THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is not an offer to sell or the solicitation of an offer to buy any securities and neither this circular nor anything herein forms the basis for any contract or commitment whatsoever.

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

If you have sold all your shares in Melco International Development Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

Melco

Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

PROPOSED ACQUISITION OF ADDITIONAL LAND IN MACAU FOR DEVELOPMENT AS AN INTEGRATED ENTERTAINMENT RESORT VERY SUBSTANTIAL ACQUISITIONS CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

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 and the Independent Shareholders

ANGLO CHINESE

CORPORATE FINANCE, LIMITED

A letter from the Board of Directors of the Company is set out on pages 10 to 42 of this circular. A letter from the Independent Board Committee of the Company containing its advice to the Independent Shareholders is set out on pages 43 to 44 of this circular. A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser to the Independent Board Committee of the Company containing its advice to the Independent Board Committee is set out on pages 45 to 58 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company to be held at 3:30 p.m. on Wednesday, 10th August 2005 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on pages 196 to 198 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM or any adjourned meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

22nd July 2005

CONTENTS

In this circular, unless the context otherwise requires, the following terms have the meanings set opposite them below:

"Acquisition Announcement"	the announcement dated 13th May 2005 of the Company relating to the proposed acquisition of additional land in Macau for development as an integrated entertainment resort, the entering into of the First Agreement among Melco Entertainment, Great Respect and the Company, the entering into of the Second Agreement between Melco Leisure and Melco Entertainment, the subscription by Great Respect of the Convertible Loan Notes under the First Agreement and the Whitewash Waiver application by Great Respect and other members of the Concert Party
"Agreements"	the First Agreement and the Second Agreement
"associate"	the meaning assigned to that expression in the Listing Rules
"Better Joy"	Better Joy Overseas Ltd., a company owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
"Board"	the board of Directors of the Company
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted at any time between 9:00 a.m. and 5:30 p.m. or on which a "black" rainstorm warning is hoisted at any time between 9:00 a.m. and 5:30 p.m.) on which licensed banks in Hong Kong are open for business
"Company"	Melco International Development Limited, a company established under the laws of Hong Kong and having its shares listed on the Stock Exchange
"Concert Party"	the concert party consisting of Dr. Stanley Ho, Madam Lucina Laam King Ying, Mr. Lawrence Ho, STS (including its wholly owned subsidiaries holding Shares), Lasting Legend, Better Joy, STDM, Great Respect and three companies wholly beneficial owned by Dr. Stanley Ho which hold Shares, namely Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited
"Convertible Loan Notes"	the total principal amount of HK$1,175 million of convertible loan notes due 2010 to be issued by the Company and subscribed by Great Respect under the First Agreement and conferring the right to subscribe for new Shares at an initial conversion price of HK$9.965 per New Share, subject to adjustment in accordance with the terms and conditions of the Convertible Loan Notes
"Declaration Agreement"	the agreement dated 9th March 2005 between Melco Leisure and Melco Entertainment, pursuant to which Melco Leisure declared that all its rights and benefits under the Joint Venture MOA are held by it on behalf of Melco Entertainment and that it would, at the request of Melco Entertainment, and as required by the Shareholders Agreement, transfer its 50.8% interest under the Joint Venture MOA and its interest in Melco Hotels to Melco Entertainment

"Directors"	directors of the Company
"EGM"	an extraordinary general meeting of the Company to be convened on Wednesday, 10th August 2005 for the purpose of considering, and if thought fit, approving: (a) the Agreements and the transactions contemplated by them (including the issue of the Convertible Loan Notes); (b) the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of a long term lease in respect of the Land and the development of the Land by Melco Hotels and Melco Entertainment, involving the construction of an integrated entertainment resort having the features described in this circular; and (c) the Whitewash Waiver
"Enlarged Group"	the Company and its subsidiaries after completion of each of the Agreements, including the Joint Venture
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
"First Agreement"	an agreement dated 11th May 2005 between Melco Entertainment, Great Respect and the Company relating to the acquisition by Melco Entertainment of the 49.2% interest of Great Respect in the Joint Venture and the application by Great Respect of the proceeds of that acquisition to subscribe for the Convertible Loan Notes to be issued by the Company
"Great Respect"	Great Respect Limited, a company incorporated in the British Virgin Islands which is controlled by a discretionary family trust of Dr. Stanley Ho
"Great Wonders"	Great Wonders, Investments, Limited, which is currently a 70% owned subsidiary of Melco Entertainment and which would become a wholly owned subsidiary of Melco Entertainment on completion of the proposed acquisition by Melco Entertainment of the remaining 30% interest in Great Wonders held by STDM, announced by the Company on 22nd March 2005 and disclosed in the circular of the Company dated 2nd June 2005
"Group"	the Company and its subsidiaries from time to time

"Independent Board Committee"	the independent board committee of the Company comprising Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, the Independent Non-executive Directors appointed to advise the Independent Shareholders on the Whitewash Waiver and whether or not the terms of the First Agreement (including the issue of the Convertible Loan Notes) and the transactions contemplated by it are fair and reasonable and in the interests of the Independent Shareholders as a whole
"Independent Financial Adviser"	Anglo Chinese Corporate Finance, Limited, the independent financial adviser appointed to advise the Independent Board Committee in connection with the Whitewash Waiver and the First Agreement and the transactions contemplated under the First Agreement
"Independent Shareholders"	(1) in respect of ordinary resolution numbered (1) as set out in the Notice of EGM to be proposed to approve the First Agreement and the transactions contemplated by it as a connected transaction for the purposes of the Listing Rules, means Shareholders of the Company other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend, Better Joy and (if it holds Shares at the relevant time) STDM, (2) in respect of ordinary resolution numbered (2) as set out in the Notice of EGM to be proposed to approve the Second Agreement and the transactions contemplated by it, means Shareholders of the Company other than any person with a material interest in the Second Agreement and the transactions contemplated by it and such person's associates (the Directors are not aware of any Shareholders at the Latest Practicable Date who has a material interest in the Second Agreement and the transactions contemplated by it so that accordingly no Shareholder is required to abstain from voting on the resolution to approve the Second Agreement and the transactions contemplated by it under the Listing Rules), (3) in respect of ordinary resolution numbered (3) to be proposed to approve the Whitewash Waiver, the First Agreement and the transactions contemplated by it for the purposes of the Takeovers Code, means Shareholders of the Company other than (i) Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend, Better Joy and (if it holds Shares at the relevant time) STDM, (ii) STS (including its wholly-owned subsidiaries holding Shares at the relevant time), (iii) Mr. Frank Tsui, Mr. Ho Cheuk Yuet and Dr. Lo Ka Shui, who are Shareholders as well as Directors, and (iv)

	Shareholders who are interested or involved in the First Agreement and the transactions contemplated thereby and the Whitewash Waiver, other than solely in their capacity as Shareholders or (4) in respect of ordinary resolution numbered (4) as set out in the Notice of EGM to be proposed to approve the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of a long term lease in respect of the Land and the future development of the Land as an integrated entertainment resort having the features as described in this circular, Shareholders other than any Shareholder and his associates with a material interest in those transactions, save and except for an interest solely in his capacity as a Shareholder (the Directors are not aware of any Shareholders at the Latest Practicable Date who has a material interest in these transactions so that accordingly no Shareholder is required to abstain from voting on such resolution under the Listing Rules)
"Independent Third Party"	an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
"Joint Venture"	the joint venture established by the Joint Venture MOA
"Joint Venture MOA"	the legally binding Memorandum of Agreement dated 28th October 2004 between Melco Leisure and Great Respect having the principal terms as described in this circular;
"Land"	a parcel of land with an area of 113,325 sq. metres located at Taipa, Macau, on the Cotai Strip;
"Last Trading Date"	10th May 2005, being the last date on which the Shares were traded on the Stock Exchange prior to the suspension of trading in the Shares made at the request of the Company pending the release of the Acquisition Announcement;
"Lasting Legend"	Lasting Legend Limited, a company wholly-owned by Mr. Lawrence Ho
"Latest Practicable Date"	19th July 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Melco Entertainment"	Melco Entertainment Limited, an 80% owned subsidiary of Melco PBL Holdings established under the laws of the Cayman Islands to engage in the business of gaming, entertainment and hospitality in the Greater China Region

"Melco Hotels"	Melco Hotels and Resorts (Macau) Limited, a wholly-owned subsidiary of Melco Leisure established under the laws of Macau, which pursuant to the Joint Venture MOA, for expedience, was made available by Melco Leisure to the Joint Venture, as the Macanese vehicle to make the relevant application to the Macau Government for the long term lease in respect of the Land. As at the Latest Practicable Date, the only material asset of Melco Hotels is the offer received from the Macau Government to grant a long term lease in respect of the Land and the only business of Melco Hotels is to hold and develop the Land if a long term lease is ultimately granted
"Melco Leisure"	Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company established under the laws of the British Virgin Islands to engage in the business of investment holding
"Melco PBL Holdings"	Melco PBL Holdings Limited, a 50/50 joint venture established between the Company and PBL under the laws of the Cayman Islands to engage in the businesses of gaming, entertainment and hospitality in the Asia Pacific and Greater China regions
"Mocha Slot"	Mocha Slot Group Limited, an 80% subsidiary of Melco Entertainment, established under the laws of the British Virgin Islands engaged in the business of leasing gaming machines and provision of ancillary management services to lessees of its gaming machines in Macau
"Mocha Management"	Mocha Slot Management Limited, a company incorporated under the laws of Macau and a wholly-owned subsidiary of Mocha Slot
"MOP"	pataca, the lawful currency of Macau
"New Shares"	ordinary shares of HK$0.50 each in the capital of the Company created after the Share Subdivision
"Notice of EGM"	the notice of the Company dated 22nd July 2005 convening the EGM as set out on pages 196 to 198 of this circular
"Old Shares"	ordinary shares of HK$1.00 each in the capital of the Company prior to the Share Subdivision
"PBL"	Publishing and Broadcasting Limited, a company established under the laws of Australia and having its securities listed on the Australian Stock Exchange
"PBL Group"	PBL and its subsidiaries from time to time

"Placing Agent"	Credit Suisse First Boston (Hong Kong) Limited, an Independent Third Party
"Placing and Subscription Agreement"	the placing and subscription agreement between Better Joy, the Company and the Placing Agent dated 17th May 2005
"Placing Announcement"	the announcement dated 17th May 2005 of the Company relating to the "Placing of Existing Shares and Subscription for New Shares"
"Placing"	the placing of the Placing Shares pursuant to the Placing and Subscription Agreement which was completed on 20th May 2005
"Placing Shares"	the 140,000,000 New Shares placed by the Placing Agent pursuant to the Placing and Subscription Agreement
"PRC"	People's Republic of China and for the purpose of this circular excludes Hong Kong, Macau and Taiwan
"Relevant Period"	the period commencing on the date falling six months prior to the date of the Acquisition Announcement and ended on the Latest Practicable Date
"Second Agreement"	an agreement dated 11th May 2005 between Melco Entertainment as transferee and Melco Leisure as transferor, pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement
"Share Subdivision"	the subdivision of every ordinary share of HK$1.0 each in the capital of the Company into two ordinary shares of HK$0.50 each in the capital of the Company, which became effective on 19th May 2005
"Shareholders"	holders of Shares
"Shareholders Agreement"	the agreement between the Company and PBL dated 8th March 2005 governing the relationship between the Company and PBL as shareholders of Melco PBL Holdings and providing, among other things, for the operation and management of Melco PBL Holding and Melco Entertainment
"Shares"	shares of the Company, which prior to the date of the Share Subdivision shall be construed as the Old Shares, and subsequent to the date of the Share Subdivision shall be construed as the New Shares unless the context otherwise requires
"SJM"	Sociedade de Jogos de Macau, S.A., a company established under the laws of Macau and a non wholly owned subsidiary of STDM

"STDM"	Sociedade de Turismo e Diversoes de Macau, S.A. a company established under the laws of Macau of which Dr. Stanley Ho and his associates together constitute a controlling shareholder (within the meaning of the Listing Rules), and an associate of Dr. Stanley Ho
"STS"	Shun Tak Shipping Company, Limited, a company in which Dr. Stanley Ho holds a 27.78% shareholding interest and of which he is a director
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the Subscription Shares pursuant to the Placing and Subscription Agreement which was completed on 30th May 2005
"Subscription Shares"	the 140,000,000 New Shares subscribed for by Better Joy pursuant to the Placing and Subscription Agreement
"Transactions"	the First Agreement, the Second Agreement, the transactions contemplated by each of them, the proposed entering into by Melco Hotels of a legally binding commitment with the Macau Government relating to the grant of a long term lease in respect of the Land and the development of the Land by Melco Hotels and Melco Entertainment, involving the construction of an integrated entertainment resort having the features described in this circular
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"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 64.54% owned subsidiary of the Company
"Whitewash Waiver"	the waiver by the Executive of the obligations of Great Respect and the Concert Party to make a mandatory offer pursuant to the provisions of Rule 26 of the Takeovers Code to acquire the entire issued share capital of the Company not otherwise owned by the Concert Party, arising as a result of any and all future exercises of the conversion rights conferred by the Convertible Loan Notes, such waiver to be subject to such conditions as are customary, including the approval of the Independent Shareholders pursuant to a vote conducted by way of poll having been obtained at the EGM and full compliance with the provisions of the Takeovers Code

For the purposes of this circular, amounts in MOP are translated into HK$ at the rate of MOP1.03 : HK$1.00.

RISK FACTORS

In considering whether or not to vote in favour of the ordinary resolutions to be proposed at the EGM relating to the Whitewash Waiver, the First Agreement, the Second Agreement and the transactions contemplated by each of them, and the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of the long term lease in respect of the Land by the Macau Government and the proposed development of the Land as described in this circular, Shareholders should consider all of the information set out in this circular, including the following risk factors. Any of the risks below could cause the Group's business and financial performance to deviate from the goals, plans, objectives, intentions and expectations expressed in this circular.

Grant of the long term lease in respect of the Land by the Macau Government

Realisation of the benefits of the First Agreement, the Second Agreement and the transactions contemplated by each of them is conditional on the granting of the long term lease in respect of the Land by the Macau Government. As disclosed in the section headed "The Development Project" in this Letter from the Board, although Melco Hotels has accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease in respect of the Land, Melco Hotels has yet to enter into a legally binding contract with the Macau Government in relation thereto. Further, although the terms of the proposed grant are substantially agreed in principle, a limited number of matters principally related to the undertaking of preliminary peripheral infrastructure work (such as clearance of the Land, reclamation, construction of pavements, roads and drainage system, greening work and the treatment of costs incurred) and a proposed increase in the developable site area of the Land are yet to be finalised with the Macau Government. Failure to agree on the outstanding terms of the grant or to obtain a formal grant of the long term lease in respect of the Land from the Macau Government would have a material adverse effect on the implementation of the development project of the Land as described herein.

Further, the transaction under the First Agreement has been structured so that if, for any reason, Melco Hotels is unable to obtain a long term lease in respect of the Land by 31st December, 2006, Great Respect is required to surrender the Convertible Loan Notes to the Company for cancellation and that following cancellation of the Convertible Loan Notes, the Company is required to pay to Melco Entertainment the amount received by the Company from Great Respect on the subscription of the Convertible Loan Notes (being the purchase price paid by Melco Entertainment to Great Respect for its 49.2% interest in the Joint Venture).

Valuation of the Group's property interests

Valuations of the Group's property interests as at 11th May 2005 prepared by Savills (Hong Kong) Limited are contained in Appendix V to this circular. In particular, the valuations of the Group's respective interest in lands in Taipa and Cotai, Macau, are based upon certain assumptions, which, by their nature, are subjective and uncertain and may materially differ from the actual results. Please refer to the assumptions stated in the valuation of Group II properties in the valuation certificate in the valuation report contained in Appendix V to this circular. Accordingly, these valuations are not a prediction of the actual value expected to be achieved by the Group from these properties. Unanticipated results of or changes in particular property developments, or changes in general or local economic conditions or other relevant factors could affect such values.

With respect to properties under development in Macau (i.e. Group II property as set out in the property valuation report in Appendix V to this circular), the valuations are based on the **assumptions** that (i) the properties will be completed or developed as currently proposed, (ii) regulatory and governmental approvals for the proposals have been obtained, (iii) the Group is in **possession of a proper legal title** and is entitled to transfer the property at no extra land premium; (iv) all premiums have been paid in connection with the properties and such properties are free of encumbrances and other restrictions; and (v) other specific and principal assumptions stated in the section headed "Group II property interests held by the Group for development in Macau" in the valuation certificate in the valuation report contained in Appendix V to this circular. Shareholders should note that if there is any actual material and adverse deviation from the assumptions made for the valuation of the properties under development in Macau, the valuations of such properties will be adversely affected.

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. Tsui Che Yin, Frank

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

22nd July 2005

To the Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION OF ADDITIONAL LAND IN MACAU FOR DEVELOPMENT AS AN INTEGRATED ENTERTAINMENT RESORT VERY SUBSTANTIAL ACQUISITIONS CONNECTED TRANSACTION APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

By the Acquisition Announcement dated 13th May 2005, the Board announced that on 10th May 2005, Melco Hotels, a wholly-owned subsidiary of the Company, accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease in respect of a plot of land with an area of approximately 113,325 square metres in Taipa, Macau, on the Cotai Strip, for the construction and development of an integrated entertainment resort. The Board also announced that Melco Entertainment, a company in which the Company has a 60% direct and indirect attributable interest, has entered into the First Agreement and the Second Agreement pursuant to which Melco Entertainment has agreed to acquire or take an assignment of the respective 49.2% and 50.8% interests in the Joint Venture held by Great Respect and Melco Leisure, and the interest of Melco Leisure in Melco Hotels on and subject to the terms of the First Agreement and the Second Agreement. In addition, Great Respect has agreed to apply the proceeds payable to it under the First Agreement to subscribe for the Convertible Loan Notes to be issued by the Company on and subject to the terms set out under the First Agreement.

The purpose of this circular is to give you further details of:–

(a) the Agreements and the transactions contemplated thereunder (including the issue of the Convertible Loan Notes);

(b) the in principle acceptance by Melco Hotels of the Macau Government's offer to grant a long term lease in respect of the Land and the proposed development of the Land, involving the construction of an integrated entertainment resort having the features described in this circular, and the detailed terms and conditions of the grant of the lease; and

(c) the Whitewash Waiver application.

This circular also sets out the recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Notice of the EGM.

THE DEVELOPMENT PROJECT

On 10th May 2005, Melco Hotels accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease of land parcels on the Cotai Strip in Macau with an aggregate area of 113,325 sq. meters, for the development of an integrated entertainment resort with the following principal features:

- one five star hotel with approximately 500 rooms and two four star hotels with approximately 750 rooms each
- subject to obtaining the necessary Macau regulatory approvals, an underwater casino showcasing tropical marine life with approximately 45,000 sq. meters gaming space and 400 mass market gaming tables, 50 premium player market gaming tables and 3,000 electronic slot machines
- two blocks of service apartments with approximately 142,000 sq. meters saleable area
- retail shopping space of approximately 10,000 sq. meters
- a performance hall with approximately 8,500 sq. meters auditorium and back of house areas
- car parking facilities and other supporting infrastructure

The Macau Government offered the right to be granted development rights in respect of the Land to Melco Hotels in a letter dated 21st April 2005, which sets out detailed specifications of the permitted uses and developable gross floor area of the site and the applicable land premium payable to take up the grant. The offer letter from the Macau Government is in respect of a development of 403,692 sq. metres, comprising a five-star hotel of 53,659 sq. metres, a three-star hotel of 250,833 sq. metres, aggregate car parking of 61,370 sq. metres and outdoor space of 37,830 sq. metres.

A limited number of matters in relation to the detailed terms of the grant principally related to the undertaking of preliminary peripheral infrastructure work (such as clearance of the Land, reclamation, construction of pavements, roads and drainage system, greening work and the treatment of costs incurred) and a proposed increase in the developable site area of the Land as hereinafter described remain to be discussed with the Macau Government. Melco Hotels has requested an increase in the developable site area from the 403,692 sq. meters contemplated by the offer letter from the Macau Government to the approximately 450,000 sq. meters contemplated by the proposed development described above. A formal written application for that increase was submitted to the Macau Government on 10th May 2005 and the Directors anticipate that the requested increase of the developable gross floor area, to permit the development described above, will be granted by the Macau Government in the context of the process which is expected to ultimately result in the grant of a formal legally binding long term lease in respect of the Land. Subject to the foregoing, the terms of the proposed land grant are substantially agreed in principle, albeit that a legally binding commitment of Melco Hotels will only arise upon the execution by it of a legally binding contract with the Macau Government. That legally binding contract will only be entered into by Melco Hotels subject to, or following, the approval of the Land grant and the project by Shareholders of the Company (by way of a poll) at the EGM. Subject to the approval of Shareholders having been obtained, the directors anticipate that the legally binding contract will be entered into in the second half of 2005.

Construction of the development is expected to commence in the latter part of 2005 and it is anticipated that the complex will commence operations in mid 2008. The service apartments are currently intended for sale, with pre-sales expected to commence in mid 2006.

The Land consists of two individual parcels. The grant of development rights in respect of "Parcel A", a parcel of land of 73,528 sq. meters which is registered as Lot No. 23053 in the Property Registration Bureau, would be conditional on the return of the land parcel to the Macau Government by the existing holder of development rights in respect of it, Elite Sociedade De Desenvolvimento Educational, S.A.. Elite Sociedade De Desenvolvimento Educational, S.A. is an independent third party not connected with the Company and its subsidiaries or any of its substantial shareholders, directors or chief executive and their respective associates. The Directors do not have any further detailed information in respect of Elite Sociedade De Desenvolvimento Educational, S.A., but understand it is affiliated with a senior educational establishment in Macau. The Company has obtained written confirmation from Elite Sociedade De Desenvolvimento Educational, S.A. that it is negotiating with the Macau Government for an exchange of the Land and that it will endeavour to complete those negotiations as soon as possible with the intention that "Parcel A" is surrendered to the Macau Government (and hence to be granted to Melco Hotels). The grant of rights in respect of "Parcel B", a parcel of land of 39,797 sq. meters which, according to the documents provided to Melco Hotels by the Macau Government in respect of the Land, is unregistered, would not be subject to such a condition.

If granted, the lease term would initially be 25 years from the date of grant (which is currently expected to be in the second half of 2005), with the right to renew for further consecutive periods of 10 years in accordance with the applicable provisions of Macau law. Macau law does not specify a limit on the number of times that the lease may be renewed and, accordingly, the lease is capable of renewal for indefinite successive periods.

The premium payable on the grant of a long term lease for the construction and development on the Land of an integrated entertainment resort having the features described above will need to be agreed with the Macau Government in the context of the process which is expected to ultimately result in the formal grant of a long term lease in respect of the Land. The amount of the land premium originally proposed by the Macau Government in its 21st April 2005 letter (calculated pursuant to applicable regulations in Macau) is MOP 509,124,823 (equivalent to approximately HK$494,295,945), although this amount may be adjusted by an estimated amount in the region of MOP69,000,000 (equivalent to approximately HK$66,990,291) to MOP110,000,000 (equivalent to approximately HK$106,796,117) if the Macau Government accedes to Melco Hotels' request to increase the developable gross floor area at the site from approximately 400,000 sq. meters to approximately 450,000 sq. meters. In addition, as is customary for this type of project, it is anticipated that Melco Hotels will also be required to provide guarantee money to the Macau Government by way of a cash deposit or bank guarantee acceptable to the Macau Government. It is anticipated that the amount of the guarantee money required to be provided by Melco Hotels will be in the region of MOP 2,290,000 (equivalent to approximately HK$2,223,301)).

The legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land will only be entered into subject to, or following, the approval of the project by the Independent Shareholders of the Company in respect of ordinary resolution numbered (4) as set out in the Notice of EGM to be proposed to approve the entering into of a long term lease of the Land and its development as an integrated entertainment resort, by way of poll at the EGM. The principal terms of the legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer mentioned above are set out below:

Developable site area:	403,692 sq. metres, comprising a five-star hotel of 53,659 sq. metres, a three-star hotel of 250,833 sq. metres, aggregate car parking of 61,370 sq. metres and outdoor space of 37,830 sq. metres (subject to final agreement between Melco Hotels and the Macau Government in relation to the application made by Melco Hotels for an increase of the developable site area, as described above).
Term of lease:	25 years from the date on which permission for the legally binding contract in respect of the lease of the Land is published in the gazette of the Macau Government with the right to renew for further consecutive periods in accordance with the applicable provisions of Macau laws.
Rent:	During the construction period, a rent in an aggregate amount of MOP 2,290,000 (equivalent to approximately HK$2,223,301) shall be payable by Melco Hotels to The Macau Government every year at the rate of MOP 20 (equivalent to approximately HK$19.41) per square metre of the Land.

Following completion of the construction on the Land, the rate at which rent shall be payable by Melco Hotels in respect of the Land shall be changed to the following:

- a rate of MOP 15 (equivalent to approximately HK$14.56) per square metre of the Land shall be payable in respect of the five star hotel
- a rate of MOP 10 (equivalent to approximately HK$9.71) per square metre of the Land shall be payable in respect of the three star hotel and the car park for the five star hotel
- a rate of MOP 7.5 per square metre (equivalent to approximately HK$7.28) of the Land shall be payable in respect of the car park for the three star hotel and the outdoor areas

The rates at which rent is payable shall be adjusted every five years as agreed between the Macau Government and Melco Hotels provided that where the Macau Government revises the applicable rental rates under new laws and regulations, such new rates shall apply.

Building Covenant: 60 months from the date on which permission for the legally binding contract in respect of the lease of the Land has been published in the gazette of The Macau Government. If there is any delay on the part of Melco Hotels in complying with this, a daily fine of MOP 5,000 (equivalent to approximately HK$4,854) is payable by Melco Hotels for any delay not exceeding 60 days. If the delay exceeds 60 days, a daily fine of MOP 10,000 (equivalent to approximately HK$9,709) is payable by Melco Hotels provided that such delay does not exceed 120 days. Where the delay exceeds 120 days, the relevant land committee of the Macau Government will determine the applicable penalty rate.

Guarantee Deposit: A guarantee deposit in the amount of MOP 2,290,000 (equivalent to approximately HK$2,223,301), subject to adjustments in accordance with the relevant amount of rent payable during the relevant year shall be payable by Melco Hotels. Such guarantee deposit should be released to Melco Hotels upon its application after completion of the construction on the Land.

Land Premium: A land premium in the aggregate amount of MOP 509,124,823 (equivalent to approximately HK$494,295,945) shall be payable by Melco Hotels to The Macau Government and shall be payable as follows:

i. a sum of MOP 170,000,000 (equivalent to approximately HK$165,048,544) shall be payable upon receipt by The Macau Government of the legally binding contract signed by Melco Hotels; and

ii. the balance of MOP 339,124,823 (equivalent to approximately HK$329,247,401) together with interest at 5% per annum shall be payable in nine instalments in equal amounts, with each instalment payable every six months and the first instalment payable within 6 months from the date on which permission for the legally binding contract in respect of the lease of the Land has been published in the gazette of The Macau Government.

It should be noted that the above may be adjusted if the Macau Government accedes to Melco Hotels' request to increase the developable gross floor area at the site from approximately 400,000 sq. meters to approximately 450,000 sq. meters.

Assignment: Any assignment of the rights and benefits of Melco Hotels under the legally binding contract shall be approved by The Macau Government in advance.

The Company will make further announcements in respect of the entering into by Melco Hotels of legally binding commitments as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land at the appropriate time in accordance with the Listing Rules.

POSSIBLE FUTURE CONNECTED TRANSACTIONS

The Directors intend to reach an agreement with SJM whereby, upon completion of the proposed casino and subject to obtaining the necessary Macau regulatory approvals, SJM would take a lease of and operate the casino, while (subject as aforesaid) the electronic gaming machine lounge will be managed by Mocha Management, a subsidiary of Melco Entertainment. SJM, which is a subsidiary of STDM, is one of the three concessionaries granted rights by the Macau Government to engage in casino gaming operations in Macau from 1st April 2002 to 31st March 2020. Although there is currently no agreement in place with SJM for the lease and operation of the proposed casino, this model has been employed in the Company's other principal investment, via Great Wonders, in Macau, the "Park Hyatt" luxury hotel project with a casino and electronic gaming machine lounge on a parcel of land with an area of approximately 5,230 sq. meters located at Biaxa da Taipa, Macau, details of which were included in the announcement and circular of the Company respectively dated 23rd November 2004 and 5th January 2005. Pursuant to such arrangement, a lease will be granted to SJM for a period from the commencement of business of the hotel to the expiry of SJM's concession to operate casinos in Macau. In terms of rental under the lease, the Group is entitled to receive 40% of the gross monthly revenue generated from the first 60 (out of an estimated total of 160) gaming tables and a percentage to be agreed between SJM and the Group (but in any event not less than 30%) of the gross monthly revenue generated from the remaining gaming tables. The Directors intend to enter into arrangements on a similar basis with SJM in relation to the casino to be built as part of the integrated entertainment resort described in this circular. Dr. Stanley Ho, who is the Chairman and an Executive Director of the Company, has an equity interest in SJM and is a director of STDM. SJM is, therefore, treated by the Company as a connected person under the Listing Rules. Accordingly, the terms of any agreement reached with SJM in relation to the lease and operation of the proposed casino would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and, in the absence of any applicable exceptions, would be subject to the approval of the independent shareholders of the Company.

The Company will make further announcements in respect of any agreement reached with SJM in respect of the above matters at the appropriate time in accordance with the Listing Rules.

The offer by the Macau Government to grant a long term lease in respect of the Land in the name of Melco Hotels for the development of an integrated entertainment resort was secured through the efforts of Great Respect in the context of the Joint Venture. Melco Entertainment has agreed to acquire a 100% interest in the Joint Venture, as described below. The offer was made by the Macau Government to Melco Hotels in its capacity as the vehicle used by the Joint Venture to make the relevant application.

ACQUISITION OF INTERESTS IN THE JOINT VENTURE – VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTION FOR THE COMPANY

Melco Entertainment is a company incorporated in the Cayman Islands which is directly owned as to 80% by Melco PBL Holdings and as to the balance of 20% by Melco Leisure. Melco Leisure is a wholly owned subsidiary of the Company, while Melco PBL Holdings is a 50/50 joint venture between the Company and PBL. As a 50:50 joint venture, Melco PBL Holdings is not a subsidiary of either PBL or the Company. The financial results of Melco PBL Holdings and the companies held by it (other than those companies which constitute subsidiaries of PBL, or as the case may be, the Company) will not be consolidated in the accounts of either PBL or the Company and it will be an associated company of each of them. The Company has a 60% direct and indirect attributable interest in Melco Entertainment, which constitutes subsidiary of the Company.

On 11th May 2005, Melco Entertainment agreed to acquire the 49.2% interest of Great Respect in a Joint Venture established to apply to the Macau Government for the grant of one or more parcels of land in Cotai, Macau.

The Joint Venture is constituted by a legally binding Joint Venture MOA made between Melco Leisure and Great Respect on 28th October 2004. The transaction involved no financial commitment on the part of the Company or its subsidiaries and was, therefore, not required to be announced. The Joint Venture MOA contemplated that Great Respect would use its best efforts, through its business relationships and connections in Macau, to apply to the Macau Government for the grant of development rights in respect of one or more parcels of land in Cotai, Macau. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho. Dr. Stanley Ho has had strong links with Macau and its business community over several decades. Dr. Stanley Ho and Great Respect have been able to employ Dr. Stanley Ho's strong and enduring links with Macau and its business community for the benefit of the Company and to secure the opportunity for the Group to obtain a long term lease in respect of the Land. Under the Joint Venture MOA, for expedience Melco Leisure would make available one of its Macau subsidiaries (which was ultimately Melco Hotels) to the Joint Venture, as the Macanese vehicle to make the application to the Macau Government to be granted the long term lease in respect of the Land.

The Joint Venture MOA provides that, if the Macau Government were to agree to grant land in Cotai to the Joint Venture, or the vehicle provided by Melco Leisure to make the application, Melco Leisure would have an interest of 50.8% in the land so agreed to be granted and Great Respect would have an interest of 49.2% in the relevant land and that, upon a land application being approved, Melco Leisure and Great Respect would jointly develop the land on the basis that Melco Leisure and Great Respect shall have a respective interest of 50.8% and 49.2% in the land development.

The Acquisition Agreements

Melco Entertainment has entered into the following two agreements:

1. The First Agreement, dated 11th May 2005, with Great Respect and the Company, pursuant to which:

    (a) Melco Entertainment has agreed to purchase and take an assignment of the 49.2% interest in the Joint Venture held by Great Respect under the Joint Venture MOA, for a cash consideration of HK$1,175 million; and

    (b) Great Respect has undertaken to immediately subscribe the entire amount of the consideration to be received by it on completion of the First Agreement for Convertible Loan Notes to be issued by the Company.

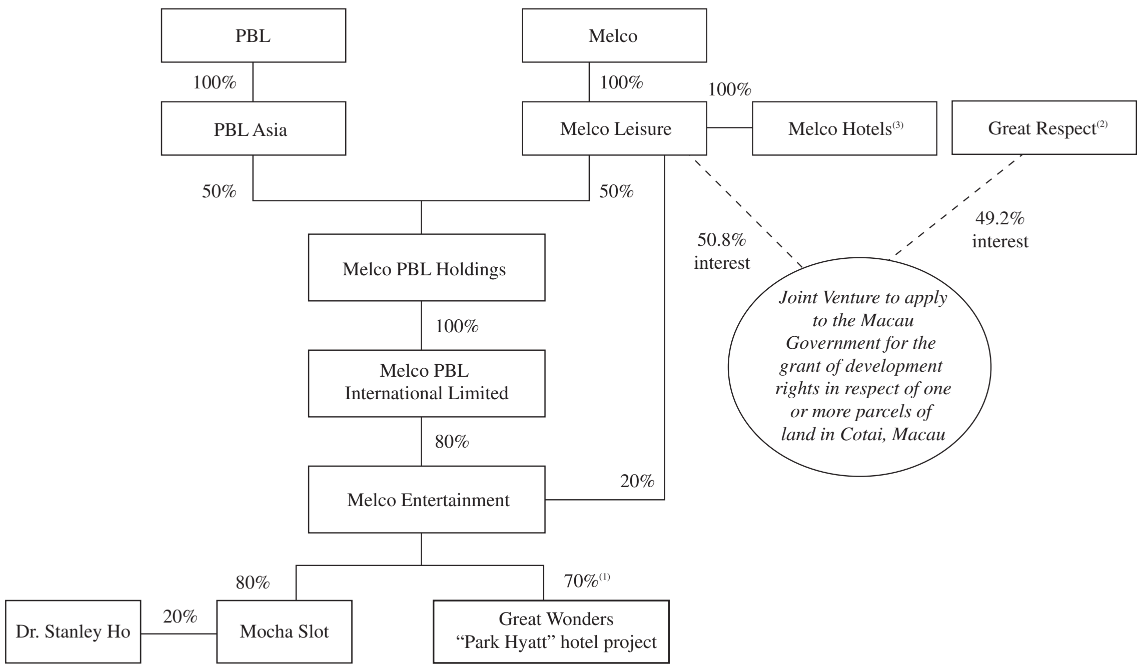
2. The Second Agreement, dated 11th May 2005, with Melco Leisure and Melco Entertainment, pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement and in consideration of the mutual benefits to be derived by, and reciprocal covenants of, the Company and PBL under the Shareholders Agreement.

The Convertible Loan Notes will be issued in the principal amount of HK$1,175 million, will not bear interest and will be convertible into Shares at an initial conversion price of HK$9.965 per New Share, subject to customary adjustments. The conversion price has been calculated as the average closing price of an Old Share for the five (5) trading days up to and including the Last Trading Date and then adjusted for the Share Subdivision. The Convertible Loan Notes are not transferable without the consent of the Company and are not permitted to be converted into Shares prior to the date of grant by the Macau Government to Melco Hotels of the long term lease in respect of the Land for the construction and development of an integrated entertainment resort. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued on conversion of the Convertible Loan Notes. The exercise in full of the Convertible Loan Notes would result in the issue of an aggregate of a maximum of 117,912,694 New Shares, representing approximately 10.51% of the issued share capital of the Company as at the Latest Practicable Date and approximately 9.51% of the enlarged issued share capital on that date assuming full conversion of the Convertible Loan Notes.

If the legally binding long term lease in respect of the Land is not formally granted to Melco Hotels by 31st December 2006, then Great Respect is required to transfer the Convertible Loan Notes to the Company for cancellation, and the Company is required to pay the proceeds received by it from Great Respect on subscription of the Convertible Loan Notes to Melco Entertainment, by way of refund in full of the purchase price for the acquisition of Great Respect's interest in the Joint Venture. The Company has, as a result of the Placing, raised approximately HK$1,239 million for the purpose of developing the Land and will receive HK$1,175 million from Great Respect upon issue of the Convertible Loan Note. Accordingly, The Directors confirmed that if the Company is required to pay back the proceeds received by it from Great Respect for the cancellation of the Convertible Loan Note, it will principally utilize its internal financial resources to make such payment.

The following diagrams illustrate the structure of the Company's gaming, entertainment and hospitality businesses in Asia Pacific and Greater China before and after completion of the acquisitions described above:

Before Completion



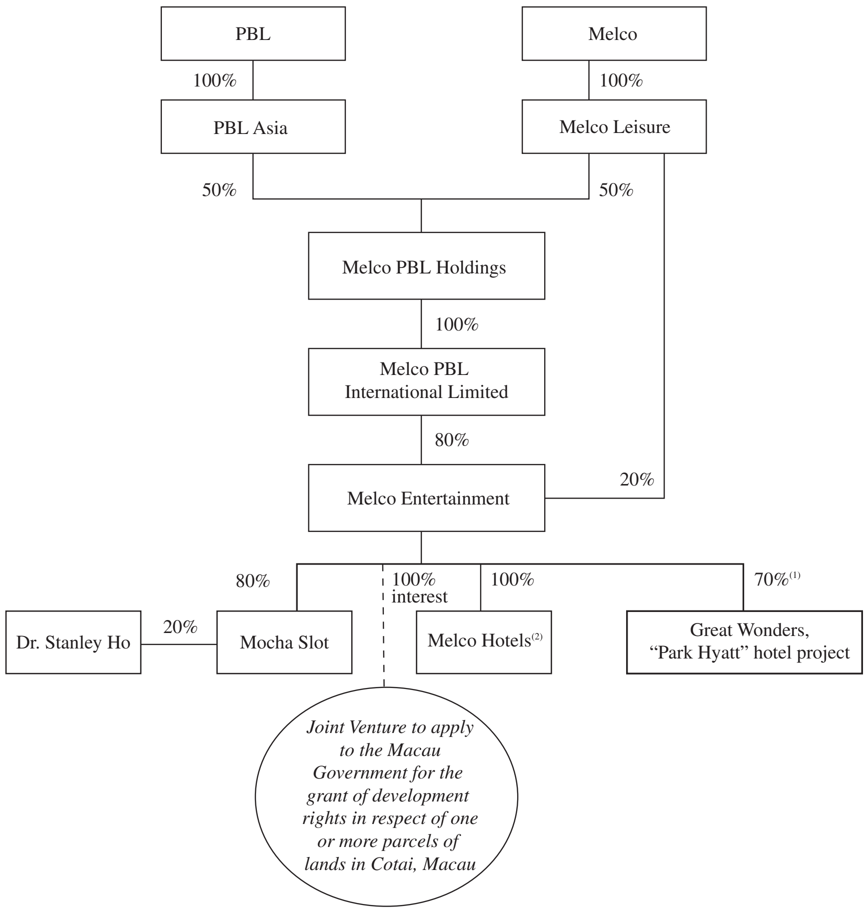
Notes:

(1) Melco Entertainment currently holds 70% of Great Wonders, but has agreed to acquire the remaining 30% from STDM pursuant to the arrangements described in the Company's announcement dated 22nd March 2005.

(2) Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho.

(3) Melco Hotels is a wholly-owned subsidiary of Melco Leisure. Pursuant to the Joint Venture MOA, for expedience, Melco Leisure had made available Melco Hotels to the Joint Venture, as the Macanese vehicle to make the relevant application to the Macau Government for the long term lease in respect of the Land.

After Completion



Notes:

(1) Melco Entertainment currently holds 70% of Great Wonders, but has agreed to acquire the remaining 30% from STDM pursuant to the arrangements described in the Company's announcement dated 22nd March 2005.

(2) Holds the right to apply to the Macau Government to be granted a long term lease in respect of the Land, for the construction and development of an integrated entertainment resort, derived from the Joint Venture.

