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Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

ANNOUNCEMENT

SUPPLEMENTAL AGREEMENT TO MEMORANDUM OF AGREEMENT IN RELATION TO ACQUISITION OF SUBCONCESSION BY JOINT VENTURE FOR PURSUANCE OF GAMING BUSINESS IN MACAU

This announcement is made further to the Announcement of the Company dated 9 March 2006.

As announced on 9 March 2006, the Company entered into a Memorandum of Agreement with PBL on 5 March 2006. As referred to in the Announcement, although the Memorandum of Agreement entered into on 5 March 2006 was a legally binding document, it was essentially a framework document setting out the agreed principles for the future operation of the Joint Venture and contemplated a number of further agreements to be entered into and details to be elaborated.

Following the announcement of the Memorandum of Agreement, further discussions between the Company and PBL, and discussions with the Macau Government, have resulted in the Company and PBL agreeing the detailed terms for implementing the key commercial agreements set out in the 5 March 2006 Memorandum of Agreement. In a number of respects, the detailed implementing terms have modified the terms originally contemplated by the 5 March 2006 Memorandum of Agreement. The modifications principally relate to the implementation of the key commercial agreements set out in the 5 March 2006 Memorandum of Agreement, rather than making substantive changes to any of the agreed terms. To reflect the changes to the terms for implementing the transactions contemplated by the 5 March 2006 Memorandum of Agreement, the Company and PBL has entered into a supplemental agreement on 26 May 2006 to amend the original terms of the Memorandum of Agreement as entered into on 5 March 2006.

The major terms of the Memorandum of Agreement dated 5 March 2006 are as set out in the Announcement. The major terms of MOA, being the terms of the Memorandum of Agreement dated 5 March 2006 as amended by the supplemental agreement will be as follows:—

- (a) PBL enter into the Subconcession Agreement with Wynn Macau to negotiate with the Macau Government for the grant of the Subconcession.
- (b) PBL will establish PBL Macau, a company to be incorporated in Macau, to be the grantee of the Subconcession.
- (c) The Premium of US\$900,000,000 payable to Wynn Macau on the grant of the Subconcession will be provided as follows:
 - (i) by the Company making or causing to be made a subordinated interest free loan of US\$160,000,000 to PBL Macau, which sum will be applied towards the Premium;
 - (ii) by PBL subscribing or causing to be subscribed an amount of US\$80,000,000 for new shares of PBL Macau and making or causing to be made a subordinated interest free loan of US\$160,000,000 to PBL Macau, constituting an aggregate funding obligation of PBL of US\$240,000,000; and
 - (iii) the balance of the Premium will be financed by non-recourse financing of PBL Macau on terms acceptable to the Company and PBL, but if such third party financing cannot be arranged on acceptable terms, the balance of the Premium will be provided by the Company and PBL in the same proportions as their aggregate funding specified in (i) and (ii) above.
- (d) Following the Company (or its wholly-owned subsidiary) becoming, subject to the approval of the Macau Government, an indirect shareholder of PBL Macau (through Melco PBL International), the Company and PBL will:
 - (i) enter into arrangements relating to PBL Macau under which the Company and PBL will share the risks, liabilities, commitments, capital contributions and economic values and benefits of the projects and businesses of PBL Macau on a 50:50 basis under their Joint Venture; and
 - (ii) amend the Deed to reflect the agreement that all gaming ventures of the Joint Venture Companies and all future gaming ventures undertaken by the Joint Venture within the Territory will be owned and carried on a 50:50 basis. Consequently, the reorganisation to reflect such arrangement as more particularly described below in this announcement will also result in Melco PBL Entertainment ceasing to be a subsidiary of the Company.

The Transactions constitute major transactions for the Company under Rule 14.08 of the Listing Rules. The Transactions include, without limitation, the reclassification of the existing 20% shareholding in Melco PBL Entertainment held by Melco Leisure and Entertainment Group Limited into non-voting deferred shares whereby such shares will carry negligible economic interest as more particularly described in this announcement. The reclassification of such shares into non-voting deferred shares will be a disposal for the purpose of Chapter 14 of the Listing Rules as, upon such reclassification, Melco PBL Entertainment will cease to be a subsidiary of the Company.

The purpose of this announcement is to set out proposed changes to the terms of the Memorandum of Agreement as previously announced.

Further details of the MOA will be given in the circular which is expected to be despatched to the shareholders of the Company on or before 30 May 2006.

This announcement is made further to the Announcement of the Company dated 9 March 2006.

A. BACKGROUND

Wynn Macau is the holder of one of only three concessions for the operation of games of fortune or chance or other games in casinos in Macau. Subject to the approval of the Macau Government, a subconcession for the operation of all forms of games of fortune or chance or other casino games in Macau can be granted by the Macau Government under Wynn Macau's concession, for a period commencing on the date of grant of the Subconcession by the Macau Government and ending on 26 June 2022, to a third party acceptable to the Macau Government in favour of whom Wynn Macau has exercised its right to subconcede under Wynn Macau's own concession.

On 4 March 2006, PBL entered into the Subconcession Agreement with Wynn Macau, pursuant to which Wynn Macau will exercise its right under its concession to subconcede to PBL Macau and to use its commercially reasonable efforts to cause the Macau Government to grant the Subconcession to PBL Macau, for an aggregate premium payable to Wynn Macau of US\$900,000,000. The Subconcession Agreement was entered into on an arm's length basis. Wynn Macau is a party independent of and not connected with the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates under the Listing Rules.

