

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(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**

DESPATCH OF CIRCULAR

Financial adviser to Melco International Development Limited



VC CAPITAL LIMITED
滙盈融資有限公司

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

SUMMARY

The Circular together with the notice of EGM will be dispatched on 22nd July 2005.

The EGM to be convened to consider, if thought fit, to approve the Whitewash Waiver, the First Agreement and 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 an integrated entertainment resort will be held at 3:30 pm on 10th August 2005 at 38th Floor, The Centium, 60 Wyndham Street, Central, Hong Kong.

An unaudited pro forma financial information of the Enlarged Group is set out in Appendix III of the Circular and reproduced below.

The risk factors to be considered by the Shareholders as to whether or not to vote in favour of the ordinary resolutions to be proposed at the EGM have been stated in the section headed "Risk Factors" in the Circular and reproduced below.

Unless the context otherwise, terms used herein shall have the same meanings as defined in the Circular (as defined below).

Despatch of the Circular

The Board wishes to announce that:

- (i) the circular (the "Circular") containing detailed information in relation to, among other things,
 - (i) the Whitewash Waiver, the First Agreement and 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 an integrated entertainment resort;
 - (ii) the advice from the Independent Board Committee;
 - (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
 - and (iv) the notice convening the EGM, will be dispatched to the Shareholders on 22nd July 2005; and

(ii) the EGM to be convened to consider, if thought fit, to approve the Whitewash Waiver, the First Agreement and 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 an integrated entertainment resort will be held at 3:30 pm on 10th August 2005 at 38th Floor, The Centium, 60 Wyndham Street, Central, Hong Kong.

Unaudited proforma financial information of the Enlarged Group

The unaudited pro forma financial information of the Enlarged Group prepared for the purposes of illustrating the effect of the acquisition by the Group of the 49.2% interest held by Great Respect in the Joint Venture under the First Agreement (the "Acquisition") is set out in Appendix III to the Circular and reproduced below.

Shareholders and potential investors of the Shares should note that the aforesaid financial information has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any dates.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(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	<u>(337,733)</u>	<u>–</u>		<u>(337,733)</u>
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	<u>65,157</u>	<u>–</u>		<u>65,157</u>

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

(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
	<u>740,155</u>	<u>1,669,296</u>		<u>2,409,451</u>
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
	<u>844,672</u>	<u>–</u>		<u>844,672</u>
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
	<u>135,820</u>	<u>494,296</u>		<u>630,116</u>
Net current assets	<u>708,852</u>	<u>(494,296)</u>		<u>214,556</u>
Total assets less current liabilities	<u>1,449,007</u>	<u>1,175,000</u>		<u>2,624,007</u>
Capital and reserves				
Share capital	463,244	–		463,244
Reserves	762,233	–		762,233
Shareholders' funds	<u>1,225,477</u>	<u>–</u>		<u>1,225,477</u>
Minority interests	<u>75,616</u>	<u>–</u>		<u>75,616</u>

	The Group as at 31st December 2004 HK\$'000	Pro forma adjustments for the completion of the Acquisition HK\$'000	<i>Note</i>	The Enlarged Group HK\$'000
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
	<u>147,914</u>	<u>1,175,000</u>		<u>1,322,914</u>
	<u>1,449,007</u>	<u>1,175,000</u>		<u>2,624,007</u>

(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	<i>Note</i>	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	<u>(153,500)</u>	<u>–</u>		<u>(153,500)</u>
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	<u>5,511</u>	<u>(1,175,000)</u>		<u>(1,169,489)</u>
Net cash outflow before financing	<u>(147,989)</u>	<u>(1,175,000)</u>		<u>(1,322,989)</u>

	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
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	<u>400,184</u>	<u>1,175,000</u>		<u>1,575,184</u>
Increase in cash and cash equivalents	252,195	–		252,195
Cash and cash equivalents at the beginning of year	<u>142,771</u>	–		<u>142,771</u>
Cash and cash equivalents at the end of year	<u><u>394,966</u></u>	<u><u>–</u></u>		<u><u>394,966</u></u>
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	<u>258,247</u>	–		<u>258,247</u>
Cash and cash equivalents at the end of year	<u><u>394,966</u></u>	<u><u>–</u></u>		<u><u>394,966</u></u>

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
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>1,225,477</u>	<u>(392,723)</u>	<u>832,754</u>

(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
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>1,225,477</u>	<u>(392,723)</u>	<u>832,754</u>

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.

Risk Factors

The risk factors to be considered by the Shareholders as to whether or not to vote in favour of the ordinary resolutions to be proposed at the EGM have been stated in the section headed “Risk Factors” in the Circular and reproduced below.

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 the Letter from the Board in the Circular, 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 in the Circular.

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 the 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 the 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 the 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 the 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.

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

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

Hong Kong, 21 July 2005

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