The First Agreement

Date	:	11th May 2005
Parties	:	Great Respect, as assignor
		Melco Entertainment, as assignee
		The Company, as issuer of the Convertible Loan Notes
Interest to be acquired	:	49.2% interest in the Joint Venture held by Great Respect
Consideration	:	HK$1,175 million

Terms of Payment	:	The consideration of HK$1,175 million is payable in cash on completion. However, Great Respect has agreed to immediately apply the entire amount of the consideration received by it on completion of the First Agreement to subscribe for the Convertible Loan Notes
Other Terms	:	If the legally binding long term lease in respect of the Land for the construction and development of an integrated entertainment resort is not formally granted by the Macau Government on or before 31st December 2006, Great Respect is required to surrender the entire amount of the Convertible Loan Notes to the Company for cancellation, and the Company is required to pay the proceeds received by it from Great Respect on subscription of the Convertible Loan Notes to Melco Entertainment, by way of refund in full of the purchase price for the acquisition of Great Respect's interest in the Joint Venture.

The Second Agreement

Set out below is a summary of the principal terms of the Second Agreement:

Date	:	11th May 2005
Parties	:	Melco Leisure, as assignor and vendor Melco Entertainment, as assignee and purchaser
Interest to be disposed	:	50.8% interest in the Joint Venture and entire issued equity of Melco Hotels
Consideration	:	To be transferred in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement, in consideration of the mutual benefits to be derived by the Company and PBL under the Shareholders Agreement and the reciprocal covenants of each of them under that agreement.

The Convertible Loan Notes

Principal Amount	:	HK$1,175 million, equal to the consideration payable to Great Respect on the acquisition of its 49.2% interest in the Joint Venture. The Company will receive the entire principal amount of the Convertible Loan Notes, in the amount of HK$1,175 million, on the subscription for the Convertible Loan Notes by Great Respect.

Status	:	General, unsecured obligations of the Company ranking equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.
Maturity	:	Five years from the date of issue.
Interest	:	The Convertible Loan Notes do not bear interest.
Conversion	:	The principal amount of the Convertible Loan Notes is convertible into Shares, at an initial conversion price of HK$9.965 per New Share (being HK$19.93 per Old Share prior to the Share Subdivision), subject to customary adjustments to accommodate, among other things, sub-divisions and consolidations of the Shares of the Company, in accordance with the terms of the Convertible Loan Notes. The conversion price is equal to the average closing price of the Old Shares on the five trading days immediately preceding the Last Trading Date, adjusted to reflect the Share Subdivision. If the conversion rights in respect of the Convertible Loan Notes were exercised in full at the initial conversion price, a maximum of 117,912,694 New Shares (being 58,956,347 Old Share prior to the Share Subdivision) would fall to be issued on exercise of the Convertible Loan Notes, representing approximately 10.51% of the issued share capital of the Company as at the Latest Practicable Date and approximately 9.51% of the enlarged share capital assuming conversion of the Convertible Loan Notes in full. Shares issued upon an exercise of the conversion rights conferred under the Convertible Loan Notes shall rank pari passu in all respects with all other existing Shares outstanding at the relevant conversion date and all Shares issued upon conversion shall include rights to participate in all dividends and other distributions the record date of which falls on or after the relevant conversion date.
Transfer	:	The Convertible Loan Notes are not transferable.
Moratorium on Conversion	:	The Convertible Loan Notes are not permitted to be converted prior to the date on which the long term lease in respect of the Land, for the construction and development of an integrated entertainment resort, is granted to Melco Hotels by the Macau Government.
Redemption	:	The Convertible Loan Notes (if not already redeemed or converted) will be automatically redeemed by the Company at maturity (being the fifth anniversary of their date of issue). The Convertible Loan Notes may be redeemed, at the option of the holder of the Convertible Loan Notes, on the occurrence of certain specified events of default of the Company. In either case, the Convertible Loan Notes shall be redeemed at an amount equal to 100% of the principal amount of the Convertible Loan Notes being redeemed.

Conditions Precedent

The First Agreement

Completion of the First Agreement is conditional upon the fulfillment (or, in the case of paragraph (d) below, waiver) of the following conditions precedent:

(a) The First Agreement and the transactions contemplated thereby, including the subscription and issue of the Convertible Loan Notes, having been approved by a resolution of the Independent Shareholders in general meeting taken on a poll and the Company having obtained all other approvals and consents which are necessary or desirable for the completion of the transactions contemplated by the First Agreement;

(b) listing permission to deal in the Shares falling to be issued on conversion of the Convertible Loan Notes having been granted by the Stock Exchange and not having been revoked;

(c) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for entering into the First Agreement and the consummation of the transactions contemplated thereby having been obtained and not having been revoked; and

(d) Great Respect delivering to Melco Entertainment an opinion addressed to it by a firm of lawyers qualified to advise on Hong Kong law, in an agreed form. The legal opinion is required to confirm, among other things, the enforceability of the Joint Venture MOA and the Joint Venture under Hong Kong law and such other matters as Great Respect and Melco Entertainment may agree.

If any of the conditions precedent have not been fulfilled (or, in the case of the condition referred to in paragraph (d) above, waived) by 31st August 2005 (or such later date as the parties to the First Agreement may agree in writing), any party to the First Agreement may at its option (but without prejudice to any other right or remedy it may have), by notice to the other parties to the First Agreement elect to terminate the First Agreement, in which event the First Agreement will be of no further effect, the rights and obligations of the parties under the First Agreement will lapse and the parties thereto will be released from such obligations without any liability. Melco Entertainment currently has no intention to waive the condition referred to in paragraph (d) above.

The Second Agreement

Completion of the Second Agreement is conditional upon the fulfillment (or, in the case of paragraph (c) below, waiver) of the following conditions precedent:

(a) The Second Agreement and the transactions contemplated thereby having been approved by resolution of the Independent Shareholders in respect of ordinary resolution numbered (2) as set out in the Notice to EGM to be proposed to approve the Second Agreement, in general meeting, and the Company having obtained all other approvals and consents which are necessary or desirable for the completion of the transactions contemplated by the Second Agreement;

(b) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for entering into the Second Agreement and the consummation of the transactions contemplated thereby having been obtained and not having been revoked; and

(c) Melco Leisure having delivered to Melco Entertainment an opinion addressed to Melco Entertainment by a firm of lawyers qualified to advise on Macau law, in an agreed form. The legal opinion is required to confirm, among other things, the due establishment incorporation and existence of Melco Hotels under the laws of Macau.

If the conditions precedent have not been fulfilled (or in the case of the condition referred to in paragraph (c) above, waived) by 31st August 2005 (or such later date as the parties to the Second Agreement may agree in writing) then either party to the Second Agreement may at its option (but without prejudice to any other right or remedy it may have) by notice to the other party to the Second Agreement elect to terminate the Second Agreement, in which event the Second Agreement shall be of no further effect, the rights and obligations of the parties under the Second Agreement will lapse and the parties thereto will be released from such obligations without any liability. Melco Entertainment currently has no intention to waive the condition referred to in paragraph (c) above.

Completion of the First Agreement and the Second Agreement are not inter-conditional. Completion of the Second Agreement is not conditional upon completion of the First Agreement (and the issue of the Convertible Loan Notes on completion of the First Agreement) or vice versa; however, it is anticipated that (subject to the necessary Independent Shareholders approvals in respect of the relevant resolution to approve the relevant Agreement having been obtained and other relevant conditions precedent having been fulfilled), the Agreements will be completed at substantially the same time.

Completion

The First Agreement provides that completion will take place on the 3rd Business Day following the fulfillment or (if applicable) waiver of the conditions precedent to completion under the First Agreement, or such other time as the parties to the First Agreement may agree.

The Second Agreement provides that completion will take place on the 3rd Business Day following the fulfillment or (if applicable) waiver of the conditions precedent to completion under the Second Agreement, or such other time as the parties to the Second Agreement may agree.

The Directors anticipate that, subject to the relevant Independent Shareholders' approvals (where appropriate, by way of poll) having been obtained at the EGM, the First Agreement (and the issue of the Convertible Loan Notes on completion of the First Agreement) and the Second Agreement will be completed three Business Days after the date of the EGM.

Miscellaneous

Melco Hotels will continue to be a subsidiary of the Company following completion of the Second Agreement. All interests in the Joint Venture, which is constituted by the Joint Venture MOA, will be 100% owned by Melco Entertainment, which is a 60% owned subsidiary of the Company, following completion of the Agreements.

Application has been made to the Main Board Listing Committee for the listing of, and permission to deal in, the Shares which will be issued upon any exercise of the conversion rights attached to the Convertible Loan Notes.

There will be no change to the composition of the board of directors of the Company or Melco Entertainment as a result of the acquisition of the interests in the Joint Venture and the completion of the Agreements. It is anticipated that the composition of the board of directors of Melco Hotels will be changed in order to bring it into line with the proportional representation of persons respectively designated by the Company and PBL for appointment to the board of Melco Entertainment, which consists of five directors appointed by the Company (namely, Mr. Lawrence Ho, Mr. Frank Tsui, Mr. Chan Ying Tat, Mr. Samuel Tsang and Mr. Clarence Chung) and four appointed by PBL (namely, Mr. James Packer, Mr. Anthony Klok, Mr. Rowen Craigie and Mr. John Alexander).

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The acquisition of the Land provides the Company with a sizeable and valuable piece of land at a strategic location in Macau (the Land is located at the entrance to the Cotai Strip, which is the site for the development of a number of new hotels, casinos and entertainment complexes) and offers the Company a rare opportunity to considerably expand its leisure, entertainment and hospitality business there. When completed, the development will provide a visible presence of the Company in Macau. With the anticipated increase of the number of tourists from Mainland China, the continued increase in per capita annual disposable income of urban households in the PRC, the growth in GDP (Gross Domestic Product) in Macau in 2004, the buoyant condition of the Macau property market, the increasing demand for quality residential, retail and hotel property in Macau, the increased demand for serviced apartments as a result of the many new developments in Macau, the increase in Macau's employment rate and the increase in expatriate work force in the gambling and related industries there, the Company is confident that the proposed developments on the Land will provide significant recurring income to the Company when completed.

In respect of the future prospects of the gaming, entertainment and hospitality businesses 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, entertainment and hospitality businesses in Macau;

- according to the Statistic and Census Service of the Macau Government, there is a rising trend of the number of visitors to Macau from approximately 11.5 million in 2002 to approximately 16.7 million in 2004, which represents a compound annual growth rate of approximately 20% during the period. Total number of visitor arrivals in 2004 rose approximately 40% as compared with the year 2003. In particular, with the relaxation of travel restrictions for individual travellers from the PRC since mid-2003, which serves as a new driver for the PRC tourists, the total number of visitors from the PRC rose approximately 66% in 2004 as compared with the year 2003. For each of the three years ended 31st December 2004, visitors from the PRC accounted for approximately 37%, 48% and 57%, respectively, of the total number of visitor arrivals in Macau during the same period;

– also because of the proximity of Macau to Hong Kong, the gaming, entertainment and hospitality businesses in Macau are likely to benefit from the Disneyland to be opened in Hong Kong by September 2005, which is expected to attract many visitors from the PRC and other parts of the world; and

– regardless of the fact that a number of new hotels and casinos will be opened by the existing market players or new entrants in the next few years, it is expected that such new wave of supply varies significantly in quality, location and target customer and with the general rise in demand for higher quality services and entertainment environment by visitors and customers, it is expected that those market players which focus in providing better quality and a full-fledged offering of gaming and non-gaming facilities, like the Company which is developing the "Park Hyatt" luxury hotel project and proposes to develop the integrated entertainment resort on the Land described in this circular, will prosper and continue to maintain a considerable market share amid market competition.

INFORMATION ON MELCO ENTERTAINMENT AND MELCO PBL HOLDINGS

Melco Entertainment is a company incorporated in the Cayman Islands which is directly owned as to 80% by Melco PBL Holdings and as to the balance of 20% by Melco Leisure, a wholly owned subsidiary of the Company. The board of directors of Melco Entertainment consists of 9 directors, of whom the Company has appointed 5 directors and its joint venture partner PBL has appointed 4 directors.

Melco PBL Holdings is a 50:50 joint venture company established between the Company and PBL with the intention for it to become the holding company of a premiere gaming and entertainment group engaged in the gaming, entertainment and hospitality businesses in the Asia Pacific and Greater China regions.

PBL is an Australian company and has its securities listed on the Australian Stock Exchange. It is one of Australia's largest diversified media and entertainment companies, the core business of which includes television production and broadcasting, magazine publishing and distribution, gaming and entertainment. Through its wholly owned subsidiary, Crown Limited, PBL operates one of the largest entertainment complexes 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, in Melbourne, Australia. Except for its interest in Melco PBL Holdings and its subsidiaries and its related rights to appoint directors to the boards of Melco PBL Holdings and its subsidiaries, PBL is not a connected person of the Company or any of its subsidiaries, its substantial shareholders, chief executive or Directors, and (except for the direct and indirect interests of Melco PBL Holdings in its subsidiaries, described above in this circular and related rights to appoint directors to the boards of these subsidiaries) none of Melco PBL Holdings or any of its subsidiaries is a connected person, of the Company under the Listing Rules.

The operation and management of Melco PBL Holdings and Melco Entertainment are governed by the provisions of the Shareholders Agreement between, among others, the Company and PBL. Pursuant to the provisions of the Shareholders Agreement:

(a) Melco PBL Holdings is the principal investment vehicle for all future expansion and acquisition activities of both the Group and the PBL Group in the gaming, entertainment and hospitality industries in the Asia Pacific region (excluding Australia and New Zealand) and the Greater China region.

(b) All gaming venture opportunities of the Group or the PBL Group in the Asia Pacific region other than Greater China, Australia and New Zealand, are required to be carried out through a joint venture company to be established and owned as to 80% by Melco PBL Holdings and as to 20% by PBL, thus giving PBL a direct and indirect attributable interest in that joint venture company of 60% and the Company a direct and indirect attributable interest in that joint venture company of 40%.

(c) Similarly, all gaming venture opportunities in Greater China (including Macau) of the Group or the PBL Group are required to be carried out through a separate joint venture company, owned as to 80% by Melco PBL Holdings and as to 20% by the Company. Accordingly, the Company has a direct and indirect 60% attributable interest in the joint venture company responsible for Greater China, with PBL holding the remaining 40%. The joint venture company responsible for gaming venture opportunities in Great China (including Macau) is Melco Entertainment.

The requirement for each of the Group and the PBL Group to only carry on their respective gaming venture opportunities in Asia Pacific (excluding Australia and New Zealand) and Greater China through one or other of the joint venture companies, which are companies established under Melco PBL Holdings and held in the respective proportions described above, is expected to benefit both the Company and PBL from the respective efforts and business connections of the other in the relevant jurisdictions. Each of them is expected to benefit from the reciprocal covenants and obligations of the other in this regard under the Shareholders Agreement. PBL, which is based in Australia, has established a leading reputation within the gaming and leisure industry in the Asia Pacific Region. The Company's relationship with PBL, through their joint venture Melco PBL Holdings, is expected to benefit the Company by allowing it to participate in projects within the Asia Pacific Region sourced and brought to the joint venture by PBL as a result of its standing and experience in the gaming and leisure industry in that region. Similarly, the Company has established a leading reputation within the gaming and leisure industry in Greater China, particularly in Macau. PBL's relationship with the Company is expected to benefit PBL by facilitating PBL's participation (through the Melco PBL Holdings joint venture) in projects within Greater China (particularly Macau) sourced and brought to the joint venture by the Company, as a result of its standing and experience in the gaming and leisure industry in Greater China. The only exception to the regime described above is if the relevant joint venture company elects not to pursue an opportunity brought to it by one of the joint venture partners.

Declaration Agreement

On 9th March 2005, Melco Leisure and Melco Entertainment entered into the Declaration Agreement, which reflects the arrangements contemplated by the Shareholders Agreement, whereby all gaming opportunities in Greater China (including Macau) of the Group are required to be carried out through Melco Entertainment. Under the Declaration Agreement, Melco Leisure declared that all its rights and benefits under the Joint Venture MOA and its 50.8% interest in the Joint Venture were held for the benefit of Melco Entertainment and would be transferred to Melco Entertainment at its request, to the intent that Melco Leisure's 50.8% interest in any land acquired by the Joint Venture would be transferred to and developed by Melco Entertainment (instead of Melco Leisure) in conjunction with Great Respect. Under the Joint Venture MOA, for expedience, Melco Leisure had made available one of its Macau subsidiaries to the Joint Venture, which was ultimately Melco Hotels, as the Macanese vehicle to make the application to the Macau Government to be granted the long term lease in respect of the Land.

INFORMATION ON THE JOINT VENTURE

The Joint Venture is constituted by a legally binding Joint Venture MOA made between Melco Leisure and Great Respect on 28th October 2004. The business of the Joint Venture, and the purpose for which it was established, was to secure the grant of one or more parcels of land in Cotai, Macau from the Macau Government and to own and develop any land so granted, on the basis of Melco Leisure having a 50.8% interest and Great Respect having a 49.2% interest in the land and the development. The Joint Venture MOA contains the following principal terms:

- An acknowledgement that Great Respect, through its business relationships and connections, may be able to secure land in Cotai, Macau and that the parties wish to apply for any land which could be secured and, if obtained, to jointly develop the land.

- Great Respect is required to use its best efforts and with due diligence, through its business relationships and connections, to proceed to apply to the Macau Government for the grant of development rights in relation to one or more parcels of land in Cotai, Macau. For expedience, Melco Leisure would make available one of its Macau subsidiaries as the Macanese vehicle to make the application.

- Great Respect is responsible for all costs and expenses incurred in relation to the application, provided that the land premium payable on the grant of any land successfully secured as a result of Great Respect's efforts would be borne by Melco Leisure and Great Respect in accordance with the percentages specified below.

- The Joint Venture MOA provides that if the Macau Government were to agree to grant land in Cotai to the Joint Venture, or the vehicle provided by Melco Leisure to make the application, Melco Leisure would have an interest of 50.8% in the land and Great Respect would have an interest of 49.2%.

- Similarly, the Joint Venture MOA also provides that, upon a land application being approved, the parties would form a joint venture to develop the land on a 50.8% (Melco Leisure) : 49.2% (Great Respect) basis.

- Great Respect is required to liaise with SJM for the operation of a casino at the developed property.

- The Joint Venture MOA contemplates that the parties would negotiate and enter into more detailed joint venture documentation prior to the formal grant of development rights in relation to any land secured by Great Respect for the benefit of the Joint Venture.

INFORMATION ON THE GROUP

Currently, the Group's business is broadly divided into four divisions:

- Leisure and entertainment

- Investment banking and financial services

- Technology

- Property investment

As set out in the Company's announcements dated 23rd November 2004 and 22nd March 2005 and its shareholder circulars dated 5th January 2005 and 2nd June 2005, Great Wonders, an existing member of the Melco Entertainment group, intends to develop a luxury hotel with a casino and electronic gaming machine lounge on a parcel of land with an area of approximately 5,230 sq. metres located at Baixa da Taipa, Macau.

On 20th July 2005, Great Wonders accepted in principle a written offer issued by the Macau Government dated 24th June 2005 to grant to Great Wonders a long term lease of a parcel of land located at Baixa da Taipa, Macau. The principal terms of the legally binding commitment of Great Wonders expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's said offer is set out below:

Developable site area:	95,837 sq. metres, comprising a five-star hotel of 82,704 sq. metres, aggregate car parking of 11,810 sq. metres and outdoor space of 1,323 sq. metres.
Term of lease:	25 years from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau is published in the gazette of the Macau Government with the right to renew for further consecutive periods in accordance with the applicable provisions of Macau laws.

Rent:	During the construction period, a rent in an aggregate amount of MOP 156,900 (equivalent to approximately HK$152,330) shall be payable by Great Wonders to the Macau Government every year at the rate of MOP 30 (equivalent to approximately HK$29.13) per sq. metre of the land at Baixa da Taipa, Macau. Following completion of the construction on the said land, the annual rental payable by Great Wonders in respect of the said land will be adjusted to MOP 1,371,890 (equivalent to approximately HK$1,331,932) based on the following rates: a rate of MOP 15 (equivalent to approximately HK$14.56) per sq. metre of the said land shall be payable in respect of the five star hotel; a rate of MOP 10 (equivalent to approximately HK$9.71) per sq. metre of the said land shall be payable in respect of the car park for the hotel; and a rate of MOP 10 (equivalent to approximately HK$9.71) per sq. metre of the said land shall be payable in respect of the outdoor areas. The rates at which rent is payable shall be adjusted every five years as agreed between the Macau Government and Great Wonders provided that where the Macau Government revises the applicable rental rates under new laws and regulations, such new rates shall apply.
Building Covenant:	36 months from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau has been published in the gazette of the Macau Government. If there is any delay on the part of Great Wonders in complying with this, a daily fine of MOP 5,000 (equivalent to approximately HK$4,854) is payable by Great Wonders for any delay not exceeding 60 days. If the delay exceeds 60 days, a daily fine of MOP 10,000 (equivalent to approximately HK$9,709) is payable by Great Wonders provided that such delay does not exceed 120 days. Where the delay exceeds 120 days, the relevant land committee of the Macau Government will determine the applicable penalty rate.

Guarantee Deposit: A guarantee deposit in the amount of MOP 156,900 (equivalent to approximately HK$152,330), subject to adjustments in accordance with the relevant amount of rent payable during the relevant year shall be payable by Great Wonders to the Macau Government. Such guarantee deposit will be released to Great Wonders upon its application after completion of the construction on the land at Baixa da Taipa, Macau.

Land Premium: A land premium in the aggregate amount of MOP 149,727,854 (equivalent to approximately HK$145,366,848.54) shall be payable by Great Wonders to the Macau Government and shall be payable as follows:

i. a sum of MOP 50,000,000 (equivalent to approximately HK$48,543,689.32) shall be payable upon receipt by the Macau Government of the legally binding contract signed by Great Wonders; and

ii. the balance of MOP 99,727,854 (equivalent to approximately HK$96,823,159.22) together with interest at 5% per annum shall be payable in four instalments in equal amounts, with each instalment payable every six months and the first instalment payable within 6 months from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau has been published in the gazette of the Macau Government.

Assignment: Any assignment by Great Wonders of the rights and benefits of the land at Baixa da Taipa, Macau prior to the completion of the construction works thereon is required to be approved by the Macau Government in advance.

The total estimated investment amount for development of the luxury hotel on the land at Baixa da Taipa, Macau is approximately HK$1,448 million. It is contemplated that upon completion of the hotel on the land at Baixa da Taipa, Macau, the casino will be operated by SJM and the electronic gaming machine lounge will (subject to the approval of the Macau Government authorities) be managed by Mocha Management, a subsidiary of Melco Entertainment.

FINANCIAL INFORMATION

Melco Hotels was incorporated as a special purpose vehicle, and the Joint Venture was established, in each case, with the sole business purpose of applying to the Macau Government for the development rights in respect of one or more parcels of land in Cotai, Macau and subsequently developing any land acquired. Except for having been offered the right to apply to the Macau Government for the development rights in respect of the Land and except for Melco Hotels having made an application to the Macau Government for the grant of development rights, the Joint Venture and Melco Hotels have not and do not carry on any business, have made no sales and have no turnover or other material assets. Moreover, since no development rights have yet been granted in respect of the Land, the 49.2% interest of Great Respect in the Joint Venture does not have a net asset value or income stream attributable to it. The net asset value of the Joint Venture is zero.

FINANCIAL IMPLICATIONS OF THE TRANSACTIONS

Completion of the First Agreement and the Second Agreement will not give rise to a gain or loss for the Company for the following reasons:

(i) the acquisition of the 49.8% interest in the Joint Venture by the Group will be booked at the cost of acquisition and hence no gain or loss will be incurred upon completion of the First Agreement; and

(ii) the transactions contemplated under the Second Agreement are executed in accordance with the respective terms of (i) the Shareholders Agreement which stipulate, amongst others, that all gaming venture opportunities of the Group or the PBL Group in the Greater China region are required to be carried out through a separate joint venture company, namely Melco Entertainment; and (ii) the Declaration Agreement which stipulate, amongst others, that Melco Leisure declared all its rights and benefits under the Joint Venture MOA and its 50.8% interest in the Joint Venture were held for the benefit of Melco Entertainment and would be transferred to Melco Entertainment at its request. As such, the transfer of 50.8% interest in the Joint Venture pursuant to the Second Agreement is merely to regularize and confirm Melco Entertainment's 50.8% interest in the Joint Venture and this does not create any financial effect on the Group.

BASIS OF DETERMINATION OF PURCHASE PRICE FOR THE ACQUISITION AND CONVERTIBLE LOAN NOTES CONVERSION PRICE

A long term lease in respect of the Land for the construction and development of an integrated entertainment resort having the features described above, once granted, has been valued in the preliminary report of Savills (Hong Kong) Limited, an independent valuer, at approximately HK$4,506 million (being the open market value of the Land in its existing state) on an open market basis and on the basis of generally accepted valuation methodologies. The purchase price of HK$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been arrived at after arm's length negotiations among the parties (including the representatives of PBL on Melco Entertainment's board) including by reference to that preliminary valuation report. The purchase price of HK$1,175 million for Great Respect's 49.2% interest in the Joint Venture represents a significant discount of approximately 46.92% to 49.2% of the open market value of the Land being approximately HK$2,214 million, as determined in the final valuation report of Savills (Hong Kong) Limited as set out in Appendix V of this circular in compliance with Rule 11 of the Takeovers Code. Other than a slight difference in the site area, there is no material difference between the preliminary valuation and the final valuation reports of Savills (Hong Kong) Limited in relation to the uses and gross floor area of the Land. The purchase price of HK$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been unanimously approved by the board of directors of Melco Entertainment, including the directors appointed by PBL.

The Joint Venture has not been formally granted the long term lease in respect of the Land, or entered into any legally binding agreement to be granted such a long term lease in respect of the Land. Accordingly, as set out above, the net asset value of the Joint Venture is currently zero. It is expected that, in the ordinary course of events (and subject to the requisite Independent Shareholders' approval in respect of ordinary resolution numbered (4) as set out in the Notice of EGM to be proposed to approve the entering into of a long term lease in respect of the Land and its development as an integrated entertainment resort having been obtained), the long term lease of the Land will be granted to Melco Hotels in accordance with the offer from the Macau Government, as accepted in principle by Melco Hotels. Accordingly, the purchase price of HK$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been arrived at after arms length negotiations among the parties. The purchase price of HK$1,175 million for Great Respect's 49.2% interest in the Joint Venture represents a significant discount of approximately 46.92% to the value of 49.2% of the open market value of the Land being approximately HK$2,214 million, as determined in the final valuation report of Savills (Hong Kong) Limited, the independent valuer as referred to above.

The transaction under the First Agreement has been structured so that if Melco Hotels is granted a long term lease in respect of the Land (as is expected in the ordinary course of events), the consideration paid by Melco Entertainment to Great Respect reflects (but is at a significant discount to) the open market value of the Land which the Company has thereby been able to obtain. Conversely, if, for any reason, Melco Hotels is unable to obtain a long term lease in respect of the Land (including both "Parcel A" and "Parcel B") by 31st December 2006, the transaction has been structured so that Great Respect will receive no consideration for the transfer of its 49.2% interest in the Joint Venture to Melco Hotels. This is achieved by the following means:-

– the Convertible Loan Notes are non-interest bearing and are not repayable for five years;

– the Convertible Loan Notes are not transferable;

– the Convertible Loan Notes cannot be converted prior to the date on which Melco Hotels is granted the long term lease in respect of the Land (being both of "Parcel A" and "Parcel B" referred to above);

– if, for any reason, a long term lease in respect of the Land is not granted to Melco Hotels by 31st December, 2006, Great Respect is required to surrender the Convertible Loan Notes to the Company for cancellation. As a result, Great Respect will have received no consideration for the transfer to Melco Hotels of its 49.2% interest in the Joint Venture;

– following a cancellation of the Convertible Loan Notes as aforesaid (which extinguishes all of the Company's liabilities in respect of the Convertible Loan Notes), the Company is required to pay to Melco Entertainment the amount received by the Company from Great Respect on the subscription of the Convertible Loan Notes (being the purchase price paid by Melco Entertainment to Great Respect for its 49.2% interest in the Joint Venture), effectively by way of repayment of the purchase price to Melco Entertainment on behalf of Great Respect.

The conversion price of HK$9.965 per New Share under the Convertible Loan Notes to be subscribed by Great Respect on completion of the First Agreement has been determined on the basis of the average closing price of an Old Share for the five consecutive trading days up to and including the Last Trading Date, being HK$19.93 per Old Share, adjusted to reflect the Share Subdivision. The conversion price represents a premium of approximately 2.73% over the closing price of an Old Share of HK$19.40 on the Last Trading Date and a premium of approximately 652% to the net asset value per Old Share of approximately HK$2.65, based on the audited consolidated net assets of the Company as at 31st December 2004 and the then number of Old Shares in issue being 463,244,000 Old Shares.

Completion of the First Agreement and the Second Agreement are not inter-conditional. The issue of the Convertible Loan Notes will take place on completion of the First Agreement. Completion of the First Agreement is not conditional on completion of the Second Agreement or vice versa; however, it is anticipated that (subject to the relevant Independent Shareholders approvals having been obtained and other relevant conditions precedent having been fulfilled) the Agreements and, therefore, the issue of the Convertible Loan Notes, will be completed at substantially the same time.

FINANCING FOR THE TRANSACTIONS

The consideration of HK$1,175 million for the acquisition of the 49.2% interest of Great Respect in the Joint Venture will be financed from existing internal resources of Melco Entertainment which in turn is contributed by Melco PBL Holdings. Melco PBL Holdings raised US$163 million (equivalent to approximately HK$1.27 billion) by issuing new shares to a wholly owned subsidiary of PBL in March 2005 to make itself a 50/50 joint venture company between PBL and the Company for pursuance of gaming and hospitality business in the Asia Pacific and Greater China regions.

Great Respect has agreed to apply the entire amount of the proceeds of the sale of its interest in the Joint Venture in subscription for the Convertible Loan Notes (in order to assist the Company in financing its share of the development costs of the Land and the proposed integrated entertainment resort). Those development costs will be required to be provided by the Company and PBL to Melco Entertainment, in proportion to their respective shareholdings in Melco Entertainment.

The Directors anticipate that the total costs of the Land and the construction and development of the integrated entertainment resort described in this circular will be in the region of HK$7,963 million, consisting of approximately HK$1,684 million of land costs and land premium and approximately HK$6,279 million of construction and development costs. Of the aggregate estimated costs of the development of approximately HK$7,963 million, it is anticipated that an amount of approximately HK$5,176 million will be financed by way of project financing, to be undertaken by Melco Entertainment, and an amount of approximately HK$2,787 million will be financed by way of equity. The amount of approximately HK$2,787 million to be provided by way of equity is expected to include all or part of the proceeds of the issue of the Convertible Loan Notes, in the amount of HK$1,175 million, and the proceeds of approximately HK$1,279 million from the Placing and Subscription carried out by the Company on 17th May 2005 and referred to in the Placing Announcement. Further details of the Placing and Subscription are set out in paragraph (v) of the section headed "Fund Raising Exercises carried out by the Company in the Past Twelve Months" in this Letter from the Board.

EFFECT ON SHAREHOLDINGS OF THE COMPANY

The issued share capital of the Company comprises 1,122,438,540 Shares as at the Latest Practicable Date, which includes Shares allotted and issued to Better Joy upon completion of the Subscription. The Concert Party comprising Dr. Stanley Ho, Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend, Better Joy, STS (including its wholly-owned subsidiaries holding Shares), Great Respect, STDM and three companies wholly beneficially owned by Dr. Stanley Ho (namely Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited) hold, in aggregate, 518,132,844 Shares representing approximately 46.16% of the Shares in issue. The balance of 604,305,696 Shares, representing approximately 53.84% of the Company, are held by the public.

Dr. Stanley Ho is the father of Mr. Lawrence Ho and Madam Lucina Laam King Ying is the mother of Mr. Lawrence Ho. STS is a company in which Dr. Stanley Ho holds a 27.78% shareholding interest and of which he is a director. Lasting Legend and Better Joy are both companies controlled by Mr. Lawrence Ho. Each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited is wholly beneficially owned by Dr. Stanley Ho. As such, Dr. Stanley Ho, Madam Lucina Laam King Ying, STS (including its wholly-owned subsidiaries holding Shares), Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend, Better Joy and Mr. Lawrence Ho are parties acting in concert for the purposes of the Takeovers Code. Great Respect is controlled by a discretionary family trust of Dr. Stanley Ho and beneficiaries of such trust are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying.

In addition, STDM holds a HK$100 million 5 year convertible bond and a HK$56 million 5 year convertible bond which are convertible into 50,000,000 and 13,658,536 New Shares, respectively, at the conversion price of HK$2.00 per New Share (as adjusted as a result of the Share Subdivision) and HK$4.10 per New Share (as adjusted as a result of the Share Subdivision), respectively. Dr. Stanley Ho is a director and shareholder of STDM, which is deemed under the Takeovers Code to be acting in concert with the Concert Party.

As referred to in the Company's announcement dated 22nd March 2005 and disclosed in the circular of the Company dated 2nd June 2005, the Company has entered into an agreement with STDM for the purpose of acquiring the remaining 30% interest in Great Wonders. The consideration for the acquisition includes the issue of 22,222,222 New Shares at an issue price of HK$9.00 per New Share (as adjusted as a result of the Share Subdivision) to STDM. Those Shares represent approximately 1.98% of the existing issued New Shares of the Company and approximately 1.94% of the enlarged issued share capital of the Company immediately following their allotment and issue. The acquisition of the remaining 30% of Great Wonders from STDM was a connected transaction for the Company under the Listing Rules and was, therefore, subject to approval by resolution of the independent shareholders, which was proposed and passed at an extraordinary general meeting of the Company convened and held on 17th June 2005. Those Shares will be issued to STDM on the later of the date of completion of the acquisition of the remaining 30% interest in Great Wonders or the date of the grant by the Macau Government of a long term lease in respect of the land in Baixa, Taipa to Great Wonders.

The table below shows the shareholding of the Company:

- as at the date of the Acquisition Announcement
- immediately following completion of the Placing
- immediately following completion of the Subscription
- as at the Latest Practicable Date
- on issue of the consideration shares to be issued to STDM on completion of the acquisition of the remaining 30% of Great Wonders, as referred to above
- assuming conversion of the Convertible Loan Notes to be issued on completion of the First Agreement
- assuming full conversion of the HK$100 million 5 year convertible bonds and the HK$56 million 5 year convertible bonds held by STDM

All references in the table below to Shares are to New Shares and, for ease of comparison, the number of issued Shares as at the date of the Acquisition Announcement has been adjusted as if the Share Subdivision had taken place on the date of the Acquisition Announcement.

	Issued Shares as at the date of the Acquisition Announcement *(Note g)*		Immediately following completion of the Placing		Immediately following completion of the Subscription		As at the Latest Practicable Date		Upon issue of the 22,222,222 Shares agreed to be issued to STDM (as referred to in the Company's announcement dated 22nd March 2005)		Upon Conversion of the Convertible Loan Notes (as referred to in the Acquisition Announcement) in full		Upon exercise in full of the convertible bonds held by STDM (as referred to in the Company's announcement dated 22nd March 2005)	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Better Joy *(Note b)*	288,532,606	29.381%	148,532,606	15.122%	288,532,606	25.706%	288,532,606	25.706%	288,532,606	25.207%	288,532,606	22.853%	288,532,606	21.756%
Mr. Lawrence Ho *(Note c)*	120,941,636	12.315%	120,941,636	12.313%	120,941,636	10.775%	120,941,636	10.775%	120,941,636	10.566%	120,941,636	9.579%	120,941,636	9.119%
STS *(Note d)*	78,166,294	7.960%	78,166,294	7.958%	78,166,294	6.964%	78,166,294	6.964%	78,166,294	6.829%	78,166,294	6.191%	78,166,294	5.894%
Dr. Stanley Ho *(Note e)*	30,047,734	3.060%	30,047,734	3.059%	30,047,734	2.677%	30,047,734	2.677%	30,047,734	2.625%	30,047,734	2.380%	30,047,734	2.266%
Madam Lucina Laam King Ying	444,574	0.045%	444,574	0.045%	444,574	0.040%	444,574	0.040%	444,574	0.039%	444,574	0.035%	444,574	0.034%
Great Respect *(Note f)*	–	0.000%	0	0.000%	0	0.000%	0	0.000%	–	0.000%	117,912,694	9.339%	117,912,694	8.891%
STDM	–	0.000%	0	0.000%	0	0.000%	0	0.000%	22,222,222	1.941%	22,222,222	1.760%	85,880,758	6.476%
Aggregate interest of the Concert Party	518,132,844	52.761%	378,132,844	38.497%	518,132,844	46.161%	518,132,844	46.161%	540,355,066	47.207%	658,267,760	52.137%	721,926,296	54.434%
Others (Public)	463,905,696	47.239%	604,105,696	61.503%	604,305,696	53.839%	604,305,696	53.839%	604,305,696	52.793%	604,305,696	47.863%	604,305,696	45.566%
Total	982,038,540	100.000%	982,238,540	100.000%	1,122,438,540	100.000%	1,122,438,540	100.000%	1,144,660,762	100.000%	1,262,573,456	100.000%	1,326,231,992	100.000%

Notes:

a. Each column assumes the steps referred to in all previous columns have been completed.

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

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

d. Interest of STS includes the interests held by it and its wholly owned subsidiaries.

e. Interest of Dr. Stanley Ho includes his personal interests and interests held through three companies controlled and wholly owned by him, namely, Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited.

f. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho. Discretionary beneficiaries of the trust are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying.

g. For ease of comparison, the number of Shares shown in this column has been adjusted as if the Share Subdivision had taken place on the date of the Acquisition Announcement, and the number of Shares shown in this table are all New Shares.

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 in the past twelve months:

(i) as part of the Group reorganization as disclosed in two announcements and a circular of the Company respectively dated 23rd March 2004, 1st April 2004 and 23rd April 2004, the Company acquired 80% equity interests in Mocha Slot on 9th June 2004 for a total consideration of HK$398 million 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 Old 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 Old Shares at a conversion price of HK$2.3 per Old Share. On 11th April 2005. Better Joy exercised the said conversion right in full, resulting in a total of 19,565,216 Old Shares issued to Better Joy;

(ii) as disclosed in the announcement and circular of the Company respectively dated 13th September 2004 and 11th October 2004, the Company has entered into an 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 (as defined in the announcement of the Company dated 13th September 2004) to STDM with the principal amount of HK$100 million with a conversion right to convert the same into 25,000,000 Old Shares at a conversion price of HK$4.0 per Old Share. After obtaining the independent shareholders' approval (by way of poll) of the 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 2nd November 2004, the Company issued the First Convertible Bond to STDM on 9th November 2004;

(iii) as disclosed in the announcement and circular of the Company respectively dated 23rd November 2004 and 5th January 2005, the Company has entered into an agreement with STDM pursuant to which the Company has agreed to acquire additional 20% equity interests in Great Wonders from STDM for a consideration of HK$56 million, which would be settled by way of issue of the Second Convertible Bond (as defined in the announcement of the Company dated 23rd November 2004) to STDM with the principal amount of HK$56 million with a conversion right to convert the same into 6,829,268 Old Shares at a conversion price of HK$8.2 per Old Share. After obtaining the independent shareholders' approval (by way of poll) of the agreement, the Second Convertible Bond and the issue and allotment of Shares upon conversion of the Second Convertible Bond at the extraordinary general meeting of the Company held on 20th January 2005, the Company issued the Second Convertible Bond to STDM on 8th February 2005;

(iv) as disclosed in the announcement of the Company dated 15th October 2004, the Company carried out a top-up placing of 75,900,000 Old Shares at a placing price of HK$5.2 per Old Share on 15th October 2004. The net proceeds generated from the top-up placing were approximately HK$377 million, out of which approximately HK$94 million was earmarked for the expansion of the business of Mocha Slot, approximately HK$207 million was earmarked for the development of the "Park Hyatt" luxury hotel project and the remaining approximately HK$75 million was to be used as working capital for the Group. As at the Latest Practicable Date, the Company has utilized a total sum of approximately HK$39 million of the amount earmarked for the expansion of the business of Mocha Slot, mainly for acquisition of hardware and systems for the business of Mocha Slot, and a total sum of approximately HK$75.7 million in connection with the "Park Hyatt" luxury hotel project. It is the present intention of the Company to utilize the net proceeds of the top-up placing according to the intended application thereof as disclosed in the announcement dated 15th October 2004. To the extent that the net proceeds from the top-up placing are not immediately required for the above purposes, the Company has placed such funds on short-term deposit with banks and/or financial institutions; and

(v) as disclosed in the Placing Announcement, the Company carried out a top-up placing at a placing price of HK$18.52 per Old Share (equivalent to HK$9.26 per New Share) on 17th May 2005. The net proceeds generated from the top-up placing were approximately HK$1,239 million which will be used to finance the construction and development of the proposed integrated entertainment resort described in this circular. As at the Latest Practicable Date, the Company has utilized a total amount of approximately HK$7 million of the proceeds of the top-up placing, mainly for engaging independent professionals including architects surveyors and contractors, in relation to the proposed development of the Land. It is the present intention of the Company to utilize the net proceeds of the top-up placing according to the intended application thereof as disclosed in the Placing Announcement. To the extent that the net proceeds from the top-up placing are not immediately required for the above purposes, the Company has placed such funds on short-term deposit with banks and/or financial institutions.