The Subconcession Agreement provides that PBL will, as soon as practicable, form PBL Macau to be the subconcessionaire under the Subconcession to be granted and that PBL shall with the Managing Director own or control all of the issued share capital of PBL Macau until closing under the Subconcession Agreement and grant of the Subconcession to PBL Macau. The Subconcession Agreement provides for the payment by PBL of a Deposit of US\$100,000,000 on or before 13 March 2006, with the balance of the Premium of US\$800,000,000 payable upon closing of the Subconcession Agreement and the grant of the Subconcession. The Deposit is subject to forfeiture if the Subconcession Agreement is terminated by Wynn Macau for a material breach by PBL or PBL Macau. The Deposit of US\$100,000,000 was duly paid on or before 13 March 2006, as required by the Subconcession Agreement, and was financed as to an amount of US\$40,000,000 by the Company and as to an amount of US\$60,000,000 by PBL.

Closing under the Subconcession Agreement is required to take place within one business day after the Subconcession is issued by the Macau Government and all conditions to closing under the Subconcession Agreement have been satisfied, namely, (a) the Subconcession Agreement has not been terminated in accordance with its terms, (b) all representations and warranties of PBL and Wynn Macau are true and correct, and (c) the Macau government has issued the Subconcession and all necessary approvals and authorisations required for the grant of the Subconcession. There is no long stop date in relation to closing under the Subconcession Agreement. The parties are committed to take all reasonable actions necessary to cause the Macau Government to grant the Subconcession to PBL Macau at the earliest possible date. However, the Company will keep Shareholders informed if there occur circumstances which may materially delay such grant.

On 4 March 2006, SJM and Great Wonders mutually terminated the letter of confirmation issued by SJM dated 11 November 2004 (which was counter-signed by Great Wonders) relating to a proposed lease agreement between SJM and Great Wonders for the operation of the Joint Venture's Crown Macau casino which has not yet commenced operation. On 5 March 2006, the Company and PBL entered into a Memorandum of Agreement. This was amended pursuant to a supplemental agreement entered into between the Company and PBL on 26 May 2006. The principal terms of the MOA, as so amended, are summarized below.

B. PRINCIPAL TERMS OF THE MOA

1. Status

As announced on 9 March 2006, the Company entered into a Memorandum of Agreement with PBL on 5 March 2006. As referred to in the Announcement, although the Memorandum of Agreement entered into on 5 March 2006 was a legally binding document, it was essentially a framework document setting out the agreed principles for the future operation of the Joint Venture and contemplated a number of further agreements to be entered into and details to be elaborated.

Following the announcement of the Memorandum of Agreement, further discussions between the Company and PBL, and discussions with the Macau Government, have resulted in the Company and PBL agreeing the detailed terms for implementing the key commercial agreements set out in the 5 March 2006 Memorandum of Agreement. In a number of respects, the detailed implementing terms have modified the terms originally contemplated by the 5 March 2006 Memorandum of Agreement. The modifications principally relate to the implementation of the key commercial agreements set out in the 5 March 2006 Memorandum of Agreement, rather than making substantive changes to any of the agreed terms. To reflect the changes to the terms for implementing the transactions contemplated by the 5 March 2006 Memorandum of Agreement, the Company and PBL has entered into a supplemental agreement on 26 May 2006 to amend the original terms of the Memorandum of Agreement as entered into on 5 March 2006.

The major terms of the Memorandum of Agreement dated 5 March 2006 are as set out in the Announcement. The major terms of MOA, being the terms of the Memorandum of Agreement dated 5 March 2006 as amended by the supplemental agreement entered into by the same parties, are as follows:–

2. Dates and Parties

Date: 5 March 2006, as amended by a supplemental agreement entered into between the Company and PBL on 26 May 2006

Parties: The Company; and
PBL

3. Joint funding of Premium payable under the Subconcession Agreement

It is agreed in the MOA that the Premium payable under the Subconcession Agreement for the exercise by Wynn Macau of its rights under its concession to subconcede to PBL Macau on the grant of the Subconcession will be provided by the parties as follows:

- (a) The Company will make or cause to be made a subordinated interest free loan of US\$160,000,000 to PBL Macau, which will be applied towards the Premium.
- (b) PBL will subscribe or cause to be subscribed an amount of US\$80,000,000 for shares in PBL Macau and make or cause to be made a subordinated interest free loan to PBL Macau of US\$160,000,000, constituting an aggregate funding obligation of PBL of US\$240,000,000.
- (c) The balance of the Premium, being US\$500,000,000, will be financed by non-recourse financing arranged by PBL Macau on terms acceptable to both the Company and PBL, but failing which the balance of the Premium shall be provided to PBL Macau by the Company and PBL in the proportions of 40% and 60% respectively.

Under the MOA, the Company has agreed to assume and be responsible for and to pay 40% of (i) the Deposit; (ii) the balance of the Premium; and (iii) any other sum or liabilities incurred by PBL in entering into the Subconcession Agreement upon closing of the Subconcession Agreement and to indemnify PBL accordingly. The Company agreed to pay to PBL its 40% share of the Deposit (being US\$40,000,000) promptly after the execution of the MOA and the Subconcession Agreement and to fund PBL with 40% of the Deposit in order to enable PBL to pay the Deposit under the Subconcession Agreement. The amount so advanced by the Company is deemed to be an advance made in satisfaction of the Company's obligation to provide total financing of US\$160,000,000 as referred to in (a) of the paragraph immediately above.

The Company and PBL paid their respective proportions of the Deposit (i.e. US\$40,000,000 and US\$60,000,000 respectively) on or before 13 March 2006, as required by the Subconcession Agreement. The Company's proportion of the Deposit has been funded from internal resources of the Group.

PBL agreed under the MOA to indemnify the Company against PBL's failure to carry out its obligations and/or liabilities in accordance with the terms of the Subconcession Agreement and has undertaken to the Company to assume and be responsible for and to pay 60% of (i) the Deposit; (ii) the Premium; and (iii) any other sums or liabilities that may be incurred in entering into the Subconcession Agreement and to indemnify the Company accordingly.

