its investment in the JV Group.

INFORMATION ON STDM AND THE LAND

STDM is a company engaged in a wide range of businesses including gaming and hospitality businesses in Macau. 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 formerly owned by a joint venture company, which was 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 had 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 Melco relating to the Second Agreement dated 5 January 2005, the Land for residential use was valued at HK\$366 million by Jones Lang LaSalle Limited, an independent valuer as at 10 December 2004. It is expected that the concession of the Land to Great Wonders will be granted on or before 1 September 2005. Great Wonders has entered into a development contract with an independent contractor to develop the hotel on the Land with a total investment amount of approximately HK\$1,500 million, which was arrived at after arm's length negotiations between the relevant parties and by reference to the estimation of the total investment costs for the project prepared by Levett & Bailey Chartered Quantity Surveyors Limited, an independent quantity surveyor engaged by Great Wonders for assessing the estimated market costs for developing a luxury hotel on the Land. Taking into account of the respective attributable interests of 60% and 40% in Great Wonders held by Melco and PBL respectively (assuming the Third Agreement and the Great Wonders Agreement have been completed), the

estimated capital commitment to be shared between Melco and PBL will be approximately HK\$900 million and HK\$600 million respectively. As disclosed in the announcement of Melco regarding the Placing on 15 October 2004, Melco expected to apply approximately HK\$207 million raised from the Placing in the development of the Land. Melco will consider various financing methods including debts/equity financing to fund the remaining balance of its share of the relevant capital commitment for the development of the Land.

REASONS AND BENEFITS FOR ENTERING INTO THE THIRD AGREEMENT AND THE GREAT WONDERS AGREEMENT

Subject to the completions of the Third Agreement and the Great Wonders Agreement, the respective attributable interests in Great Wonders owned by Melco and PBL will be increased from 42% and 28% respectively to 60% and 40% respectively and STDM will cease to have any equity interest in Great Wonders. While the First Agreement was for the purpose of acquiring an initial 50% equity interests in Great Wonders by Melco, the Second Agreement was for the purpose of obtaining a controlling interests in Great Wonders by Melco through acquisition of an additional 20% equity interests therein. After formation of the JV Group, the Directors and the directors of Melco PBL Holdings consider there will be a commercial advantage for entering into the Third Agreement and the Great Wonders Agreement as the same will serve the purposes of rationalizing the shareholding structure of Great Wonders via a complete buyout of STDM's equity interests therein thereby enhancing its operational efficiency and strengthening the cooperation between Melco and PBL in pursuing the Hospitality Business, in particular, fulfilling the terms and spirit of the Subscription Agreement and the Shareholders Deed to have all gaming, entertainment and hospitality ventures and businesses in the Greater China region effectively owned as to 60% by Melco and 40% by PBL through the JV Group. As such, the entire equity interests in Great Wonders have been acquired by Melco or Melco Entertainment (as the case may be) by different trenches.

In respect of the future prospects of the Hospitality Business and gaming business in Macau, the Directors hold an optimistic view based on the reasons and belief that:

- due to the proximity of Macau to the PRC, Macau will be able to capture the economic benefit generated by the continuous economic growth and increase in per capita annual disposable income of urban households in the PRC as disclosed in the China Statistical Yearbook 2004, which in turn translates into a vast long-term opportunity for the gaming and hospitality businesses;
- the relaxation of travel restrictions for individual travelers from the PRC since mid-2003 has proved to be a new driver for the PRC tourists. According to the Statistics and Census Service of the Macau Government, in the first nine months of 2004, the PRC visitors to Macau increased 83% on a year on year basis and accounted for 57% of total visitors, up from 45% in 2003;
- also, because of the proximity of Macau to Hong Kong, the gaming and hospitality businesses in Macau are likely to benefit from the Disneyland to be opened in Hong Kong by the end of 2005, which is expected to attract many visitors from the PRC and the other parts of the world.

The Directors consider that a complete buyout of STDM's interests in Great Wonders will enable the JV Group to consolidate the entire results, assets and liabilities of Great Wonders and hence, the Hospitality Business and based on the above belief in the potential business prospects in Macau, the Directors are of the view that a higher effective interest in Great Wonders obtained by the Melco pursuant to the Third Agreement and the Great Wonders Agreement will contribute to the improvement of return for the Shareholders.