INTENTION OF GREAT RESPECT

Great Respect has no intention to make any material change to the existing management and will continue the employment of the employees of the Group after completion of the First Agreement and the exercise of any and all the conversion rights conferred by the Convertible Loan Notes to be issued upon completion of the First Agreement. It is the intention of Great Respect for the Group to continue to carry on its existing businesses and to continue to carry out its existing business strategy. Great Respect does not intend to introduce any major changes to the business, including any redeployment of the fixed assets of the Company after completion of the First Agreement and the exercise of the conversion rights conferred by the Convertible Loan Notes to be issued upon completion of the First Agreement.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND WHITEWASH WAIVER APPLICATION

Prior to completion of the Placing and the Subscription and as at the date of the Acquisition Announcement, the Concert Party held Shares representing approximately 52.76% of the total voting rights of the Company, which after completion of the Placing and the Subscription was diluted to approximately 46.16% of the total voting rights of the Company.

As set out in Note 10 to Rule 26.1 of the Takeovers Code, in general, the acquisition of convertible securities does not give rise to an obligation under Rule 26 of the Takeovers Code to make an offer, but the exercise of any conversion rights will be considered to be an acquisition of voting rights for the purpose of Rule 26 of the Takeovers Code. Accordingly, the issue of the Convertible Loan Notes on completion of the First Agreement will, in and of itself, not have any Takeovers Code consequences prior to the exercise of the conversion rights under the Convertible Loan Notes.

As referred to in the Placing Announcement, the Company carried out a top-up placing of 140,000,000 New Shares at a placing price of HK$9.125 per New Share on 17th May 2005 in order to raise part of the funding required for the development of the project. Completion of the Placing and the Subscription took place on 20th May 2005 and 30th May 2005 respectively. The Subscription Shares were issued under the general mandate granted by the Company's Shareholders at its extraordinary general meeting held on 20th January, 2005. Following completion of the Placing and the Subscription, the shareholding of the Concert Party in the Company was diluted to approximately 46.16%, that is, less than 50% of the total voting rights of the Company. Based on the Company's issued share capital immediately following the issue of 22,222,222 New Shares to STDM (as referred to in this circular and in the Company's announcement dated 22nd March 2005), if, following the issue of the Convertible Loan Notes on completion of the First Agreement, the conversion rights conferred by the Convertible Loan Notes were subsequently exercised in full, the Concert Party's shareholding in the Company would increase by approximately 4.934%, from approximately 47.21% to approximately 52.14% of the total voting rights of the Company. Accordingly, conversion of the Convertible Loan Notes in full would result in the Concert Party's shareholding increasing by more than the 2% increase from the lowest percentage holding of the Concert Party in the 12 month period immediately preceding the date of that exercise, which is permitted by the "creeper" provisions of Rule 26 of the Takeovers Code without requiring a general offer to be made to all Shareholders. Therefore, in the absence of the Whitewash Waiver, conversion of the Convertible Loan Notes in full in these circumstances would require a general offer to be made for all the Shares other then those already owned by the Concert Party.

An application has been made by Great Respect to the SFC on 8th July 2005 for the Whitewash Waiver which, if granted, would be subject to the approval of the Independent Shareholders to be sought at the EGM pursuant to a vote conducted by way of poll. Shareholders other than (i) Dr. Stanley Ho and his associates, namely, Madam Lucina Laam King Ying, Mr. Lawrence Ho, Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend, Better Joy and (if it hold shares at the relevant time) STDM, (ii) STS (including its wholly-owned subsidiaries holding Shares at the relevant time), (iii) Mr. Frank Tsui, Mr. Ho Cheuk Yuet and Dr. Lo Ka Shui, who are Shareholders as well as Directors, and (iv) Shareholders who are interested or involved in the First Agreement and the transactions contemplated thereby and the Whitewash Waiver, other than solely in their capacity as Shareholders (the Directors are not aware of any Shareholders at the Latest Practicable Date who fall under this category), will abstain from voting on ordinary resolution numbered (3) as set out in the Notice of EGM regarding the Whitewash Waiver, the First Agreement and the transactions contemplated thereunder. The Executive has indicated that, subject to the approval of the Independent Shareholders on a vote by way of a poll, it will grant the Whitewash Waiver. The Whitewash Waiver would be a waiver by the Executive of the obligations of Great Respect and the Concert Party to make a mandatory general offer to acquire the entire issued share capital of the Company not otherwise owned by the Concert Party as a result of the exercise in full of the Convertible Loan Notes.

The transactions described in this circular are not conditional on the Whitewash Waiver being granted and the Company will still proceed with the transactions set out in this circular and the issue of the Convertible Loan Notes, whether or not the Whitewash Waiver is granted. Accordingly, separate resolutions are proposed at the EGM (1) to approve the First Agreement and the transactions contemplated by it as a connected transaction for the purposes of the Listing Rules and (2) to approve the Whitewash Waiver, the First Agreement and the transactions contemplated by it for the purposes of the Takeovers Code. Note 10 to Rule 26.1 of the Takeovers Code provides that, in general, the acquisition of convertible securities does not give rise to an obligation under Rule 26 of the Takeovers Code to make an offer, but the exercise of any conversion rights will be considered to be an acquisition of voting rights for the purpose of Rule 26. Accordingly, completion of the Agreements and the issue of the Convertible Loan Notes would not by itself have any effect under the Takeovers Code and would not give rise to an obligation under Rule 26 to make an offer.

If the Whitewash Waiver is obtained, it is currently anticipated that, when permitted in accordance with their terms, the Convertible Loan Notes would be exercised in full and converted into Shares of the Company which would transform a debt liability in the consolidated balance sheet of the Company into equity and therefore enable the Company to be released from such debt liability at an early stage. If the Whitewash Waiver is obtained, that exercise would, therefore, not give rise to an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code.

If the Agreements are completed but the Whitewash Waiver is not obtained, Great Respect has confirmed to the Company that under no circumstances will it exercise its conversion rights under the Convertible Loan Notes in an amount which would give rise to an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code. In any event, any general offer required to be made as a result of the exercise of conversion rights under the Convertible Loan Notes would be made in compliance with the requirements of the Takeovers Code.

Shareholders are advised to note that, as a result of completion of the Placing and the Subscription and following the issue of 22,222,222 New Shares to STDM, if the Whitewash Waiver is granted, the exercise in full of the conversion rights conferred by the Convertible Loan Notes will result in the Concert Party's shareholding increasing to more than 50% of the total voting rights of the Company, assuming that there is no other change to the issued share capital of the Company. As a result, the Concert Party may thereafter increase its aggregate shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Other than as disclosed below, no member of the Concert Party has acquired any Shares in the Relevant Period and the Company has not repurchased any Shares during that period:

(i) on 11th April 2005 Better Joy exercised conversion rights under certain convertible notes issued to it by the Company as consideration for the acquisition of Mocha Slot. This exercise of conversion rights resulted in 19,565,216 Old Shares being issued to Better Joy by the Company;

(ii) on 12th April 2005, Mr. Lawrence Ho exercised options issued to him under the Company's employee share option scheme, to subscribe for a total of 900,000 Old Shares;

(iii) on 17th March 2005, as described in the section "Effect on shareholdings of the Company", the Company entered into an agreement with STDM, a member of the Concert Party, for the purpose of acquiring the remaining 30% interest in Great Wonders, the consideration for which includes the issue of 22,222,222 New Shares at an issue price of HK$9.00 per New Share; and

(iv) on 17th May 2005, as described in paragraph (v) of the section "Fund raising exercises carried out by the Company in the past twelve months", the Company carried out a top-up placing comprising the Placing and the Subscription pursuant to which 140,000,000 New Shares then held by Better Joy were placed to the placees and Better Joy subscribed for 140,000,000 New Shares as a top-up subscription at the net subscription price of HK$8.85 for each New Share.

IMPLICATIONS UNDER THE LISTING RULES

The First Agreement constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules, on the basis that the total assets which are the subject of the transaction (calculated as Great Respect's 49.2% interest in the Joint Venture on the basis of the open market value of the Land derived from the preliminary and final valuation reports of Savills (Hong Kong) Limited (an independent valuer)), exceeds 100% of the total assets of the Company. The First Agreement is conditional on approval by the Independent Shareholders (by way of poll) at the EGM.

Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho, who is a director, shareholder and connected person of the Company. Accordingly, the First Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Dr. Stanley Ho, Mr. Lawrence Ho and their respective associates, including Madam Lucina Laam King Ying, Better Joy, Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend and (to the extent it holds Shares at the relevant time) STDM, will abstain from voting on the relevant resolution regarding the First Agreement and the transactions contemplated by it. Your attention is drawn to the letter from the Independent Board Committee set out on pages 43 to 44 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 45 to 58 of this circular. In aggregate, these persons hold Shares representing approximately 39.2% of the issued Share capital of the Company, as at the Latest Practicable Date.

The Second Agreement constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules, on the basis that the preliminary and final open market valuations of the Land, as determined in the preliminary and final valuation reports of Savills (Hong Kong) Limited (an independent valuer), exceeds 75% of the total assets of the Company. Since the 50.2% interest in the Land is being acquired by Melco Entertainment, the Second Agreement also constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules, on the basis that the preliminary and final open market valuations of the Land, as determined in the preliminary and final valuation reports of Savills (Hong Kong) Limited (an independent valuer), exceeds 100% of the total assets of the Company. Accordingly, the Second Agreement is also conditional on approval by Independent Shareholders in respect of ordinary resolution numbered (2) as set out in the Notice of EGM to be proposed to approve the Second Agreement, at the EGM. Completion of the Second Agreement will not give rise to a gain or loss for the Company. In the case of the Second Agreement, the Directors are not aware of any Shareholders at the Latest Practicable Date who has a material interest in the Second Agreement and the transactions contemplated by it so that accordingly no Shareholder is required to abstain from voting on the resolution to approve the Second Agreement and the transactions contemplated by it under the Listing Rules.

The legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land as an integrated entertainment resort, will, in aggregate, constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules, on the basis that the aggregate of the amount of the land premium required to be paid to secure the grant of a long term lease in respect of the Land and the costs of development and construction of an integrated entertainment resort having the features described in this circular will exceed 100% of the total assets of the Company. The total costs of obtaining the development rights in respect of the Land and completing the development of the project described in this circular are expected to be in the region of HK$8,000 million. An ordinary resolution will be proposed at the EGM to approve the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of a long term lease in respect of the Land resulting from the in principle acceptance by Melco Hotels of the Macau Government's offer to grant such a long term lease in respect of the Land and the future development of the Land as an integrated entertainment resort having the features as described in this circular. The Directors are not aware of any Shareholders at the Latest Practicable Date who has a material interest in these transactions so that accordingly no Shareholder is required to abstain from voting on such resolution under the Listing Rules.

EGM

The EGM will be held at 3:30 p.m. on Wednesday, 10th August 2005 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong at which ordinary resolutions will be proposed and, if thought fit, passed by the Independent Shareholders (where appropriate, by way of a poll), to approve the Whitewash Waiver, the First Agreement, the Second Agreement and the transactions contemplated by each of them, and the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of the long term lease in respect of the Land by the Macau Government and the proposed development of the Land as described in this circular. A notice convening the EGM is set out on pages 196 to 198 of this circular.

The Independent Board Committee of the Company comprising Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui, the independent non-executive directors of the Company, has been appointed to: (a) advise the Independent Shareholders in respect of ordinary resolution numbered (3) as set out in the Notice of EGM to be proposed to approve Whitewash Waiver in relation to that Whitewash Waiver, the First Agreement and the transactions contemplated thereunder and (b) to advice the Independent

Shareholders in respect of ordinary resolution numbered (1) as set out in the Notice of EGM to be proposed to approve the First Agreement, whether or not the terms of the First Agreement (including the issue of the Convertible Loan Notes), and the transactions contemplated thereunder are fair and reasonable and in the interests of those Independent Shareholders as a whole.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee in respect of the Whitewash Waiver and the foregoing matters in respect of the First Agreement.

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 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.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 43 to 44 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Whitewash Waiver and the First Agreement and the transactions contemplated by the First Agreement; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 45 to 58 of this circular containing its advice to the Independent Board Committee in this regard, and (iii) the risk factors set out in the section headed "Risk Factors" in this circular.

The Board is of the view that the Second Agreement and the transactions contemplated thereby and the proposed entering into by Melco Hotels of a legally binding commitment relating to the grant of a long term lease in respect of the Land resulting from the in principle acceptance by Melco Hotels of the Macau Government's offer to grant such a long term lease in respect of the Land and the future development of the Land as an integrated entertainment resort having the features described in this circular are in the best interests of the Company and the Shareholders, and, accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed in relation thereto at the EGM.

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
(Stock Code: 200)

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

22nd July 2005

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION OF ADDITIONAL LAND IN MACAU FOR DEVELOPMENT AS AN INTEGRATED ENTERTAINMENT RESORT VERY SUBSTANTIAL ACQUISITIONS CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

We have been appointed as members of the Independent Board Committee to advise you in connection with the connected transaction and the whitewash waiver, details of which are set out in the "Letter from the Board" in the circular dated 22nd July 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.

In forming our opinion on the connected transaction, we have discussed with Savills (Hong Kong) Limited ("Savills") and the Independent Financial Adviser in relation to the valuation of the Land. We note that the residual method was the primary method adopted for valuing the Land. In our discussion, we have:

(a) critically discussed and assessed the assumptions made by Savills as disclosed in their valuation report of the Land as set out in Appendix V to this circular and the material effect that any variation of those assumptions may have on the valuation figure;

(b) critically discussed the effect of any material conditions affecting the status of the legal title to the Land as disclosed in the legal opinion from the Macau legal advisers obtained in respect of the Land;

(c) in particular, in relation to the Land, discussed: (i) its valuation which is based on the expected gross development value of the completed development as a hotel and casino; and (ii) the exact stage at which its development has reached; and

(d) discussed the known relevant local taxes which might be charged in respect of the Land and their effect, if applicable, on the calculation of the notional profit of the Land and their consequent effect on the valuation figure.

Based on our discussions, we are of the view that the residual method being adopted for the valuation of the Land is acceptable.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 45 to 58 of this circular, which contains its advice and recommendation to us as to whether or not the connected transaction and the whitewash waiver are fair and reasonable and in the interests of the Independent Shareholders in respect of those transactions 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, the opinion, advice and recommendations of, the Independent Financial Adviser as stated in its aforementioned letter of advice, we are of the opinion that the connected transaction and the whitewash waiver are fair and reasonable so far as the Independent Shareholders in respect of those transactions are concerned. 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 whitewash waiver.

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

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
財務顧問有限公司 英高

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

22nd July, 2005

Dear Sirs,

PROPOSED ACQUISITION OF ADDITIONAL LAND IN MACAU FOR DEVELOPMENT AS AN INTEGRATED ENTERTAINMENT REPORT AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated by the First Agreement and the Whitewash Waiver. Details of these transactions are contained in the circular of the Company dated 22nd July, 2005 (the "Circular"), of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular.

Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho, who is a director, shareholder and connected person of Melco. Accordingly, the First Agreement also constitutes a connected transaction of Melco under the Listing Rules. Dr. Stanley Ho, Mr. Lawrence Ho and their respective associates, including Madam Lucina Laam King Ying, Better Joy, Sharikat Investments Limited, Dareset Limited, Lanceford Company Limited, Lasting Legend, and (to the extent it holds Shares at the relevant time) STDM, will abstain from voting on the relevant resolution regarding the First Agreement and the transactions contemplated by it. In aggregate, these persons hold Shares representing approximately 39.2% of the issued Share capital of the Company.

The Independent Board Committee, comprising the Company's three independent non-executive Directors, namely Messrs. Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui has been formed to consider whether the transactions contemplated by the First Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the Whitewash Waiver and the transactions contemplated by the First Agreement are in the interests of the Independent Shareholders. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors. We have also assumed that the information and representations contained or referred to it in the Circular were true and accurate at the time they were made and continued to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular. We have not, however, conducted an independent investigation into the affairs of the Group.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby Anglo Chinese will receive any benefits from Dr. Stanley Ho, Mr. Lawrence Ho, the Company or any of their respective associates or concert parties.

PRINCIPAL FACTORS

We have set out below the principal factors that we have taken into account in arriving at our advice to the Independent Board Committee and the Independent Shareholders.

Background

In 2004, the Group established Macau gaming as a principal activity with the acquisition of Mocha Slot Group Limited in June, the announcement of the Park Hyatt Macau casino development in September and the establishment of the joint venture with the PBL Group in November. Pursuant to the Shareholders' Agreement, all gaming activities of the PBL Group in Asia, and the Group in Greater China, will be operated through Melco PBL Holdings.

On 10th May, 2005, Melco Hotels accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease in respect of the Land for the construction and development of an integrated entertainment resort. The legally binding agreement will only be entered into by Melco Hotels subject to, or following, the approval of the land grant by the Macau Government and approval of the transaction by the Independent Shareholders.

Description of Land and proposed development

The Land is a plot of land in Taipa, Macau, on the Cotai Strip consisting of two individual parcels with an area of approximately 73,528 square meters and 39,797 square meters, respectively. The larger parcel of land is currently registered in the name of an independent third party which holds the rights to develop it. The Macau Government is currently in negotiations with that independent third party for an exchange of the parcel of land and will endeavour to complete the negotiations as soon as possible, and in any event before May 2006. The Land is to be the location of the proposed construction and development of an integrated entertainment resort consisting of a five star hotel and two four star hotels, an underwater casino, service apartments, retail shopping, a performance hall, car parking facilities and other supporting infrastructure. The development has been named the "City of Dreams".

Information on the Joint Venture

Under the Joint Venture MOA, on 28th October, 2004 the Joint Venture was established between Melco Leisure and Great Respect to apply to the Macau Government for the grant of development rights in respect to land in Cotai, Macau. Great Respect is a company controlled by a discretionary trust of Dr. Stanley Ho. The Joint Venture MOA provides that Melco Leisure make available one of its subsidiaries to the Joint Venture as the Macanese vehicle to make the application to the Macau Government for the long term lease to be granted in respect of the Land. The subsidiary used was Melco Hotels. The interests held by Melco Leisure and Great Respect in the Joint Venture, and the Land upon grant thereof, are 50.8% and 49.2%, respectively. Through Dr. Stanley Ho's strong and enduring links with Macau and its business community, Great Respect and Dr. Stanley Ho have been able to secure, in principle, the long term lease opportunity for the development of the Land from the Macau Government. Although, prior to the entering into of the Joint Venture MOA, Dr. Stanley Ho could have applied for the grant of the development right of the Land solely through Great Respect or his other personal investments, it was agreed under the Joint Venture MOA that the application for the development right of the Land and its development would be made jointly with the Group for the benefit of the Company and its joint venture with the PBL Group.

Acquisition of interests in the Joint Venture

On 11th May, 2005, the First Agreement and Second Agreement were entered into by Melco Entertainment, whereby it would acquire the entire interests of the Joint Venture, Melco Hotels and the Land from Great Respect and Melco Leisure. The entire cost of the Land and the construction and development is estimated to be approximately HK$7,963 million, consisting of HK$1,684 million of land costs and land premium and approximately HK$6,279 million of construction costs. Financing of the costs are anticipated to be by project financing and equity in amounts of HK$5,176 million and HK$2,787 million, respectively. The equity portion of the financing will be in the form of existing and additional contributions in equity in, or advances of shareholders' loans to, Melco Entertainment. The Company's portion of the equity financing will be raised through the Convertible Loan Notes and the Placing and Subscription Agreement. The Company has been approached by banks which have expressed interest in providing project financing for the development however discussions are still in its initial stages and no project financing arrangement have been finalised. The Company has informed us that it believes that the Melco Entertainment should be able to obtain sufficient project financing debt, however should any shortfall occur Melco Entertainment's intention is for the difference to be funded through additional equity from the Company and PBL, or strategic investors.

The original amount of land premium proposed by the Macau Government to be paid by Melco Hotels is approximately MOP509,124,823 (equivalent to approximately HK$494,295,945). As Melco Hotels has proposed to increase the gross floor area of the development from approximately 400,000 square meters to approximately 450,000 square meters, the land premium amount may be increased should the increase in gross floor area be accepted. The amount of increase, if any, is subject to negotiations with the Macau Government and is estimated to be in the region of MOP69,000,000 (equivalent to approximately HK$66,990,291) to MOP110,000,000 (equivalent to approximately HK$106,796,117) should the increase in floor area be approved.

Upon completion of the First and Second Agreements, Melco Hotels will continue to be a subsidiary of the Company. A change in the board of Melco Hotels is anticipated to reflect the proportional representation of persons respectively designated by the Company and PBL for appointment to the board of Melco Entertainment, which consists of five directors appointed by the Company (namely, Mr. Lawrence Ho, Mr. Frank Tsui, Mr. Chan Ying Tat, Mr. Samuel Tsang and Mr. Clarence Chung) and four appointed by PBL (namely, Mr. James Packer, Mr. Anthony Klok, Mr. Rowen Craigie and Mr. John Alexander). No changes to the board of the Company or Melco Entertainment are planned.

Placing and Subscription

On 17th May, 2005, the Placing and Subscription Agreement was entered into between Better Joy, the Company and the Placing Agent. The placing and "top up" subscription of 140,000,000 New Shares at HK$9.125 per New Share, representing approximately 14.26% of the then existing issued share capital of the Company and approximately 12.48% of the Company's issued share capital as enlarged by the subscription, had been placed to Independent Third Parties. The proceeds from the subscription of approximately HK$1,239 million are intended to be used to finance the Company's contribution to the construction and development of the proposed development.

Share Subdivision

On 19th May, 2005, the Shares were subdivided on the basis of one Old Share into two New Shares. The conversion prices of the Convertible Loan Notes and the outstanding convertible bonds held by STDM, have been adjusted accordingly. The conversion price of the Convertible Loan Notes has been adjusted from HK$19.93 per Old share to HK$9.965 per New Share.

First Agreement

Under the First Agreement dated 11th May, 2005, Melco Entertainment agreed to acquire Great Respect's 49.2% interest in the Joint Venture for a cash consideration of HK$1,175 million from existing internal resources of Melco Entertainment. The consideration amount was arrived at with reference to the preliminary valuation report of an independent valuer, which valued the Land at approximately HK$4,506 million on an open market basis (assuming the increase in plot ratio is approved), and after arm's length negotiation between Melco Entertainment and Great Respect (including representatives of PBL from Melco Entertainment's board).

As a term of the First Agreement, Great Respect will immediately subscribe to the Convertible Loan Notes in the amount of HK$1,175 million upon completion of the First Agreement. In the event that the long term land lease is not formally granted by the Macau Government to Melco Hotels for any reason by 31st December 2006, Great Respect has irrevocably undertaken to transfer the Convertible Loan Notes back to the Company for cancellation and extinguishment following which the Company will repay the subscription amount of HK$1,175 million directly to Melco Entertainment and thereby effectively unwinding the transactions. The First Agreement, including subscription and issue of the Convertible Loan Notes, is conditional upon: (i) approval by the Independent Shareholders, by way of poll, at the EGM; (ii) grant of listing permission in respect of the Shares to be issued upon conversion of the Convertible Loan Notes (iii) all necessary consents or approvals of any government authority or other relevant regulatory bodies in Hong Kong and Macau; and (iv) delivery of a legal opinion by Great Respect to Melco Entertainment confirming, among other things, the enforceability of the Joint Venture MOA and the Joint Venture under Hong Kong law.

The Land is situated at the northeast area of the Cotai Strip and will be sided by the Venetian Macau resort to be developed by the Sand Casino and the harbour. Its proximity to the Macau International Airport should increase the visibility of the "City of Dreams" as the first resort seen on the drive from the airport to the entrance to the Cotai Strip.

As set out in Appendix V, a valuation report on the Land was prepared by Savills (Hong Kong) Limited who appraised the value of the Land at HK$4,500 million. The independent valuation has been arrived at on the basis of the increased plot ratio and that the proposed premium had been paid to the Macau Government. The valuation was made on an open market value basis applying the residual method. The residual method estimates the value of the Land, and the development right thereof, by first estimating the gross development value of the proposed integrated entertainment resort and then discounting all development costs which have not been incurred to arrive at a value of the Land in its existing state. As informed by the valuer, the specialised nature of the development and the limited number of, and detailed information on, comparable transactions do not support the use of the direct comparison method. The valuation report has been prepared in accordance with the HKIS Valuation Standards on Properties First Edition and The Valuation of Property Assets – Guidance Note published by the Hong Kong Institute of Surveyors. The key assumptions made in the valuation are in relation to the land premium, plot ratio and the facilities composition of the proposed development. The valuation assumes the land premium has been paid. However, as the land premium is a liability which will be acquired together with the Land, we consider that the land premium should be taken into account in valuing the development as this amount will be required to be paid upon the grant of the long term lease. In making an adjustment for the land premium, the net value of the Land is approximately HK$3,899 million based on the upper range of the estimated land premium after increase in the plot ratio, of MOP619,124,823 (equivalent to approximately HK$601,092,062). The consideration of HK$1,175 million for 49.2% of the Joint Venture represents a discount of approximately 38.3% to the adjusted net appraised value of the Land, and the development right thereof. The gross development value is estimated by the aggregation of the planned facilities composition of the development with reference to current comparable individual facilities including casinos, hotels and residential properties in Macau, and thus a change in the plot ratio and the facilities of the integrated entertainment resort would affect the gross development value and thus the valuation of the Land. To address this concern, it should be noted that the proposed facilities composition of the planned development forms part of the application for the grant of the long term lease of the Land and increase of its plot ratio, and thus the open market value of the Land and the approved facilities, upon grant of the long term lease, should not change in the event that the development of the approved facilities were not fully utilised. Additionally, the Independent Shareholders should be aware that if the market value of gaming operations, hotels or residential properties (up until completion) should decline or grow, there exists a risk that the valuation of the Land may be affected. Given the circumstances and after reviewing the valuation report, we consider the use of the residual method, together with the assumptions made having adjusted for the land premium, to be reasonable. It should be noted that an execution risk exists in the carrying out and completion of the development of the Land as an integrated entertainment resort, however the local experience and relationships of the Ho family are expected by Melco, and we consider, to reduce such risk exposure. In the event that there is a delay in completion of the development of the Land of up to 12 months, the valuation of the Land, and the development right thereof, under the residual method may be reduced by an amount, representing an increase in the interest adjustment over the period of the development on the valuation at the Hong Kong prime rate, which is not considered a material amount, and furthermore the valuation has included a provision for contingencies in the amount of 2% of construction costs, professional fees and finance costs. As the sole asset of the Joint Venture will be the development right of the Land which is to be granted to Melco Hotels, and in view of the independent valuation of the Land and the development right thereof, taking into account the possible effects of the key assumptions and the discount to the valuation, we consider the consideration under the First Agreement to be fair and reasonable.

Before the grant of the long term lease can be given by the Macau Government, a major issue must be addressed, being the negotiation and agreement to return the parcel of land registered as Lot No. 23053, which forms part of the Land, to the Macau Government from an independent third party which currently holds the development rights. However, under the First Agreement if the long term lease of the entire piece of Land is not granted by 31st December, 2006 because negotiations for the return of the parcel of land can not be concluded, or for any reason, the transactions will be unwound and the consideration money will be returned to Melco Entertainment and the Convertible Loan Notes will be cancelled. In the event of non-completion of the transactions, a repayment risk may arise should any of the proceeds from the issue of the Convertible Loan Notes be used in the interim. However, the Company has stated that the proceeds from the issue of the Convertible Loan Notes are to be used for the development of the Land. In light of the significant discount that the consideration price for the Joint Venture represents to the independent valuation of the Land (the development right to which will be the Joint Venture's sole asset), we consider the terms of the First Agreement to be fair and reasonable to Shareholders and in the interests of the Company.

Convertible Loan Notes

Upon completion of the First Agreement, Great Respect will immediately subscribe for the Convertible Loan Notes. The Convertible Loan Notes will be for a term of 5 years, bearing no interest, non transferable and automatically redeemable upon maturity or on the occurrence of certain specified events of default of the Company. The initial conversion price of HK$19.93 per Old Share, being the average closing price of the Shares for the five trading days up to and including the Last Trading Date before the date of the First Agreement, has been adjusted for the Share Subdivision to HK$9.965 per New Share for a maximum of 117,912,694 Shares to be issued upon conversion which will rank pari passu in all respects with the existing Shares, representing 10.51% of the existing share capital and 9.51% of the enlarged share capital after conversion of the Convertible Loan Notes in full. Conversion is not permitted before the formal grant of the long term lease of the Land by the Macau Government.

The consideration was structured in the form of the Convertible Loan Notes to facilitate redemption in the event that the long term lease of the Land was not granted by the Macau Government and the transaction was unwound. We understand the allotment and issue of new Shares would otherwise have been used to settle the consideration, but once issued are not readily capable of being redeemed, in the event that the grant of the long term lease over the Land is not granted and the transactions described in this document are unwound. Accordingly, we consider the issue of Convertible Loan Notes to be appropriate for the transaction.

The adjusted conversion price represents:

– a premium of approximately 2.73% to the adjusted closing price of the Shares of HK$9.70 on the Last Trading Date;

– a discount of approximately 0.75% to the average adjusted closing price of the Shares of HK$10.04 for the 10 consecutive trading days up to and including the Last Trading Date;

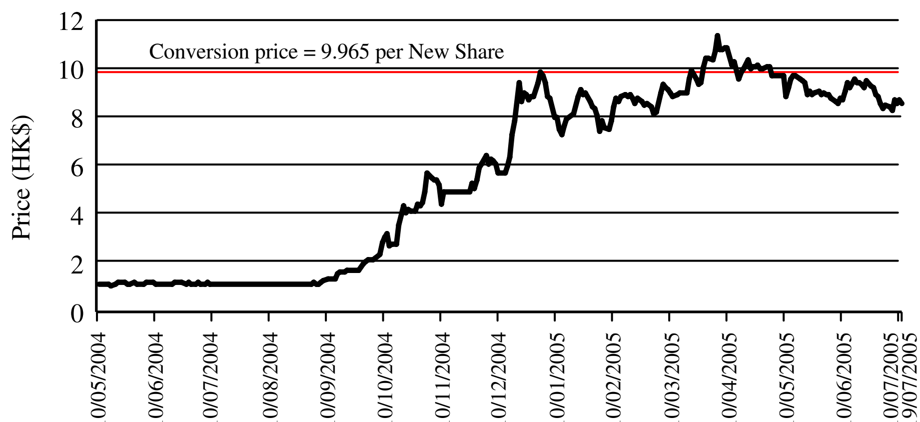
– a discount of approximately 2.02% to the average adjusted closing price of the Shares of HK$10.17 for the 30 consecutive trading days up to and including the Last Trading Date;

– a premium of approximately 19.77% to the average adjusted closing price of the Shares of HK$8.32 for the 6 months up to and including the Last Trading Date;

– a premium of approximately 15.87% to the closing price of the Shares of HK$8.60 on the Latest Practicable Date; and

– a premium of approximately 697.20% to the pro forma net asset value of the Group of HK$1.25.

The following chart sets out the adjusted closing prices of the Shares during the 12 months up to the Last Trading Date up to and including the Latest Practicable Date:



Source: Bloomberg

In order to assess the terms of the Convertible Loan Notes, we have reviewed a number of non-interest bearing (or zero coupon) convertible notes issued by other listed companies in Hong Kong within the past 18 months with term lengths similar to that of the Convertible Loan Notes and which to our knowledge have been publicly announced.

Name of issuer	**Date of agreement/term**	**Principal amount** *HK$ million*	**Coupon rate per annum**	**Redemption value at maturity**	**Premium/ (Discount) between the conversion price and the closing price per share before announcement**
Ruili Holdings Limited	21 Apr 05 (5 years)	300	Nil	110% *(Note 2)*	(50.4%) *(Note 3)*
Hon Po Group (Lobster King) Limited	29 Mar 05 (5 years)	100	Nil	105%	(94.7%) *(Note 3)*
HKR International Limited	29 Mar 05 (5 years)	1,410	Nil	128.9%	28.7%
Kerry Properties Limited	11 Mar 05 (5 years)	2,500	Nil	119.0%	33.4%
Norstar Founders Group Limited	8 Dec 04 (3 years)	310.8	Nil	112.49% *(Note 2)*	28.6%
China Resources	29 Nov 04 (5 years)	800	Nil	100.0% *(Note 1)*	6.4%
Techtronic Industries Co. Ltd.	16 Jun 04 (5 years)	1,091.68	Nil	107.71%	38.0%
Shanghai Real Estate Limited	22 Mar 04 (5 years)	302.0	Nil	111.6%	17.5%
NWS Holding Limited	29 Mar 04 (5 years)	1,350.0	Nil	97.5%	25.0%
Far East Consortium International Limited	10 Mar 04 (5 years)	544.9	Nil	105.1%	30.1%
Shanghai Industrial Holdings Limited	18 Feb 04 (5 years)	2,330.0	Nil	109.1% *(Note 1)*	26.2%
Shangri-La Asia Limited	9 Feb 04 (5 years)	1,558.0	Nil	114.6%	15.6%
The Company	Issued upon completion of First Agreement (5 years)	1,175	Nil	100.0% *(Note 1,2)*	2.73%

Note:

1. No additional redemption options available to issuer or holder.

2. Not freely transferable.

3. Issue of convertible notes are part of a capital reorganisation of the company.

The comparable convertible notes issues listed above have a range of premia to the underlying share price as at the announcement of issue of between 6.4% to 38.0% (excluding those convertible notes issued at a large discount as part of a capital reorganisation). However, most of the comparable are redeemable at over 100% of their face value as indicated above. These convertible notes generally have conversion prices at higher premia to balance the benefits for the attractive redemption terms. There is only one convertible notes issue in our comparable set which is redeemable at face value similar to the Convertible Loan Notes. The conversion premium of that convertible note at the date of the relevant announcement was approximately 6.4%, in comparison to the premium on the Convertible Loan Notes of approximately 2.73%. The lack of any material premium to the market price of the Shares is not regarded as significant as the Convertible Loan Notes (i) do not pay interest; (ii) are only redeemable on maturity (except in the event of certain specified events of default of the Company); (iii) not transferable; and (iv) provides an attractive source of financing to the Group (given that the Convertible Loan Notes represents a significant increase in the debt to assets ratio of the Group). It should be noted that the conversion price of the Convertible Loan Notes of HK$9.965 is higher than the subscription price of the "top up" and subscription announced by the Company on 17th May, 2005, of HK$9.125 (after adjustment for the Share Subdivision), and that instead of the issue of Shares the use of Convertible Loan Notes was accepted for the convenience of redemption and cancellation in the event the lease of the Land does not become effective. We consider the issue of and the terms to the Convertible Loan Notes to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Second Agreement

Under the Second Agreement dated 11th May, 2005, Melco Leisure will transfer its 50.8% interest in the Joint Venture and its entire interests in Melco Hotels to Melco Entertainment for no direct consideration but rather in consideration of the mutual benefits derived by the Company and PBL under the Shareholders' Agreement, as described below. Melco Hotels holds no assets or liabilities other than an interest free loan from Melco Leisure of MOP25,000. Under the Shareholders' Agreement and Declaration Agreement with PBL, the Group and the PBL Group is required to operate all their gaming venture opportunities in Greater China (including Macau) through Melco Entertainment. The Second Agreement is conditional upon: (i) approval by the Independent Shareholders at the EGM; (ii) all necessary consents or approvals of any government authority or other relevant regulatory bodies in Hong Kong and Macau; and (iii) delivery of a legal opinion by Melco Leisure to Melco Entertainment confirming, among other things, due establishment of incorporation and existence of Melco Hotels under Macau law. The First Agreement and Second Agreement are not inter-conditional.

Under the Shareholder's Agreement dated 8th March, 2005 with PBL Group, gaming operations in Greater China of either parties is to be operated through a joint venture company held as to 80% by Melco PBL Holdings and 20% by the Company. Upon establishment of Melco PBL Holdings as the joint venture between the Group and the PBL Group, the PBL Group subscribed to 50% equity interests in Melco PBL Holdings for a total consideration of US$163 million (equivalent to approximately HK$1.27

billion). On 9th March, 2005, the Declaration Agreement was entered into whereby Melco Leisure declared all its rights and benefits under the Joint Venture MOU and its 50.8% interest in the Joint Venture would be transferred to Melco Entertainment (which is 80% held by Melco PBL Holdings, in which the Company has a 50% interest, and 20% directly by the Company). The PBL Group is an Australian based group with gaming and leisure operations in the Asia Pacific region other than Greater China, while the Group has gaming operations in Greater China (including Macau). This relationship is considered by Melco to be mutually beneficial allowing the Group to benefit from the PBL Group's expertise and financial resources and corresponding benefits to the PBL Group. The transfer of Melco Leisure's 50.8% interests in the Joint Venture and its interests in Melco Hotels also benefits the Group from the perspective of financing the construction and development of the integrated entertainment resort. Under the Shareholder's Agreement, the business of Melco Entertainment, including the development and construction cost of the proposed resort upon approval of the First Agreement and Second Agreement, are to be financed according to equity interests and thus the PBL Group will contribute half of the financial resources in relation to the 80% interest held through Melco PBL International Limited. After completion of the First Agreement and Second Agreement, the Company will hold attributable interest of 60% in Melco Hotels and the proposed development, and Melco Hotels will remain an indirect subsidiary of the Company.

Reasons for and benefits of the transactions contemplated under the First Agreement and Second Agreement

As announced in 2004, Melco has refocused its direction on the leisure, entertainment and hospitality business. The proposed integrated entertainment resort presents an opportunity to increase its gaming operations which currently consist mainly of slot machines operations and other casino developments. The Company is utilising the experience of Dr. Stanley Ho, and his history of success in his private gaming ventures in Macau. Although Dr. Stanley Ho no longer holds a monopoly to operate casinos in Macau, the current industry and economic conditions are considered by the Company to support the increased development and competition by other operators. In 2004, Macau was second only to Las Vegas in net wins totalling approximately US$5.1 billion representing an increase of some 44%.[1] Since 2003, the year in which the grant of the three gaming concessions in Macau were made, according to government statistics Macau has experienced compound annual growth of its gross domestic product of approximately 20.9% and tourism growth of approximately 20.3% coming predominately from an increase in visitors from the PRC.[2] The per capita disposable income of urban residents in the PRC grew at a compound annual growth rate approximately 10.6% during the same period.[3] Given the current economic conditions, the strength of the gaming industry in Macau and the unmatched local experience of the Ho family, gained during the period of time Dr. Stanley Ho held a monopoly on Macau gaming operations for over 30 years, we consider the development is in the interest of the Company and its Shareholders as a whole.

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1 www.dicj.gov.mo
2 DSEC of Macau SAR
3 www.stats.gov.cn

Financial effects

On the basis of the pro forma financial information of the Enlarged Group provided by the Company, the principal effects of the First Agreement, Convertible Loan Notes and Second Agreement on the Company would be as follows:

Gearing	–	As at 31st December, 2004 the Group had total outstanding debts of HK$160 million (including existing convertible notes) and a debt to total assets ratio of 0.10 times. On completion of the transactions, a pro forma basis the debt and gearing of the Enlarged Group would have increased to HK$1,335 million and 0.41 times, respectively. Although, the interest coverage ratio of some 18.2 times will remain unchanged as the Convertible Loan Notes bear no interest, we consider it in the interests of the Company that the Convertible Loan Notes be retired by the exercise of the conversion rights by Great Respect. Upon conversion of the Convertible Loan Notes the gearing would decrease to approximately 0.05 times.
Net tangible asset value per Share	–	As at 31st December, 2004 the Group had net tangible asset value per Share of HK$1.21 based on the number of Shares issued as at the Latest Practicable Date. Following completion this will increase to HK$2.91, and upon full conversion of the Convertible Loan Notes to HK$2.60.
Earnings per Share	–	No gain or loss will be recorded on completion of First and Second Agreements, however, upon conversion of the Convertible Loan Notes the earnings per Share will be diluted by approximately 9.51%, being the percentage of the enlarged issued share capital represented by the new Shares issued upon conversion.