4. Form of Funding

The MOA provides that PBL's funding of PBL Macau shall be made by subscriptions for shares and/or by way of subordinated interest free loans and will be paid at the relevant times as shall be required by the Subconcession Agreement or by the terms of the Subconcession.

The MOA provides that the Company's funding of PBL Macau shall initially be made by way of subordinated interest free loan and not by the subscription of shares.

On the grant of the Subconcession to PBL Macau on completion of the Subconcession Agreement, the issued share capital of PBL Macau will be held as to 90% by PBL Asia and/or other subsidiaries of PBL and, in order to comply with applicable Macau laws and regulations, as to 10% by the Managing Director. The relevant laws and regulations require that at least 10% of the issued share capital of a company which has been granted a gaming concession or subconcession must be owned by the managing director or an executive director of the relevant company, who must be a Macau permanent resident. The Managing Director will hold PBL Macau A Shares (the terms of which are described in the Paragraph headed "Capital Structure of PBL Macau" in this announcement) which have voting rights but have negligible economic value. PBL Asia and/or other subsidiaries of PBL will hold 90% of the issued share capital of PBL Macau in the form of PBL Macau B Shares (the terms of which are described in the Paragraph headed "Capital Structure of PBL Macau" in this announcement) representing substantially all the economic value in PBL Macau. Further details relating to the economic interest of the PBL Macau A Shares and the PBL Macau B Shares are set out in the Paragraph headed "Capital Structure of PBL Macau" in this announcement. The subscription price payable for the shares of PBL Macau to be subscribed by the Managing Director will be funded by PBL Asia and, accordingly, the PBL Macau A Shares held by the Managing Director will be subject to the restrictions of a shareholders' agreement having the principal terms described in paragraph (g) of the section headed "Proposed

Revisions to the Deed” of this announcement. The subscription price payable for shares of PBL Macau to be subscribed for by the Managing Director and PBL Asia and/or other subsidiaries of PBL Asia will together be US\$80,000,000 including the amount of funding provided to the Managing Director by PBL Asia to finance its subscription for PBL Macau A Shares. The remaining funding to PBL Macau will be provided by the Company and PBL (or their respective subsidiaries) each making a subordinated interest free loan of US\$160,000,000 to PBL Macau.

5. Conversion of the Loan

The MOA provides that, subject to the required approvals of the Macau Government or other terms and conditions of the Subconcession, with effect from the grant of the Subconcession and the same coming into force and effect, the Company shall have the right and PBL shall have the right to require the Company, upon the giving of 5 business days’ notice, to convert the Loan into shares of PBL Macau. It is the intention that PBL Macau will be owned by the Joint Venture as to 72% and by PBL Asia as to 18%. In accordance with Macau law, the Managing Director of PBL Macau will have a 10% interest in the equity share capital of PBL Macau as described above. The arrangements provided by the MOA for achieving this ownership structure are described in the section of this announcement below headed “Proposed Shareholding Structure of the Joint Venture Companies and Arrangements for Sharing of Economic Value/Benefits of PBL Macau and the other Joint Venture Companies on a 50:50 Basis”.

The MOA further provides that, if the Macau Government does not give its approval to the Company becoming interested in the issued share capital of PBL Macau, then, unless the parties agree on other arrangements, the Loan shall continue until such time as the consent of the Macau Government is obtained but the parties shall adjust the terms of the Loan and their arrangements to ensure that the Company will share the economic value/benefit (and the associated risks, liabilities, commitments and capital contributions) of the projects and businesses of PBL Macau on a 50:50 basis. There is no long stop date in respect of the obtaining of approval from the Macau Government and the Loan will not be refunded.

6. Shareholders’ Arrangements

The MOA provides that upon the Company becoming interested in the issued share capital of PBL Macau, appropriate agreements will be entered into and/or amendments made to the existing Deed to reflect the principles that:–

- (a) PBL Macau will become a Joint Venture Company and the operation of PBL Macau will be subject to the provisions of the Deed and a shareholders’ deed to be entered into by PBL Macau and its shareholders in relation to PBL Macau, substantially reflecting the terms of the Deed;
- (b) material dealings of or under the Subconcession shall be subject to the unanimous approval of the PBL nominated directors and the directors nominated by the Company on the board of PBL Macau;
- (c) the Company and PBL will share the economic value/benefit (and the associated risks, liabilities, commitments and capital contributions) of all gaming, hospitality and entertainment projects and businesses in Macau currently operated and to be developed by the Joint Venture on a 50:50 basis; and
- (d) all other gaming, hospitality and entertainment projects and businesses of the Joint Venture in the rest of the Territory shall be owned and carried out on a 50:50 basis.

7. Casino Operations

The parties also agreed under the MOA to cause and procure that the relevant Joint Venture Companies enter into lease agreements and commercial agreements with PBL Macau for the lease to PBL Macau of the casino areas (including high roller areas/VIP rooms) and electronic gaming machine lounges owned or developed by the Joint Venture Companies in Macau from time to time, and the operation thereof by PBL Macau under the Subconcession. The parties also agreed to cause PBL Macau to enter into service agreements with relevant Joint Venture Companies in relation to the provision of relevant non gaming services by the relevant Joint Venture Companies (all subject to the requirements and approvals of relevant gaming regulatory authorities in Macau and/or Australia).

8. Condition Precedent

The transactions contemplated under the MOA are conditional upon the approval of the Shareholders as stipulated by the Listing Rules.