In addition, since the transactions under the Third Agreement and the Great Wonders Agreement are intended to be a back-to-back arrangement with substantial similar terms and given the fact that on the one hand, part of the consideration of HK\$200 million payable by Melco to STDM under the Third Agreement will be satisfied by way of issue of the Consideration Shares and on the other hand, the entire consideration of HK\$400 million receivable by Melco from Melco Entertainment under the Great Wonders Agreement will be satisfied by way of cash financed from the internal resources of the JV Group, the Directors consider that the overall effect of the two transactions will result in an increase in the cash resources available to Melco and is in the interest of Melco. It is currently intended by Melco that such additional

cash resources will be applied as general working capital of the Group. Save for the above, the Directors consider that the two transactions shall have no material financial impact on the Group and there shall neither be any gain nor loss accrued to Melco as a result of these transactions.

The Directors (save for the independent non-executive Directors who would reserve their view until receipt of the letter of advice from the independent financial adviser) consider that the terms of the Third Agreement, the payment terms and consideration are fair and reasonable and that they are arrived at after arm's length negotiations taking into account (i) the preliminary valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005 and (ii) the confidence of the Directors in the potential prospects of the Hospitality Business mentioned above and are upon normal commercial terms and in the interest of the Independent Shareholders as a whole. The Directors and the directors of Melco PBL Holdings also consider that the terms of the Great Wonders Agreement, the payment terms and the consideration are fair and reasonable and that they are arrived at after arm's length negotiations and are upon normal commercial terms and in the interest of the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The Third Agreement

STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of Melco, has an equity interest in, as well as being a director of, STDM. As a result, and based on the preliminary valuation of the Land for hotel use of not less than HK\$1,100 million as at 17 March 2005, the Land Acquisition Agreements and the issue of the Consideration Shares constitute a possible very substantial acquisition and non-exempt connected transaction of Melco under Rule 14.08 and Rule 14A.16(5) of the Listing Rules respectively (by virtue of the fact that the asset ratio as specified in Rule 14.07 of the Listing Rules may be 100% or more) 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. In case the final valuation of the Land for hotel use to be included in the relevant circular does not exceed HK\$1,100 million and hence, the asset ratio as specified in Rule 14.07 of the Listing Rules does not exceed the 100% threshold, the Third Agreement will be reclassified as a major transaction under Chapter 14 of the Listing Rules and Melco will issue a separate announcement in this regard.

Dr. Stanley Ho, who beneficially owns approximately 3.21% shareholding interest in Melco, 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 Third Agreement and the transactions contemplated thereunder including the proposed allotment and issue of Consideration Shares at the EGM.

The Great Wonders Agreement

The injection of 30% equity interests in Great Wonders under the Great Wonders Agreement is treated as a deemed disposal of 12% equity interests in Great Wonders for a deemed consideration of HK\$160 million by Melco to Melco Entertainment (based on the consideration of HK\$400 million payable by Melco to STDM for the 30% equity interests in Great Wonders) under the Listing Rules, which constitutes a discloseable transaction of Melco under Rule 14.06 of the Listing Rules and is subject to the requirements of reporting, announcement and issue of a circular as set out in Chapter 14 of the Listing Rules.

GENERAL

An independent board committee of Melco comprising its independent non-executive Directors will be appointed to advise the Independent Shareholders on whether or not the terms of the Third Agreement and the transactions contemplated thereunder, including the proposed allotment and issue of Consideration Shares are fair and reasonable and in the interests of the Independent Shareholders as a whole. An independent financial adviser will be appointed to advise the independent board committee thereon.

A circular containing, among other things, (i) the principal terms of the Third Agreement; (ii) the principal terms of the Great Wonders Agreement; (iii) the valuation report of the Land; (iv) the recommendation from the independent board committee of Melco in respect of the Third Agreement and the transactions contemplated thereunder; (v) a letter of advice from the

independent financial adviser to the independent board committee of Melco in respect of the Third Agreement and the transactions contemplated thereunder; and (vi) a notice of the EGM will be dispatched to the Shareholders within 21 days from the publication date of this announcement.

SUSPENSION AND RESUMPTION OF TRADING

At the request of Melco, the Shares have been suspended from trading on the Stock Exchange at 9:30 a.m. on 18 March 2005 pending the release of this announcement. Application has been made by Melco to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 23 March 2005.

As at the date of this announcement, 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.