Risk factors

The section headed "Risk Factors" in the Circular sets out certain risk factors involved with the contemplated transactions: (i) grant of the long term lease in respect of the Land by the Macau Government; and (ii) valuation of the Group's property interests. As discussed under the paragraphs headed "First agreement", Shareholders should be aware of the completion risk (and associated repayment risk) and the valuation risk. Given that (i) the transactions are designed to be unwound in the event the long term lease is not granted; and (ii) the valuation is made with reference to current comparable facilities (with no growth adjustments), includes provisions for contingencies, and the consideration for the First Agreement represents a considerable discount the valuation of the Land after adjustment for the land premium, we consider the risk factors to acceptable in the context of the transactions contemplated.

The Cotai strip is set to become a sizeable gaming and entertainment centre with numerous international and local developers planning and constructing other entertainment resorts in the area. The Group may experience increased competition from the increase in the quantity of casino facilities in Macau. For the Group to obtain a material share of the gaming market in Macau, we consider the development of the Land into an integrated entertainment resort and the Group's interests in the Land, to be in the interests of the Company. If the First Agreement is not approved by the Independent Shareholders, the Group will hold approximately 29.5% effective interests in the Land, and the development rights of the Land after completion of the Second Agreement, instead of the effective interests of 60% if the First Agreement is approved. The price of the Shares has increased significantly since the announcement of the Group's Park Hyatt Macau development and the announcement of Melco PBL Holdings joint venture. In the event that the grant of the long term lease of the Land is not approved by the Macau Government, Shareholders should be aware that the trading price of the Shares may be adversely affected.

Whitewash waiver

As at the date of the Acquisition Announcement, the Concert Party was interested in approximately 52.76% of the total voting rights of the Company, which after completion of the Placing and Subscription Agreement was diluted to approximately 46.16% of the total voting rights of the Company. Conversion of the Convertible Loan Notes into new Shares by Great Respect, a member of the Concert Party, by an amount which would increase the number of Shares held by the Concert Party by 2% or more from the lowest percentage holding in the 12 months preceding the conversion would give rise to an obligation under the "creeper" provisions of Rule 26 of the Takeovers Code on the part of Great Respect and the Concert Party to make a mandatory general offer for all the Shares other than those already owned by the Concert Party. In accordance with note 2(c) of Rule 26.3 of the Takeovers Code, in the event that an offer is triggered by the conversion or exercise of convertible securities the price will normally be established by reference to the purchase price of the convertible securities, however if the convertible securities were issued or sold privately to the purchaser, the Executive may also take into account the weighted average traded price on the day on which notice of conversion was submitted. Hence, should Great Respect trigger a mandatory general offer by the exercise of its conversion rights over the Convertible Loan Notes, the offer price may be either the conversion price or, subject to consultation with the Executive, the average market price of the share on that date. The Placing, Subscription and issue of Convertible Loan Notes are for the purpose of raising funds for the Company to finance its share of the proposed integrated entertainment resort.

An application for a Whitewash Waiver has been made to the Executive on behalf of Great Respect and the Concert Party, to waive any obligations of Great Respect and the Concert Party to make a mandatory general offer which will result from the conversion of the Convertible Loan Notes in an amount which would increase its interest by 2% or more. If the Whitewash Waiver is granted by the Executive, it would be subject to the approval of the Independent Shareholders, by way of poll, at the EGM.

Great Respect and the Concert Party have not acquired voting rights in the Company during the six month period prior to the Acquisition Announcement except for: (i) the exercise of conversion rights on 11th April, 2005 under the certain convertible notes of the Company issued to Better Joy; (ii) the exercise of options on 12th April, 2005 by Mr. Lawrence Ho under the Company's employee share option scheme; (iii) the entering into an agreement with STDM on 17th March, 2005 for the purpose of acquiring the remaining 30% interest in Great Wonders, the consideration of which includes the issue of 22,222,222 New Shares at HK$9 per Share (adjusted for the Share Subdivision); and (iv) the subscription of 140,000,000 New Shares at HK$9.125 per Share (adjusted for the Share Subdivision) by Better Joy pursuant to the Placing and the Subscription Agreement. At the time of these transactions, the interests held by the Concert Party were above 50% and accordingly the provisions of Rule 26 of the Takeovers Code had no application. The Executive has confirmed to the Concert Party that these transactions will not disqualify the Concert Party under paragraph 3 of Schedule VI of the Takeovers Code regarding the grant of whitewash waivers.

Shareholders should note that the First Agreement (including the issue of the Convertible Loan Notes) and Second Agreement are not conditional on the grant and approval of the Whitewash Waiver.

In the event that the Whitewash Waiver is not granted and approved, Great Respect has confirmed that it has no intention to exercise its conversion rights under the Convertible Loan Notes by an amount which would give rise to an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code. However, if this were to occur, Great Respect has indicated that it would comply with the requirements of the Takeovers Code in making a mandatory general offer. A mandatory general offer for all the Shares would be required to be made at the conversion price of HK$9.965 (or an appropriately adjusted conversion price) which is 15.87% over the closing price as at the Latest Practicable Date, or (with reference to note 2(c) of Rule 26.3 of the Takeovers Code) the weighted average traded price of board lots of the Shares on the day on which notice of conversion was submitted, subject to consultation with the Executive. We consider the opportunity to choose to accept an offer, if so triggered, to purchase the Shares held by Independent Shareholders at an offer price which may be above the market price of the Shares at the time would generally be in the interests of the Independent Shareholders. However, as set out below we have taken into account other considerations relevant to the particular circumstances relating to this case.

If the Whitewash Waiver is granted, Great Respect has indicated that it will convert the Convertible Loan Notes into Shares as soon as practicable after the grant of the long term lease on the Land, thereby transforming a debt liability represented by the Convertible Loan Notes in the consolidated balance sheet of the Group into equity. Shareholders should also be aware that the issue of the Convertible Loan Notes was to facilitate redemption in the event that the First Agreement is unwound. On the basis that Shareholders accept our advice to the Independent Board Committee to recommend Shareholders to vote in favour of the First Agreement and the issue of the Convertible Loan Notes and therefore demonstrate a support for the overall transactions involved and a desire to participate in the future direction of the Company, we believe it would be consistent for Shareholders to vote in favour of the Whitewash Waiver, which would enable the Group's liability to be retired at an early stage upon the exercise of the conversion rights of the Convertible Loan Notes by Great Respect. Although the Company has no rights to compel Great Respect to exercise the conversion rights of the Convertible Loan Notes, the Whitewash Waiver would provide Great Respect with the freedom to convert without making an obligatory mandatory general offer. Furthermore, the Great Respect and the Concert Party could avoid any obligation by increasing its shareholding through incremental conversion of just under 2% per annum without triggering a bid obligation. On the basis that the Concert Party does not reduce its interests in the Company, and that Great Respect exercises its conversion rights up to the maximum of just under 2% of the issued share capital of the Company (as enlarged by the new Shares) in any 12 month period, Great Respect would be free to exercise the balance of the Convertible Loan Notes in full without triggering a mandatory general offer under the Takeovers Code after the expiry of 24 months following completion of the Placing and Subscription Agreement. In these circumstances we do not consider that Shareholders would benefit from voting against the Whitewash Waiver and on balance we consider voting in favour would be fair and reasonable in the context of the overall transaction and in the interest of Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the First Agreement (including the issue of the Convertible Loan Notes) is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Whitewash Waiver, on balance, is in the interests of the Independent Shareholders. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the First Agreement (including the issue of the Convertible Loan Notes) and Whitewash Waiver and that the Independent Board Committee advises the Independent Shareholders accordingly.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dennis Cassidy
Director

I. AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31st December 2004, the audited consolidated balance sheets of the Group as at 31st December 2002, 2003 and 2004, the audited consolidated cash flow statements of the Group for each of the three years ended 31st December 2004 and the relevant notes thereto, as extracted from the Company's audited financial statements for each of the three years ended 31st December 2004.

Consolidated Profit and Loss Account
For the year ended 31st December 2004

	Note(s)	**2004** *HK$'000*	**2003** *HK$'000*	**2002** *HK$'000*
Turnover	2	408,076	165,263	86,376
Other revenues	2	8,102	4,267	546
Other (loss)/income	3	(2,113)	10,186	–
Cost of inventories sold		(157,183)	(36,703)	(24,159)
Staff costs (including directors' emoluments)	10	(107,120)	(76,499)	(55,747)
Depreciation of fixed assets		(17,683)	(16,154)	(5,927)
Amortisation of trading rights		(507)	(464)	–
Amortisation of goodwill		–	(2,614)	–
Gain on disposal of investment properties	14(d)	57,176	–	–
Commission expense		(50,607)	(26,088)	–
Other operating expenses	31(d)	(61,809)	(51,968)	(39,219)
Total operating expenses		(337,733)	(210,490)	(125,052)
Operating profit/(loss)	4	76,332	(30,774)	(38,130)
Finance costs	5	(4,199)	(2,007)	–
Profit/(loss) before taxation		72,133	(32,781)	(38,130)
Taxation	6	(2,490)	(1,201)	–
Profit/(loss) after taxation		69,643	(33,982)	(38,130)
Minority interests		(4,486)	7,648	2,534
Profit/(loss) attributable to shareholders	7	65,157	(26,334)	(35,596)
Dividends	8	8,451	–	–
Dividends per share (HK cents)	8	2.00	–	–
Basic earnings/(loss) per share (HK cents)	9	20.06	(15.89)	(27.1)
Fully diluted earnings/(loss) per share (HK cents)	9	18.33	N/A	N/A

Note: The profit/(loss) attributable to shareholders for the three years ended 31st December 2004 are all derived from the ordinary activities of the Group without any exceptional or extraordinary items.

Consolidated Balance Sheet

As at 31st December 2004

	Note(s)	2004 HK$'000	2003 HK$'000	2002 HK$'000
Non-current assets				
Goodwill	12	389,937	19,705	–
Trading rights	13	2,786	3,293	–
Fixed assets	14	204,174	187,916	177,326
Investment in a jointly controlled entity	16	100,000	–	–
Investment securities	17	27,754	20,637	–
Pledged bank deposits	29	177	304	1,100
Long term deposits		14,780	4,219	–
Other non-current assets		547	4,542	–
		740,155	240,616	178,426
Current assets				
Amount due from a jointly controlled entity	16	25,145	–	–
Inventories	18	3,768	4,137	2,986
Trade receivables	19, 31(b)	337,014	236,390	2,782
Prepayments, deposits and other receivables	31(a), 31(b)	40,919	9,150	8,939
Other investments	20	40,641	40,638	4,000
Amounts due from related companies	21	1,119	429	2,407
Tax recoverable		–	387	–
Certificate of deposit		1,100	–	–
Bank balances and cash		394,966	142,771	219,229
		844,672	433,902	240,343
Current liabilities				
Trade payables	22	60,462	110,538	2,356
Accrued liabilities and other payables	31(c)	35,153	39,575	15,812
Taxation payable		1,888	–	–
Finance lease payable	23	817	–	–
Short-term bank borrowings, unsecured		15,000	–	–
Convertible notes due within one year	24	22,500	–	–
		135,820	150,113	18,168
Net current assets		708,852	283,789	222,175
Total assets less current liabilities		1,449,007	524,405	400,601
Financed by:				
Share capital	25	463,244	221,997	145,287
Reserves	27	762,233	238,725	230,837
Shareholders' funds		1,225,477	460,722	376,124
Minority interests		75,616	62,952	24,258
Non-current liabilities				
Rental deposits		–	407	219
Convertible notes	24	122,500	–	–
Shareholders' loan	31(d)(viii)	23,158	–	–
Deferred tax liabilities	6	2,256	324	–
		1,449,007	524,405	400,601

Balance Sheet
As at 31st December 2004

	Note(s)	2004 HK$'000	2003 HK$'000	2002 HK$'000
Non-current assets				
Fixed assets	14	–	–	4
Interest in subsidiaries	15	918,761	389,624	303,551
Investment in jointly controlled entity	16	100,000	–	–
		1,018,761	389,624	303,555
Current assets				
Prepayments, deposits and other receivables		124	673	214
Bank balances and cash		279,287	15,440	3,175
		279,411	16,113	3,389
Current liabilities				
Accrued liabilities and other payables		1,108	3,742	3,462
Convertible notes due within one year	24	22,500	–	–
		23,608	3,742	3,462
Net current assets		255,803	12,371	(73)
Total assets less current liabilities		1,274,564	401,995	303,482
Financed by:				
Share capital	25	463,244	221,997	145,287
Reserves	27	688,820	179,998	158,195
Shareholders' funds		1,152,064	401,995	303,482
Non-current liabilities				
Convertible notes	24	122,500	–	–
		1,274,564	401,995	303,482

Consolidated Statement of Changes in Equity
For the year ended 31st December 2004

	Note(s)	**2004** *HK$'000*	**2003** *HK$'000*	**2002** *HK$'000*
Total equity as at 1st January		460,722	376,124	374,469
Surplus on revaluation of properties, not recognised in the profit and loss account	27	–	3,734	2,600
Profit/(loss) for the year	27	65,157	(26,334)	(35,596)
Realisation of investment properties reserve upon disposal	27	(56,176)	–	–
Issue of rights shares, including share premium	25, 27	–	105,333	35,090
Issue of shares, including share premium	25, 27	759,191	–	–
Share issue expenses	27	(16,576)	(2,441)	(439)
Exercise of share options	25, 27	16,935	4,306	–
Dividends paid	8, 27	(3,776)	–	–
Total equity as at 31st December		1,225,477	460,722	376,124

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note(s)	2004 HK$'000	2003 HK$'000	2002 HK$'000
Net cash used in operation	28(a)	(154,349)	(43,931)	(22,068)
Hong Kong profits tax refund/(paid)		849	(877)	–
Net cash outflow from operating activities		(153,500)	(44,808)	(22,068)
Investing activities				
Purchase of subsidiaries in 2003	28(c)(ii)	–	22,142	–
Purchase of subsidiaries in 2004	28(c)(i)	10,265	–	–
Direct expenses incurred for acquisition of additional interests of subsidiaries in Technology segment	28(d)	(250)	–	–
Proceeds from partial disposal of investment in a subsidiary		–	4,200	–
Interest income from authorised financial institutions		446	712	3,538
Dividend income		938	200	–
Purchase of fixed assets		(49,770)	(8,366)	(996)
Decrease/(increase) in pledged bank deposits		127	(184)	(189)
Proceeds from disposal of investment property		83,000	–	–
Proceeds from disposal of other fixed assets		2,168	326	–
Purchase of investment securities		(4,000)	(19,837)	(4,250)
Purchases of other investments less proceeds from subsequent disposals		(2,112)	(30,452)	(4,000)
Disposal of other investments acquired in previous years		–	4,000	–
Increase in amount due from a jointly controlled entity		(25,145)	–	–
Increase in long term deposits		(10,561)	–	–
Decrease/(increase) in other non-current assets		405	(3,247)	–
Net cash inflow/(outflow) from investing activities		5,511	(30,506)	(5,897)
Net cash outflow before financing		(147,989)	(75,314)	27,965
Financing activities				
Proceeds from exercise of share options	28(b)	16,935	4,306	–
Proceeds from issue of rights shares	28(b)	–	105,333	–
Proceeds from issue of shares	28(b)	394,680	–	35,090
Share issue expenses	28(b)	(16,576)	(2,441)	(439)
Interest paid		(4,199)	(2,007)	–
Repayment of finance lease	28(b)	(482)	–	–
Repayment of bank loan	28(b)	–	(106,335)	–
Short-term bank borrowings, net	28(b)	15,000	–	–
Dividend paid		(3,776)	–	–
Repayment of former shareholders' loans	28(b)	(24,556)	–	–
Increase in shareholders' loan	28(b)	23,158	–	–
Net cash inflow/(outflow) from financing		400,184	(1,144)	34,651
Increase/(decrease) in cash and cash equivalents		252,195	(76,458)	6,686
Cash and cash equivalents at the beginning of year		142,771	219,229	212,543
Cash and cash equivalents at the end of year		394,966	142,771	219,229
Analysis of balances of cash and cash equivalents				
Bank balances and cash		136,719	125,770	14,394
Time deposits with original maturity of less than three months when acquired		258,247	17,001	204,835
		394,966	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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except the other investments and the investment properties which are carried at fair value as described below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs") which are effective for accounting period beginning on or after 1st January 2005. The Group has not early adopted these New HKFRSs in the accounts for the year ended 31st December 2004 except for Hong Kong Financial Reporting Standard No. 3 "Business Combination" ("HKFRS 3"), Hong Kong Accounting Standard No. 36 "Impairment of Assets" ("HKAS 36") and Hong Kong Accounting Standard No. 38 "Intangible Assets" ("HKAS 38"). The Group has already commenced an assessment of the impact of the remaining new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The early adoption of HKFRS 3 has resulted in a prospective change in the accounting policy for goodwill and negative goodwill. Up to 31st December 2003, goodwill was amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount. With the adoption of HKFRS 3, the Group has ceased to amortise goodwill from 1st January 2004 and accumulated amortisation as at 31st December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From 1st January 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The Group has reassessed the useful lives of its other intangible assets and no adjustment has resulted from this reassessment.

Up to 31st December 2003, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. From 1st January 2004 onwards, negative goodwill is recognised immediately to the profit and loss account after assessment of the identifiable assets, liabilities and contingent liabilities of the business combination.

The effect of adopting these new policies is set out in Note 1(f) below.

The early adoption of HKAS 36 and HKAS 38 have no material impact to the accounts of the Group.

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

(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.

1. Principal accounting policies *(Continued)*

(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, investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The consolidated balance sheet includes the Group's share of net assets of the jointly controlled entity and goodwill/negative goodwill on acquisition.

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

(e) Revenue recognition

Revenue from leasing of electronic gaming machines and provision of ancillary management services to the lessees is recognised on an accrual basis in accordance with the contractual terms of the respective leasing agreements.

Revenue from the provision of catering services, technology consultation services, management fees 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 from authorised financial institutions are 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.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition.

Prior to 1st January 2004, goodwill on acquisition is amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

On 1st January 2004, the Group has early adopted HKFRS 3 issued by HKICPA. All changes in the accounting policies have been made prospectively. There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 3. Goodwill amortisation of approximately HK$22,633,000 was not charged for the year ended 31st December 2004 upon the adoption of HKFRS 3. Instead, goodwill will be tested at least annually for impairment.

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

(f) **Goodwill** *(Continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's primary reporting segment. An impairment loss is recognised for the amount by which the goodwill's carrying amount exceeds its recoverable amount.

Negative goodwill represents the excess of the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition. As a result of the early adoption of HKFRS 3, the negative goodwill will be recognised to the profit and loss account.

(g) **Trading rights**

Trading rights, representing rights to trade on The Stock Exchange of Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6th March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, trading rights are grouped at the lowest levels for which these are separately identifiable cashflows (cash generating units).

(h) **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) Construction in progress

Construction in progress are investments in restaurant and vessels on which construction and renovation work has not been completed. The construction in progress are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the construction in progress are transferred to the respective categories of fixed assets at cost less accumulated impairment losses.

(iii) Other fixed assets

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

1. Principal accounting policies *(Continued)*

(h) Fixed assets *(Continued)*

(iv) 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%
Machinery	10%
Motor vehicle	20%

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

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the 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.

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.

(i) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any 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 the 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.

(ii) Other investments

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.

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

(j) Inventories

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.

(k) Contracts in progress

Contract revenue and contract costs are recognised based on the percentage of completion method as detailed in note 1(e). 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 cost 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.

(l) Trade receivables

Impairment losses are made against trade receivable to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such impairment losses.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(n) Provisions

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

(o) Employee benefits

(i) Pension obligations

The Group operates a mandatory provident fund and a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The mandatory provident fund is funded by the Group and the employee. The defined contribution scheme is funded by the Group.

The Group's contributions to both retirement benefits schemes are expensed as incurred. The Group's mandatory contributions to the mandatory provident fund are vested immediately. The Group's contributions to the defined contribution scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

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

(o) Employee benefits *(Continued)*

(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 such leave is taken.

(iii) Profit sharing and bonus plans

The expected costs of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(p) 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.

(q) Contingent liabilities and contingent assets

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

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

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

A contingent asset is not recognised but is disclosed in the notes to the accounts, when necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of acquisition. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

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

(s) Assets under leases

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

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

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

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

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

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

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

(t) 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 in this case are dealt with as a movement in reserves.

(u) Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off- balance sheet items. As at 31st December 2004, the Group maintained segregated accounts with HKFE Clearing Corporation Limited ("HKCC") and the authorised financial institutions in conjunction with its futures and brokerage businesses as a result of its normal financial services business transactions with amounts of HK$1,390,000 (2003: HK$6,116,000) and HK$232,532,000 (2003: HK$249,349,000), respectively, which are not otherwise dealt with in the accounts.

(v) Legal reserve

All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the profit and loss account and is not available for distribution to the shareholders of the entity.

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

1. Principal accounting policies *(Continued)*

(w) 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 segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets comprise all current and non-current assets and exclude investment properties and investment securities. Segment liabilities comprise all operating liabilities and exclude items such as taxation, deferred taxation, shareholder's loan and convertible notes. 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

The Group's business can be principally segregated to four segments during the year:

The leisure and entertainment segment, which mainly comprises (a) leasing of electronic gaming machines and provision of ancillary management services to casino operators in Macau and (b) provision of catering services.

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

The investment banking and financial services segment (operated through Value Convergence Holdings Limited), 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 year at a gain of approximately HK$57 million.

Revenues recognised during the year are as follows:

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
– Leisure and entertainment segment	123,007	54,861	77,929
– Technology segment	154,799	29,203	–
– Investment banking and financial services segment	126,404	75,504	–
– Property and other investments segment *(Note)*	3,866	5,695	8,447
	408,076	165,263	86,376
Other revenues			
Dividend income	938	200	–
Management fee from a jointly controlled entity *(Note 31d(xi))*	6,671	–	–
Others	493	4,067	546
	8,102	4,267	546
Total revenues	416,178	169,530	86,922

Note:

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

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

Primary reporting format – business segments

	Year ended/As at 31st December 2004				
	Leisure and entertainment	Technology	Investment banking and financial services	Property and other investments	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Segment turnover	123,431	169,440	128,634	3,866	425,371
Inter-segment sales	(424)	(14,641)	(2,230)	–	(17,295)
	123,007	154,799	126,404	3,866	408,076
Segment results	5,636	14,504	14,783	65,334	100,257
Unallocated costs					(23,925)
Operating profit					76,332
Segment assets	598,842	57,226	433,372	290,633	1,380,073
Investment in jointly controlled entity	–	–	–	100,000	100,000
Unallocated assets					104,754
Total assets					1,584,827
Segment liabilities	24,325	22,497	62,675	1,935	111,432
Unallocated liabilities					172,302
Total liabilities					283,734
Other segment information:					
Depreciation of fixed assets	11,519	591	4,390	1,183	17,683
Amortisation of trading rights	–	–	507	–	507
Reversal of impairment of investment securities	–	–	–	(3,117)	(3,117)
Negative goodwill	–	1,204	–	–	1,204
Capital expenditures	114,520	422	669	1,098	116,709
Goodwill	361,427	8,805	–	–	370,232
Impairment of doubtful receivables	–	323	1,587	–	1,910

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

	Year ended/As at 31st December 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*
Revenues					
Segment turnover	55,143	29,506	75,504	5,695	165,848
Inter-segment sales	(282)	(303)	–	–	(585)
	54,861	29,203	75,504	5,695	165,263
Segment results	(11,713)	(9,413)	3,005	2,258	(15,863)
Unallocated costs					(14,911)
Operating loss					(30,774)
Segment assets	33,596	25,662	389,105	46,131	494,494
Unallocated assets					180,024
Total assets					674,518
Segment liabilities	8,246	23,323	113,443	5,508	150,520
Unallocated liabilities					324
Total liabilities					150,844
Other segment information:					
Depreciation of fixed assets	4,324	6,277	3,615	1,938	16,154
Amortisation of trading rights	–	–	464	–	464
Amortisation of goodwill	–	–	2,614	–	2,614
Capital expenditures	312	12,980	11,359	2,192	26,843
Impairment of assets	–	3,080	–	1,200	4,280
Impairment of doubtful receivables	–	122	1,934	–	2,056

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

	Year ended/As at 31st December 2002		
	Leisure and entertainment	**Property and other investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Revenues			
Segment turnover	77,929	8,447	86,376
Inter-segment sales	–	–	–
	77,929	8,447	86,376
Segment results	(21,395)	(8,684)	(30,079)
Unallocated costs			(8,051)
Operating loss			(38,130)
Segment assets	36,482	382,287	418,769
Segment liabilities	12,367	6,020	18,387
Other segment information:			
Depreciation of fixed assets	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

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

Secondary reporting format – geographical segments

	Year ended 31st December 2004/ As at 31st December 2004			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	209,327	79,519	1,236,304	23,551
The People's Republic of China excluding Hong Kong and Macau ("PRC")	263	(2,502)	2,333	963
Macau	198,486	23,240	218,436	92,195
	408,076	100,257	1,457,073	116,709
Unallocated costs		(23,925)		
Operating profit		76,332		
Investment in a jointly controlled entity			100,000	
Investment Securities			27,754	
Total assets			1,584,827	

	Year ended 31st December 2003/ As at 31st December 2003			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	144,901	(15,715)	631,548	24,504
The PRC	–	(501)	614	564
United Kingdom	–	–	992	–
Macau	20,362	353	20,727	1,775
	165,263	(15,863)	653,881	26,843
Unallocated costs		(14,911)		
Operating loss		(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 were principally derived from operations carried out in Hong Kong for the year ended 31st December 2002.

3. **Other (loss)/income**

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Realised (loss)/gain on trading of other investments	(3,425)	9,228	–
Unrealised gain on holding of other investments	1,312	958	–
Total	(2,113)	10,186	–

4. Operating profit/(loss)

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

	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*
Crediting			
Rental income			
Gross	4,178	5,467	6,180
Outgoings	(82)	(84)	(300)
Net of outgoings	4,096	5,383	5,880
Gain on disposal of investment properties	56,176	–	–
Gain on disposal of other fixed assets	1,400	–	–
Reversal of impairment of investment securities	3,117	–	–
Negative goodwill	1,204	–	–
Charging			
Loss on disposal of other fixed assets	–	478	–
Fixed assets written off	–	–	3,858
Impairment of fixed assets	–	3,080	143
Impairment of investment securities	–	1,200	8,912
Impairment of doubtful receivables	1,910	2,056	–
Operating leases in respect of land and buildings	9,342	6,009	375
Auditors' remuneration	2,298	674	437

5. Finance costs

	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	3,043	1,967	–
Interest expense on finance lease	27	–	–
Interest on a shareholder's loan *(Note 31(d)(viii))*	23	–	–
Interest on former shareholders' loans	95	–	–
Interest on convertible notes *(Note 31(d)(ix))*	1,011	–	–
Others	–	40	–
	4,199	2,007	–

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%; 2002: 16%) 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 charged to the consolidated profit and loss account represents:

	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*
Current taxation:			
– Hong Kong profits tax	1,668	354	–
– (Over)/under provisions in prior years	(848)	523	–
Deferred taxation relating to the origination and reversal of timing differences	1,670	324	–
Taxation charges	2,490	1,201	–

6. **Taxation** *(Continued)*

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:

	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before taxation	72,133	(32,781)	(38,130)
Calculated at a taxation rate of 17.5% (2003: 17.5%; 2002: 16%)	12,623	(5,737)	(6,101)
Effect of different taxation rates in Macau	(392)	5	–
Income not assessable for taxation purposes	(9,463)	–	–
Expenses not deductible for taxation purposes	89	457	–
Utilisation of previously unrecognised tax losses	(5,536)	(71)	–
(Over)/under provision of current taxation in prior years	(848)	523	–
Unrecognised deferred tax assets arising from estimated tax losses	6,017	6,024	6,101
Taxation charge	2,490	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 major components of the net deferred tax liabilities provided for at the balance sheet date are as follows:

		Group	
	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*
As at 1st January	324	–	–
Acquisition of subsidiary *(note 28(c)(i))*	262	–	–
Charged to profit and loss account	1,670	324	–
	2,256	324	–

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation			Others			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January	–	–	–	324	–	–	324	–	–
Acquisition of subsidiary *(note 28(c)(i))*	262	–	–	–	–	–	262	–	–
Charged/(credited) to profit and loss account	1,994	–	–	(324)	324	–	1,670	324	–
At 31st December	2,256	–	–	–	324	–	2,256	324	–

6. Taxation *(Continued)*

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

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Accelerated depreciation allowances	2,998	3,147	582
Tax losses	(63,095)	(78,101)	(20,258)
	(60,097)	(74,954)	(19,676)

	Company		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Accelerated depreciation allowances	–	–	(1)
Tax losses	(2,076)	(2,513)	(2,268)
	(2,076)	(2,513)	(2,269)

The above tax losses of the Group and the Company 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$10,933,000, HK$8,685,000 and HK$5,705,000 for each of the three years ended 31st December 2004.

8. Dividends

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Interim dividends – HK$0.01 (2003 and 2002: Nil) per ordinary share	3,776	–	–
Final dividends – Proposed HK$0.01 (2003 and 2002: Nil) per ordinary share *(Note)*	4,675	–	–
	8,451	–	–

Note: At a board of directors meeting held on 7th April 2005, the directors proposed a final dividend of HK$0.01 per ordinary share of the year 2004. This proposed dividend has not been reflected as a dividend payable in the accounts and will be reflected as an appropriation for the year ending 31st December 2005.

9. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share are based on (i) the Group's net profit/(loss) attributable to shareholders of HK$65,157,000 (2003 and 2002: loss of HK$26,334,000 and 35,596,000 respectively), and (ii) 324,834,445 (2003 and 2002: 165,762,626 and 131,231,244 respectively) weighted average ordinary shares in issue during the year.

The calculations of diluted earnings per share for the year ended 31st December 2004 are based on (i) the adjusted net profit attributable to shareholders of approximately HK$65,991,000 which is the net profit attributable to the shareholders for the year adjusted for interest expense of approximately HK$834,000, and (ii) 324,834,445 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 16,340,475 ordinary shares deemed to be issued at no consideration if all outstanding share options with dilutive effect on basic earnings/(loss) per share had been exercised and the weighted average number of 18,799,001 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 year ended 31st December 2003 and 2002 respectively has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

10. Staff costs (including directors' emoluments)

	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Wages, salaries and staff welfare	103,210	73,336	50,142
Unutilised annual leave	(17)	1,086	–
Termination benefits	810	1,175	3,638
Social security costs	54	–	–
Provision for long service payment	(118)	(27)	–
Pension costs – defined contribution plans	3,390	3,056	1,967
Forfeiture of pension contribution	(209)	(2,127)	–
	107,120	76,499	55,747

11. Directors' and five highest paid individuals' emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors (including ex-director) of the Company during the year are as follows:

	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Fees			
Executive Directors	10	10	790
Independent Non-executive Directors	869	854	600
Non-executive Directors	109	87	355
	988	951	1,745
Other emoluments:			
Basic salaries, housing allowances, other allowances and benefits in kind			
Executive Directors	3,628	3,557	1,848
Independent Non-executive Directors	–	–	–
Non-executive Directors	–	–	136
Retirement benefits scheme contributions			
Executive Directors	24	27	39
Independent Non-executive Directors	–	–	–
Non-executive Directors	–	–	3
	3,652	3,584	2,026
	4,640	4,535	3,771

During the year, 3,600,000 (2003 and 2002: nil and 4,843,484 respectively) 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 26 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.

During the year, one new Independent Non-executive Director has been appointed and one Independent Non-executive Director has been re-designated as Non-executive Director. None of the three existing Independent Non-executive Directors received any emoluments except for director fees of approximately HK$300,000 (2003 and 2002: HK$300,000 and HK$300,000 respectively), HK$300,000 (2003 and 2002: HK$300,000 and HK$300,000 respectively) and HK$62,000 (2003 and 2002: nil), which were paid to each and 2002 of the three Independent Non-executive Directors respectively during the year ended 31st December 2004. The director fee paid to the Independent Non-executive Director re-designated was approximately HK$207,000 (2003 and 2002: HK$254,000 and nil respectively).

11. Directors' and five highest paid individuals' emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

During the year, one Non-executive Director had resigned and one Independent Non-executive Director has been re-designated as Non-executive Director. None of the two existing Non-executive Directors received any emoluments except for director fees of approximately HK$50,000 (2003 and 2002: HK$50,000 and HK$351,000 (also received other emoluments of HK$136,000) respectively) and HK$46,000 (2003 and 2002: nil), which were paid to each of the two Non-executive Directors respectively during the year ended 31st December 2004. The director fee paid to the Non-executive Director resigned was approximately HK$13,000 (2003 and 2002: HK$37,000 and nil respectively).

One (2003 and 2002: One) Executive Director of the Company received director fee of approximately HK$10,000 (2003 and 2002: HK$10,000 and HK$10,000 respectively). Another two (2003 and 2002: two) Executive Directors received emoluments of approximately HK$1,729,000 (2003 and 2002: HK$1,729,000 and HK$1,432,000 respectively) and HK$1,899,000 (2003 and 2002: HK$1,729,000 and HK$399,000 (also received a director fee of HK$297,000) respectively) during the year ended 31st December 2004. One Executive Director has been re-designated as Non-executive Director for the year ended 31st December 2003, for which the emolument paid to the Executive Director re-designated was approximately HK$99,000 (2002: HK$139,000 (also received a director fee of HK$363,000)).

All these emoluments were included in the Directors' emoluments as disclosed above.

The emoluments of the directors (including ex-director) fell within the following bands:

		Number of directors	
	2004	**2003**	**2002**
Emolument bands			
HK$nil – HK$1,000,000	7	6	9
HK$1,000,001– HK$1,500,000	–	–	1
HK$1,500,001– HK$2,000,000	2	2	–

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003 and 2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003 and 2002: three) individuals during the year are as follows:

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	7,407	7,602	2,112
Retirement benefits scheme contributions	35	28	42
	7,442	7,630	2,154

The emoluments fell within the following bands:

	2004	**2003**	**2002**
Emolument bands			
HK$nil – HK$1,000,000	–	–	3
HK$1,000,001 – HK$1,500,000	1	1	–
HK$1,500,001 – HK$2,000,000	–	1	–
HK$2,500,001 – HK$3,000,000	1	–	–
HK$3,000,001 – HK$3,500,000	1	–	–
HK$4,000,001 – HK$4,500,000	–	1	–

(c) During the year, no (2003 and 2002: nil) directors or the above highest paid individuals waived or agreed to waive any emoluments. No (2003 and 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.

12. Goodwill

	HK$'000
Year ended 31st December 2004	
Opening net book amount *(Note)*	19,705
Acquisition of Mocha Slot Group Limited ("Mocha Slot") *(Note 28(c)(i))*	361,427
Goodwill arising from acquisition of additional interests of subsidiaries in Technology segment *(Note 28(d))*	8,805
Closing net book amount	389,937
At 31st December 2004	
Cost	389,937
Accumulated impairment	–
Net book amount	389,937
At 31st December 2003	
Cost	22,319
Accumulated amortisation	(2,614)
Net book amount	19,705
At 31st December 2002	
Cost	–
Accumulated amortisation	–
Net book amount	–

Note:

Upon adoption of HKFRS 3, cost and accumulated amortisation of goodwill are offset by the same amount of approximately HK$2,614,000 and the net amount of approximately HK$19,705,000 was stated as the cost of goodwill.

Goodwill was presented together with the trading rights as intangible assets as at 31st December 2003. As a result of the adoption of HKFRS 3, goodwill and trading rights are presented separately in the balance sheet and amortization charges were also reclassified to provide a better presentation of the results of the Group.

13. Trading rights

	HK$'000
Year ended 31st December 2004	
Opening net book amount	3,293
Amortisation charge	(507)
Closing net book amount	2,786
At 31st December 2004	
Cost	3,757
Accumulated amortisation	(971)
Net book amount	2,786
At 31st December 2003	
Cost	3,757
Accumulated amortisation	(464)
Net book amount	3,293
At 31st December 2002	
Cost	–
Accumulated amortisation	–
Net book amount	–

14. Fixed assets

	Group								
	Investment properties HK$'000	Restaurant vessels, ferries and pontoons HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Gaming machine HK$'000	Motor vehicle HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation									
At 1st January 2004	159,000	43,665	614	7,477	90,585	–	–	–	301,341
Acquisition of subsidiaries *(Note 28(c)(i))*	–	–	–	3,829	16,983	43,637	–	–	64,449
Additions	–	7,475	–	6,093	9,262	17,137	263	12,030	52,260
Transfers	–	11,545	–	134	(134)	–	–	(11,545)	–
Written off	–	–	–	–	(17,763)	–	–	–	(17,763)
Disposals	(82,000)	(135)	(474)	–	(2,367)	–	–	–	(84,976)
At 31st December 2004	77,000	62,550	140	17,533	96,566	60,774	263	485	315,311
Accumulated depreciation									
At 1st January 2004	–	34,970	189	2,091	76,175	–	–	–	113,425
Charge for the year	–	1,989	5	4,060	7,944	3,659	26	–	17,683
Written off	–	–	–	–	(17,763)	–	–	–	(17,763)
Disposals	–	(17)	(142)	–	(2,049)	–	–	–	(2,208)
At 31st December 2004	–	36,942	52	6,151	64,307	3,659	26	–	111,137
Net book value									
At 31st December 2004	77,000	25,608	88	11,382	32,259	57,115	237	485	204,174
At 31st December 2003	159,000	8,695	425	5,386	14,410	–	–	–	187,916

14. Fixed assets *(Continued)*

	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 28(c)(ii))*	–	–	–	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 28(c)(ii))*	–	–	–	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

14. Fixed assets *(Continued)*

(a) The analysis of the cost or valuation at 31st December 2004 of the above assets is as follows:

	Group								
	Investment properties	Restaurant vessels, ferries and pontoons	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machine	Motor vehicle	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	62,550	140	17,533	96,566	60,774	263	485	238,311
At valuation	77,000	–	–	–	–	–	–	–	77,000
	77,000	62,550	140	17,533	96,566	60,774	263	485	315,311

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

	Investment properties	Restaurant vessels, ferries and pontoons	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machine	Motor vehicle	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

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

	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*
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

(b) At 31st December 2004, the net book value of fixed assets for the Group under finance lease amounted to HK$2,120,000 (2003 and 2002: nil).

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

(d) The Group's investment properties comprising: 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, were revalued on an open market, existing tenancy basis by FPDSavills, an independent firm of professional valuers, as at 31st December 2004 at HK$77,000,000 (2003 and 2002: HK$77,000,000 and HK$75,000,000 respectively). During the year, the investment properties of a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong were disposed to a third party at a consideration of HK$83 million and gain on disposal of investment properties amounted to HK$57,176,000 was realised and recorded to the profit and loss account.

14. Fixed assets *(Continued)*

(e) The investment properties are leased to third parties under operating leases arrangements, with leases negotiated for terms ranging from 1 to 3 years. As at 31st December 2004, the Group had future aggregate minimum leases receivables under non-cancellable operating leases as follows:

		Group	
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	2,107	3,396	3,353
Later than one year and not later than five years	387	1,953	455
	2,494	5,349	3,808

(f) At 31st December 2004, the investment properties with net book value of HK$77,000,000 (2003 and 2002: HK$82,000,000 and HK$80,000,000 respectively) were pledged as security for one of the subsidiaries of the Group as banking facilities.

	Company Furniture, fixtures and equipment
	HK$'000
Cost	
At 1st January 2004 and 31st December 2004	6
Accumulated depreciation	
At 1st January 2004	6
Charge for the year	–
At 31st December 2004	–
Net book value	
At 31st December 2004	–
At 31st December 2003	–

	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

15. Investments in subsidiaries

	Company		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Investments at cost:			
Unlisted shares *(note a)*	29,394	390	390
Provision for impairment	–	(390)	(390)
	29,394	–	–
Due from subsidiaries *(note b)*	1,272,191	707,864	603,551
Provision for amounts due from subsidiaries	(315,235)	(308,742)	(300,000)
Due to subsidiaries *(note b)*	(67,589)	(9,498)	–
	918,761	389,624	303,551

Note:

(a) Details of principal subsidiaries are set out in Note 32 to the accounts.