C. PROPOSED SHAREHOLDING STRUCTURE OF THE JOINT VENTURE COMPANIES AND ARRANGEMENTS FOR SHARING OF ECONOMIC VALUE/ BENEFITS OF PBL MACAU AND THE OTHER JOINT VENTURE COMPANIES ON A 50:50 BASIS

Melco PBL Holdings is the principal holding company for the Joint Venture. It is a 50:50 joint venture established between the Company and PBL to engage in the businesses of gaming, entertainment and hospitality in the Asia Pacific and Greater China region. The board of directors of Melco PBL Holdings consists of eight directors, of whom four are nominated by PBL and four are nominated by the Company. Each director of the board of directors of Melco PBL Holdings is entitled to one vote at meetings of the Board. The chairman of Melco PBL Holdings is currently James Packer although the right to appoint the chairman alternates on an annual basis between PBL and the Company. The chairman of Melco PBL Holdings will not have a casting vote in the event of an equality of votes at a meeting of the board of Melco PBL Holdings, whether before or after the completion of the proposed arrangements. A tied vote at a meeting of the board of directors of Melco PBL Holdings will result in a deadlock. There are no express provisions in the Deed (and will after completion of the proposed arrangements be no express provisions in the Deed) for the resolution of a deadlock. Neither the Company nor PBL has a casting vote in relation to Melco PBL Holdings.

The existing principal subsidiaries of Melco PBL Holdings include Great Wonders (which is the owner and developer of the Crown Macau luxury hotel project in Taipa Macau), Melco Hotels (which is the owner and developer of the City of Dreams integrated entertainment resort on the Cotai Strip in Macau) and Mocha Slot (which is the services provider to a chain of electronic gaming machine lounges in Macau). On 17 May 2006, a wholly owned subsidiary of the Joint Venture entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a 6,480 square metres site on the Macau Peninsula, for the development of an additional hotel and casino project.

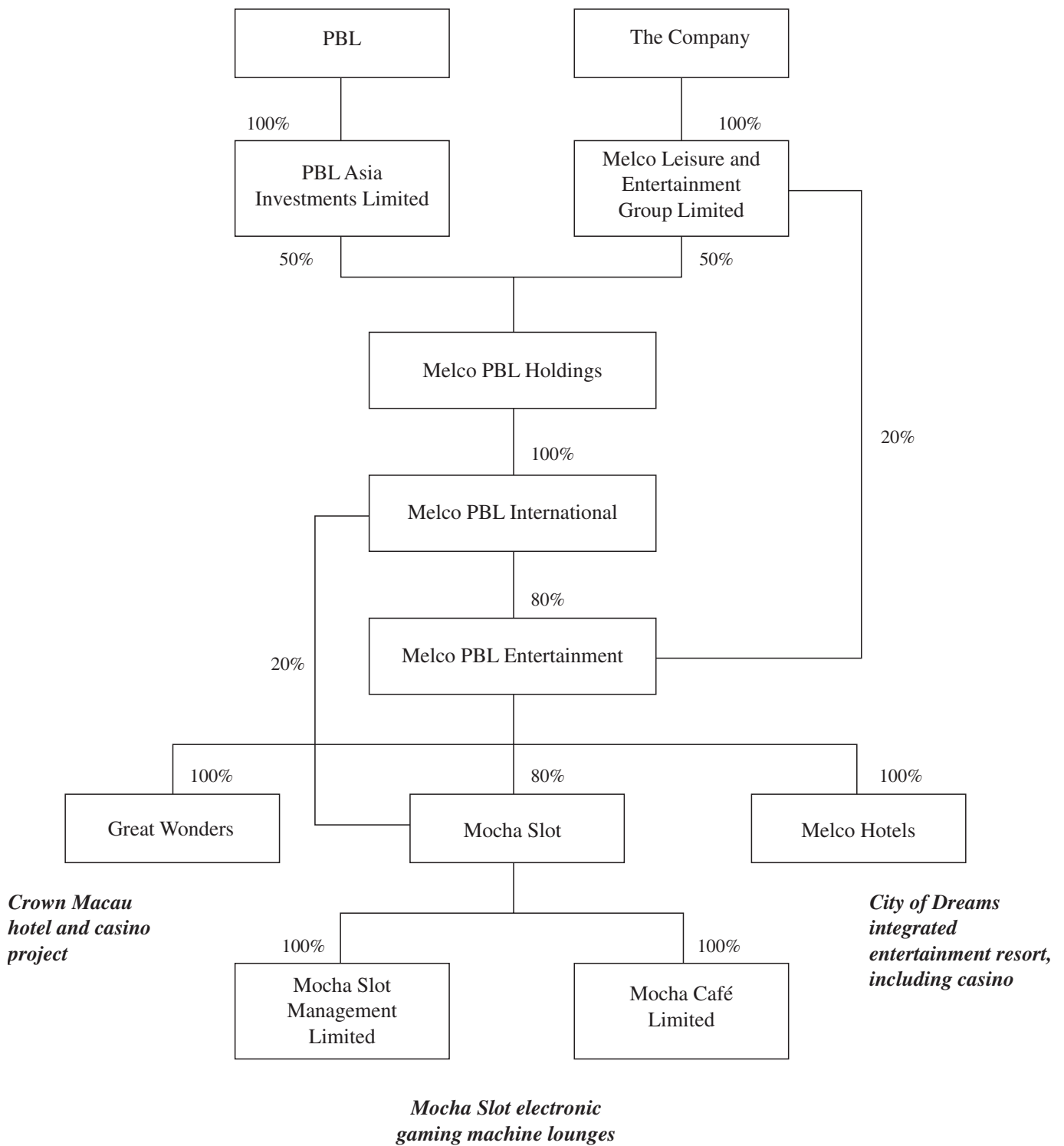
Under the Deed, it was agreed that the Company would have a 60% indirect ownership interest (with PBL holding an indirect 40% ownership interest) in the Joint Venture's gaming, entertainment and hospitality interests in Greater China (including Macau). This was achieved by Melco PBL Holdings indirectly holding an 80% interest and the Company indirectly holding a 20% interest in Melco PBL Entertainment, being the intermediate holding company holding all of the Joint Venture's gaming, entertainment and hospitality interests in Macau. This is shown on the structure chart as set out in this section of the announcement under the

heading “Before the establishment of PBL Macau”. It was also agreed under the Deed that PBL would have a 60% indirect ownership interest (with the Company holding an indirect 40% interest) in the Joint Venture’s gaming, entertainment and hospitality interests in the Territory other than Greater China. It is contemplated by the Deed that this will be achieved by establishing a separate intermediate holding company, to be owned as to 80% by Melco PBL Entertainment and as to 20% by PBL Asia, to hold those interests. As at the date of this announcement, the Joint Venture does not hold any interests in gaming, entertainment or hospitality businesses in the Territory other than in Greater China.