DEFINITION

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

“associate”	has the same meaning as ascribed to it in the Listing Rules
“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
“connected person”	has the same meaning as ascribed to it in the Listing Rules
“Convertible Bonds”	the First Convertible Bond and the Second Convertible Bond
“Consideration Shares”	11,111,111 new Shares to be allotted and issued (credited as fully paid) at HK\$18.00 per Share to STDM under the Third Agreement as part settlement of the consideration thereunder
“Director(s)”	the director(s) of Melco
“Dr. Stanley Ho”	Dr. Ho Hung Sun, Stanley, the Chairman and an Executive Director of Melco
“EGM”	an extraordinary general meeting of Melco to be convened for the purpose of considering and approving, amongst others, the Third Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares)
“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 Melco to STDM on 9 November 2004 pursuant to the First Agreement.
“First Agreement”	an agreement dated 8 September 2004 entered into between STDM and Melco regarding the acquisition of 50% equity interests in Great Wonders by Melco from STDM for a consideration of HK\$100 million
“Greater China region”	such territorial regions covering the PRC, Hong Kong, Macau and Taiwan
“Great Wonders”	Great Wonders, Investments, Limited, a non wholly-owned subsidiary of Melco within the JV Group. As at the date of this announcement, the respective attributable interests in Great Wonders owned by Melco and PBL are 42% and 28% respectively and the remaining 30% is owned by STDM
“Great Wonders Agreement”	an agreement dated 17 March 2005 entered into between Melco and Melco Entertainment regarding the acquisition by Melco Entertainment from Melco of 30% equity interests in Great Wonders, to be acquired from STDM pursuant to the Third Agreement, for a consideration of HK\$400 million

“Group”	Melco and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hospitality Business”	all businesses pursued or to be pursued by Great Wonders in relation to the development and operation of a luxury hotel housing a casino and an electronic gaming machine lounge on the Land
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholders”	shareholders of Melco other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend and Better Joy
“Independent Third Party(ies)”	an independent third party not connected with Melco and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of Melco and its subsidiaries, or an associate of any of them under the Listing Rules.
“JV Group”	the joint venture group of companies established pursuant to the Subscription Agreement and the Shareholders Deed for pursuance of gaming, entertainment and hospitality businesses in the Asia Pacific region (excluding Australia and New Zealand) and the Greater China Region, which comprise Melco PBL Holdings, Melco Entertainment, Great Wonders, Mocha Slot as well as 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, the Second Agreement and the Third Agreement
“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 People’s Republic of China
“Melco”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange or if the context so requires, refer to Melco Leisure
“Melco Entertainment”	Melco Entertainment Limited, a non wholly-owned subsidiary of Melco within the JV Group. As at the date of this announcement, Melco Entertainment holds 80% equity interests in Mocha Slot and 70% equity interests in Great Wonders
“Melco Leisure”	Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of Melco, used for the purpose of holding the relevant equity interests of Melco in the JV Group companies
“Melco PBL Holdings”	Melco PBL Holdings Limited, the principal holding company within the JV Group and a jointly controlled company of Melco and PBL

“Mr. Lawrence Ho”	Mr. Ho, Lawrence Yau Lung, the Managing Director and Executive Director of Melco and son of Dr. Stanley Ho
“Mocha Slot”	Mocha Slot Group Limited, a non-wholly owned subsidiary of Melco within the JV Group. As at the date of this announcement, the respective attributable interests in Mocha Slot owned by Melco and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho
“MOP\$”	pataca, the lawful currency of Macau
“PBL”	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange or if the context so requires, refer to PBL Asia
“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
“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 Melco dated 15 October 2004
“PRC”	People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“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
“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 issued by Melco to STDM on 8 February 2005 pursuant to the Second Agreement.
“Second Agreement”	an agreement entered into between STDM and Melco on 11 November 2004 regarding the acquisition of an additional 20% equity interests in Great Wonders by Melco from STDM for a consideration of HK\$56 million
“Shares”	ordinary share(s) of HK\$1.00 each in the share capital of Melco
“Shareholders”	shareholders of Melco
“Shareholders Deed”	the shareholders deed dated 8 March 2005 entered into amongst Melco, Melco Leisure, PBL, PBL Asia and Melco PBL Holdings for the purpose of regulating the respective rights and obligations of the shareholders of the JV Group
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a subsidiary of STDM
“STDM”	Sociedade de Turismo e Diversoes de Macau, S.A.R.L. a company incorporated under the laws of Macau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 23 December 2004 entered into amongst Melco, Melco PBL Holdings, PBL and PBL Asia in relation to the establishment of the JV Group. Information of this Subscription Agreement is set out in the announcement and circular of Melco respectively dated 23 December 2004 and 5 January 2005

“Third Agreement” an agreement dated 17 March 2005 entered into between STDM and Melco regarding the acquisition of 30% equity interests in Great Wonders by Melco from STDM for a consideration of HK\$400 million

“US\$” United States dollars, the lawful currency of the United States of America

“%” Per cent

For the purpose of this announcement, 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.

By order of the board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Managing Director

Hong Kong, 22 March 2005

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