(b) Included in amounts due from subsidiaries are i) loans to a subsidiary of HK$218.9 million which are unsecured, interest bearing at prime rate minus two per cent per annum or HIBOR plus 1.25 – 2 per cent per annum and repayable upon written notice given from the Company; ii) loans to a subsidiary of HK$93.1 million which are unsecured, interest bearing at four per cent per annum and have no fixed terms of repayment. Other amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16. Investment in a jointly controlled entity

	Group and Company		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost *(Note a and b)*	485	–	–
Prepayment to Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") *(Note b)*	99,515	–	–
	100,000	–	–

(a) The following is the details of the jointly controlled entity:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued shares held**	**Percentage of interest in ownership**
Great Wonders, Investment, Limited ("Great Wonders")	Macau	Provision of hotel management and entertainment complex in Macau	10,000 ordinary shares of MOP100 each	50%

(b) On 8th September 2004, the Company entered into an agreement ("First agreement") with STDM to acquire 50% equity interests of Great Wonders at a consideration of HK$100 million. The consideration was satisfied by issuing the convertible bond (see Note 24(b)). Great Wonders has applied to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the "Land") and to develop the Land into a six-star hotel and entertainment complex (pending government approval) with one of the largest casino and electronic gaming machine areas. Unless the concession of the Land is granted to Great Wonders on or before 1st September 2005, the Company has the right to terminate the convertible bond and the convertible bond will cease to be payable immediately. The Company shall forthwith transfer the 50% equity interest in Great Wonders back to STDM.

16. Investment in a jointly controlled entity *(Continued)*

Following the acquisition under the First Agreement, the Company entered into another agreement ("Second Agreement") with STDM on 11th November 2004 pursuant to which the Company acquired an additional 20% issued share capital of Great Wonders from STDM at a consideration of HK$56 million. The consideration was satisfied by issuing the convertible bond. The Second Agreement was approved by the independent shareholders of the Company at its extraordinary general meeting held on 20th January 2005 and no adjustment was made to the accounts as at 31st December 2004.

Subsequent to the further acquisition of interest in Great Wonders under the Second Agreement, the Company entered into the third agreement ("Third Agreement") with STDM on 17th March 2005 pursuant to which the Company will acquire and STDM will sell the remaining 30% equity interests in Great Wonders held by STDM at a consideration of HK$400 million. Completion of the Third Agreement is conditional on the approval of the independent shareholders of the Company at an extraordinary meeting.

17. Investment securities

		Group	
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted equity investments, at cost	26,499	26,499	4,662
Unlisted debt investment, at cost	4,000	–	–
Impairment losses	(2,745)	(5,862)	(4,662)
	27,754	20,637	–
Listed equity investment in Hong Kong, at cost	4,250	4,250	4,250
Impairment losses	(4,250)	(4,250)	(4,250)
Total	27,754	20,637	–

18. Inventories

		Group	
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Food and beverages	2,389	2,268	2,947
Consumable stores	98	52	39
Merchandise	1,281	1,776	–
Work in progress	–	41	–
	3,768	4,137	2,986

At 31st December 2004, no inventory was carried at net realisable value (2003 and 2002: nil).

19. Trade receivables

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables (excluding receivables balance arising from margin clients securities transactions)	171,681	99,144	2,782
Impairment of doubtful receivables	(323)	–	–
	171,358	99,144	2,782
Trade receivables arising from margin clients securities transactions *(Note b)*	165,656	137,246	–
	337,014	236,390	2,782

The aging analysis of trade receivables (excluding the receivables balance arising from margin clients securities transactions) is as follows:

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	157,881	94,499	1,770
31-90 days	10,624	3,376	983
Over 90 days	3,176	1,269	29
	171,681	99,144	2,782

(a) The Group's Leisure and entertainment segment and the Property and other investments 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 to 90 days would be granted.

(b) Trade receivable 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 2004 amounted to approximately HK$306,189,000 (2003 and 2002: HK$235,922,000 and nil respectively). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

Loans to margin clients are secured by client's pledged securities, repayable on demand and bear interest at commercial rates. No aging analysis on margin client's receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing.

(c) Other trade receivables on the Group's Technology segment 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.

20. Other investments

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted debt securities, at fair value	–	–	4,000
Equity securities listed in Hong Kong, at market value	40,641	40,638	–
	40,641	40,638	4,000

21. Amounts due from related companies

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
STDM *(note a)*	519	429	425
Gold Carousel Investment Limited ("GCIL") *(note b)*	600	–	–
iAsia Services Limited *(note c)*	–	–	1,982
	1,119	429	2,407

Notes:

(a) The amount due from STDM, a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group (note 31(d)(iv)).

(b) The amount due from GCIL, a related company of which Dr. Stanley Ho is a director, represented receivables in respect of the management services provided by one of the subsidiaries of the Group (note 31(d)(vii)).

(c) iAsia Services Limited has become a subsidiary of the Group in February 2003 and since then the balance due from iAsia Services Limited as at 31st December 2003 were eliminated upon consolidation. iAsia Service Limited was a related Company of which Mr. Lawrence Ho is a director. The amount due from iAsia Services Limited represented payments for leasehold improvements and rental depoists paid by the Group on behalf of iAsia Services Limited, and is unsecured and interest-free. The amount has been fully repaid before the year ended 31st December 2003.

22. Trade payables

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables			
Within 30 days	14,313	6,562	2,356
31-90 days	4,459	3,416	–
Over 90 days	5,224	396	–
	23,996	10,374	2,356
Trade payables arising from the ordinary course of business of dealing in securities transactions *(Note)*	36,466	100,164	–
	60,462	110,538	2,356

Note:

The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment banking and financial services segment are usually two trading days after trade date. These trade payables are repayable on demand. Therefore, no aging analysis is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after trade date.

23. Finance lease payable

	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Finance lease liability – minimum lease payments:			
Within one year	837	–	–
Future finance charges on finance lease	(20)	–	–
Present value of finance lease payable	817	–	–
The present value of finance lease payable was as follows:			
Within one year	817	–	–

24. Convertible notes

	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Convertible note due 30th June 2005 ("2005 Convertible Note") at par *(Note a)*	22,500	–	–
Convertible note due 30th June 2006 ("2006 Convertible Note") at par *(Note a)*	22,500	–	–
Convertible note due 8th November 2009 ("2009 Convertible Note") at par *(Note b)*	100,000	–	–
Subtotal	145,000	–	–
Less: current portion	(22,500)	–	–
Long-term portion	122,500	–	–

Note:

(a) On 9th June 2004 ("1st 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 year.

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 1st Date of Issuance until, and including, the day immediately before 30th June 2005 and 30th June 2006 respectively.

(b) On 9th November 2004 ("2nd Date of Issuance"), the Company issued at par the 2009 Convertible Note with principal amount of HK$100,000,000, which is interest-bearing at 4% per annum. The convertible note was issued for the purpose of developing the Land which will consist of a six star hotel with casino and electronic gaming machine lounge (see Note 16(b)).

The 2009 Convertible Note is convertible into fully paid ordinary shares of HK$1 each of the Company at an initial conversion price of HK$4.0 per share convertible in the period commencing 3 years from the 2nd Date of Issuance until, and including, the day immediately before 8th November 2009.

(c) As at 31st December 2004, none of the convertible notes had been converted into the ordinary shares of the Company.

25. Share capital

	Authorised Ordinary shares of HK$1 each	
	No. of shares	*Amount*
	'000	*HK$'000*
At 1st January 2002, 1st January 2003 and at 1st January 2004	480,000	480,000
Increase in authorised ordinary share capital *(note a)*	220,000	220,000
At 31st December 2004	700,000	700,000

	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 *(note b)*	24,200	24,200
At 31st December 2002, ordinary shares of HK$1 each	145,287	145,287
At 1st January 2003, ordinary shares of HK$1 each	145,287	145,287
Issue of rights shares *(note c)*	72,644	72,644
Exercise of share options *(note 26)*	4,066	4,066
At 31st December 2003, ordinary shares of HK$1 each	221,997	221,997
At 1st January 2004, ordinary shares of HK$1 each	221,997	221,997
Issue of shares *(note d)*	229,378	229,378
Exercise of share options *(note 26)*	11,869	11,869
At 31st December 2004, ordinary shares of HK$1 each	463,244	463,244

Note:

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

(b) 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.

(c) In September 2003, the company issued 75,643,567 rights shares of HK$1 each at a price of HK$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue. Proceeds of approximately HK$105.3 million before issuance expenses were raised.

(d) On 9th June 2004, 153,478,261 ordinary shares of HK$1 each were issued at a price of HK$2.375 per share for a total consideration of HK$364,511,000 before related expenses for the acquisition of Mocha Slot during the year (see Note 28(c)(i) for details).

In addition, on 29th October 2004, 75,900,000 ordinary shares of HK$1 each were issued at a price of HK$5.2 per share by way of placement for a total consideration of HK$394,680,000 before related expenses for the purpose of funding its operations under Leisure and entertainment segment.

(e) On 7th April 2005, the board of directors of the Company proposed that each of the existing issued and unissued shares of HK$1 each in the share capital be subdivided into two subdivided shares of HK$0.5 each.

26. Share option

(a) Share option scheme of the Company

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, professionals 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 share 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 19th November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 22,199,700 shares of HK$1.00 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, 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.

26. Share option *(Continued)*

(a) Share option schemes of the Company *(Continued)*

The following share options were outstanding under the Scheme during the year ended 31st December 2004:

Category of participant	At 1st January 2004	Granted during the year	Exercised during the year	At 31st December 2004	Date of grant of share options [1]	Share price at date of grant of share options	Exercise price of share options [3]
Directors[4,5]	5,448,918	–	(5,432,612)	16,306	8th March 2002	HK$0.82 [2]	HK$1.00 [2]
Directors[6]	–	3,600,000	–	3,600,000	19th February 2004	HK$2.35	HK$2.405
Sub-total	5,448,918	3,600,000	(5,432,612)	3,616,306			
Employees	750,002	–	(750,002)	–	8th March 2002	HK$0.82 [2]	HK$1.00 [2]
Employees[7]	3,457,670	–	(1,230,000)	2,227,670	13th September 2002	HK$1.1067 [2]	HK$1.1067 [2]
Employees[8]	–	8,170,000	–	8,170,000	19th February 2004	HK$2.35	HK$2.405
Employees[9]	–	3,900,000	(1,966,000)	1,934,000	17th September 2004	HK$3.375	HK$3.375
Sub-total	4,207,672	12,070,000	(3,946,002)	12,331,670			
Others[10]	4,440,172	–	(2,490,172)	1,950,000	13th September 2002	HK$1.1067 [2]	HK$1.1067 [2]
Others[11]	–	1,000,000	–	1,000,000	19th February 2004	HK$2.35	HK$2.405
Others[12]	–	4,500,000	–	4,500,000	17th September 2004	HK$3.375	HK$3.375
Sub-total	4,440,172	5,500,000	(2,490,172)	7,450,000			
Total	14,096,762	21,170,000	(11,868,786)	23,397,976			

Notes:

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

2 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.

3 As at 31st December 2004, the Company had 23,397,976 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 23,397,976 additional ordinary shares of the Company and additional share capital of approximately HK$23,398,000 and share premium of approximately HK$33,668,000 before issue expenses.

4 Mr. Peter So, who exercised 1,816,306 physically settled options on 19th February 2004, resigned on 1st April 2004.

5 As at 31st December 2004, 16,306 physically settled options may be exercised during the period from 8th September 2002 to 7th March 2012.

26. Share option *(Continued)*

(a) Share option schemes of the Company *(Continued)*

Notes: (Continued)

6 Among 3,600,000 physically settled options as at 31st December 2004, 1,800,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 1,800,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.

7 Among 2,227,670 physically settled options as at 31st December 2004, 1,113,835 physically settled options may be exercised during the period from 13th September 2002 to 7th March 2012 and 1,113,835 physically settled options may be exercised during the period from 13th March 2003 to 7th March 2012.

8 Among 8,170,000 physically settled options as at 31st December 2004, 4,060,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 4,110,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.

9 Among 1,934,000 physically settled options as at 31st December 2004, 400,000 physically settled options may be exercised during the period from 1st December 2004 to 7th March 2012, 600,000 physically settled options may be exercised during the period from 17th March 2005 to 7th March 2012, 594,000 physically settled options may be exercised during the period from 17th September 2005 to 7th March 2012, 175,000 physically settled options may be exercised during the period from 17th September 2006 to 7th March 2012 and 165,000 physically settled options may be exercised during the period from 17th March 2008 to 7th March 2012.

10 Among 1,950,000 physically settled options as at 31st December 2004, 974,999 physically settled options may be exercised during the period from 13th September 2003 to 7th March 2012 and 975,001 physically settled options may be exercised during the period from 13th September 2004 to 7th March 2012.

11 Among 1,000,000 physically settled options as at 31st December 2004, 500,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 500,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.

12 Among 4,500,000 physically settled options as at 31st December 2004, 2,250,000 physically settled options may be exercised during the period from 17th March 2005 to 7th March 2012 and 2,250,000 physically settled options may be exercised during the period from 17th September 2005 to 7th March 2012.

26. Share option *(Continued)*

(b) Share options schemes of Value Convergence Holdings Limited ("Value Convergence"), subsidiary of the Company

(i) Pre-IPO share options plan

As at 31st December 2004, options to subscribe for an aggregate of 5,868,698 underlying Shares granted on 6th April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO Share Options plan adopted by Value Convergence on 14th March 2001 ("Pre-IPO Share Options 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 on 5th February 2003 and 28th May 2003 respectively) were outstanding, which represents 2.5% (2003: 4.1%) of the shares of Value Convergence in issue as at 31st December 2004. 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 Options Plan, any Pre-IPO Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Value Convergence Group. The following are details of the outstanding Pre-IPO Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	As at 31st December 2004		**As at 31st December 2003**	
	Total no. of grantees	**No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options**	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options**
Categories of grantees				
Directors of the Company	3	4,606,510	5	8,478,020
Employees	3	1,262,188	3	1,262,188
Total	6	5,868,698	8	9,740,208

During the year ended 31st December 2004, certain Pre-IPO Share Options to subscribe for a total of 3,871,510 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to two directors lapsed as the relevant directors failed to exercise the same within 3 months after the relevant directors ceased to be the directors of Value Convergence. Since the date of the grant of the Pre-IPO Share Options up to 31st December 2004 and 31st December 2003, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	Number of Pre-IPO Share Options	
	2004	**2003**
At beginning of the year	9,740,208	9,740,208
Lapsed during the year	(3,871,510)	–
At end of the year	5,868,698	9,740,208

26. Share option *(Continued)*

(b) Share options schemes of Value Convergence Holdings Limited ("Value Convergence"), subsidiary of the Company *(Continued)*

(ii) Share options scheme

The Share Options Scheme ("Share Options Scheme") was adopted by Value Convergence on 29th November 2001 (which superseded the previous share options scheme of Value Convergence adopted on 14th March 2001).

As at 31st December 2004, options to subscribe for an aggregate of 4,188,718 and 23,160,565 underlying shares granted on 9th July 2002 and 25th March 2004 ("Share Options") pursuant to the Share Options 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 on 5th February 2003 and 28th May 2003 respectively) and HK$0.64 per share respectively were outstanding, which represents 11.5% (2003: 1.8%) of the shares of Value Convergence in issue as at 31st December 2004. The adjusted closing price of Value Convergence's shares immediately before 9th July 2002 and the closing price of the Value Convergence's shares immediately before 25th March 2004 were HK$0.65 and HK$0.64 per share respectively. The Share Options have duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012 and between 25th March 2004 to 24th March 2014 respectively. Accordingly to the Share Options Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Value Convergence Group. The following are details of the outstanding Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

		As at 31st December 2004		As at 31st December 2003	
Categories of grantees	**Exercise price per share** *HK$*	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the Share Options**	**Total no. of grantees**	**No. of underlying Shares to be issued upon the exercise of the Share Options**
Directors of the Company	1.0	2	982,114	3	1,473,171
Employees	1.0	22	1,782,539	26	1,821,823
Employees	0.64	58	23,160,565	–	–
Other eligible persons	1.0	6	1,424,065	5	933,008
Total		88	27,349,283	34	4,228,002

During the year ended 31st December 2004, certain Share Options to subscribe for a total of 39,284 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to four employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. Since the date of the grant of the Share Options up to 31st December 2004 and 31st December 2003, none of the Share Options were exercised or cancelled. Movements in the number of Share Options outstanding during the year are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

	Number of Share Options	
	2004	**2003**
At beginning of the year	4,228,002	4,861,465
Share Options granted during the year	23,160,565	–
Lapsed during the year	(39,284)	(633,463)
At end of the year	27,349,283	4,228,002

27. Reserves

	Group					
	Share premium *HK$'000*	**Investment properties revaluation reserve** *HK$'000*	**Capital reserve (Note)** *HK$'000*	**Legal reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1st January 2002	8,738	76,614	357,785	–	(189,755)	253,382
Surplus on revaluation of investment properties	–	3,000	–	–	–	3,000
Revaluation surplus attributable to minority shareholders	–	(400)	–	–	–	(400)
Loss for the year	–	–	–	–	(35,596)	(35,596)
Issue of shares	10,890	–	–	–	–	10,890
Share issue expenses	(439)	–	–	–	–	(439)
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)
Loss for the year	–	–	–	–	(26,334)	(26,334)
Issue of rights shares	32,689	–	–	–	–	32,689
Share issue expenses	(2,441)	–	–	–	–	(2,441)
Exercise of share options	240	–	–	–	–	240
At 31st December 2003 and 1st January 2004	49,677	82,948	357,785	–	(251,685)	238,725
Issue of shares	529,813	–	–	–	–	529,813
Reserve realised upon disposal of investment properties	–	(56,176)	–	–	–	(56,176)
Share issue expenses	(16,576)	–	–	–	–	(16,576)
Exercise of share options	5,066	–	–	–	–	5,066
Retained earnings transferred to legal reserve	–	–	–	254	(254)	–
Profit for the year	–	–	–	–	65,157	65,157
Dividends paid	–	–	(3,776)	–	–	(3,776)
At 31st December 2004	567,980	26,772	354,009	254	(186,782)	762,233

27. Reserves *(Continued)*

	Company			
	Share premium	**Capital reserve (Note)**	**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)
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 options	240	–	–	240
Loss for the year	–	–	(8,685)	(8,685)
At 31st December 2003 and 1st January 2004	49,677	357,785	(227,464)	179,998
Issue of shares	529,813	–	–	529,813
Share issue expenses	(16,576)	–	–	(16,576)
Exercise of share options	5,066	–	–	5,066
Loss for the year	–	–	(5,705)	(5,705)
Dividends paid	–	(3,776)	–	(3,776)
At 31st December 2004	567,980	354,009	(233,169)	688,820

Note:

Pursuant to a scheme of capital reduction, which became effective on 29th June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is not outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

28. Consolidated cash flow statement

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

	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Operating profit/(loss)	76,332	(30,774)	(38,130)
Realised loss/(gain) on trading of other investments	3,425	(9,228)	–
Unrealised gain on holding of other investments	(1,312)	(958)	–
Depreciation of fixed assets	17,683	16,154	5,927
Amortisation of trading rights	507	464	–
Amortisation of goodwill	–	2,614	–
Gain on partial disposal of investment in a subsidiary	–	(149)	–
(Gain)/loss on disposal of fixed assets	(1,400)	478	–
Fixed assets written off	–	–	3,858
Gain on disposal of investment property	(57,176)	–	–
Exchange loss	–	48	–
Impairment of fixed assets	–	3,080	142
Impairment of investment securities	–	1,200	8,912
Provision against deposit paid	–	–	3,500
Reversal of impairment of investment securities	(3,117)	–	–
Interest income from authorised financial institutions	(446)	(712)	(3,538)
Negative goodwill	(1,204)	–	–
Dividend income	(938)	(200)	–
Operating profit/(loss) before working capital changes	32,354	(17,983)	(19,329)
Decrease/(increase) in inventories	369	(749)	166
(Increase)/decrease in accounts receivables	(94,792)	(119,225)	215
(Increase)/decrease in prepayments, deposits and other receivables	(24,204)	7,168	(9,447)
(Increase)/decrease in amount due from related companies	(690)	1,978	(1,961)
(Decrease)/increase in accounts payables	(50,196)	58,626	(218)
(Decrease)/increase in rental deposits	(407)	(70)	49
(Decrease)/increase in accrued liabilities and other payables	(16,783)	26,324	8,457
Net cash used in operations	(154,349)	(43,931)	(22,068)

28. Consolidated cash flow statement *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including premium			Minority interests			Shareholders' loan			Former shareholders' loan		
	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
At 1st January	271,674	164,476	129,825	62,952	24,258	26,392	–	–	–	–	–	–
Minority interests' profit/(loss)	–	–	–	4,486	(7,648)	(2,534)	–	–	–	–	–	–
Revaluation surplus attributable to minority interests	–	–	–	–	266	400	–	–	–	–	–	–
Acquisition of subsidiaries attributable to minority interests	–	–	–	9,502	42,025	–	–	–	–	–	–	–
Decrease in minority interests resulting from acquisition of subsidiaries from minority shareholders	–	–	–	(1,324)	–	–	–	–	–	–	–	–
Partial disposal of investment in subsidiaries attributable to minority interests	–	–	–	–	4,051	–	–	–	–	–	–	–
Cash (outflows)/inflows from financing/net short-term loan borrowing/repayment	395,039	107,198	34,651	–	–	–	23,158	–	–	(24,556)	–	–
Acquisition of a subsidiary settled by issuance of shares	364,511	–	–	–	–	–	–	–	–	–	–	–
Bank borrowings of subsidiaries acquired	–	–	–	–	–	–	–	–	–	–	–	–
Finance lease of subsidiaries acquired	–	–	–	–	–	–	–	–	–	–	–	–
Former shareholders' loan of subsidiaries acquired	–	–	–	–	–	–	–	–	–	69,556	–	–
Decrease in former shareholders' loan by convertible notes issued	–	–	–	–	–	–	–	–	–	(45,000)	–	–
At 31st December	1,031,224	271,674	164,476	75,616	62,952	24,258	23,158	–	–	–	–	–

	Bank loan			Short term bank borrowings			Finance lease payable		
	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
At 1st January	–	–	–	–	–	–	–	–	–
Minority interests' profit/(loss)	–	–	–	–	–	–	–	–	–
Revaluation surplus attributable to minority interests	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries attributable to minority interests	–	–	–	–	–	–	–	–	–
Decrease in minority interests resulting from acquisition of subsidiaries from minority shareholders	–	–	–	–	–	–	–	–	–
Partial disposal of investment in subsidiaries attributable to minority interests	–	–	–	–	–	–	–	–	–
Cash (outflows)/inflows from financing/net short-term loan borrowing/repayment	–	(106,335)	–	15,000	–	–	(482)	–	–
Acquisition of a subsidiary settled by issuance of shares	–	–	–	–	–	–	–	–	–
Bank borrowings of subsidiaries acquired	–	106,335	–	–	–	–	–	–	–
Finance lease of subsidiaries acquired	–	–	–	–	–	–	1,299	–	–
Former shareholders' loan of subsidiaries acquired	–	–	–	–	–	–	–	–	–
Decrease in former shareholders' loan by convertible notes issued	–	–	–	–	–	–	–	–	–
At 31st December	–	–	–	15,000	–	–	817	–	–

28. Consolidated cash flow statement *(Continued)*

(c) Acquisitions and major non-cash transaction

(i) Acquisition of Mocha Slot for the year ended 31st December 2004

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 electronic gaming machines and provision of ancillary management services to SJM in Macau. The purchase consideration was settled by issuance of new shares of the Company (Note 25(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 was approximately HK$361,427,000.

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

	2004
	HK$'000
Fixed assets *(note 14)*	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 *(Note 12)*	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

28. Consolidated cash flow statement *(Continued)*

(c) Acquisitions and major non-cash transaction *(Continued)*

(ii) Acquisition of Value Convergence Holdings Limited for the year ended 31st December 2003

	2003
	HK$'000
Net assets acquired	
Fixed asset *(note 14)*	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)
Fair value of net identifiable assets acquired	100,160
Goodwill arising from acquisition of Value Convergence Holdings Limited	598
Total costs of acquisition	100,758
Satisfied by	
Cash	100,758

Analysis of the net cash inflow in respect of the acquisition of Value Convergence Holdings Limited:

	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 Value Convergence Holdings Limited	22,142

(d) On 31st May 2004, the Company completed the acquisition of additional interests of subsidiaries in Technology segment from its subsidiary, Value Convergence Holdings Limited at a consideration of HK$27,900,000 and direct expenses of HK$325,000. Balance of approximately HK$8,805,000, which represents Value Convergence Holdings Limited minority interests on the gain on disposal of the Technology segment and the direct expenses, was recognised as the goodwill on the acquisition.

(e) On 1st June 2004 and 16th December 2004, the Company completed the acquisition of an additional 10% and 12.5% equity interest respectively in Elixir Group Limited from the other minority shareholders in aggregate consideration of HK$217,000. Negative goodwill amounting to approximately HK$1,204,000, which represented the surplus of the net assets value of Elixir Group Limited to the consideration, was directly credited to the profit and loss account.

29. Pledge of assets

As at 31st December 2004, the Group's bank deposits amounting to HK$177,000 (2003 and 2002: HK$184,000 and nil respectively) were pledged for tendering of contracts with the Macau government by a subsidiary of the Group. As at 31st December 2003, the Group's bank deposits amounting to HK$120,000 (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 to the utilities companies in lieu of cash.

30. Commitments

(a) Capital commitments

At 31st December 2004, the Group had contracted commitments in respect of renovation project as follows:

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	437	4,547	–

(b) Commitments under operating leases

The Group leases certain of its office properties and furniture under operating lease arrangements. At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	19,620	4,853	373
Later than one year and not later than five years	46,835	4,958	1,349
	66,455	9,811	1,722

(c) Future operating lease arrangements

At 31st December 2004, the Group had entered into lease arrangements with SJM and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. The future aggregate minimum lease receipts under such non-cancelable operating lease arrangements at 31st December 2004 are as follows:

	Group		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	280	–	–
Later than one year and not later than five years	1,118	–	–
Later than five years	1,150	–	–
	2,548	–	–

31. 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 amount due from an investee company is unsecured, interest free and have no fixed terms of repayment.

(b) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$14,876,000 (2003 and 2002: HK$1,808,000 and nil respectively).

The trade receivables include amounts due from SJM in relation to the leasing of gaming machines and provision of ancillary management services of approximately HK$8,462,000 (2003 and 2002: Nil).

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$1,044,000 (2003 and 2002: HK$1,702,000 and nil)

		Group	
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Contract costs incurred plus attributable profits	50,521	5,683	–
Less: Progress billings to date	(49,477)	(3,981)	–
	1,044	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$367,735,000 (2003 and 2002: HK$10,180,000 and nil respectively).

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

			Group	
		2004	**2003**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Catering income received from directors and related companies	(i)	4,306	2,486	3,601
Insurance premiums paid to a related company	(ii)	1,004	1,173	954
Management fees paid to a related company	(iii)	276	569	442
Souvenirs sold to a related company	(iv)	681	418	416
Brokerage commission income earned from certain directors of the Group or their relatives	(v)	243	106	–
Sales of computer hardware and software to related companies	(vi)	81,644	15,634	–
Management fees received from a related company	(vii)	600	–	–
Interest expense on loan from a shareholder	(viii)	23	–	–
Interest expense on convertible notes to related parties	(ix)	1,011	–	–
Income from leasing of gaming machines and provision of ancillary management services to a related company	(x)	44,890	–	–
Management fees received from a jointly controlled entity	(xi)	6,671	–	–

31. Related party transactions *(Continued)*

Notes:

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

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

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

(iv) The sales of souvenirs to STDM, a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31st December 2004 was HK$519,000 (2003 and 2002: HK$429,000 and HK$425,000 respectively) (Note 21).

(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.

(vii) The management fee to GCIL, a related company of which Dr. Stanley Ho is the director, was determined on the base agreed between the Group and GCIL (see Note 21).

(viii) Interest expense on loan from a minority shareholder of a subsidiary of the Group was charged at 4 per cent per annum. The loan was unsecured and repayable on demand.

(ix) Interest expense on convertible notes to related parties was charged at 4 per cent per annum (see Note 24).

(x) The amount represents income from leasing of gaming machines and provision of ancillary management services to SJM.

(xi) The management fee from the jointly controlled entity (Note 2) was determined on the base agreed between the Group and the jointly controlled entity. The amount due from the jointly controlled entity is unsecured, interest free and have no fixed terms of repayment.

32. Principal subsidiaries

The following is a list of the principal subsidiaries at 31st December 2004:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
Melco Leisure and Entertainment Group Limited (formerly known as Palmsville Developments Limited)[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Mocha Slot Group Limited[2, 3]	British Virgin Islands	Leasing gaming machines and provision of ancillary management services to the lessees of its gaming machines in Macau	100 ordinary shares of US$1 each	80%
Mocha Slot Management Limited[2, 3]	Macau	Provision of consultancy service for entertainment business and system management in Macau	2 ordinary shares of MOP24,000 and MOP1,000 each	80%
Aberdeen Restaurant Enterprises Limited[2, 4]	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%
Tai Pak Sea-Food Restaurant Limited[2, 4]	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 Catering Management Limited[2, 4]	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	86.68%
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	100%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	100%

32. **Principal subsidiaries** *(Continued)*

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
Elixir Group (Macau) Limited[2]	Macau	Provision of hardware and software in Macau	2 ordinary shares of MOP450,000 and MOP50,000 each	100%
Melco Financial Group Limited (formerly known as Melco Finance and Technology Limited)[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Value Convergence Holdings Limited[2]	Hong Kong	Investment holding in Hong Kong	238,154,999 ordinary shares of HK$0.1 each	67.57%
VC Brokerage Limited (Formerly known as 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 Futures Limited (Formerly known as VC CEF Futures Limited)[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	67.57%
VC Capital Limited (Formerly known as 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 Capital (Shenzhen) Limited (Formerly known as VC CFN Capital (Shenzhen) Limited)[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	67.57%
VC Securities Investments Limited (Formerly known as VC CFN Investments Limited)[2]	Hong Kong	Provision of security investment service to group companies in Hong Kong	2 ordinary shares of HK$1 each	67.57%
VC Asset Management Limited (Formerly known as VC CFN Asset Management Limited)[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	500,000 ordinary shares of HK$1 each	67.57%

32. Principal subsidiaries *(Continued)*

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
VC Investment Management Limited (Formerly known as Panorama Invest Limited)[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	67.57%
VC Finance Limited (Formerly known as VC CFN Finance Limited)[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	67.57%
VC Research Limited (Formerly known as VC CFN Research Limited)[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	67.57%
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	2 ordinary shares of MOP24,000 and MOP1,000 each	67.57%
VC Services Limited (Formerly known as iAsia Services Limited)[2]	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	67.57%
Melco Services Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Proven Success Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Zonic Technology Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

1 Share held directly by the Company

2 Share held indirectly by the Company

3 Acquired by the Group during the year (note 28(c)(i))

4 Audited by auditors other than PricewaterhouseCoopers

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

33. Contingent liabilities

As at 31st December 2004, the Group had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK$70 million (2003: HK$50 million) to a bank in respect of banking facilities granted to the subsidiary .

34. Post balance sheet events

On 23rd November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with Publishing and Broadcasting Limited ("PBL") and PBL Asia Investments Limited ("PBL Asia"), a wholly-owned subsidiary of PBL, to establish a joint venture group for pursuance of gaming and hospitality businesses ("JV Group"). The Heads of Agreement was superseded by a Subscription Agreement ("Subscription Agreement") entered into between the parties on 23rd December 2004. Under the Subscription Agreement, the Company contributed its interests in Mocha Slot Group and 70% interests of Great Wonders to the JV Group while PBL contributed HK$1.27 billion (equivalent to US$ 163 million) cash to the JV Group. The Subscription Agreement was completed on 8th March 2005.

On 17th March 2005, the Company entered into an agreement ("Great Wonders Agreement") with Melco Entertainment Limited ("Melco Entertainment"), a non wholly-owned subsidiary within the JV Group, pursuant to which Melco Entertainment will buy and the Company will sell 30% equity interests in Great Wonders to be acquired from STDM for a consideration of HK$400 million, which is identical to the amount of consideration payable by the Company to STDM under the Third Agreement (see note 16). The completion of the Great Wonders Agreement is conditional upon the completion of the Third Agreement and it is contemplated that the completions of the Third Agreement and the Great Wonders Agreement shall occur simultaneously.

35. Approval of accounts

The accounts were approved by the board of directors on 7th April 2005.

II. FINANCIAL AND TRADING RESULTS OF THE GROUP

i) Management discussion and analysis of the results of the Group

The transactions referred to in this circular related, amongst others, to the acquisition of the Land for development as an integrated entertainment resort. As such, this acquisition does not result in any financial effect on the previous financial performance of the Group.

The following is the management discussion and analysis of the Group's results directly extracted from the annual report of the Company for the two years ended 31 December 2004.

For the financial year 2004 versus 2003

2004 was an important year for the Company. It marked the beginning of our foray into the highly lucrative Macau gaming sector. From here on, leisure, gaming and entertainment is expected to become the core business for the Group. As the gaming division is still in its investment phase, contribution to profitability was not yet meaningful in 2004. Having said that, Mocha Slot, despite being acquired only in the latter half of the year, has already started to contribute to our bottom-line.

The three non-core businesses, i.e. investment banking, technology, and property and other investments, have all performed satisfactorily. Overall, group's turnover for the year increased to HK$408.08 million (2003 - HK$165 million), representing an increase of 147%. Net profit attributable to shareholders was HK$65.16 million as compared to a net loss of HK$26.33 million in the previous year.

Leisure, Gaming and Entertainment

For the year under review, the Leisure, Gaming & Entertainment Division recorded a turnover of HK$123 million (2003 - HK$54.9 million) and segmental profit before interest and tax amounted to HK$5.6 million (2003 Loss - HK$11.7 million).

Currently, there are 3 sub-divisions within our Leisure, Gaming and Entertainment Division, namely, Mocha Slot, Park Hyatt Macau and Jumbo Kingdom.

Mocha Slot

Recognizing that in other gaming centers such as Las Vegas and Atlantic City, over 50% of gaming revenue comes from slot machines and electronic gaming, the Group acquired Mocha Slot Group in June 2004.

Mocha Slot targets the grind (lower end) market, in particular, the exponential growth of lower end gamblers arriving from China under the Individual Travellers Scheme. It operates a chain of slot machine lounges with upmarket décor providing a leisurely and relaxing cafe style ambience all over the Macau enclave. The slot machines installed in these lounges are no longer the mechanical boxes belonging to the last century, but state-of-the-art machines run on centralized computer networks. These lounges also incorporate multi-player machines such as electronic Roulette, Baccarat, Sic-bo (骰寶) and Caribbean Stud, all of which are popular table games played in casinos.

As at 31 March 2005, the Group had four outlets with around 700 machines in operation, accounting for roughly 25% of the total number of slot machines operating in Macau.

Total revenue generated by Mocha Slot in 2004 was HK$47.7 million (2003 - HK$Nil). The figure only covers the operating period from 10 June 2004 (the date of acquisition of Mocha Slot) to 31 December 2004.

Despite the fact that Mocha Slot is still at its early stage of development, the key performance indicator, i.e. the average daily net win or average daily gross revenue per machine has been very encouraging and in an increasing trend.

It is our plan to open another 2 to 3 outlets in 2005. Our preferred venues would be in areas with high tourist flows, particularly within or near 2-star or 3-star hotels.

Park Hyatt Macau

Recognizing that over 70% of Macau's gaming revenue is derived from VIP gaming or high limit players, we announced our plan in September 2004 to build the first ever 6-star luxury hotel cum casino complex in Macau to tap the high roller market. This hotel will be managed by Hyatt International under the "Park Hyatt" brand name.

When completed, the new hotel/casino complex is expected to be the tallest building at Taipa, with a building height of 512 feet. It is expected to feature 18 guestroom floors, 5 functional floors and 6 casino floors. The gross floor area for the complex will be approximately 823,000 square feet, out of which approximately 260,000 square feet will be dedicated to gaming space and approximately 563,000 square feet will be for hotel use. The complex will be characterised by a sense of spaciousness and hyper luxury decor.

Total construction cost for this project is expected to be around HK$1.45 billion. Construction of the project has already begun. The Group's target completion date is the end of 2006. The Melco/PBL joint venture will be responsible for the marketing and branding of the hotel/casino complex, which will involve strategic cross-marketing between Park Hyatt Macau and PBL's casinos in Australia, including the highly acclaimed Crown Casino in Melbourne.

The Group initially embarked on the Park Hyatt project in collaboration with STDM on a 50:50 basis. However, after a series of shareholder value enhancing acquisitions from STDM, the Melco/PBL joint venture would own 100% of the project. Under the joint venture agreement, Melco would have an effective interest of 60% in the Park Hyatt project whilst PBL would own the remaining 40%.

As the project is still in its construction phase, it made no contribution to the Group financial performance in 2004.

Jumbo Kingdom

Total revenue generated by Jumbo Kingdom in 2004 was HK$75 million (2003 - HK$55 million), representing an increase of 37%. However, the division continued to register a loss in 2004 due to write-offs of fixed assets not previously depreciated and the high re-branding and promotion costs incurred during the year.

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located at Aberdeen, Hong Kong. During the year, conscious effort was made to revamp the famous floating complex and transform it into a "premium dining palace". All the upgrading work has now been completed and the much-loved tourist landmark is once again operating at full capacity. Jumbo Kingdom has now been transformed into a modern complex that incorporates fine dining, shopping, sightseeing and cultural attractions. Popular new attractions include the "Dragon Court" restaurant, conference and banquet facilities, sampan dining offering "Typhoon Shelter" seafood meals, retail and souvenir shops, a ferry pier plaza and an open-air cafe.

Following the completion of renovation work, the Group launched an extensive marketing campaign to promote the attraction. Patronage is steadily increasing. In recognition of its iconic status in Hong Kong, Jumbo Kingdom won the Hong Kong Superbrands Award in 2004.

Other Prospects In Gaming

During the year, the Group concluded a deal with the Australian gaming and media giant, PBL, to form a joint venture to co-expand their gaming business in Asia. PBL owns and operates the highly acclaimed Crown Casino in Melbourne and Burswood Casino in Perth. Both casinos derive substantial revenue from Asian high rollers.

Under this deal, both parties have undertaken to co-invest with each other on an exclusive basis in any future gaming ventures in Asia, including Singapore, Thailand, Japan and the Greater China region, but excluding Australia and New Zealand. Within the Greater China region (i.e. Macau, Hong Kong, Taiwan and Mainland China), the Group will always maintain an effective interest of 60% in any new ventures while PBL would own the remaining 40%. Outside the Greater China region, PBL will always have an effective interest of 60% while the Group will own the remaining 40%.

As a first step in our expansion plan beyond Macau, we have recently, via the Melco/PBL joint venture, submitted our proposed concept for the establishment of an "integrated resort" comprising gaming, leisure and entertainment facilities in Singapore.

As a result of Macau's economic success, many Asian governments are now considering the legalization of gaming in order to boost their economies and tourism. This includes countries such as Thailand and Japan. Looking ahead, we believe that there are many lucrative opportunities available in the gaming industry in Asia and the Melco/PBL joint venture provides us with a perfect platform to capitalize on these opportunities.

Investment Banking and Financial Services

The Group conducts its investment banking and financial services through its 67.57% owned listed subsidiary, Value Convergence acquired in February 2003. This subsidiary offers a broad range of investment banking and brokerage services, as well as capital market and corporate finance advisory services to regional and international clients.

Total revenue generated by the Group's Investment Banking Division in 2004 was HK$126.4 million (2003 - HK$76 million), representing an increase of 67%. Segmental profit before tax and interest amounted to HK$14.8 million (2003 - HK$3 million), representing an increase of 392%.

The performance of the brokerage business depends very much on the market trading activity. Taking advantage of the active market activities, the financial performance of the Group's brokerage sub-division improved substantially in 2004. During the year, it increased market share in the local stock market, while the investment banking sub-division completed several placements and IPO transactions. A subsidiary was set up in Macau to provide advisory services to selected clients. This may open up new opportunities and build up brand recognition of this division's business in Macau.

Looking forward, investment banking will remain a non-core business of the Group. However, effort will be made to expand its business to Macau in order to leverage off the Group's established network and connections over there.

Technology

The Group's technology division was created in May 2004 following a group reorganization which resulted in the full acquisition of iAsia group of companies and Elixir group of companies from Value Convergence. These two units are now grouped under Melco Technology Group Limited, a wholly-owned subsidiary of the Group and become the Group's gaming IT infrastructure arm.

Results for the Technology Division in 2004 were very encouraging. Turnover amounted to HK$154.8 million (2003 - HK$29.2 million), representing a spectacular increase of 430%. Segmental profit before tax and interest amounted to HK$14.5 million, as compared to a loss of HK$9.4 million in 2003.

Based in Macau, Elixir has established itself as a premier gaming IT infrastructure specialist offering clients a full range of system integration and network services. During the year, leveraging off the Group's strong ties to SJM, Elixir managed to secure several lucrative agreements in the provision of gaming IT infrastructure for the largest gaming concession holder in Macau. It is expected that Elixir will continue to be one of the largest IT solution providers for SJM in due course.