The Memorandum of Agreement entered into by the Company and PBL on 5 March 2006 provided for PBL to have a 60% ownership interest in PBL Macau and for the Company to have a 40% ownership interest, but with arrangements to ensure that the economic value and benefits of PBL Macau (and the associated risks, liabilities, commitments and capital contributions) are shared between the Company and PBL on a 50:50 basis. This structure was subsequently amended by the supplemental agreement to the Memorandum of Agreement dated 5 March 2006 on the basis that the 50:50 sharing of economic value and benefits (and the associated risks, liabilities, commitments and capital contributions) is most easily achieved by PBL Macau becoming a Joint Venture Company and also to reflect the Macau legal requirement for the managing director of PBL Macau, who must be a permanent resident of Macau, to hold not less than a 10% interest in PBL Macau, as described herein.

The existing Joint Venture group structure is shown in the chart below:

Before the establishment of PBL Macau



Note: The wholly owned subsidiary of the Joint Venture which entered into an agreement on 17 May 2006 to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a 6,480 square meters site on the Macau Peninsula, acquired for the development of an additional hotel and casino project, is not shown in the group structure chart because completion of the agreement has not yet occurred.

1. Proposed arrangements to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies

Subject to the approval of the Macau Government, the Company and PBL intend to implement the key commercial agreement contained in the MOA that the economic value/benefits (and the associated risks, liabilities, commitments and capital contributions) of PBL Macau be shared by the Company and PBL on a 50:50 basis, by:–

- (a) PBL Macau becoming a subsidiary of the Joint Venture, with the Joint Venture holding 100% of the PBL Macau B Shares which confer all material economic value and benefits of PBL Macau and which will constitute 72% of the entire issued share capital of PBL Macau.
- (b) The shareholders of PBL Macau other than the Joint Venture will be the Managing Director and PBL Asia. The Managing Director and PBL Asia will each hold PBL Macau A Shares which have the right to vote but have no meaningful economic interest in the profits or other distributions of PBL Macau.
- (c) Accordingly, Melco PBL Holdings, which is indirectly owned as to 50% by the Company and as to 50% by PBL, will hold all the shares of PBL Macau conferring any material economic value or benefits.
- (d) Subject to PBL Macau having become a subsidiary of Melco PBL Holdings, it is intended that the entire issued share capitals of each of Great Wonders and Melco Hotels, being the project companies for the Crown Macau hotel and casino project and the City of Dreams integrated entertainment resort, and the electronic gaming machine business conducted by Mocha Slot and its subsidiaries will be transferred to PBL Macau.

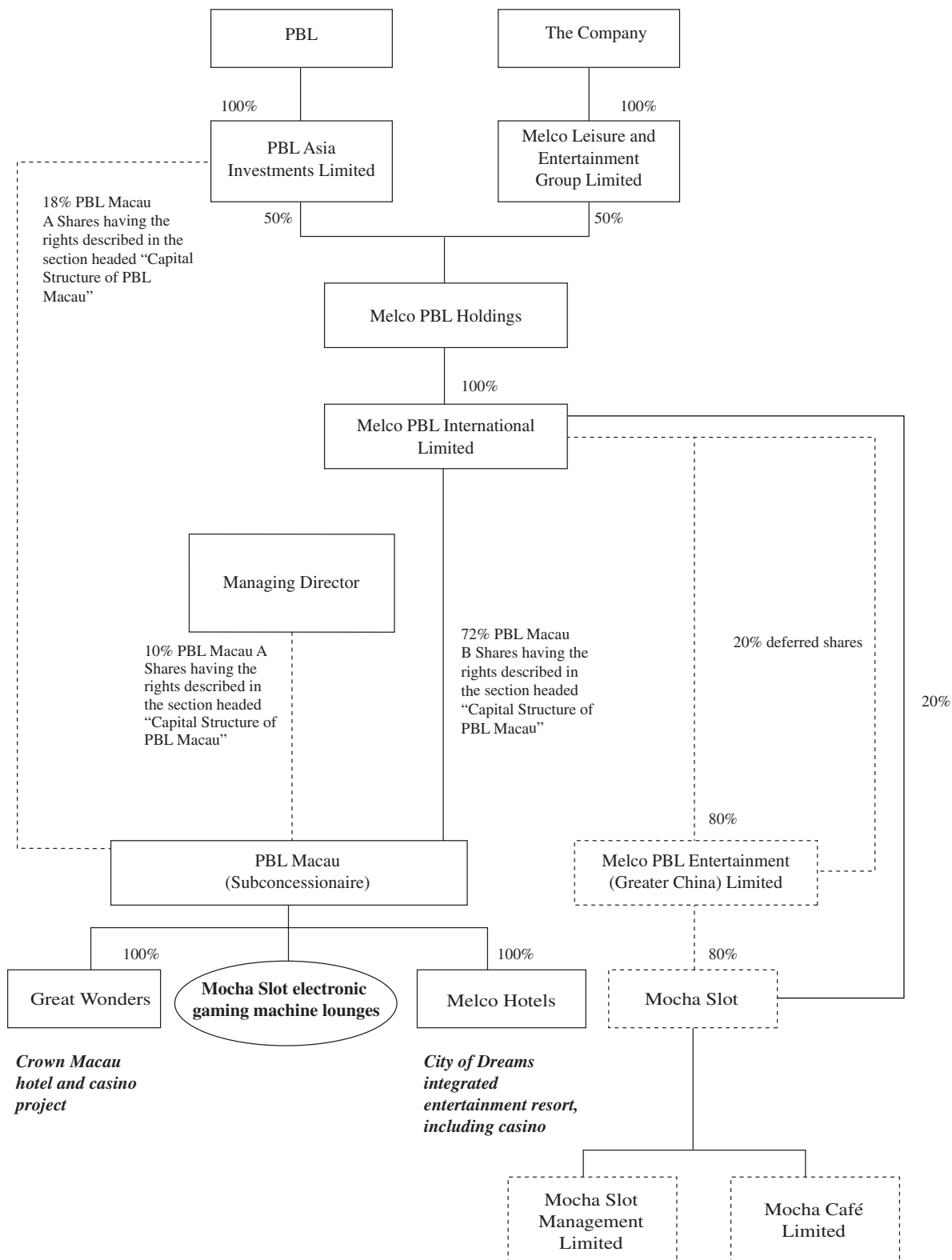
In order to implement the key commercial agreement contained in the MOA that the Company and PBL share the economic value and benefits (and the associated risks, liabilities, commitments and capital contributions) of all other gaming ventures of the Joint Venture in the Territory on a 50:50 basis, the shares representing 20% of Melco PBL Entertainment held directly by the Company's wholly owned subsidiary, Melco Leisure and Entertainment Group Limited, will be amended and reclassified as non-voting deferred shares. The deferred shares will not be entitled to vote at general meetings of shareholders of Melco PBL Entertainment, will not participate in dividends or other distributions and, as a practical matter, will not receive a distribution on a winding-up or liquidation of Melco PBL Entertainment. Accordingly, the non-voting deferred shares will be of negligible economic value and Melco PBL Entertainment will cease to be a subsidiary of the Company as a result. The entire economic value and benefit of Melco PBL Entertainment will be held by the Joint Venture through its holding of the entire issued ordinary share capital of Melco PBL Entertainment, representing 80% of the total issued share capital of that company, and accordingly will be shared by the Company and PBL on a 50:50 basis.