The iAsia group of companies, based in Hong Kong, is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia. During the year, iAsia developed a new and well-received Bullion Deal Matching System. It has continued to improve and integrate its existing online trading modules and related systems, and the new Bullion Deal Matching System has enhanced the systems comprehensiveness. The Group's IT systems for investment banking and financial services are all supported by iAsia, and iAsia has contributed significantly to improving the technological sophistication of the Group's financial services unit.

Property and Other Investments

During the year, turnover and segment profit of this division was HK$3.9 million (2003: HK$5.7 million) and HK$65.3 million (2003: HK$2.3 million) respectively. The decline in turnover is due to the fact that the Group's investment property in Stubbs Road (Art Court) was sold in June 2004 with a profit of HK$57 million being recorded.

Liquidity And Capital Resources

As at 31st December 2004, total asset of the Group was HK$1,585 million which was financed by shareholders' fund of HK$1,225 million, minority interests of HK$76 million and current liabilities of HK$136 million and non-current liabilities of HK$148 million. The current ratio of the Group was 6.2 (31st December 2003: 2.9).

During the year ended 31st December 2004, the Group recorded a net cash inflow of HK$252 million. As at 31st December 2004, cash and cash equivalents of the Group totaled at HK$395 million. Gearing ratio, expressed as a percentage of total borrowings over shareholders' fund, is 0.15 time as at 31 December 2004. The Group adopts a prudent treasury policy. The cash and bank balances consisted of about 35% cash and bank balances and 65% short term fixed deposits, most of which are denominated in Hong Kong dollars to maintain minimum exposure to foreign exchange risks.

As at 31st December 2004, the Group's total available banking facilities amounted to HK$224.8 million, of which HK$70 million were secured by margin clients listed securities, and banking facilities for HK$49.8 million were secured by the pledging of HK$77 million of the Group's assets. As at 31 December 2004, the Group utilized HK$15 million of unsecured banking facilities and the amount had been matured and repaid on 5th January 2005.

Significant Investments And Capital Expenditure

In the past year, the Group made several very significant investments. In June 2004, the Group acquired 80% of Mocha Slot, which owns and operates the Mocha Slot lounges, for HK$353 million. The consideration was settled by issuing to the vendors a total of 153,478,261 of the Company's shares. In about the same time, the Company acquired the iAsia business and group (including, inter alia, to Elixir) from its subsidiary, Value Convergence, for HK$27.9 million, which was settled by setting off indebtedness owed by the vendor to the Company. In November 2004 and February 2005, the Group purchased a total of 70% of Great Wonders, from STDM for a total consideration of HK$156 million, which was settled by the Company's issuing two convertible notes to the vendor. In March 2005, the Group entered into a further agreement with STDM to purchase the latter's remaining 30% interest in Great Wonders for HK$400 million. The transaction is subject to independent shareholders' approval, and will be paid for by an issue of the Company's shares to STDM. Pursuant to a Subscription Agreement dated 23rd December 2004, the Company formed a joint venture with PBL in March 2005 to undertake the new gaming and hospitality business in Macau and Asia. Following this, PBL paid a sum of US$163 million (HK$1.27 billion) to the joint venture in March 2005.

During the year, capital expenditure of HK$117 million was incurred. Of this amount, HK$92 million was used for the gaming business.

During the year, HK$370 million was recorded as additional intangible assets which were mainly attributable to the recognition of goodwill arising from the acquisition of subsidiaries.

Contingent Liabilities

As at 31st December 2004, the Group had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK$70 million (2003: HK$50 million) to a bank in respect of banking facilities granted to the subsidiary.

For the financial year 2003 versus 2002

During 2003, the Group has successfully moved a big step forward by expanding its business activities into the investment banking and financial services and technology sectors through the acquisition of a 67.57% interest in Value Convergence, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Acquisition").

Upon the completion of the VC Acquisition in February 2003, the core business lines of the Group have become apparent and they are investment banking and financial services, leisure and entertainment and technology.

Turnover for the year increased 98% to HK$164 million, mainly attributable to the inclusion of Value Convergence's result after the VC Acquisition. Year 2003 was also a challenging year with the SARS epidemic in Hong Kong and China as well as a slow global economy. However, the Group managed to narrow the loss to HK$26.3 million for the year (2002: HK$35.6 million), representing a 26% decrease. This was achieved through the implementation of various strategic and operational initiatives including cost rationalization measures to the Group's operating units so as to achieve maximum synergy.

Investment Banking and Financial Services

The Group completed its acquisition of Value Convergence on 5th February 2003 and expanded its business scope to offer a broad range of investment banking and financial services on the Hong Kong and overseas stock exchanges, capital market and corporate finance advisory services to regional and international clients since then.

Subsequent to the VC Acquisition, the Group has performed a detailed business review to Value Convergence's brokerage and futures businesses and introduced various strategic and operational initiatives including, inter-alia, the following:

- A solid institutional and corporate sales team has been set up to serve institutional and corporate clients.

- A new team of seasoned research professionals has been hired to provide independent insightful research, including general research, specific investment analysis; and financial analyses on global and regional economy, listed companies and private enterprises.

- Cost rationalization program, including manpower review and merger of branches and offices, has been implemented so as to achieve maximum synergy and reduce costs.

VC CEF Brokerage Limited (now known as VC Brokerage Limited) and VC CEF Futures Limited (now known as VC Futures Limited) now offer one-stop financial services to institutional, corporate, high net worth and private clients with a comprehensive range of products including local and overseas securities dealing, securities margin financing, placement and sub-underwriting, securities borrowing and lending, short selling, futures and options trading, derivatives trading, structured products and advisory services.

Turnover and segment profit from 5th February 2003 to 31st December 2003 for the investment banking and financial services segment were HK$75.5 million (2002 – HK$Nil) and HK$3 million (2002 – HK$Nil) respectively.

VC CEF Capital Limited (now known as VC Capital Limited) continues to provide corporate finance advisory services and has helped clients gain access to equity capital markets, mergers and acquisitions opportunities, debt financing arrangements and project finance solutions in the Greater China Region. During 2003, VC Capital Limited actively participated in several IPO transactions in different capacities including sponsor and underwriter. The Group will continue to enhance the market positioning of VC Capital Limited through participating in more transactions.

Leisure and Entertainment

Turnover and segment loss for 2003 for the leisure and entertainment segment were HK$54.9 million (2002 – HK$77.9 million) and HK$11.7 million (2002 Loss – HK$21.4 million) respectively.

The SARS epidemic has seriously affected the tourism and catering industries in first half of 2003. Inevitably, the business of Jumbo and Tai-Pak restaurants was also negatively impacted due to the substantial decline in foreign visitors and local customers since the outbreak of SARS. The Group has reacted swiftly by the implementation of a number of cost cutting and efficiency enhancement measures so as to reduce costs. Operating costs for 2003 have been reduced by HK$26.7 million as compared to a total of HK$95.9 million for 2002, a decrease of 27.8%. In addition, Jumbo has reorganized its manpower aiming to provide finer cuisines and better services to the customers.

In view of the China/Hong Kong Closer Economic Partnership Arrangement (CEPA) and the Facilitated Individual Travel (FIT) program in facilitating visitors from China, the Group expects the number of tourists from China to Hong Kong would increase significantly. Hence, the Group is transforming Jumbo and Tai-Pak restaurants into a modern complex of fine-dining, shopping, sightseeing and cultural attractions to be named “Jumbo Kingdom”. In particular, a six-star restaurant “Dragon Court” on 1st deck of Jumbo has commenced operations since January 2004 and has received favorable feedbacks from customers. It is contemplated that the remaining specially designed venues/facilities of the Jumbo Kingdom will be completed in phases in later part of 2004. We are optimistic that the revamped Jumbo Kingdom will continue to be a tourist attraction in the Island south.

In March 2004, the Group has announced the proposed acquisition of Mocha Slot Group Limited (the “Mocha Group”) which is principally engaged in the leasing of gaming machines and the provision of ancillary management services to the lessees of its gaming machines in Macau. The acquisition is a major and connected transaction of the Company under the Listing Rules and full details are given in the Company’s announcement dated 23rd March 2004. Upon completion of this acquisition, the Mocha Group will be an important addition to the Group’s assets in the leisure and entertainment segment with good growth and earning potentials.

Technology

The technology segment was acquired by the Group as one of the business lines within Value Convergence. The technology operation has two major operating units, namely, (i) iAsia Online Systems Limited which is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries principally in Asia, and (ii) Elixir Group Limited and Elixir Group (Macau) Limited (collectively "Elixir Group") which are engaged in the sale of hardware systems and related IT consulting services in Hong Kong, Macau and the Pearl Delta Region of China. The hardware systems range from entry-level workstations to enterprise-class servers and include a wide range of system integration services (e.g. e-business solutions, office automation application, hosting and outsourcing service and related information technology consultancy services) assisting clients to maximize their business potential.

After the acquisition as mention above, the Group has been continuing to support the research and development works of the technology operation in expanding its product offerings and improving its trading solution softwares. Our continued software enhancements and proven systems and services to meet the changing needs in the capital market have resulted in the increased market share. Also, in 2003, the Group has started to install these technology platforms to the various group companies with a view to enhance their operational and cost efficiencies as well as competitiveness.

Elixir Group has only started to explore the potential market of Macau in late 2002. Notwithstanding the relatively short period of business operation, Elixir Group has formed strategic alliances with certain world-renowned hardware suppliers and has successfully secured prominent companies in Macau, such as SJM, Companhia de Electricidao de Macau – CEM, S.A. and Seng Heng Bank Limited, as its clients.

In January and July 2003, Elixir Group has entered into two separate service arrangements with SJM with the provision of system integration and system network services to SJM for a total consideration of approximately HK$6.7 million. Furthermore, in October 2003, given the high quality of services performed to SJM, Elixir Group has conditionally entered into another service arrangement with SJM for the provision of system integration and related maintenance services totalling approximately US$7.1 million (HK$55.6 million) of which the contract terms extend to the financial year ending 31st December 2005.

On 17th December 2003, Elixir Group has entered into a service arrangement with Mocha Group for the provision of information technology related services (consisting of system integration services and system network services) to Mocha Group for a consideration of about US$258,000 (about HK$2 million).

Turnover and segment loss from 5th February 2003 to 31st December 2003 for the technology segment were HK$29.2 million (2002 – HK$Nil) and HK$9.4 million (2002 – HK$Nil) respectively.

On 23rd March 2004, the Company announced that it would effect a group reorganization which includes the purchase of the iAsia group of companies from Value Convergence. The iAsia group of companies hold the technology business of the Group. The transaction is a connected transaction of the Company under the Listing Rules and is subject to approval by the independent shareholders of the Company. Upon completion of the reorganization, the corporate structure and business of the Value Convergence group will be rationalized with, investment banking and financial services business as its focus.

Property and Other Investments

Turnover and segment profit of the property and other investments segment for 2003 was HK$4.5 million (2002 – HK$4.9 million) and HK$2.3 million (2002 Loss – HK$8.7 million) respectively.

Art Court

This is a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which has been leased for rental. The average occupancy rate of the property for 2003 was 87% (2002 – 90%). An independent property valuer has valued this property at HK$82 million (2002: HK$80 million) as at 31st December 2003. It is anticipated rental income from this property will remain stable in 2004.

Jumbo Court Carpark

The Group owns 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark at 3 Welfare Road, Aberdeen, Hong Kong. Annual rental income from the carpark amounted to HK$1.2 million for 2003 (2002 – HK$1.3 million). An independent property valuer has valued this property at HK$77 million (2002: HK$75 million) as at 31st December 2003. It is anticipated that rental income from this property will remain stable in 2004.

Liquidity and Capital Resources

As at 31st December 2003, cash available to the Group amounted to approximately HK$143 million (2002 – HK$219 million). The Group adopts a prudent treasury policy. The majority of the bank balances and cash are denominated in Hong Kong dollars and deposited in short term fixed deposits. It is the intention of the management to maintain a minimum exposure to foreign exchange risks.

The Group has obtained banking facilities of HK$190 million (2002 – Nil) from various banks as at 31st December 2003, of which HK$50 million (2002 – HK$Nil) of these banking facilities is secured by the pledging of HK$82 million (2002 – Nil) of the Group's assets. The Group did not utilize any of these banking facilities available as at year end.

The Group's total shareholder's funds increased to HK$460.7 million as at 31st December 2003 from HK$376.1 million as at 31st December 2002. In August 2003, the Company undertook a rights issue of 72,643,567 rights shares of HK$1.00 at a price of HK$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue. The Company has raised approximately HK$105.3 million before expenses through the rights issue and has strengthened its equity base, improved its financial gearing and provided additional resources for future acquisitions and growth.

The Group's capital expenditure for 2003 totalled HK$26.8 million (2002 – HK$1 million).

(ii) 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 Macau, 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 in the year 2004 rose approximately 40% as compared with the year 2003. 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. The acquisition of the Land for the development as an integrated entertainment resort represents one of the important Group's strategies in increasing its involvement and investment in the gaming business and the Hospitality Business in Macau, which the Directors believe that it will strengthen the income base of the Group upon completion of its development.

III. INDEBTEDNESS

(a) Borrowings

As at the close of business on 31st May 2005, 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$218.1 million, comprising unsecured bank borrowings of HK$20 million, secured bank borrowings of HK$18 million, convertible notes of HK$156 million, loan of approximately HK$23.5 million from a related party and obligation under finance lease of approximately HK$0.6 million. All of the unsecured and secured bank borrowings amounting to HK$38 million were due within one year. All the convertible notes of HK$156 million were due after one year and within five years. The loan of approximately HK$23.5 million from a related party was charged at 4 percent per annum, unsecured and repayable on demand.

There were no borrowings outstanding for Melco Hotels as at 31st May 2005.

With reference to the total outstanding borrowings of approximately HK$218.1 million and the shareholders' funds of approximately HK$1,225.5 million of the Group as at 31st December 2004 as shown in Part I of Appendix III, the gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, of the Group is 0.18 times.

(b) Contingent liabilities

As at 31st May 2005, the Group had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK$120 million to banks in respect of banking facilities granted to the subsidiary. The amount utilised by VC Brokerage Limited as at 31st May 2005 is HK$30 million.

As at 31st May 2005, Melco Hotels did not have any material contingent liabilities.

(c) Capital commitments

As at 31st May 2005, the Group has unexpended capital commitment for a hotel and casino development project amounting to approximately HK$1,392 million.

As at 31st May 2005, Melco Hotels has unexpended capital commitment for leasehold land amounting to approximately HK$494 million.

Save as disclosed in the above paragraph (a) to (c), and apart from intra-group liabilities and normal trade payables, the Group and Melco Hotels 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 May 2005.

IV. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that based on the expected cash flows, proceed from the placing of shares, banking facilities available and internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances for at least the next twelve months from the date of this circular.

V. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31st December 2004, the date to which the latest audited consolidated financial statements of the Group were made up.

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22nd July 2005

The Directors
Melco International Development Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Melco Hotels and Resorts (Macau) Limited ("Melco Hotels") for the period from 20th July 2004 (Date of incorporation) to 31st December 2004 and the period from 1st January 2005 to 30th April 2005 (the "Relevant Periods") for inclusion in the circular of Melco International Development Limited ("Melco") dated 22nd July 2005 (the "Circular") in connection with the proposed acquisition of additional 49.2% interests held by Great Respect Limited in the joint venture established pursuant to the joint venture memorandum of agreement, or the Macanese vehicle provided by Melco Leisure & Entertainment Group Limited under the terms of such memorandum of agreement to make relevant application for concession of the land in Cotai, namely Melco Hotels.

Melco Hotels was incorporated as a private limited liability company in Macau on 20th July 2004.

The Financial Information for the Relevant Periods set out in this report have been prepared from the audited financial statements of Melco Hotels prepared in accordance with accounting principles generally accepted in Hong Kong (the "Underlying Financial Statements"). We have acted as auditors of Melco Hotels for the period from 1st January 2005 to 30th April 2005. The audited financial statements for the period from 20th July 2004 (date of incorporation) to 31st December 2004 were audited by PricewaterhouseCoopers. We have examined the Underlying Financial Statements for the Relevant Period in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants. Preparation of the Underlying Financial Statements is the responsibility of the directors of Melco Hotels. The directors of Melco are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Melco Hotels as at 30th April 2005 and 31st December 2004.

BALANCE SHEET

	NOTES	At 30th April 2005 HK$	At 31st December 2004 HK$
Current asset			
Amount due from an immediate holding company	5	24,225	24,225
Share capital	6	24,225	24,225

Note: Since Melco Hotels has no operation during the Relevant Periods, no income statement has been prepared.

STATEMENTS OF CHANGES IN EQUITY

	Share capital HK$
At 20th July 2004 (date of incorporation), 31st December 2004 and 30th April 2005	24,225

NOTES TO THE FINANCIAL INFORMATION

1. Basis of presentation of financial information

Melco Hotels is a private limited liability company incorporated in Macau. Its ultimate holding company is Melco International Development Limited, a company incorporated in Hong Kong whose shares are listed on The Stock Exchange of Hong Kong Limited.

Melco Hotels is inactive during the Relevant Periods.

No income statement has been prepared as no revenue or cost was generated or incurred during the Relevant Periods. All the administrative costs including preliminary expenses incurred for the Relevant Periods were borne by its shareholding companies.

No cash flow statement has been prepared because Melco Hotels has no cash transaction during the Relevant Periods.

2. Significant accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and is set out as below:

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. Significant accounting policies *(continued)*

Foreign currencies

The functional and presentation currencies of Melco Hotels are Macau Pataco and Hong Kong dollars, respectively. The financial statements are presented in Hong Kong dollars for which the management function is carried out in Hong Kong.

In preparing the financial statements of Melco Hotels, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

3. Directors' emoluments

None of the directors received or will receive any fees or emoluments in respect of their services to Melco Hotels during the Relevant Periods.

4. Taxation

No provision for Hong Kong and overseas profits tax has been made as Melco Hotels has no assessable profit during the Relevant Periods.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

5. Amount due from an immediate holding company

The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

6. Share capital

	At 30th April 2005 and 31st December 2004
Authorised, issued and fully paid	MOP25,000
Shown in the financial statements	HK$24,225

7. Distributable reserves

Melco Hotels was incorporated on 20th July 2004, the only asset as at 30th April 2005 and 31st December 2004 was the amount due from an immediate holding company and accordingly, Melco Hotels had no reserves available for distribution to the shareholders as at 30th April 2005 and 31st December 2004.

8. Capital commitment

	At 30th April 2005	**At 31st December 2004**
	HK$	*HK$*
Commitment for acquisition of leasehold land authorised but not contracted for *(note)*	494,296,000	–

Note:

Melco Hotels has applied to the Macau Government for the concession of one or more parcels of land in Cotai, Macau ("the Land") and to develop an integrated entertainment resort on 15th December 2004. On 21st April 2005, the Macau Government granted an offer to Melco Hotels to acquire a piece of leasehold land. The amount of the land premium suggested by the Macau Government is approximately MOP509,125,000, equivalent to approximately HK$494,296,000. Up to the date of this report, the final approval regarding the concession of the Land has not yet been granted by the Macau Government to Melco Hotels.

9. Subsequent financial statements

No audited financial statements of Melco Hotels have been prepared in respect of any period subsequent to 30th April 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31st December 2004, as extracted from the annual report of the Group for the year ended 31st December 2004, adjusted to reflect the completion of the acquisition of the additional 49.2% interest held by Great Respect Limited in the joint venture established pursuant to the joint venture memorandum of agreement, or the Macanese vehicle provided by Melco Leisure under the terms of such memorandum of agreement to make relevant application for concession of the land in Cotai, namely Melco Hotels (the "Acquisition") as at 31st December 2004.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and consolidated cash flow statement of the Group as at 31st December 2004, as extracted from the annual report of the Group for the year ended 31st December 2004, adjusted to reflect the completion of the Acquisition as at 1st January 2004.

This unaudited pro forma financial information is 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 at any dates.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

(a) Unaudited Pro Forma Income Statement of the Enlarged Group

	The Group for the year ended 31st December 2004 *HK$'000*	Pro forma adjustments for the completion of the Acquisition *HK$'000*	*Note*	The Enlarged Group *HK$'000*
Turnover	408,076	–		408,076
Other revenues	8,102	–		8,102
Other loss	(2,113)	–		(2,113)
Cost of inventories sold	(157,183)	–		(157,183)
Staff costs (including directors' emoluments)	(107,120)	–		(107,120)
Depreciation of fixed assets	(17,683)	–		(17,683)
Amortisation of trading rights	(507)	–		(507)
Gain on disposal of investment properties	57,176	–		57,176
Commission expense	(50,607)	–		(50,607)
Other operating expenses	(61,809)	–		(61,809)
Total operating expenses	(337,733)	–		(337,733)
Operating profit	76,332	–		76,332
Finance costs	(4,199)	–		(4,199)
Profit before taxation	72,133	–		72,133
Taxation	(2,490)	–		(2,490)
Profit after taxation	69,643	–		69,643
Minority interests	(4,486)	–		(4,486)
Profit attributable to shareholders	65,157	–		65,157

Remark: The Acquisition does not have income statement effect. Accordingly, no pro forma adjustment is presented.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

(b) Unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group

	The Group as at 31st December 2004 *HK$'000*	Pro forma adjustments for the completion of the Acquisition *HK$'000*	*Note*	The Enlarged Group *HK$'000*
Non-current assets				
Fixed assets	204,174	–		204,174
Leasehold land interest	–	1,669,296	(1)	1,669,296
Investment securities	27,754	–		27,754
Intangible assets	2,786	–		2,786
Goodwill	389,937	–		389,937
Investment in jointly controlled entity	100,000	–		100,000
Pledged bank deposit	177	–		177
Long term deposits	14,780	–		14,780
Other non-current assets	547	–		547
	740,155	1,669,296		2,409,451
Current assets				
Amount due from a jointly controlled entity	25,145	–		25,145
Inventories	3,768	–		3,768
Trade receivables	337,014	–		337,014
Prepayments, deposits and other receivables	40,919	–		40,919
Other investments	40,641	–		40,641
Amounts due from related companies	1,119	–		1,119
Certificate of deposit	1,100	–		1,100
Bank balances and cash	394,966	–		394,966
	844,672	–		844,672
Current liabilities				
Trade payables	60,462	–		60,462
Accrued liabilities and other payables	35,153	494,296	(1)	529,449
Taxation payable	1,888	–		1,888
Finance lease payable	817	–		817
Bank loans and overdrafts	15,000	–		15,000
Convertible notes due within one year	22,500	–		22,500
	135,820	494,296		630,116
Net current assets	708,852	(494,296)		214,556
Total assets less current liabilities	1,449,007	1,175,000		2,624,007

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

(b) Unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group *(continued)*

	The Group as at 31st December 2004	Pro forma adjustments for the completion of the Acquisition	*Note*	The Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Capital and reserves				
Share capital	463,244	–		463,244
Reserves	762,233	–		762,233
Shareholders' funds	1,225,477	–		1,225,477
Minority interests	75,616	–		75,616
Non-current liabilities				
Convertible notes due after one year	122,500	1,175,000	(2)	1,297,500
Shareholders' loan	23,158	–		23,158
Deferred tax liabilities	2,256	–		2,256
	147,914	1,175,000		1,322,914
	1,449,007	1,175,000		2,624,007

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

(c) The Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

	The Group for the year ended 31st December 2004 *HK$'000*	Pro forma adjustments for the completion of the Acquisition *HK$'000*	*Note*	The Enlarged Group *HK$'000*
Net cash used in operation	(154,349)	–		(154,349)
Hong Kong profits tax refund	849	–		849
Net cash outflow from operating activities	(153,500)	–		(153,500)
Investing activities				
Purchase of subsidiaries in 2004	10,265	–		10,265
Direct expenses incurred for acquisition of additional interests of subsidiaries in Technology segment	(250)	–		(250)
Interest income from authorised financial institutions	446	–		446
Dividend income	938	–		938
Purchase of fixed assets	(49,770)	–		(49,770)
Decrease in pledged bank deposits	127	–		127
Proceeds from disposal of investment property	83,000	–		83,000
Proceeds from disposal of other fixed assets	2,168	–		2,168
Purchase of investment securities	(4,000)	–		(4,000)
Purchase of other investments less proceeds from subsequent disposals	(2,112)	–		(2,112)
Purchase of the interests in the joint venture	–	(1,175,000)	(1)	(1,175,000)
Increase in amount due from a jointly controlled entity	(25,145)	–		(25,145)
Increase in long term deposits	(10,561)	–		(10,561)
Decrease in other non-current assets	405	–		405
Net cash inflow (outflow) from investing activities	5,511	(1,175,000)		(1,169,489)
Net cash outflow before financing	(147,989)	(1,175,000)		(1,322,989)

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

(c) The Unaudited Pro Forma Cash Flow Statement of the Enlarged Group (continued)

	The Group for the year ended 31st December 2004	Pro forma adjustments for the completion of the Acquisition	*Note*	The Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
Financing activities				
Proceeds from exercise of share options	16,935	–		16,935
Proceeds from issue of shares	394,680	–		394,680
Share issuance expenses	(16,576)	–		(16,576)
Interest paid	(4,199)	–		(4,199)
Repayment of finance lease	(482)	–		(482)
Short-term bank borrowings, net	15,000	–		15,000
Dividend paid	(3,776)	–		(3,776)
Repayment of former shareholders' loans	(24,556)	–		(24,556)
Increase in shareholders' loan	23,158	–		23,158
Proceeds from issue of convertible notes	–	1,175,000	(2)	1,175,000
Net cash inflow from financing	400,184	1,175,000		1,575,184
Increase in cash and cash equivalents	252,195	–		252,195
Cash and cash equivalents at the beginning of year	142,771	–		142,771
Cash and cash equivalents at the end of year	394,966	–		394,966
Analysis of balances of cash and cash equivalents				
Bank balances and cash	136,719	–		136,719
Time deposits with original maturity of less than three months when acquired	258,247	–		258,247
Cash and cash equivalents at the end of year	394,966	–		394,966

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP *(Continued)*

Notes:

Adjustments included in the pro forma adjustments

(1) Based on the joint venture memorandum of agreement entered between Great Respect Limited and Melco Leisure and Entertainment Group Limited, 49.2% interest in the joint venture is assigned to Great Respect Limited. The adjustment reflects the consideration of HK$1,175 million, which will be paid by cash, and an estimated land premium of approximately MOP509,125,000, equivalent to approximately HK$494,296,000, payable to the Macau Government.

(2) Subsequent to receipt of the cash consideration mentioned in (1), Great Respect has agreed to immediately apply the entire amount of the cash consideration received by it to subscribe for the Convertible Loan Notes as disclosed in the announcement dated 13th May 2005. The Convertible Loan Notes will not bear interest and have an aggregate principal amount of HK$1,175 million which will be convertible into shares of the Company at an initial conversion price of HK$19.93 per share.

Adjustments not included in the pro forma adjustments

(3) The above pro forma adjustments did not include the adjustments for the establishment of the joint venture group, Melco PBL Holdings Limited, the details of which were disclosed in the circular despatched to the Shareholders dated 5th January 2005.

(4) The above pro forma adjustments did not include the acquisition of a total of 100% equity interest in Great Wonders, Investments, Limited, the details of which were disclosed in the circulars despatched to the Shareholders dated 11th October 2004, 5th January 2005 and 2nd June 2005 respectively.

(5) 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.

The pro forma adjustments do not have continuing cash flow effect on the Enlarged Group.

II. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP AND THE ENLARGED GROUP

(a) Group

The following is the statement of net tangible assets of the Group as at 31st December 2004. The consolidated net assets and the intangible assets figures are extracted from the consolidated financial statements of the Group as set out in Appendix I to the Circular.

Consolidated net assets of the Group as at 31st December 2004	Less: Total intangible assets (including goodwill) of the Group as at 31st December 2004 *(Note)*	Audited consolidated net tangible assets of the Group as at 31st December 2004
HK$'000	*HK$'000*	*HK$'000*
1,225,477	(392,723)	832,754

(b) Enlarged Group

The statement of unaudited pro forma net tangible assets has been prepared to show the effect of the net tangible assets of the Enlarged Group as at 31st December 2004 as if the completion of Acquisition had occurred on 31st December 2004.

The unaudited pro forma adjusted net tangible assets of the Enlarged Group have 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 31st December 2004 or any future date.

Unaudited pro forma consolidated net assets of the Enlarged Group as at 31st December 2004	Less: Total intangible assets (including goodwill) of the Enlarged Group as at 31st December 2004 *(Note)*	Unaudited consolidated net tangible assets of the Enlarged Group as at 31st December 2004
HK$'000	*HK$'000*	*HK$'000*
1,225,477	(392,723)	832,754

Note: The total intangible assets included the intangible assets and the goodwill balances of the Group as disclosed in Part I of Appendix III. The intangible assets and goodwill of the Group and the Enlarged Group were HK$2,786,000 and HK$389,937,000 respectively, as disclosed in paragraph (b) – Unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group in Part I of Appendix III, and hence the total intangible assets were HK$392,723,000.

III. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

22nd July 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") and the additional 49.2% interest held by Great Respect Limited in the joint venture established pursuant to the joint venture memorandum of agreement (the "MOA"), or the Macanese vehicle provided by Melco Leisure & Entertainment Group Limited under the terms of the MOA to make relevant application for concession of the land in Cotai, namely Melco Hotels and Resorts (Macau) Limited ("the Joint Venture") (together with the Group hereinafter referred to as the "Enlarged Group") set out in Appendix III (the "Unaudited Pro Forma Financial Information") to the circular dated 22nd July 2005 (the "Circular") in connection with the very substantial acquisition of additional 49.2% interest in the Joint Venture (the "Acquisition"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 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 29(7) of Chapter 4 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.

Our work does not constitute an audit or a 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 basis set out in Appendix III to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative financial position of the Enlarged Group as at 31st December 2004 or at any future date or an indicative results and cash flows of the Enlarged Group for the period ended 31st December 2004 or at any future period.

OPINION

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled 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(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

Levett & Bailey 利比

20/F., Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan, Hong Kong

Construction Cost Report
(As at 11 May 2005)

Construction Cost Macau Park Hyatt Hotel Project

1. Summary

1.1 Project Overview

Project Name:	Park Hyatt Hotel, Macau
Developer:	Great Wonders, Investments, Limited
Design and Build Contractor:	Paul Y. Construction Company Limited
Construction Floor Area:	103,106 square meters
Number of Floors:	3 floors underground and 37 floors above ground

1.2 Report Basis

The preparation of valuation on the completed construction and unexpended construction cost of the project is based on the actual situation of the construction site as at 11 May 2005.

1.3 Breakdown of the Valuation on Completed Construction and Unexpended Construction Cost

		HK$
1.3.1	Estimated construction cost:	1,448,000,000
1.3.2	Valuation on completed construction as of 11 May 2005:	59,772,000
1.3.3	Valuation on unexpended construction cost as of 11 May 2005:	1,388,228,000

2. Cost Summary

2.1 Project Cost

The Cost of the project is HK$1,448 Million.

2.2 Cost Breakdown

Breakdown of the Cost is as follows:

	Sections	Total Cost *(HK$ Million)*
2.2.1	Basement Carpark	159.80
2.2.2	Casino	508.80
2.2.3	Hotel Tower	771.20
2.2.4	External Works	8.20
Total cost (as at May 2005)		1,448.00

The above costs include design & consultancy expenses and contractor's management fee.

The net payment to the contractor, after deduction of retention is HK$56,389,000.

The above costs do not include:

1. land costs

2. legal expense and finance cost

3. project management fees

4. fees and charges to authorities

5. pre-opening expense and operating items for both Hotel and Casino

6. Casino security system and AV system

Construction Cost Estimate for City of Dreams, Cotai, Macau

1 Project Summary

1.1 Project Overview

Project Name:	City of Dreams, Cotai, Macau
Developer:	Melco Hotels and Resorts (Macau) Limited
Contractor:	Yet to be appointed
Description of works:	Site Area = 113,325 m^2 Total Construction Floor Area = 452,400 m^2 The development is for the construction of two 4-star hotels, one 5-star hotel, two towers of residential/service apartments with associated casino, retails, performance hall/theatre, external works and landscaping.

1.2 Basis of Estimate

This cost estimate is based on the Architect's Conceptual Design Booklet and the Development Schedule provided by the Client sent with e-mail on 20 June 2005.

The estimate is based on rates current at May 2005 obtained by competitive tendering for lump sum fixed price contracts with normal contract period. No provision has been made for possible future fluctuations in tender prices occurring between time of preparing estimate and the date of calling tenders.

The cost estimate is based on average square metre unit costs and are not based on any specific drawings/design and cannot provide more than a rough guide to the probable cost of the project. Further detailed estimates must be carried out based on more detailed information as the design develops. It must be noted that costs may vary greatly according to site condition, design, specification, contract arrangements, type of contractor used, etc.

2 Cost Summary

2.1 Project Cost

The Estimated Total Construction Cost of the project is HK$5,480 Million at May 2005 price level.

2.2 Cost Breakdown

Breakdown of the Estimated Construction Costs is as follows:

Sections		Estimated Construction Cost *(HK$Million)*
Construction Cost		
Phase 1		
2.2.1	Casino	1,197.00
2.2.2	Retail	180.00
2.2.3	Carpark	232.00
2.2.4	Supporting	53.00
2.2.5	Hotels (2 Towers) (4-Star)	1,400.00
2.2.6	F&B (tenant areas assumed; no fitting out allowed)	254.00
2.2.7	Performance Hall/Theatre	262.00
2.2.8	Residential/Serviced Apartments (1 Tower) (assume standard as residential flats for sale)	533.00
Total of Phase 1 (completed by end 2008)		**4,111.00**
Phase 2		
2.2.9	Hotel (5-Star)	800.00
2.2.10	Residential/Serviced Apartments (1 Tower) (assume standard as residential flats for sale)	569.00
Total of Phase 2 (completed by end 2009)		**1,369.00**
Total of Phases 1 + 2		**5,480.00**

Yours faithfully,
for and On behalf of
Levett & Bailey Chartered Quantity Surveyors Ltd.
Stephen Lai
Managing Director

The following is the text of a letter and valuation certificate issued by Savills (Hong Kong) Limited, an independent property valuer, prepared for the purpose of incorporation in this circular in connection with its valuation of the property interests held by the Company as at 11th May 2005.

savills
第一太平戴維斯

Valuation Department
DL: (852) 2801 6100
F: (852) 2530 0756

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

22nd July 2005

The Directors
Melco International Development Ltd.
Penthouse, 38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value all the property interests of Melco International Development Ltd. (referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") located in Hong Kong, Macau and the People's Republic of China (the "PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the Market Values of the property interests as at 11th May 2005 (referred to as the "Valuation Date").

BASIS OF VALUATION

Our valuations of the property interests are our opinion of the market value of each of the concerned properties which we would define as intended to mean "the estimated amount for which a property should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuations have been prepared in accordance with The HKIS Valuation Standards on Properties First Edition published by The Hong Kong Institute of Surveyors in 2005, and the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (Main Board).

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of property interests held by the Group is categorized into the following groups:

Group I

Properties in Group I are completed developments held by the Group for investment purposes and staff quarter in Hong Kong. For the purpose of our valuations, completed developments are those the occupation permit of the building(s) thereof is (are) issued by the relevant government department(s).

Group II

Properties in Group II are vacant site held by the Group for development in Macau. For the property interests in Group II, which is held by the Group for development in Macau, we have valued the property interests on the basis that the properties will be developed and completed in accordance with the Group's latest development proposals provided to us. In arriving at our opinion of values, we have taken into consideration the development costs already expended and to be expended to reflect the quality of the completed developments.

Group III, Group IV and Group V

In respect of the property interests in Group III, Group IV and Group V which are rented or occupied by the Group under tenancy agreements, except Property No. 17, we are of the opinion that they have no commercial values due to the prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent and/or the short term nature of interests.

VALUATION METHODOLOGIES

Unless otherwise stated, all the property interests are valued by comparison method of valuation on the assumption that each property can be sold with the benefit of vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In respect of the valuation of the Property No. 3 and 4, although there are sites granted for hotel/resort developments by the Macau Government in the past few months, the land premiums adopted by the Macau Government are generally lower than the open market in order to attract investment. We therefore do not consider these transactions as comparables for direct comparison in the valuation of Property No. 3 and 4.

For Property No. 3 and 4, we have adopted the residual method of valuation. This is the normal method used to value a piece of vacant land and is in line with the Guidance Note published by the HKIS. Pursuant to the residual method of valuation: (a) Firstly, the market values of the properties concerned assuming that they are newly completed, and based on the details of the Group's latest development proposals and/or planning approvals provided to us as at the Valuation Date (i.e. gross development values of the properties) are established, by using the comparison method of valuation. In order to do this, sales comparables of (i) hotel complexes and residential apartments (for Property No. 3); and (ii) hotel complex (for Property No. 4) are collected. Although the sales comparables are located in different locations from that of the properties, they can be used as comparables and is in line with the Guidance Note published by the HKIS. Appropriate adjustments in respect of the differences in location, size, quality and facilities etc. are then made to the sales comparables to arrive at the gross development values of the properties. (b) Secondly, the total unexpended costs of development, including construction costs, professional fees and other associated expenditures, together with an allowance for interest expense, and developer's profit are estimated and deducted from the gross development values of the properties established as referred to in (a) above. For Property No. 3, since the property is currently pending development, we have taken only into consideration the development costs to be expended as prepared by the professional quantity surveyors to the Group. For Property No. 4, since the development of the property is underway, we have taken into consideration the development costs already expended and to be expended, as prepared by the professional quantity surveyors to the Group. (c) Thirdly, the resultant residue figures are then adjusted back to the Valuation Date to arrive at the market values of the properties concerned in their existing states.

TITLE INVESTIGATIONS

For the properties located in Hong Kong and Macau, we have caused searches to be made at the Land Registry in Hong Kong and Conservatória do Registo Predial in Macau respectively. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference only and all dimensions, measurements and areas are approximations.

For the properties rented by the Group in the PRC, we have been given copies of relevant tenancy agreements, but we have not checked title to the properties and have not scrutinized the original title documents. We have relied on the advice given by the Group and its legal advisors on PRC laws, 上海海德安達律師事務所, (referred to as the "PRC Legal Advisors") regarding the title to property interests of the properties. In our valuations, we have taken into account the legal opinion of the PRC Legal Advisors, and while we have exercised our professional judgement in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the property interests are sold in the genuine market in their existing states without the effect of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests, and no allowance is made for the properties to be sold to a single party and/or as a portfolio or portfolios.

As advised by the Company, potential tax liability includes stamp duty and profits tax. The Company has confirmed that all properties are held for investment, development and operational purposes and that the Company does not have any intention to sell any of the properties. Hence, until there is a disposal of such property, the amount of tax liability would not be crystallized.

For property interests in Group II, no site investigation has been carried out to determine the suitability of the ground conditions or the services for any property development thereon. Our valuation is carried out on the assumption that these aspects are satisfactory. We have also assumed that all consents, approvals and licenses from relevant government authorities for the proposals have been or will be granted without onerous conditions or delay.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificates for the respective properties.

VALUATION CONSIDERATION

We have inspected the exterior and wherever possible, the interior of the properties included in the attached valuation certificates. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals or statutory notices, easements, tenure, site areas, gross floor areas and usable areas, development costs expended and to be expended, and in the identification of those properties in which the Group has valid interests.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, and have been advised by the Group that no material facts have been omitted from the information provided.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

REMARKS

Unless otherwise stated, all property values are denominated in Hong Kong Dollars. The exchange rates used in our valuation are HK$1 to MOP1.03 and HK$1 to RMB1.06 respectively which are prevailing as at the Valuation Date.

Our valuations are summarised and our Valuation Certificates are enclosed herewith.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

David W. I. Cheung
MRICS, MHKIS, RPS,CREA, MCIArb, MREP
Director
Valuation and consultancy

Franco P. L. Liu
BSc (Hons), MHKIS, RPS
Associate Director
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Note: Mr. David W. I. Cheung and Mr. Franco P. L. Liu are Chartered Surveyors with over 20 years' and 9 years' valuation experiences on properties in Hong Kong, Macau and The PRC.