The Joint Venture group structure following completion of the steps referred to above in this section is shown in the Joint Venture group structure chart on the section headed “After the implementation of the arrangements described above to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies”. PBL Macau will not be a subsidiary of the Company. It will be a joint venture company of the Company and will be accounted for in the Company’s accounts on that basis.

Following the completion of the transfers contemplated in (d) above, Melco PBL Entertainment will have no material remaining business or assets. The 20% holding of deferred shares in Melco PBL Entertainment by Melco Leisure and Entertainment Group Limited will either be contributed to the Joint Venture and transferred to Melco PBL International for nominal consideration of no material value, or Melco PBL Entertainment will be liquidated or allowed to remain dormant. Following the transfer of the electronic gaming machine business conducted by Mocha Slot and its subsidiaries to PBL Macau, Mocha Slot and its subsidiaries will have no material remaining business or assets and those companies will be liquidated or allowed to remain dormant.

2. After the implementation of the arrangements described above to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies

The proposed group structure of the Joint Venture Companies after the implementation of the arrangements described above to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies is as follows:



Note: The wholly owned subsidiary of the Joint Venture which entered into an agreement on 17 May 2006 to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a 6,480 square meters site on the Macau Peninsula, acquired for the development of an additional hotel and casino project, is not shown in the group structure chart because completion of the agreement has not yet occurred.

3. Capital structure of PBL Macau

The capital and shareholder structure of PBL Macau (including without limitation, the holding of the 18% shareholding in PBL Macau by PBL Asia) was agreed by the parties after taking into consideration, amongst other things, the Macau regulatory environment, applicable laws and regulations and the fact that the Company and PBL consider that it may be beneficial to the Joint Venture for PBL, an international conglomerate whose securities are listed on the Australian Stock Exchange and one of Australia's largest diversified media and entertainment companies, to act as the majority shareholder of PBL Macau even through the 18% shareholding of PBL Asia in PBL Macau will have effectively no economic interest. Under Macau law, the managing director or an executive director of a company holding a concession or subconcession to operate games of fortune of chance and other casino games must be a Macau permanent resident and hold at least 10% of the share capital of such company. PBL Macau therefore will have in issue two classes of shares – PBL Macau A Shares and PBL Macau B Shares. The PBL Macau A Shares will make up 28% of the total issued shares in PBL Macau (with 10% being held by the Managing Director and 18% held by PBL Asia). The PBL Macau B Shares make up the remaining 72% of the issued shares in PBL Macau and will be held by Melco PBL International. By the articles of association of PBL Macau, the PBL Macau A Shares will carry voting rights but negligible economic interest whereas PBL Macau B Shares have effectively full economic interest in relation to dividends and distributions on a dissolution or liquidation as more particularly described below. The board composition of PBL Macau will (i) prior to PBL Macau becoming a joint venture company comprise of directors nominated by PBL with the Managing Director to be appointed on or prior to the grant of the Subconcession; and (ii) upon PBL Macau becoming a joint venture company, comprise of an equal number of directors nominated by each of PBL and the Company as well as the Managing Director.

Ranking for dividends

The holders of the PBL Macau A Shares are only entitled, in aggregate, to an annual dividend of MOP1.00, while the holders of the PBL Macau B Shares are entitled, in aggregate, to the remaining share of PBL Macau's annual distributable profit.