SUMMARY OF VALUES

No.	Property	Market Value in its Existing State as at 11th May 2005 *(HK$)*	Interest attributable to the Group *(%)*	Market Value attributable to the Group as at 11th May 2005 *(HK$)*
Group I – Property Interests held by the Group for Investment Purposes and Staff Quarter in Hong Kong				
1.	509 Carparking Spaces on Lower Basement to the 5th Floor of Jumbo Court, No. 3 Welfare Road, Aberdeen, Hong Kong	HK$85,000,000	86.68%	HK$73,678,000
2.	5th Floor, No. 11 Wu Nam Street, Aberdeen, Hong Kong	HK$1,000,000	84.76%	HK$847,600
	Sub-total	**HK$86,000,000**		**HK$74,525,600**
Group II – Property Interests held by the Group for Development in Macau				
3.	A Development Site in North Cotai, Macau	HK$4,500,000,000	60%	HK$2,700,000,000
4.	A Development Site known as Site A1, Baixa da Taipa, Macau	HK$1,100,000,000	60%	HK$660,000,000
	Sub-total	**HK$5,600,000,000**		**HK$3,360,000,000**
Group III – Property Interests Rented by the Group in Hong Kong				
5.	Office Unit Nos. 3, 5 and 6 on 38th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	No Commercial Value		No Commercial Value
6.	Office Unit Nos. 1 and 2 on 38th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	No Commercial Value		No Commercial Value
7.	The whole of 28th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	No Commercial Value		No Commercial Value
8.	Two parcels of land located at Shum Wan Pier Drive, Aberdeen, Hong Kong	No Commercial Value		No Commercial Value
9.	Ground Floor, Sungib Industrial Centre, 53 Wong Chuk Hang Road, Hong Kong.	No Commercial Value		No Commercial Value
	Sub-total:	**No Commercial Value**		**No Commercial Value**

No.	Property	Market Value in its Existing State as at 11th May 2005 *(HK$)*	Interest attributable to the Group *(%)*	Market Value attributable to the Group as at 11th May 2005 *(HK$)*
Group IV – Property Interests Rented by the Group in Macau				
10.	Edificio Si Hou, Travessa de Sancho Pança Nº 7, Macau	No Commercial Value		No Commercial Value
11.	Units A, B, C, K, L, M and N on 19th Floor of Edificio Comercial Zhu Kuan Mansion, Avenida Xian Xing Hai Nº 105, Macau	No Commercial Value		No Commercial Value
12.	Portion of the Roof of Edificio Comercial Zhu Kuan Mansion, Avenida Xian Xing Hai Nº 105, Macau	No Commercial Value		No Commercial Value
13.	Portion of Ground Floor of Hotel Royal, Calçada do Gaio Nº 1 -1B and Estrada da Vitória Nº 2 – 4, Macau	No Commercial Value		No Commercial Value
14.	Portion of Units C, D and E on Ground Floor of Hotel Kingsway, Rua de Luis Gonzaga Gomes Nº 176 – 230, Rua de Nagasaki Nº 64A – 82 and Rua de Xiamen Nº 37A – 59, Macau	No Commercial Value		No Commercial Value
15.	Units A, B, C, D and E on the Third Floor of Edificio Centro Comercial San Kin Ip, Avenida da Amizade Nº 197 – 223, Praça, de D. Afonso Henriques Nº 10 – 36, Avenida de Lopo Sarmento de Carvalho Nº 8 – 64, and Rua de Foshan Nº 17 – 75, Macau	No Commercial Value		No Commercial Value
16.	Portion of the Ground and First Floors of Taipa Square Hotel, Estrada Governador Albano de Oliveira, Macau	No Commercial Value		No Commercial Value
17.	Portion of First Floor and the Whole of Second to Fourth Floors of Largo do Senado Nº 18 – 20A, Macau	HK$3,700,000	86.68%	HK$3,207,160
	Sub-total	**HK$3,700,000**		**HK$3,207,160**

No.	Property	Market Value in its Existing State as at 11th May 2005 *(HK$)*	Interest attributable to the Group *(%)*	Market Value attributable to the Group as at 11th May 2005 *(HK$)*
Group V – Property Interests Rented by the Group in the PRC				
18.	Unit C, 17th Floor, Shenzhen Development Bank Tower, No. 5047 Shennan Road East, Shenzhen, Guangdong Province, The PRC	No Commercial Value		No Commercial Value
19.	Units 28 and 29, Level 33, Tower 1, China World Trade Centre, No. 1 Jian Guo Men Wai Avenue, Beijing, The PRC	No Commercial Value		No Commercial Value
20.	Unit 1, 26th Floor, No. 689 Guangdong Road, Huangpu District, Shanghai The PRC	No Commercial Value		No Commercial Value
	Sub-total	**No Commercial Value**		**No Commercial Value**
	GRAND TOTAL	**HK$5,689,700,000**		**HK$3,437,732,760**

VALUATION CERTIFICATE

Group I – Property Interests held by the Group for Investment Purposes and Staff Quarter in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
1.	509 Carparking Spaces on Lower Basement to the 5th Floor of Jumbo Court, No. 3 Welfare Road, Aberdeen, Hong Kong 518/2,200th parts or shares of and in The Remaining Portion of Aberdeen Inland Lot No. 368	The property comprises 509 covered private car parking spaces and lorry parking spaces in the Lower Basement and Basement, on the Ground Floor, First Floor to Fifth Floor of Jumbo Court. Jumbo Court is a 14-storey residential building erected over a 8-storey car park podium completed in about 1979. The property is held under Conditions of Sale No. 10813 for a term of 75 years from 17th October, 1975 renewable for a further term of 75 years.	The property is currently occupied as a public fee paying car park. The property is held under a tenancy agreement, signed by Aberdeen Restaurant Enterprises Limited as Lessor and VINCI Park Services Hong Kong Limited as lessee for a term of three years commencing on 1st April, 2005, with an option to renew for a further term of 2 years at the monthly rental of HK$155,000, inclusive of rates and management fee, plus a monthly turnover rent calculated as 80% of the amount of monthly gross receipts in excess of HK$240,000.	HK$85,000,000 (86.68% interests attributable to the Group: HK$73,678,000)

Notes:

1. The registered owner of the property is Aberdeen Restaurant Enterprises Limited, a 86.68% owned indirect subsidiary of the Company, under Conditions of Sale No. 10813 of A.I.L. 368.

2. A Mortgage in favour of DBS Bank (Hong Kong) Limited for all monies is registered vide Memorial No. UB9166551 dated 2nd March, 2004.

VALUATION CERTIFICATE

Group I – Property Interests held by the Group for Investment Purposes and Staff Quarter in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
2.	5th Floor, No. 11 Wu Nam Street, Aberdeen, Hong Kong 2/31st parts or shares of and in The Remaining Portion of Section E and The Remaining Portion of Aberdeen Inland Lot No. 85	The property comprises a domestic flat on the 5th Floor of No. 11 Wu Nam Street. No. 11 Wu Nam Street was completed in 1974. It is a 7-storey composite building with Ground Floor and Mezzanine Floor designated for retailing shops whilst the upper Floors are domestic flats. The saleable area of the property is about 508 sq.ft. (47.2 sq.m.). The property is held under a Government Lease for a term of 75 years commencing on 29th July, 1918 and is renewed for a further term of 75 years.	The property is currently occupied by the Group used as a staff quarter.	HK$1,000,000 (84.76% interests attributable to the Group: HK$847,600)

Note:

1. The registered owner of the property is Tai Pak Sea-Food Restaurant Limited, a 84.76% owned indirect subsidiary of the Company, vide Memorial No. UB1172418 dated 10th March 1975.

VALUATION CERTIFICATE

Group II – Property Interests held by the Group for Development in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
3.	A Development Site in North Cotai, Macau	The property comprises two parcels of land, namely parcel A and B, with an area of about 113,325 sq.m. (1,219,819 sq.ft.). It is situated on the eastern side of Estrada do Istmo and near to Macau University of Science and Technology. The property shall develop into an integrated entertainment resort known as City of Dreams. It comprises two 4-star hotels, one 5-star hotel, two towers of residential/service apartments with associated casino, retails, performance hall/theatre, external works and landscaping. The total gross floor area of the complex is 452,400 sq.m (4,869,588 sq.ft) subject to the finalization of land grant.	The property is currently vacant and as advised by the Company, phase 1 of the resort comprising two 4-star hotels, a tower of residential/service apartments, retail, and other facilities shall be completed by the end of 2008 while phase 2 of the complex comprising a 5-star hotel and a tower of residential/service apartments shall be completed by the end of 2009.	HK$4,500,000,000 (60% interests attributable to the Group: HK$2,700,000,000)

Notes:

(i) According to a draft land grant of the property to be signed between Macau SAR and Melco Hotels, the property shall comprises Parcel A and Parcel B. Parcel A comprises portion of property currently registered in the Conservatória do Registo Predial under Property No. 23053. The registered owner of Property No. 23053 is Elite – Sociedade De Desenvolvimento Educational, S.A.. Upon the completion of the First and the Second Agreement, the Group will have 60% interest in this piece of land.

(ii) A draft land grant of the property to be signed between Macau SAR and the prospective leaseholder, Melco Hotels, has been prepared by the Land, Public Works and Transport Bureau. The development and uses of the property stated therein, inter alia, the followings:

a) Subject Property : Parcel A and Parcel B.
Parcel A has been registered in the Conservatória do Registo Predial under Property No. 23053. It shall be surrendered to the Macau Government in Year 2005.

b) Site Area :

Parcel A	:	73,528 sq.m.
Parcel B	:	39,797 sq.m.
Total	:	113,325 sq.m.

b) Term : 25 years commencing on the date of grant and is renewable according to the relevant Ordinance

c) Uses : A hotel complex

d) Gross Floor Area :

Five Star Hotel	:	53,659 sq.m.
Three Star Hotel	:	250,833 sq.m.
Carparking Spaces (5 Star Hotel)	:	11,004 sq.m.
Carparking Spaces (3 Star Hotel)	:	50,366 sq.m.
Open Area	:	37,830 sq.m.

e) Government Rent :

Five Star Hotel	:	$15.00 p.s.m.
Three Star Hotel	:	$10.00 p.s.m.
Carparking Spaces (5 Star Hotel)	:	$10.00 p.s.m.
Carparking Spaces (3 Star Hotel)	:	$7.50 p.s.m.
Open Area	:	$7.50 p.s.m..

f) Building Covenant : 60 months commencing on the date of the gazette

g) Premium : MOP509,124,823.00

(iii) In the course of our valuations, we have assumed that the Macau Government will permit the proposed development and all premium (if any) has been paid by the owner.

(iv) C & C Advogados (the Macau legal advisers) have advised, inter alia, that:

1. Ownership

The Land has not yet been registered in Macau Property Registry, as such registration will only be possible with the completion of the leasehold process. Part of the Land is covered by a leasehold granted to Elite – Sociedade de Desenvolvimento Educational S.A., registerd in Macau Property Registry, under the number 26509F, which Macau Government is now terminating within a settlement with the current holder of leasehold.

The grant of development rights in respect of Parcel A of the Land, which is registered as No. 23503 in the Property Registration Bureau, would be conditional on the return of the land parcel to the Macau Government by the existing holder of development rights, Elite Sociedade Desenvolvimento Educational S.A. The Company has obtained written confirmation from the latter that it is negotiating with the Macau Government for an exchange of the Land and that it will endeavour to complete those negotiations as soon as possible to surrender the "Parcel A" to the Macau Government (and hence granted to Melco Hotels) before May 2006. The grant of rights in respect of "Parcel B" of the Land is unregistered and would not be subject to any condition.

2. Title

Given the written confirmation issued by the Public Works Department pursuant to its letter dated 21st April 2005 and that Melco Hotels have already provided all documents requested so far by the Public Works Department, although Melco Hotels has not yet obtained a good title to the Land as Melco Hotels and the Macau Government have not yet entered into a legally binding contract in respect of the granting of the long term lease of the Land, it is expected that Melco Hotels will be able to obtain a formal grant of the long term lease i.e. a good title, of the Land from the Macau Government in the ordinary course of events.

Notwithstanding the discretionary power of the Macau Government in granting the leasehold, we are not aware of any circumstances that might lead to title to the land expected to be obtained by Melco Hotels to be defective, not good or restricted in any adverse way.

We do not know of any circumstances that might lead to the title being defective or not good or restricted in any adverse way – as the non-fulfilment of the expired covenants would not normally affect (under Macau practice) the covenants for the new lease.

According to Macau Law, namely Sections 142˚ and 143˚ of Decree-Law 6/80/M of 5 of July, the leaseholder (which would apply to Melco Hotels when it is granted the provisory leasehold interest by the Macau Government) is entitled to transfer the provisory leasehold to a third party, being such transfer subject to previous authorization of Macau Government. Such authorization is discretionary in nature although the authorization procedure is usually straight forward and is no major obstacle to overcome to obtain such authorization. Notwithstanding this, the transfer of a definitive leasehold is not subject to approval by the Macau Government.

The transfer of a Government leasehold is considered to be an usual practice in Macau.

3. Proposed Leasehold Element

Leasehold of the Land shall be granted for a fixed number of years (25) to Melco Hotels, as follows:

(a) Issuer: Macau Government

(b) Term: 25 years from the date the Leasehold agreement will be gazetted, renewable for every 10 years thereafter;

(c) Global Area: 113,325 sq.m.

i. Lot A: 73,528 sq.m.
ii. Lot B: 39,797 sq.m.

(d) Purpose of development:
i. Five Star Hotel: 53,659 sq.m.;
ii. Three Star Hotel: 250,833 sq.m.;
iii. Parking (Five Star Hotel): 11,004 sq.m.
iv. Parking (Three Star Hotel): 50,366 sq.m.
v. Free Area: 37,830 sq.m.

Melco Hotels has requested an increase in the developable floor area to approximately 452,400 sq.m. Such written application for that increase was submitted to the Macau Government on 10th May 2005.

It is possible to apply for a modification of the Government Lease e.g. to change the use of the land or to seek an increase in the developable floor area according to the normal procedures governed by Land Law Regulation No. 6/80/M. If the modification is approved, an additional premium will be required. Under normal circumstances, subject to the payment of an additional premium, if all the Macau applicable rules are fulfilled (based on the documents provided to them, the Macau legal advisers are of the view that the applicable requirements have been fulfilled) and if no other factual objection is raised (which the Company is unaware of any up to the Latest Practicable Date), it is expected an application for modification of this kind will usually be granted by the Macau Government although there is no assurance that such approval will not be subject to conditions.

However, the Government decides at its sole discretion whether the modification is to be approved. If the modification is approved, an additional premium will be required. In an application for modification, the grantee should set out the grounds why modification is required.

Notwithstanding, the dismissal of the request to increase gross floor area shall not affect or compromise the previous land grant authorization by the Macau Government.

4. Land Premium

The premium of the proposed leasehold (based on the original developable floor area of approximately 403,692 sq.m.) has been quantified in MOP509,124,823.00.

Melco Hotels rights over the leasehold application are assignable, subject to the approval of Macau Government and such approval is in line with the common practice in Macau.

(v) According to the Macau lawyers, whether the Macau Government will approve the assignment as referred to in note (vi) (4) above is discretionary although such process is usually straight forward and that under normal circumstances there is no major obstacle to overcome in order to obtain such approval.

(vi) In our valuation, the residual method of valuation is adopted. This is the normal method used to value a piece of vacant land and is in line with the Guidance Note published by the HKIS.

(vii) Firstly, the gross development value of the property assuming it is newly completed and based on the details of the Group's latest development proposal and/or planning approvals provided to us as at the Valuation Date is established by using the comparison method of valuation. In order to do this, sales comparables of hotel complexes (which include hotel, casino, carpark, retail and other commercial area) and residential apartments were collected. The gross development value for the property derived on this basis and, assuming full completion under the development conditions as described, as at the Valuation Date, is approximately HK$14,156,000,000.

(viii) Secondly, the total unexpended costs of development including construction costs (as stated in note (ix)), professional fees and other associated expenditures, together with an allowance for interest expense, and developer's profit (as stated in note (x)) were estimated and deducted from the established gross development value of the property.

(ix) According to the qualified Quantity Surveyors' Report, total estimated construction costs as at the Valuation Date were approximately HK$5,480,000,000.

(x) Based on the characteristics of the property and on our past experience in project appraisals, other estimations on the percentages of unexpended costs such as future professional fees, future interest charges, contingency and developer's profit are listed as follows:

i)	Professional fees:	HK$329,000,000, i.e. at a rate of 6% (which is in line with the customary rates applied in similar property valuations) of the construction cost. It covers the professional fees for construction professionals such as architects, surveyors, project management, civil and mechanical engineering
ii)	Finance costs:	HK$609,000,000, i.e. at a rate of 5.25% which is the prime rate of interest as at the Valuation Date which would be applicable to the loan borrowed for the whole construction costs and professional fees
iii)	Contingency:	HK$128,000,000, i.e. at a rate of 2% (which is in line with the customary rates applied in similar property valuations) on construction costs, professional fees and finance costs. It covers an allowance for extra construction over-budget and interest payment on costs.
iv)	Developer's profit:	HK$2,123,000, i.e. at a rate of 15% (which is in line with the customary rates applied in similar property valuations) on the Gross Development Value

(xi) Thirdly, the resultant residual figure is then adjusted back to the Valuation Date at 5.25%, i.e. at the prevailing prime rate of interest, which amounts to a discount of $986,660,000, to arrive at the market value of the property in its existing state.

(xii) Warning Statement:

This Valuation arrived has not been determined by reference to comparable market transactions which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong. In contrast, because of the lack of comparable market transactions in the locality in which the property is situated, this Valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the Valuation Date of the property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgement in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

(xiii) In note (xii) above, it is stated that there is a lack of comparable market transactions in the locality in which the property is situated. We therefore cannot rely on comparison method for assessment. Also as stated in note (xii) above, a series of assumptions were relied upon by the valuer in assessing the valuation using the residual method. Such assumptions are disclosed in note (vii) to (xi) above.

VALUATION CERTIFICATE

Group II – Property Interests held by the Group for Development in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
4.	A Development Site known as Site A1, Baixa da Taipa, Macau	The property comprises a site with an area of about 5,230 sq.m. (56,295.20 sq.ft.). It is situated on the south-western side of Avenida Dr. Sun Yat Sen and bounded by Rua de Hong Chau, Rua de Nam Keng and Avenida Kwong Tung. It is adjacent to Hung Fat Garden and Hyatt Regency Macau. The property which is under construction will be built into a 36-storey hotel towers, known as Park Hyatt Hotel, resting on 3-levels of basements, with a casino facilities. The total gross floor area of the proposed hotel development with casino facilities is approximately 76,407 sq.m. (822,437 sq.ft.) and the breakdown gross floor area is as follows: Hotel portion: 52,292 sq.m. 562,866 sq.ft. Casino portion: 24,115 sq.m. 259,571 sq.ft. Total: 76,407 sq.m. 822,437 sq.ft. The property was held under a Concessão Por Arrendamento (租賃批地) for a term of 25 years commencing on 7th March 1980. The tenure of the previous land grant has expired and application for a new land lease is in progress.	The property is under construction. As advised by the Company, the casino portion of the property is scheduled to be completed by two phases i.e. May 2006 and August 2006 respectively whereas the hotel portion of the property is schedule to be completed by March 2007.	HK$1,100,000,000 (60% interests attributable to the Group: HK$660,000,000)

VALUATION CERTIFICATE

Group II – Property Interests held by the Group for Development in Macau

No. Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
	As stated in Note (iv)(b) below, the existing lease term has expired in March 2005. On 20th July 2005, Great Wonders accepted in principle a written offer issued by the Macau Government dated 24th June 2005 to grant to Great Wonders a long term lease of the property. The principal terms of the legally binding commitments of Great Wonders expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's said offer is set out in notes (iii) and (v) below.		

Notes:

(i) The previous leasehold (now expired) of the property under Conservatória do Registo Predial is Nova Taipa Urbanizações Lda ("Nova Taipa"), vide 3626 L° F28A fls registered on 16th December 1989. By an agreement executed on 8th September 2004 between Nova Taipa and STDM, Nova Taipa pledged to renounce to all rights and obligations deriving from the concession of the property, in favour of Great Wonders, which applied for a new concession of the property on 15th November 2004. Nova Taipa is a limited company incorporated in Macau and owned as to 50% by an independent third party, 25% by STDM and 25% by a listed company in which STDM is a substantial shareholder. Great Wonders is currently a 70% owned subsidiary of Melco Entertainment and which would become a wholly owned subsidiary of Melco Entertainment on completion of the proposed acquisition by Melco Entertainment of the remaining 30% interest in Great Wonders held by STDM, as announced by the Company on 22nd March 2005 and disclosed in the Company's circular dated 2nd June 2005. On 20th July 2005, Great Wonders accepted in principle a written offer issued by the Macau Government dated 24th June 2005 to grant to Great Wonders a long term lease of the property subject to the approval of the Macau Government and execution of the land grant which will let Great Wonders have a good title on the property.

(ii) According to the recent title search, no material encumbrance is registered against the property.

(iii) A draft land grant of the property to be signed between Macau SAR and Great Wonders has been prepared by the Land, Public Works and Transport Bureau. The development and uses of the property stated therein, inter alia, the followings:

a)	Site Area	:	5,230 sq.m.		
b)	Term	:	25 years commencing on the date of grant and is renewable according to the relevant Ordinance		
c)	Uses	:	A five star hotel		
d)	Gross Floor Area	:	Five Star Hotel	:	82,704 sq.m.
			Carparking space	:	11,810 sq.m.
			Open Area	:	1,323 sq.m.
e)	Government Rent	:	Five Star Hotel	:	$15.00 p.s.m.
			Carparking space	:	$10.00 p.s.m.
			Open Area	:	$10.00 p.s.m.
f)	Building Covenant	:	36 months commencing on the date of the gazette		
g)	Premium	:	MOP149,727,854.00		

(iv) C & C Advogados (the Macau legal advisers) have advised inter alia, that:

a) Title

The property is registered in Macau Property Registry as previous leasehold (now expired) in the name of Nova Taipa Urbanizações Lda ("Nova Taipa"). By an agreement executed on 8th September 2004 between Nova Taipa and STDM, Nova Taipa pledged to renounce to all rights and obligations deriving from the concession of the property, in favour of Great Wonders, which applied for a new concession of the property on 15th November 2004. Nova Taipa is currently holding such land under certain residual rights under Macau laws. As such, Nova Taipa remains as the registered owner of the property pending the entering into of a legally binding commitment regarding the long term lease of the property between Great Wonders and the Macau Goverment as contemplated under the written offer as mentioned hereinafter. On 20th July, 2005, Great Wonders accepted in principle a written offer issued by the Macau Government dated 24th June 2005 to grant to Great Wonders a long term lease of the property, subject to the execution of the land grant which will enable Great Wonders to obtain a good title to the property.

Furthermore, up to the date of this certificate, to our knowledge, Great Wonders provided all the documents requested by the Public Works Department of Macau regarding the granting of the new concession.

We do not know of any circumstances that might lead to the title being defective or not good or restricted in any adverse way – as the non-fulfilment of the expired covenants would not normally affect (under Macau practice) the covenants for the new lease.

b) Lease Term

The existing lease term has expired in March 2005. Given the specific circumstances of this case it is not possible to have it extended. Instead it was necessary to have a new lease. On 14th July 2004, Nova Taipa applied for renunication of the land. On 15th November 2004, Great Wonders applied for new concession of the land and request the use for the construction of a 6 star hotel with casino.On 20th July, 2005, Great Wonders accepted in principle a written offer issued by the Macau Government dated 24th June 2005 to grant to Great Wonders a long term lease of the property, subject to the the approval of the Macau Government and execution of the land grant which will let Great Wonders have a good title on the property.

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 acceptance of all development conditions imposed by the Macau Government. Based on the documents provided to the Macau lawyers, the Macau lawyers has confirmed that the Department of Public Works, from the Macau Government, has approved by letter no. 211/6036.03/DSODEP/2005 the new architectural plans submitted for the Property and the usage inherent to those plans (Hotel and Casino).

According to the offer letter dated 24th June 2005 issued by the Macau Government, the term of lease will be 25 years from the date on which permission for the legally binding contract in respect of the lease of the Property is published in the gazette of the Macau Government with the right to renew for further consecutive periods in accordance with the applicable provisions of Macau laws.

c) Land Premium

According to the offer letter dated 24th June 2005 issued by the Macau Government, the land premium for the new lease will be in the aggregate amount of MOP149,727,854 (equivalent to approximately HK$145,366,848.54) shall be payable by Great Wonders to the Macau Government and shall be payable as follows:

i. a sum of MOP 50,000,000 (equivalent to approximately HK$48,543,689.32) shall be payable upon receipt by the Macau Government of the legally binding contract signed by Great Wonders; and

ii. the balance of MOP 99,727,854 (equivalent to approximately HK$96,823,159.22) together with interest at 5% per annum shall be payable in four instalments in equal amounts, with each instalment payable every six months and the first instalment payable within 6 months from the date on which permission for the legally binding contract in respect of the lease of the Property has been published in the gazette of the Macau Government.

Any assignment of the rights and benefits of Great Wonders of the Property prior to the completion of the construction works thereon shall be approved by the Macau Government in advance.

(v) The principal terms of the legally binding commitments of Great Wonders expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer letter dated 24th June 2005 is set out below:

Gross Floor Area: 95,837 sq. m. comprising a five-star hotel of 82,704 sq. m., aggregate car parking of 11,810 sq. m. and outdoor space of 1,323 sq. m..

Term of lease:	25 years from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau is published in the gazette of the Macau Government with the right to renew for further consecutive periods in accordance with the applicable provisions of Macau laws.
Rent:	During the construction period, a rent in an aggregate amount of MOP 156,900 (equivalent to approximately HK$152,330) shall be payable by Great Wonders to the Macau Government every year at the rate of MOP 30 (equivalent to approximately HK$29.13) per sq. m. of the land at Baixa da Taipa, Macau. Following completion of the construction on the said land, the annual rental payable by Great Wonders in respect of the said land will be adjusted to MOP 1,371,890 (equivalent to approximately HK$1,331,932) based on the following rates: a rate of MOP 15 (equivalent to approximately HK$14.56) per sq. m. of the said land shall be payable in respect of the five star hotel; a rate of MOP 10 (equivalent to approximately HK$9.71) per sq. m. of the said land shall be payable in respect of the car park for the hotel; and a rate of MOP 10 (equivalent to approximately HK$9.71) per sq. m. of the said land shall be payable in respect of the outdoor areas The rates at which rent is payable shall be adjusted every five years as agreed between the Macau Government and Great Wonders provided that where the Macau Government revises the applicable rental rates under new laws and regulations, such new rates shall apply.
Building Covenant:	36 months from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau has been published in the gazette of the Macau Government. If there is any delay on the part of Great Wonders in complying with this, a daily fine of MOP 5,000 (equivalent to approximately HK$4,854) is payable by Great Wonders for any delay not exceeding 60 days. If the delay exceeds 60 days, a daily fine of MOP 10,000 (equivalent to approximately HK$9,709) is payable by Great Wonders provided that such delay does not exceed 120 days. Where the delay exceeds 120 days, the relevant land committee of the Macau Government will determine the applicable penalty rate.
Guarantee Deposit:	A guarantee deposit in the amount of MOP 156,900 (equivalent to approximately HK$152,330), subject to adjustments in accordance with the relevant amount of rent payable during the relevant year shall be payable by Great Wonders to the Macau Government. Such guarantee deposit should be released to Great Wonders upon its application after completion of the construction on the land at Baixa da Taipa, Macau.
Land Premium:	A land premium in the aggregate amount of MOP 149,727,854 (equivalent to approximately HK$145,366,848.54) shall be payable by Great Wonders to the Macau Government and shall be payable as follows: i. a sum of MOP 50,000,000 (equivalent to approximately HK$48,543,689.32) shall be payable upon receipt by the Macau Government of the legally binding contract signed by Great Wonders; and ii. the balance of MOP 99,727,854 (equivalent to approximately HK$96,823,159.22) together with interest at 5% per annum shall be payable in four instalments in equal amounts, with each instalment payable every six months and the first instalment payable within 6 months from the date on which permission for the legally binding contract in respect of the lease of the land at Baixa da Taipa, Macau has been published in the gazette of the Macau Government.
Assignment:	Any assignment of the rights and benefits of Great Wonders of the land at Baixa da Taipa, Macau prior to the completion of the construction works thereon shall be approved by the Macau Government in advance.

(vi) The property is registered in Macau Property Registry as former leasehold (now expired) in the name of Nova Taipa. By an agreement executed on 8th September 2004 between Nova Taipa and STDM, Nova Taipa pledged to renounce to all rights and obligations deriving from the concession of the property, in favour of Great Wonders, which applied for the new concession of the property on 15th November 2004. On 20th July 2005, Great Wonders accepted in principle the written offer issued by the Macau Government dated 24th June 2004 to Great Wonders a long term lease of the property, subject to the approval of the Macau Government and the execution of the land grant which will let Great Wonders have a good title on the property.

(vii) According to the Macau lawyers, whether the Macau Government will approve the assignment as referred to note (iv) (c) above is discretionary although such process is usually straight forward and that under normal circumstances there is no major obstacle to overcome in order to obtain such approval.

(viii) In the course of our valuations, we assumed that the proposed development of the Property will comply with the new Government lease and any amendments thereof as well as all other statutory requirements and all premium (if any) for land exchange has been paid by the owner.

(ix) In our valuation, the residual method of valuation is adopted. This is the normal method used to value a piece of vacant land and is in line with the Guidance Note Published by the HKIS.

(x) Firstly, the gross development value of the property assuming it is newly completed and based on the details of the Group's latest development proposal and/or planning approvals provided to us as at the Valuation Date is established by using the comparison method of valuation. In order to do this, sales comparables of hotel complexes were collected. The gross development value for the property, assuming full completion under the development proposal as described, as at the Valuation Date, is HK$3,075,000,000.

(xi) Secondly, the total expended and unexpended costs of development including construction costs (as stated in note (xii)), professional fees and other associated expenditures, together with an allowance for interest expense, and developer's profit (as stated in note (xiii)) are estimated and deducted from the established gross development value of the property.

(xii) According to the qualified Quantity Surveyors' Report, the total construction costs paid as at the Valuation Date were HK$56,389,000; whilst the total unexpended construction costs as at the Valuation Date were HK$1,240,000,000.

(xiii) Based on the characteristics of the properties and on our past experience in project appraisals, other estimations on the percentages of unexpended costs such as future professional fees, future interest charges, contingency and developer's profit are listed as follows:

i) Professional fees: HK$74,000,000, i.e. at a rate of 6% (which is in line with the customary rates applied in similar property valuations) of the construction cost. It covers the professional fees for construction professionals such as architects, surveyors, project management, civil and mechanical engineering

ii) Finance costs: HK$57,000,000, i.e. at a rate of 5.25% which is the prime rate of interest as at the Valuation Date which would be applicable to for the loan borrowed for the whole construction costs and professional fees

iii) Contingency: HK$41,000,000, i.e. at a rate of 3% on construction costs, professional fee and finance costs. It covers an allowance for extra construction over-budget and interest payment on costs.

iv) Developer's profit: HK$461,000,000, i.e. at a rate of 15% (which is in line with the customary rates applied in similar property valuations) on the Gross Development Value

(xiv) The resultant residual figure is then adjusted back to the Valuation Date at 5.25% i.e. the then prevailing prime rate of interest which amounts to a discount of $102,000,000, to arrive at the market value of the property in its existing state.

(xv) Warning Statement:

This Valuation arrived has not been determined by reference to comparable market transactions which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong. In contrast, because of the lack of comparable market transactions in the locality in which the property is situated, this Valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the Valuation Date of the property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgement in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

(xvi) In note (xv) above, it is stated that there is a lack of comparable market transactions in the locality in which the property is situated. Although there are hotel transactions in Macau recently, comparable market transactions of similar size and functional breakdown, including gross floor area in hotel and casino, cannot be found. We therefore cannot rely on comparison method for assessment. Also as stated in note (xv) above, a series of assumptions were relied upon by the valuer in assessing the valuation using the residual method. Such assumptions are disclosed in notes (viii), (x) to (xiv) above.

VALUATION CERTIFICATE

Group III – Property Interests Rented by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
5.	Office Unit Nos. 3, 5 and 6 on 38th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	The property comprises three office units on the 38th Floor of an 33-storey office building completed in 2001. The gross floor area of the property is approximately 6,514 sq.ft. (605.17 sq.m.).	The property is currently occupied by the Group as office uses. The property is held under a tenancy agreement, signed between Firm Wise Investment Limited as lessor and iAsia Services Limited, (now known as VC Services Limited) a wholly-owned subsidiary of Value Convergence which in turn is an indirect 64.54% owned subsidiary of Melco, as lessee for a term of 3 years from 17th March 2003 to 16th March 2006 at a monthly rent of HK$104,224 (exclusive of rates, management fee, air-conditioning charge and all the tenant's expenses and outgoings).	No Commercial Value

Note:

1. The registered owner of the property is Firm Wise Investment Limited, an independent third party to the Company, under Conditions of Sale No. 12385 of I.L. 8828.

VALUATION CERTIFICATE

Group III – Property Interests Rented by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
6.	Office Unit Nos. 1 and 2 on 38th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	The property comprises two office units on the 38th Floor of an 33-storey office building completed in 2001. The gross floor area of the property is approximately 3,588 sq.ft. (333.34 sq.m.).	The property is currently occupied by the Group as an office. The property is held under a tenancy agreement, signed between Firm Wise Investment Limited as lessor and Melco Services Limited, a wholly-owned subsidiary of the Company, as lessee for a term of 3 years commencing on 17th March 2003 to 16th March 2006 at a monthly rent of HK$57,408 (exclusive of rates, management fee, air-conditioning charge and all the tenant's expenses and outgoings).	No Commercial Value

Note:

1. The registered owner of the property is Firm Wise Investment Limited, an independent third party to the Company, under Conditions of Sale No. 12385 of of I.L. 8828.

VALUATION CERTIFICATE

Group III – Property Interests Rented by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
7.	The whole of 28th Floor, The Centrium, No. 60 Wyndham Street, Central, Hong Kong	The property comprises the whole of the 28th Floor of an 33-storey office building completed in 2001. The gross floor area of the property is approximately 11,227 sq.ft. (1,043.02 sq.m.).	The property is currently occupied by the Group as an office. The property is held under a tenancy agreement, signed between Firm Wise Investment Limited as lessor and iAsia Services Limited (now known as VC Services Limited), a wholly owned indirect subsidiary of the Value Convergnece which in turn is 64.54% subsidiary of the Company, as lessee for a term of 3 years commencing on from 17th March 2003 to 16th March 2006 at a monthly rent of HK$179,632 (exclusive of rates, management fee, air-conditioning charge and all the tenant's expenses and outgoings)	No Commercial Value

Note:

1. The registered owner of the property is Firm Wise Investment Limited, an independent third party to the Company, under Conditions of Sale No. 12385 of of I.L. 8828.

VALUATION CERTIFICATE

Group III – Property Interests Rented by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
8.	Two parcels of land located at Shum Wan Pier Drive, Aberdeen, Hong Kong	The property comprises two contiguous land parcels, namely as Parcel A and Parcel B, with a total site area of approximately 1,268 sq.m. (13,648 sq.ft.) upon which a covered walkway is erected. The breakdown of the total site area is summarized as follows: **Site** / **Site Area** Parcel A : 888 sq.m. (9,558 sq.ft.) Parcel B : 380 sq.m. (4,090 sq.ft.) **Total : 1,268 sq.m. (13,648 sq.ft.)**	The property is currently occupied by the Group used as an area of a cover walkway and its ancillary facilities for tourists and visitors uses. Parcel A is subject to a Government tenancy agreement (No. SHX-1096) dated 28th May 2004 signed between The Government of the Hong Kong Special Administrative Region as lessor and Aberdeen Restaurant Enterprises Limited, an 86.68% owned indirect subsidiary of the Company, as lessee for a term of 3 years commencing on 1st May 2004 and thereafter quarterly until such time as this tenancy is determined at an annual rental of HK$338,000 (exclusive of all outgoings). Parcel B is subject to a Government licence agreement dated 4th June 1985 and an agreement supplementary to Licence No. LND SH-15 dated 23rd February 2005 signed between The Government of the Hong Kong Special Administrative Region as licensor and Aberdeen Restaurant Enterprises Limited as licensee for a term of 3 years from 1st May 2004 at an annual licence fee of HK$46,360 (exclusive of all outgoings).	No Commercial Value

Note:

1. The terms and conditions of the agreement supplementary to Licence No. LND SH-15 are same at the Government licence agreement (No. LND SH-15) and shall remain in full force and effect.

VALUATION CERTIFICATE

Group III – Property Interests Rented by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
9.	Ground Floor, Sungib Industrial Centre, 53 Wong Chuk Hang Road, Hong Kong	The property comprises the whole of the ground floor of an 27-storey industrial building completed in 1983. The gross floor area of the property is approximately 9,714 sq.ft. (902.46 sq.m.).	The property shall be occupied by the Group as a godown. The property shall be held under a tenancy agreement, signed between Tuxedos Company Limited as lessor and Melco Services Limited as lessee for a term of 2 years commencing on from 20th June 2005 to 19th June 2007 at a monthly rent of HK$58,284 (exclusive of management charges, rates and/or other outgoings, etc.)	No Commercial Value

Note:

1. The registered owner of the property is Tuxedos Company Limited, an independent third party to the Company, under Conditions of Sale No. 6267.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
10.	Edificio Si Hou, Travessa de Sancho Pança Nº 7, Macau	The property comprises ground floor to fourth floor of a residential building of reinforced concrete construction with tiled external elevation which was completed in 1997. The total saleable area of the property is approximately 139.35 sq.m. (1,500 sq.ft.).	The property is currently occupied by the Group as a staff quarter. The property is leased to the Group under a tenancy agreement signed between Emp. de Fom. Imobilario Kat Si Lda as lessor and Elixir Group (Macau) Limited as lessee for a term of 2 years commencing on 1st May 2004 at a monthly rent of HK$5,000 inclusive of Government Rent and Property tax.	No commercial value

Note:

1. The property is leased to Elixir Group (Macau) Limited which is an indirect wholly-owned subsidiary of the Group.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
11.	Units A, B, C, K, L, M and N on 19th Floor of Edificio Comercial Zhu Kuan Mansion, Avenida Xian Xing Hai Nº 105, Macau	The property comprises seven office units on 19th floor of Edificio Comercial Zhu Kuan Mansion. The development was completed in or about 1997. The total saleable area of the property is approximately 836.59 sq.m. (9,005 sq.ft.).	The property is occupied by the Group as an office. The property leased to the Group under a tenancy agreement signed between Hoi Kuong Property Management Limited (Companhia de Gestáo Imobiliána Hoi Limiada) as lessor and Elixir Group (Macau) Limited as lessee for a term of 2 years commencing on 1st July 2003 at a monthly rent of MOP41,541.50 exclusive of Management fee.	No commercial value

Unit	Saleable Area	
	sq.m.	sq.ft.
A19	153.93	1,657
B19	73.58	792
C19	78.97	850
K19	110.70	1,192
L19	124.20	1,337
M19	180.91	1,947
N19	114.30	1,230
Total:	836.59	9,005

Note:

1. The property is leased to Elixir Group (Macau) Limited which is an indirect wholly-owned subsidiary of the Group.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
12.	Portion of the Roof of Edificio Comercial Zhu Kuan Mansion, Avenida Xian Xing Hai Nº 105, Macau	The property comprises portion of the roof of Edificio Comercial Zhu Kuan Mansion.	The property is occupied by the Group for advertising purposes. The property is leased to the Group under a tenancy agreement signed between Hoi Kuong Property Management Limited (Companhia de Gestáo Imobiliána Hoi Kuong Limiada) as lessor and Elixir Group (Macau) Limited as lessee for a term of 2 years commencing on 1st October 2003 at a monthly rent of MOP39,793.50 exclusive of management fee and property tax.	No Commercial Value

Note:

1 The property is leased to Elixir Group (Macau) Limited which is an indirect wholly-owned subsidiary of the Group.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No. Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
13. Portion of Ground Floor of Hotel Royal, Calçada do Gaio Nº 1 -1B and Estrada da Vitória Nº 2 – 4, Macau	The property comprises portion of a commercial area in the main lobby of Hotel Royal which was completed in or about 1983. As scaled off the floor plan provided to us, the total saleable area of the property is approximately 279.82 sq.m.(3,012 sq.ft.).	The property is occupied by the Group as a slot machine hall. The property is subject to a tenancy agreement signed between Companhia de Construção e Fomento Predial Pou Iek, S.A. as lessor and Mocha Slot (formerly known as Bright Super Management Limited) as lessee for a term of 5 years commencing on 16th June 2003 at a monthly rent of MOP120,000.	No commercial value

Note:

1. The property is leased to Mocha Slot (formerly known as Bright Super Management Limited). As at the Latest Practicable Date, the respective attributable interests in Mocha Slot owned by the Company and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
14.	Portion of Units C, D and E on Ground Floor of Hotel Kingsway, Rua de Luis Gonzaga Gomes Nº 176 – 230, Rua de Nagasaki Nº 64A – 82 and Rua de Xiamen Nº 37A – 59, Macau	The property comprises portion of three commercial units on ground floor of Hotel Kingsway. The development was completed in or about 1992. The total saleable area of the property is approximately 471.96 sq.m. (5,080 sq.ft.).	The property is occupied by the Group as a slot machine hall. The property is subject to a tenancy agreement signed between San Pong Investment Company Limited as lessor and Mocha Slot as lessee and further sub-let to Sociedade de Jogos de Macau, S.A. for a term of 10 years commencing on 29th December 2003 at a monthly rental summarized as below:	No Commercial Value

Unit	Saleable Area sq.m.	Saleable Area sq.ft.
CR/C	62.69	675
DR/C	323.60	3,483
ER/C	85.67	922
Total:	471.96	5,080

Period	Monthly Rental
29/12/2003 – 28/12/2005	HK$160,000 (MOP164,800)
29/12/2005 – 28/12/2007	HK$176,000 (MOP181,280)
29/12/2007 – 28/12/2009	HK$193,600 (MOP199,408)
29/12/2009 – 28/12/2011	HK$212,960 (MOP219,349)
29/12/2011 – 28/12/2013	HK$234,260 (MOP241,288)

Notes:

1. The property is leased to Mocha Slot and further sub-let to Sociedade de Jogos de Macau, S.A. As at the Latest Practicable Date, the respective attributable interests in Mocha Slot owned by the Company and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho.