Ranking for distributions on a dissolution or liquidation

On a dissolution or liquidation of PBL Macau, the holders of the PBL Macau A Shares will only be entitled to a return of an aggregate amount of MOP1.00 without any right to distribution of the liquidation assets of PBL Macau while the holders of the PBL Macau B Shares will be entitled to both a return of capital invested as well as distributions of liquidation assets.

In accordance with Macau law, a Macau permanent resident will be appointed as the Managing Director of PBL Macau, and will hold 10% of the issued share capital of PBL Macau, comprising only PBL Macau A Shares. Before any shares of PBL Macau are issued to the Managing Director, the Managing Director will be required to agree not to sell or transfer any of the Managing Director's PBL Macau A Shares to a third party without prior consent from PBL and approval from the Macau Government. The Managing

Director would also be required to grant PBL the right to require the Managing Director to transfer his/her shares on termination of his/her appointment, for an aggregate consideration of MOP1. Pursuant to the authorisation of the Macau Government, PBL would nominate a person to be the transferee of the Managing Director's Shares.

Upon PBL Macau becoming a Joint Venture Company, PBL Macau will enter into and also be subject to a separate shareholders' agreement, which would include the Managing Director as a party, containing provisions similar to those of the Deed which governs the operation of all the Joint Venture Companies. The shareholders' agreement would require the Managing Director to grant to Melco PBL International an option to acquire the PBL Macau A Shares held by the Managing Director and, if that option is not exercised, entitling PBL Macau to redeem the Managing Director's PBL Macau A Shares for an aggregate consideration of MOP1. In such a case, Melco PBL International will nominate a Managing Director to take up such shares to ensure compliance under Macau laws and requirements for one permanent resident of Macau to be the Managing Director. Under the shareholders' agreement, the Managing Director would not otherwise be permitted to transfer the PBL Macau A Shares held by him/her.

It is anticipated that a partner of a firm of Macau lawyers, independent of the Company and its connected persons, will be appointed as the Managing Director. The appointment of the Managing Director will occur prior to the grant of the Subconcession to ensure compliance with applicable Macau laws and regulations.

In order to give effect to the agreement of the Company and PBL under the MOA that the economic value and benefits (and associated risks, liabilities, commitments and capital contributions) of PBL Macau should be shared by the Company and PBL on a 50:50 basis:

- (a) PBL Macau will be an indirectly held subsidiary of Melco PBL Holdings as shown in the structure chart set out in the section headed "After the implementation of the arrangements described above to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies", with Melco PBL Holdings indirectly owning all the PBL Macau B Shares representing 72% of the issued share capital of PBL Macau, but importantly representing substantially all the economic value of all the issued shares of PBL Macau.
- (b) PBL Asia will directly hold PBL Macau A Shares representing 18% of the entire issued share capital of PBL Macau, but having a negligible economic value. The PBL Macau A Shares held by PBL Asia will be subject to a shareholders agreement pursuant to which PBL Asia will not transfer or sell any of the PBL Macau A Shares without first offering them to Melco PBL International for a purchase for a price of MOP1 in aggregate. The shareholders agreement will also require that PBL Asia will vote the PBL Macau A Shares held by it in the same manner that the voting rights conferred by the PBL Macau B Shares held by Melco PBL International are exercised.
- (c) In order to comply with applicable Macau laws and regulations, the Managing Director will hold PBL Macau A Shares representing 10% of the entire issued share capital of PBL Macau having the right to vote but having a negligible economic value. The PBL Macau A Shares held by the Managing Director will be subject to the shareholders agreement described in paragraph (g) of the section headed "Proposed Revisions to the Deed" in this announcement.

As referred to above, the proposed structure described above which contemplates PBL Macau becoming a Joint Venture Company and the entering into of various shareholders agreements requires Macau Government Approval.

4. Detailed Implementing Steps

On the grant of the Subconcession to PBL Macau on completion of the Subconcession Agreement, the issued share capital of PBL Macau will be held as to 90% by PBL Asia and/or other subsidiaries of PBL and, in order to comply with applicable Macau laws and regulations, as to 10% by the Managing Director. The relevant laws and regulations require that at least 10% of the issued share capital of a company which has been granted a gaming concession or subconcession must be owned by the managing director or executive director of the relevant company, who must be a Macau permanent resident. The Managing Director will hold PBL Macau A Shares (the terms of which are described above) having negligible economic value. The subscription price payable for the shares of PBL Macau to be subscribed by the Managing Director will be funded by PBL Asia and, accordingly, the PBL Macau A Shares held by the Managing Director will be subject to the restrictions of a shareholders' agreement having the principal terms described in this section above.

The remaining funding required by PBL Macau will be provided by the Company and PBL (or their respective subsidiaries) each making a subordinated interest free loan of US\$160,000,000 to PBL Macau.

The detailed implementing steps for PBL Macau to become a Joint Venture Company and to achieve a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies are, subject to approval by the Macau Government, proposed to be as described below:–

- (a) the Loan of US\$160,000,000 to PBL Macau, which will be subordinated to third party bank loans, provided or caused to be provided by the Company and the loan of US\$160,000,000 to PBL Macau provided or caused to be provided by PBL, will be repaid in full by PBL Macau to the Company and PBL, respectively;
- (b) the Company and PBL will each invest an amount of US\$160,000,000 (representing the amount of the loan repaid to each of them by PBL Macau) in Melco PBL Holdings by way of subscription for shares of Melco PBL Holdings or as shareholders' loans;
- (c) Melco PBL Holdings will invest the entire amount of US\$320,000,000 received by it in Melco PBL International, either by way of subscription for shares of Melco PBL International or as shareholders' loans or as additional capital contributions or otherwise;
- (d) Melco PBL International will invest the entire amount of US\$320,000,000 received by it in PBL Macau by way of:
 - (i) subscription by Melco PBL International for new PBL Macau B Shares having the rights described in the section headed "Capital Structure of PBL Macau" above; and