2. The property is subject to mortgage in favour of Banco da China vide 1301 and 2783 registered on 25th August 1990 and 22nd June 1991 respectively.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
15.	Units A, B, C, D and E on the Third Floor of Edificio Centro Comercial San Kin Ip, Avenida da Amizade Nº 197 – 223, Praça, de D. Afonso Henriques Nº 10 – 36, Avenida de Lopo Sarmento de Carvalho Nº 8 – 64, and Rua de Foshan Nº 17 – 75, Macau	The property comprises five commercial units on third floor of the office building known as Edificio Centro Comercial San Kin Ip. The development was completed in or about 1999. The total saleable area of the property is approximately 2,317.68 sq.m. (24,948 sq.ft.).	The property is occupied by the Group as a slot machine hall. The property is subject to a tenancy agreement signed between Bright Super International Limited as lessor and Mocha Slot as lessee for a term of 5 years commencing on 20th February 2004 at a monthly rent of HK$438,000 exclusive of Government Rent, management fee and other outgoings.	No Commercial Value

Unit	Saleable Area	
	sq.m.	sq.ft.
A3	1,227.21	13,210
B3	524.80	5,649
C3	487.27	5,245
D3	49.50	533
E3	28.90	311
Total:	2,317.68	24,948

Note:

1. The property is leased to Mocha Slot. As at the Latest Practicable Date, the respective attributable interests in Mocha Slot owned by the Company and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho.

2. The Property is subject to mortgage in favour of Banco da China vide 1301 and 2783 registered on 25th August 1990 and 22nd June 1991 respectively.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
16.	Portion of the Ground and First Floors of Taipa Square Hotel, Estrada Governador Albano de Oliveira, Macau	The property comprises portion of commercial area on the ground floor and first floor of Taipa Square Hotel which was completed in or about 2005. The gross floor area of the property is approximately 618.42 sq.m. (6,657 sq.ft.).	The property is occupied by the Group as a slot machine hall with restaurant facilities. The property is subject to a tenancy agreement signed between Hotel Taipa Square (Macau) Company Limited as lessor and Mocha Slot as lessee and further sub-let to Sociedade de Jogos de Macau, S.A. for a term of 10 years from sixty days before the opening of Hotel at a monthly rental of HK$100,000 inclusive of management fee.	No Commercial Value

Floor	Gross Floor Area sq.m.	sq.ft.
Portion of G/F	169.69	1,827
Portion of 1/F	448.73	4,830
Total:	618.42	6,657

Notes:

1. The property is leased to Mocha Slot and further sub-let to Sociedade de Jogos de Macau, S.A. As at the Latest Practicable Date, the respective attributable interests in Mocha Slot owned by the Company and PBL are 48% and 32% respectively and the remaining 20% is owned by Dr. Stanley Ho.

2. The property is subject to mortgage in favour of Banco Comercial de Macau, S.A. vide 49273C registered on 5th May 2004.

VALUATION CERTIFICATE

Group IV – Property Interests Rented by the Group in Macau

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
17.	Portion of First Floor and the Whole of Second to Fourth Floors of Largo do Senado Nº 18 – 20A, Macau	The property comprises portion of first floor and the whole of second to fourth floors of a commercial building which was completed in or about 1996. According to information available to us, the total gross floor area of the property is approximately 2,244.82 sq.m. (24,163 sq.ft.).	The first floor of the property is occupied as a restaurant whilst the upper floors are under-decoration. The property is subject to a principal tenancy agreement signed between Associacao Comercial de Macau as lessor and Agencia Comercial Luso Americano Lda. as lessee, and Agencia Comercial Luso Americano Lda. sub-let to Jumbo Catering Management Limited, a 86.68% owned indirect subsidiary of the Company, and Jumbo Catering Management Limited further sub-let portion of the first floor and the whole of second to fourth floors of the property to various sub-tenants for various terms with earliest commencement date on 1st January 2005 at a total monthly rent of HK$662,967 inclusive of management fee and air-conditioning charge.	HK$3,700,000 (86.68% interests attributable to the Group: HK$3,207,160)

Note:

1. As stated in the tenancy agreement signed between Agencia Commercial Luso Americano Lda, an independent third party to the company, and Jumbo Catering Management Limited, an indirect non-wholly owned subsidiary of the company, the tenancy agreement conferred on Jumbo Catering Management Limited the right to transfer or sublet the property to any third party. Various subletting tenancy agreements have been signed by the lessee thereafter. Profit rents are then arisen. The market value i.e. HK$3,700,000 reflects the profit rents arising form the subletting rights and the subletting tenancy agreements.

VALUATION CERTIFICATE

Group V – Property Interests Rented by the Group in the PRC

No. Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
18. Unit C, 17th Floor, Shenzhen Development Bank Tower, No. 5047 Shennan Road East, Shenzhen, Guangdong Province, The PRC	The property comprises an office unit on the 17th floor of Shenzhen Development Bank Tower with gross floor area of approximately 235 sq.m. (2,530 sq.ft.) completed in 1996.	The property is occupied by the Group as an office. The property is held under a tenancy agreement signed between（深圳市友銀物業管理有限公司）as lessor and VC Financial Group Limited (滙盈金融集團有限公司) (formerly known as VC CFN Corporation Limited (滙盈中怡金融集團有限公司)), a 64.54% owned indirect subsidiary of the Company, as lessee for a term of two years commencing on 1st November 2003 and expiring on 31st October 2005 at a monthly rent of RMB21,150.00, exclusive of management fees, utility charges and other outgoings.	No Commercial Value

Notes:

1. The PRC legal advisors, Shanghai Haide Anda Law Office（上海海德安達律師事務所）, have stated in their legal opinion, including but not limited to the following:

    i. The tenancy agreement is valid and legal binding.

VALUATION CERTIFICATE

Group V – Property Interests Rented by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
19.	Units 28 and 29, Level 33, Tower 1, China World Trade Centre, No. 1 Jian Guo Men Wai Avenue, Beijing, The PRC	The property comprises two office units on Level 33 of China World Trade Centre Tower 1 with saleable floor area of approximately 64.44 sq.m. (694 sq.ft.) completed in 1990.	The property is occupied by the Group as an office. The property is held under a tenancy agreement signed between China World Trade Center Company Limited as lessor and Melco International Investment Consultation (Beijing) Co. Ltd. (新濠國際投資咨詢(北京)有限公司) as lessee, a direct wholly-owned subsidiary of the Company, as lessee for a term of two years commencing on 30th March 2005 and expiring on 29th March 2007 at a monthly rent of RMB27,064.80, inclusive of management fees and air-conditioning charges during normal office hours.	No Commercial Value

Notes:

1. The PRC legal advisors, Shanghai Haide Anda Law Office (上海海德安達律師事務所), have stated in their legal opinion, including but not limited to the following:

   i. Notwithstanding that the tenancy agreement has not yet been registered in accordance with applicable PRC laws, the legal rights of the lessee remain valid and the lessee will not be liable for any criminal or civil liabilities for such non-registration.

VALUATION CERTIFICATE

Group V – Property Interests Rented by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in its Existing State as at 11th May 2005
20.	Unit 1, 26th Floor, No. 689 Guangdong Road, Huangpu District, Shanghai The PRC	The property comprises an office unit on the 26th floor of the development with gross floor area of approximately 170.82 sq.m. (1,839 sq.ft.) completed in 2003.	The property is occupied by the Group as an office. The property is held under a tenancy agreement signed between上海谷元房地產開發有限公司 as lessor and Melco Services Limited as lessee, a direct wholly-owned subsidiary of the Company, as lessee for a term of 23 months commencing on 8th June 2004 and expiring on 7th May 2006 at a monthly rent of RMB23,641.00, exclusive of utility costs, management fees and other outgoings.	No Commercial Value

Notes:

1. The PRC legal advisors, Shanghai Haide Anda Law Office (上海海德安達律師事務所), have stated in their legal opinion, including but not limited to the following:

   i. Notwithstanding that the tenancy agreement has not yet been registered in accordance with applicable PRC laws, the legal rights of the lessee remain valid and the lessee will not be liable for any criminal or civil liabilities for such non-registration.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The information contained herein relating to the Group has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to Great Respect) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those relating to Great Respect) have been arrived at after due and careful consideration and there are no other facts (other than those relating to Great Respect) not contained in this circular the omission of which would make any statement contained herein misleading.

The sole director of Great Respect accepts full responsibility for the accuracy of the information contained in this circular relating to Great Respect and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular relating to Great Respect (if any) have been arrived at after due and careful consideration and there are no other facts relating to Great Respect not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised capital:		*HK$*
1,400,000,000	shares of HK$0.50 each	700,000,000
Issued capital:		
1,122,438,540	shares of HK$0.50 each	561,219,270

All issued Shares rank pari passu with each other in terms of capital, dividend and voting. Since 31st December 2004, the Company has issued the following Shares:-

(i) On 11th April 2005, the Company allotted and issued a total of 19,565,216 Old Shares (equivalent to 39,130,432 New Shares) to Better Joy pursuant to its exercise of the conversion rights under certain convertible notes issued to it by the Company as consideration for the acquisition of Mocha Slot;

(ii) On 30th May 2005, the Company allotted and issued a total of 140,000,000 New Shares to Better Joy pursuant to the terms of the Placing and Subscription Agreement; and

(iii) On various dates between the period from 1st January 2005 up to the Latest Practicable Date, the Company allotted and issued a total of 16,820,000 New Shares pursuant to the exercise of options granted under the Company's employee share option scheme adopted on 8th March 2002.

As at the Latest Practicable Date, the Company had no convertible securities, options, derivatives or warrants outstanding and had not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company save and except the following:-

(i) 32,612 options carrying rights to subscribe for 32,612 New Shares at an exercise price of HK$0.50 per New Share;

(ii) 4,455,340 options carrying rights to subscribe for 4,455,340 New Shares at an exercise price of HK$0.55335 per New Share;

(iii) 13,820,000 options carrying rights to subscribe for 13,820,000 New Shares at an exercise price of HK$1.2025 per New Share;

(iv) 11,668,000 options carrying rights to subscribe for 11,668,000 New Shares at an exercise price of HK$1.6875 per New Share;

(v) 2,059,400 options carrying rights to subscribe for 2,059,400 New Shares at an exercise price of HK$7.4 per New Share;

(vi) a convertible note in the principal amount of HK$100 million issued to STDM as consideration for the acquisition of a 50% equity interest in Great Wonders pursuant to an agreement dated 8th September 2004, carrying rights to subscribe for 50,000,000 New Shares at a conversion price of HK$2.00 per New Share at any time from the third anniversary of the date of issue of the said convertible note, namely, 9 November 2004, to 8 November 2009; and

(vii) another convertible note in the principal amount of HK$56 million issued to STDM as consideration for the acquisition of an additional 20% equity interest in Great Wonders pursuant to an agreement dated 11th November 2004, carrying rights to subscribe for 13,658,536 New Shares at a conversion price of HK$4.1 per New Share at any time from the third anniversary of the date of issue of the said convertible note, namely, 8 February 2005, to 7 February 2010.

Note: all outstanding options stated above were granted pursuant to the Company's employee share option scheme adopted on 8th March 2002.

3. DISCLOSURE OF DIRECTORS' AND SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of 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; or (d) were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code were as follows:

(i) Interests in Shares and underlying Shares

Name of Director	**Nature of interest**	**Number of issued Shares interested**	**Approximate percentage of the total number of issued Shares** *(Note 1)*
Dr. Stanley Ho	Corporate	7,298,456 *(Note 2)*	0.65%
	Personal	22,749,278	2.03%
Mr. Lawrence Ho	Corporate	404,041,630 *(Note 3)*	36.00%
	Personal	5,432,612	0.48%
Mr. Frank Tsui	Personal	5,400,000	0.48%
Mr. Ho Cheuk Yuet	Personal	3,632,612	0.32%
Dr. Lo Ka Shui	Personal	2,000,000	0.18%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company were 1,122,438,540 Shares.

2. Dr. Stanley Ho is taken to be interested in 7,298,456 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.65% of the issued share capital of the Company.

3. Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend which in turn holds approximately 10.29% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 77% of the issued share capital of Better Joy which in turn holds approximately 25.71% of the issued share capital of the Company.

   Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of the 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 were effectively interested in 8.59% and 30.57% respectively of the issued share capital 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	1.2025	1,800,000
Mr. Frank Tsui	8 March 2002	7 March 2012	0.50	32,612
	19 February 2004	7 March 2012	1.2025	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 *(Note 1)*
Dr. Stanley Ho	Corporate	7,384,651 *(Note 2)*	2.96%
Mr. Lawrence Ho	Corporate	4,232,627 *(Note 3)*	1.70%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of Value Convergence was 249,341,226 shares.

2. 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 2.96% of the issued share capital of Value Convergence.

3. 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 1.70% 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)*	0.29%
Mr. Lawrence Ho	Personal	1,226,057 *(Note 2)*	0.49%

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 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 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 share.

As at the Latest Practicable Date :

(i) save as disclosed in the section headed "Disclosure of Directors and Shareholders' Interests", 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 (including convertible securities, warrants, options or derivatives) 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), (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, or (d) were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code;

(ii) save that Dr. Stanley Ho is a director and a shareholder of STDM, which has entered into agreements with the Company for the purpose of the sale to the Group of STDM's shareholding interests in Great Wonders, and that Great Respect, the vendor under the First Agreement and the subscriber for the Convertible Loan Notes, is a company controlled by a discretionary family trust of Dr. Stanley Ho the discretionary beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying as disclosed in the Letter from the Board in this circular, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2004, 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; and

(iii) save that Dr. Stanley Ho is a director and a shareholder of STDM which has entered into agreements with the Company for the purpose of the sale to the Group of STDM's shareholding interests in Great Wonders, that SJM, a non wholly owned subsidiary of STDM has entered into service agreements with Mocha Management, a non wholly owned subsidiary of the Company, for provision of management and other auxillary services to the slot halls operated by SJM in Macau, and that Great Respect, the vendor under the First Agreement and the subscriber for the Convertible Loan Notes, is a company controlled by a discretionary family trust of Dr. Stanley Ho the discretionary beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying as disclosed in the Letter from the Board in this circular, 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.

4. 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 (including convertible securities, warrants, options or derivatives) 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	288,532,606 *(Note 2)*	–	25.71%
Lasting Legend	Corporate	115,509,024 *(Note 2)*	–	10.29%
Great Respect	Corporate	–	117,912,694 *(Note 3)*	10.51%

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)*
Dr. Stanley Ho	Corporate	7,298,456 *(Note 4)*	117,912,694 *(Note 3)*	11.16%
	Personal	22,749,278	–	2.03%
Mr. Lawrence Ho	Corporate	404,041,630 *(Note 5)*	117,912,694 *(Note 3)*	46.50%
	Personal	7,232,612	–	0.64%
Ms. Sharen Lo	Family	411,274,242 *(Note 6)*	117,912,694 *(Note 3)*	47.15%
SG Trust (Asia) Ltd	Corporate	–	117,912,694 *(Note 3)*	10.51%
STDM	Corporate	–	63,658,536 *(Note 7)*	5.67%
Shun Tak Shipping Company Limited	Corporate	78,166,294	–	6.96%
JP Morgan Chase & Co.	Corporate	72,788,000	–	6.48%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company was 1,122,438,540 Shares.

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

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect, Melco Entertainment and the Company, Great Respect has agreed to subscribe for convertible loan notes of the Company in the total principal amount of HK$1,175,000,000 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 Shares of the Company will be issued by the Company. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd is the trustee of the aforesaid discretionary family trust.

4. Dr. Stanley Ho is taken to be interested in 7,298,456 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.65% of the issued share capital of the Company.

5. Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend which in turn holds approximately 10.29% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 77% of the issued share capital of Better Joy which in turn holds approximately 25.71% of the issued share capital of the Company.

   Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of the 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 were effectively interested in 8.59% and 30.57% respectively of the issued share capital of the Company.

6. Ms Sharen Lo is the spouse of Mr. Lawrence Ho and is deemed to be interested in Shares in which Mr. Lawrence Ho is interested in under the SFO.

7. Two convertible notes respectively for the principal amounts of HK$100 million and HK$56 million carrying the respectively rights to subscribe for New Shares at an initial conversion price of HK$4.00 and HK$8.2 respectively were issued by the Company to STDM on 9th November 2004 and 8th February 2005 respectively pursuant to two agreements disclosed in the announcements and the circulars of the Company respectively dated 13th September 2004, 11th October 2004, 23rd November 2004 and 5th January 2005. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes was HK$156 million. Due to the Share Subdivision, the said conversion prices of HK$4.00 and HK$8.2 have been adjusted to HK$2.00 and HK$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 63,658,536 Shares will be issued to STDM.

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.

5. SHAREHOLDINGS

As at the Latest Practicable Date:

(i) no subsidiaries of the Company, or any pension fund of the Group, owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(ii) neither the Independent Financial Adviser, Savills (Hong Kong) Limited, Deloitte Touche Tohmatsu, Shanghai Haide Anda Law Office (上海海德安達律師事務所), Levett & Bailey Chartered Quantity Surveyors Limited or C&C Advogados nor any other advisers to the Company as specified in class (2) of the definition of associate (excluding exempt principal traders) in the Takeovers Code, their respective ultimate holdings companies, nor any of their respective subsidiaries or fellow subsidiaries owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(iii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code;

(iv) there is no shareholding in the Company which is managed on a discretionary basis by fund managers connected with the Company;

(v) save for 518,132,844 Shares held by the Concert Party, the 22,222,222 New Shares agreed to be issued to STDM, the Convertible Loan Notes to be issued to Great Respect and the convertible bonds held by STDM as disclosed in the section headed "Effect on Shareholdings of the Company" in the Letter from the Board of this circular, none of Great Respect and other members of the Concert Party (including any director of any member of the Concert Party which is a corporate entity) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(vi) no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Great Respect or any other member of the Concert Party or had so dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period; and

(vii) neither the Company nor the Directors have any interest in the securities of Great Respect save that Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying; and

(viii) there was no agreement, arrangement or understanding (including any compensation arrangement) between Great Respect or other members of the Concert Party and other persons in relation to the transfer of any Shares which falling to be issued upon an exercise of the conversion rights conferred by the Convertible Loan Notes.

6. DEALINGS

(A) Company

During the Relevant Period:

(i) no member of the Concert Party (including any director of any member of the Concert Party which is a corporate entity) had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company, save and except the following:

(a) on 11th April 2005, Better Joy exercised conversion rights under certain convertible notes issued to it by the Company as consideration for the acquisition of Mocha Slot; this exercise of conversion rights resulted in 19,565,216 Shares being issued to Better Joy by the Company;

(b) on 12th April 2005, Mr. Lawrence Ho exercised options issued to him under the Company's employee share option scheme, to subscribe for a total of 900,000 Shares;

(c) on 17th March 2005, the Company entered into an agreement with STDM for the purpose of acquiring the remaining 30% interest in Great Wonders, the consideration of which includes the issue of 11,111,111 Old Shares (or 22,222,222 New Shares) at an issue price of HK$18.00 per Old Share (equivalent to HK$9.00 per New Share), the details of which are set out in the paragraph headed "Effect on Shareholdings of the Company" in the Letter from the Board in this circular;

(d) on 17th May 2005, the Company carried out a top-up placing comprising the Placing and the Subscription pursuant to which 70,000,000 Old Shares then held by Better Joy were placed to the placees and Better Joy subscribed for 140,000,000 New Shares (equivalent to 70,000,000 Old Shares) as a top-up subscription at the net subscription price of HK$8.85 for each New Share;

(ii) dealing in the Shares, convertible securities, warrants, options or derivatives of the Company by the Directors (other than those dealings by Dr. Stanley Ho and/or Mr. Lawrence Ho, which have been disclosed in sub-paragraph (i) above) is summarized as below:

(a) on 12th April 2005, Mr. Frank Tsui exercised options issued to him under the Company's employee share option scheme, to subscribe for a total of 900,000 Shares.

Save for the above, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(B) Great Respect

During the Relevant Period:

(i) the Company has not dealt for value in the Shares, convertible securities, warrants, options or derivatives of Great Respect; and

(ii) the Directors have not dealt for value in the Shares, convertible securities, warrants, options or derivatives of Great Respect save that Mr. Lawrence Ho transferred 100 shares of US$1.00 each of Great Respect to SG Trust (Asia) Ltd (as trustee of the discretionary family trust of Dr. Stanley Ho, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying).

7. 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 2004, being the date to which the latest published audited financial statements of the Group were made up.

8. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of the experts which have given their opinion which are contained in this circular.

Expert	**Qualification**
Anglo Chinese Corporate Finance, Limited	A deemed licensed corporation under transitional arrangement within the meaning of the SFO, licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
Savills (Hong Kong) Limited	Chartered Surveyors
Deloitte Touche Tohmatsu	Certified Public Accountants
Levett & Bailey Chartered Quantity Surveyors Limited	Chartered Quantity Surveyors
C&C Advogados	qualified lawyers in Macau
Shanghai Haide Anda Law Office (上海海德安達律師事務所)	qualified lawyers in the PRC

Each of Anglo Chinese Corporate Finance, Limited, Savills (Hong Kong) Limited, Deloitte Touche Tohmatsu, Shanghai Haide Anda Law Office (上海海德安達律師事務所), Levett & Bailey Chartered Quantity Surveyors Limited and C&C Advogados has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter (or report or opinion, as the case may be), in the form and context in which they respectively appear.

9. 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.

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 the businesses of STDM and SJM include gaming, hospitality, food and beverage and property businesses in Macau, there is a possibility that such businesses of STDM and SJM may compete with the gaming, hospitality, food and beverage and property business of the Group. Save as disclosed, as at the date of this circular, none of the Directors and their respective associates has any business or interest in a business which competes or may compete with the business of the Group.

11. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group or associated companies which has more than 12 months to run and no service contract has been entered into or amended within 6 months before the date of the Acquisition Announcement save that each of Mr. Lawrence Ho and Mr. Frank Tsui had entered into a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, regarding their respective directorships with the Company, which commenced on 1st January 2005 and may be terminated by either party to the contract by giving three months prior written notice. Pursuant to the terms of such service contracts, each of Mr. Lawrence Ho and Mr. Frank Tsui is respectively entitled to an annual emolument of HK$1,729,008 and HK$1,950,000 respectively calculated on a twelve-month basis and each of them may also receive a discretionary bonus, if any, of an unspecified amount in April each year depending on the performance of the Group in the immediate preceding financial year and the then prevailing market condition. The said service contracts had replaced the previous service contracts entered into by each of Mr. Lawrence Ho and Mr. Frank Tsui with the Company respectively dated 4th December 2001 and 1st October 2002. Under the terms of the respective previous service contracts:

(i) either Mr. Lawrence Ho or the Company might by three months prior written notice terminate the relevant previous service contract;

(ii) either Mr. Frank Tsui or the Company might by one month prior written notice terminate the relevant previous service contract; and

(iii) each of Mr. Lawrence Ho and Mr. Frank Tsui was respectively entitled to an annual emolument of HK$1,729,000 and HK$1,899,000 respectively calculated on a thirteen-month basis and each of them might also receive a discretionary bonus (the amount of which was not specified as the bonus was discretionary in nature) in April each year. For the financial year ended 31st December 2004, no such discretionary bonus had been given to either Mr. Lawrence Ho or Mr. Frank Tsui.

12. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

13. MATERIAL CONTRACTS

In addition to the First Agreement and the Second Agreement, the following contracts, not being contracts in the ordinary course of business, were entered into by the Company or its subsidiaries within the two years immediately preceding the date of the Acquisition Announcement up to the Latest Practicable Date which are or may be material:

(i) the underwriting agreement dated 11th 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 share of the Company on the basis of one rights share for every two Shares of the Company then in issue on 29th August 2003;

(ii) the sale and purchase agreement dated 19th 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 agreed to purchase or procure the purchase of 65% of the then issued share capital of Mocha Slot;

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

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

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

(vi) 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 messuages erections and buildings thereon known as "Art Court" No.5 Tung Shan Terrace;

(vii) the agreement dated 8th September 2004 entered into between STDM and the Company regarding the acquisition of a 50% equity interest in Great Wonders by the Company from STDM for a consideration of HK$100 million;

(viii) the placing and subscription agreement dated 15th 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 Old Shares at a per Old Share price of not less than HK$4.95 and not more than HK$5.30;

(ix) the agreement dated 11th November 2004 entered into between STDM and the Company regarding the acquisition of an additional 20% equity interest in Great Wonders by the Company from STDM for a consideration of HK$56 million;

(x) the contract dated 24th November 2004 entered into between Great Wonders (as employer) and Paul Y. Construction Company, Limited, an Independent Third Party, (as contractor) in relation to the development of the luxury hotel on a piece of land located at Taipa, Macau, for an estimated total development cost of approximately HK$1,448 million;

(xi) the subscription agreement dated 23rd December 2004 entered into amongst the Company, Melco PBL Holdings, PBL and PBL Asia in relation to the establishment of the joint venture group for pursuance of gaming, entertainment and hospitality businesses in Asia;

(xii) the agreement dated 17th March 2005 entered into between STDM and the Company regarding the acquisition of the remaining 30% equity interest in Great Wonders by the Company from STDM for a consideration of HK$400 million;

(xiii) the agreement dated 17th March 2005 entered into between the Company and Melco Entertainment regarding the acquisition by Melco Entertainment from the Company of a 30% equity interest in Great Wonders, to be acquired from STDM pursuant to the agreement mentioned in sub-paragraph (xii) above, for a consideration of HK$400 million; and

(xiv) the placing, underwriting and subscription agreement dated 17th May 2005 entered into between the Company, Better Joy (as vendor) and Credit Suisse First Boston (Hong Kong) Limited (as placing agent), in relation to the Placing of 70,000,000 Old Shares (or 140,000,000 New Shares) at a price of HK$18.25 per Old Share (or HK$9.125 per New Share) and the subscription by Better Joy of the same number of Shares.

14. MARKET PRICE

The table below shows the closing prices on the Stock Exchange of the Shares (adjusted, in the case of closing prices stated for a date prior to the Share Subdivision, to reflect the Share Subdivision) (i) at the end of each of the six calendar months preceding the date of the Acquisition Announcement (ii) on the Last Trading Date and (iii) on the Latest Practicable Date;

	Date	**Closing Price (Note)** *(HK$)*
(i)	30th November 2004	5.925
	31st December 2004	9.850
	31st January 2005	8.050
	28th February 2005	8.525
	31st March 2005	9.400
	29th April 2005	10.050
(ii)	Last Trading Date	9.700
(iii)	Latest Practicable Date	8.600

Note: All the closing prices stated herein have been adjusted pursuant to the Share Subdivision (if applicable).

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the Relevant Period were respectively HK$11.375 on 11th April 2005 and HK$5.1 on 26th November 2004.

15. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

Save that Dr. Stanley Ho is a director and a shareholder of STDM which has entered into an agreement with the Company for the purpose of the acquisition by the Group of STDM's shareholding interests in Great Wonders, that SJM, a non wholly owned subsidiary of STDM has entered into service agreements with Mocha Management, a non wholly owned subsidiary of the Company, for provision of management and other auxillary services to the slot halls operated by SJM in Macau, and that Great Respect, the vendor under the First Agreement and the subscriber for the Convertible Loan Notes, is a company controlled by a discretionary family trust of Dr. Stanley Ho the discretionary beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying as disclosed in the Letter from the Board in this circular:

(i) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group; and

(ii) none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31st December 2004, being the date to which the latest published audited consolidated accounts of the Group were made up.

16. MISCELLANEOUS

(i) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) exists between any member of the Concert Party on the one part and any of the Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependent upon the Transactions and/or the Whitewash Waiver.

(ii) As at the Latest Practicable Date, there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Transactions and/or the Whitewash Waiver or otherwise connected therewith, save that Great Respect, the vendor under the First Agreement and the subscriber for the Convertible Loan Notes, is a company controlled by a discretionary family trust of Dr. Stanley Ho the discretionary beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying and that it is intended that an agreement will be reached with SJM, a subsidiary of STDM and a company of which Dr. Stanley Ho has an equity interest, for the lease and operation of the proposed casino as disclosed in the Letter from the Board in this circular,

(iii) As at the Latest Practicable Date, no Shareholder has undertaken to the Company to vote for or against any resolution relating to any of the Transactions or the Whitewash Waiver.

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

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

(vi) 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.

(vii) The addresses of each of the Concert Party is as follows:

Name of Concert Party	Address/Registered Office
Dr. Stanley Ho	No. 1 Repulse Bay Road, Hong Kong
Madam Lucina Laam King Ying	25 Cooper's Road, Jardines Lookout, Hong Kong
Mr. Lawrence Ho	35 Black's Link, Hong Kong
STS	Penthouse, 39/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong
Lasting Legend	Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands
Better Joy	Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands
STDM	2nd Floor, New Wing, Hotel Lisboa, Macau
Great Respect	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Sharikat Investments Limited	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Dareset Limited	P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands
Lanceford Company Limited	Penthouse, 39/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong

(viii) As at the Latest Practicable Date, the directors of the relevant members of the Concert Party which are corporate entities are as follows:

Name of Relevant Concert Party	Director(s)
STS	Dr. Stanley Ho Dr. Cheng Yu Tung Ms. Ho Chiu King, Pansy Ms. Ho Chiu Fung, Daisy Mr. Fok Chun Wan, Ian
Lasting Legend	Mr. Lawrence Ho
Better Joy	Mr. Lawrence Ho
Great Respect	CDS International Limited
STDM	Dr. Stanley Ho Many Town Company Limited (represented by Dr. Cheng Yu Tung) Ms. Ho Chiu King, Pansy Ms. Mok Ho Yuen Wing Louise Lanceford Company Limited (represented by Ms. Fung Ho Nanette Yuen Hung) Mr. Henry Fok (represented by Mr. Lam Sik Lau) Mr. Shum David Hong Kuen
Sharikat Investments Limited	Tse Andrew Edward
Dareset Limited	Dr. Stanley Ho So Shu Fai, Ambrose Huen Wing Ming, Patrick Tse Andrew Edward Chan Wai Lun, Anthony
Lanceford Company Limited	Dr. Stanley Ho Laam King Ying, Lucina Huen Wing Ming, Patrick

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

17. 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 the date of the EGM:

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

(ii) the memorandum and articles of association of Great Respect;

(iii) the First Agreement;

(iv) the Second Agreement;

(v) the service contracts entered into between Melco Services Limited and each of Mr. Lawrence Ho and Mr. Frank Tsui referred to in Appendix VI of this circular;

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

(vii) the accountant's report included in Appendix II of this circular;

(viii) the written consents referred to under the section headed "Qualification and Consent of Expert" in this Appendix;

(ix) the annual reports of the Company for the three years ended 31 December 2004;

(x) the letter from the Independent Board Committee;

(xi) the letter from the Independent Financial Adviser;

(xii) the property valuation report and certificate as set out in Appendix V of this circular;

(xiii) the unaudited pro forma financial information of the Enlarged Group and the report of Deloitte Touche Tohmatsu thereon, the text of which is set out in the section headed "Financial information on the Enlarged Group" in Appendix III of this circular;

(xiv) the Joint Venture MOA

(xv) the Shareholders Agreement;

(xvi) the Declaration Agreement;

(xvii) the convertible note issued by the Company to Better Joy dated 9th June 2004 in the principal amount of HK$22,500,000 carrying rights to subscribe for 9,782,608 Old Shares at a conversion price of HK$2.30 per Old Share at any time on or before 29 June 2005;

(xviii) the second convertible note issued by the Company to Better Joy dated 9th June 2004 in the principal amount of HK$22,500,000 carrying rights to subscribe for 9,782,608 Old Shares at a conversion price of HK$2.30 per Old Share at any time on or before 29 June 2006;

(xix) the convertible note issued by the Company to STDM dated 9th November 2004 in the principal amount of HK$100,000,000 carrying rights to subscribe for 25,000,000 Old Shares at a conversion price of HK$4.00 per Old Share at any time from the third anniversary of the date of issue of the same to 8 November 2009;

(xx) the second convertible note issued by the Company to STDM dated 8th February 2005 in the principal amount of HK$56,000,000 carrying rights to subscribe for 6,829,268 Old Shares at a conversion price of HK$8.20 per Old Share at any time from the third anniversary of the date of issue of the same to 7 February 2010;

(xxi) the two sale and purchase agreements respectively dated 1st June 2004 and 16th December 2004 entered into between Melco Technology Group Limited, a wholly-owned subsidiary of the Company ("Melco Technology") and Mr. Leong Van Tat (who is the then shareholder of Elixir Group Limited) for the acquisition of an aggregate of 11.25% shareholding interests in Elixir Group Limited by Melco Technology from Mr. Leong for a total consideration of HK$108,668;

(xxii) the two sale and purchase agreements respectively dated 1st June 2004 and 16th December 2004 entered into between Melco Technology and Mr. Gordon Lee (who is the then shareholder of Elixir Group Limited) for the acquisition of an aggregate of 11.25% shareholding interests in Elixir Group Limited by Melco Technology from Mr. Lee for a total consideration of HK$108,668;

(xxiii) the four service agreements (with one dated 21st March 2005 and the other three all dated 22nd March 2005) entered into between Mocha Management and SJM regarding the provision of management and other auxiliary services by Mocha Management to four slot halls operated by SJM in Macau;

(xxiv) legal opinion dated 22nd July 2005 by Shanghai Haide Anda Law Office (上海海德安達律師事務所) referred to in the property valuation report and certificate as set out in Appendix V of this circular;

(xxv) legal opinion dated 22nd July 2005 by C&C Advogados referred to in the property valuation report and certificate as set out in Appendix V of this circular;

(xxvi) the quantity surveyor's report included in Appendix IV of this circular;

(xxvii) the corporate guarantee provided by Value Convergence Holdings Limited for a subsidiary, VC Brokerage Limited in respect of banking facilities granted to the subsidiary;

(xxviii) the legally binding heads of agreement dated 11th November 2004 entered into between the Company and PBL in relation to the establishment of a joint venture group for the pursuit of gaming, entertainment and hospitality business in the Asia Pacific and Greater China regions; and

(xxix) the circulars of the Company respectively dated 23 April 2004, 14 May 2004, 27 August 2004, 11 October 2004, 5 January 2005, 29 April 2005, 2 June 2005 regarding the proposed group reorganization, assets acquisition involving issue of consideration shares and convertible notes and increase in authorized share capital; sale of property; connected transaction in respect of service arrangement with SJM; discloseable and connected transaction in respect of the First Agreement (as defined in the circular dated 2 June 2005), establishment of the JV Group (as defined in the circular dated 2 June 2005) and major and connected transaction in respect of the Second Agreement (as defined in the circular dated 2 June 2005); continuing connected transaction and connected transactions in respect of service arrangements with SJM and Mocha Slot; and major and connected transaction relating to acquisition of the remaining interest in a piece of land and discloseable transaction relating to injection of interest in that land into the JV Group (as defined in the circular dated 2 June 2005).

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 3:30 p.m. on Wednesday, 10th August 2005 at 38th Floor, The Centrium, 60 Wyndham Street Central, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**:

(a) the First Agreement (as defined and more particularly described in the circular issued by Melco International Development Limited (the "Company") to its shareholders dated 22nd July 2005 (the "Circular")) between Melco Entertainment Limited ("Melco Entertainment"), Great Respect Limited ("Great Respect") and the Company, relating to the acquisition by Melco Entertainment of the 49.2% interest of Great Respect in the Joint Venture (as defined in the Circular) and the application by Great Respect of the proceeds of that acquisition to subscribe for the Convertible Loan Notes (as defined in the Circular) to be issued by the Company and the transactions contemplated by the First Agreement (including, without limitation, the issue of the Convertible Loan Notes) be and are hereby approved, ratified and confirmed and the directors of the Company be and are hereby authorized to take all steps necessary or desirable or expedient in their opinion to implement and/or give effect to the terms of the First Agreement and the transactions contemplated by it, including without limitation, the issue of the Convertible Loan Notes; and

(b) the instrument constituting the Convertible Loan Notes and the issue of shares of the Company on exercise of the conversion rights conferred by the Convertible Loan Notes be and are hereby each approved and the directors of the Company be and are hereby authorised to arrange for the instrument constituting the Convertible Loan Notes to be executed by or on behalf of the Company and to take all steps necessary or desirable or expedient in their opinion for the Company to enter into the instrument constituting the Convertible Loan Notes and/or give effect to the terms of that instrument and the Convertible Loan Notes, including the issue of shares of the Company on exercise of the conversion rights conferred by the Convertible Loan Notes."

(2) "**THAT** the Second Agreement (as defined in the circular issued by Melco International Development Limited (the "Company") to its shareholders dated 22nd July 2005 (the "Circular")) between Melco Entertainment Limited ("Melco Entertainment") and Melco Leisure and Entertainment Group Limited ("Melco Leisure"), relating to the transfer by Melco Leisure of its 50.8% interest in the Joint Venture (as defined in the Circular) and its interest in Melco Hotels and Resorts (Macau) Limited to Melco Entertainment and the transactions contemplated by the Second Agreement be and are hereby approved, ratified and confirmed and the directors of the Company be and are hereby authorized to take all steps necessary or desirable or expedient in their opinion to implement and/or give effect to the terms of the Second Agreement and the transactions contemplated by it."

(3) "**THAT**, subject to the passing of the Ordinary Resolution numbered (1) set out in the notice of extraordinary general meeting of Melco International Development Limited (the "Company") of which this resolution forms part:

(a) the First Agreement (as defined and more particularly described in the circular issued by the Company to its shareholders dated 22nd July 2005 (the "Circular")) between Melco Entertainment Limited ("Melco Entertainment"), Great Respect Limited ("Great Respect") and the Company, relating to the acquisition by Melco Entertainment of the 49.2% interest of Great Respect in the Joint Venture (as defined in the Circular) and the application by Great Respect of the proceeds of that acquisition to subscribe for the Convertible Loan Notes (as defined in the Circular) to be issued by the Company under the First Agreement and the transactions contemplated by the First Agreement be and are hereby approved, ratified and confirmed; and

(b) the Whitewash Waiver (as defined and described in the Circular) waiving any obligation on the part of Great Respect and the Concert Party (as defined in the Circular) to make a mandatory general offer for the entire issued share capital of the Company not otherwise owned by the Concert Party, which would otherwise arise under Rule 26.1 of the Hong Kong Code on Takeovers and Mergers, as a result of any and all future exercises of the conversion rights conferred by the Convertible Loan Notes to be issued upon completion of the First Agreement to Great Respect be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things and acts and sign all documents which they consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the First Agreement and the Whitewash Waiver."

(4) "**THAT** the proposed entering into by Melco Hotels and Resorts (Macau) Limited ("Melco Hotels") of a legally binding commitment relating to the grant of a long term lease in respect of the Land (as defined and more particularly described in the circular issued by Melco International Development Limited (the "Company") to its shareholders dated 22nd July 2005 (the "Circular")) resulting from the in principle acceptance by Melco Hotels of the Macau Government's offer to grant such a long term lease in respect of the Land to Melco Hotels and the future development of the Land as an integrated entertainment resort

as described in the Circular be and are hereby approved and that the directors of the Company be and are hereby authorized to do all things and acts and sign all documents which they consider necessary, desirable or expedient to implement and/or give effect to any matters relating thereto or in connection therewith."

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

Hong Kong, 22nd July 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 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 the 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.