- (ii) the provision of additional funding to the Managing Director to subscribe for new PBL Macau A Shares sufficient to maintain the shareholding of the Managing Director at 10% following the subscription for new PBL Macau B Shares by PBL. The additional PBL Macau A Shares to be subscribed by the Managing Director will be issued upon and subject to the terms and conditions of the shareholders' agreement described in paragraph (g) of the section headed "Proposed Revisions to the Deed" of this announcement;
- (e) the shares of PBL Macau originally subscribed by PBL Asia for an aggregate amount of US\$80,000,000 (less the amount of funding provided to the Managing Director to finance the initial subscription for PBL Macau A Shares by the Managing Director), will be varied and reclassified as PBL Macau A Shares having the rights described in the section headed "Capital Structure of PBL Macau" above;
 - (f) subject to approval from the Macau Government having been obtained for PBL Macau to become a Joint Venture Company and either subject to the steps referred to in (a) to (e) above having been completed or substantially simultaneously with the completion of those steps:–
 - (i) the entire issued share capital of Great Wonders, the project company for the development of the Crown Macau hotel and casino project, will be transferred to PBL Macau by Melco PBL Entertainment for nominal consideration;
 - (ii) the entire issued share capital of Melco Hotels, the project company for the City of Dreams integrated entertainment resort, will be transferred to PBL Macau by Melco PBL Entertainment for nominal consideration; and
 - (iii) the electronic gaming machine business of Mocha Slot and its subsidiaries will be transferred to PBL Macau for nominal consideration.

Following completion of the steps referred to in (a) to (f) above, PBL Macau will be a Joint Venture Company in respect of which Melco PBL International will hold all the shares having any material economic value or benefit and PBL Macau will hold all of the Joint Venture's existing gaming, entertainment and hospitality businesses in Macau. Melco PBL Entertainment and Mocha Slot and its subsidiaries will have no material assets or operations remaining after completion of the transfers referred to in paragraph (f) above. The 20% holding of deferred shares in Melco PBL Entertainment by Melco Leisure and Entertainment Group Limited will either be contributed to the Joint Venture and transferred to Melco PBL International for nominal consideration of no significant value or Melco PBL Entertainment will be liquidated or allowed to remain dormant. Mocha Slot and its subsidiaries will be liquidated or allowed to remain dormant. The transfer of the 20% holding of deferred shares is considered by the Directors to be fair and reasonable and in the interest of the shareholders as a whole as the deferred shares do not carry any material economic value or benefit.

Prior to the establishment of PBL Macau and the implementation of the transactions contemplated by the MOA, the Company has a 60% economic interest in Melco PBL Entertainment, with PBL having the remaining 40% economic interest. Under the MOA, the Company will provide 40% of the funding required in connection with the grant of the Subconcession to PBL Macau and, following the grant of the Subconcession by the Macau Government to PBL Macau and the completion of the transactions contemplated by the MOA, the Company and PBL will each have a 50% economic interest in PBL

Macau (as holder of the Subconcession) and in all other gaming, entertainment and hospitality projects of the Joint Venture in the Territory, both in Greater China and in other jurisdictions in the Territory. These arrangements were concluded by the Company and PBL on the basis of arm's length negotiations between them and the Directors (including the independent non-executive Directors) consider that these arrangements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The respective economic values of an interest in Melco PBL Entertainment and an interest in PBL Macau are closely inter-related, because the projects and businesses currently carried on by Melco PBL Entertainment and its subsidiaries will, following the grant of the Subconcession to PBL Macau by the Macau Government, be operated by PBL Macau under the Subconcession. Accordingly, the respective economic values of PBL Macau and Melco PBL Entertainment and its subsidiaries would be determined in large part by the revenue sharing arrangements agreed between PBL Macau and the subsidiaries of Melco PBL Entertainment carrying on the relevant project or business. The reorganisation described above provides for Great Wonders, Melco Hotels and the Mocha Slot electronic gaming machine lounges business to be transferred to, and to be wholly owned by, PBL Macau and, accordingly, on that basis, the respective economic values to be derived from PBL Macau and Melco PBL Entertainment and its subsidiaries should be considered on a unified basis. The acquisition of an interest in the Subconcession to be held by PBL Macau is incremental and beneficial to the existing businesses carried on by Melco PBL Entertainment and its subsidiaries and the Directors (including the independent non-executive Directors) consider that the terms of the reorganisation described above are beneficial for the Company and in the interests of the Company and its shareholders.

D. PROPOSED REVISIONS TO THE DEED

1. Proposed Revisions

The Deed relates to, among other things, the operation of Melco PBL Holdings and the relationship between the Company and PBL in respect of Melco PBL Holdings and the other Joint Venture Companies. Following PBL Macau becoming a Joint Venture Company as described above, the Deed will apply to the operation of PBL Macau and its business as a Joint Venture Company. The MOA provides for the Deed to be amended to reflect the agreement that all existing and future gaming ventures of the Joint Venture in the Territory will be owned and carried on on a 50:50 basis. The proposed amendments to the Deed include certain provisions to clarify the relationships between the parties as well as certain administrative amendments and will include the shareholders arrangements relating to PBL Macau. A separate shareholders' agreement will also be entered into between the PBL Macau and its shareholders upon PBL Macau becoming a Joint Venture Company, substantial reflecting the terms and arrangement as set out in the Deed.

The key proposed amendments are as follows:–

- (a) The provisions relating to Melco Leisure and Entertainment Group Limited's right to nominate an additional director to the board of any specified Joint Venture Company incorporated pursuant to the provisions of the Deed for the purpose of carrying on a business in the Greater China Region will be removed. Similarly, PBL Asia's right to nominate an additional director to the board of any Joint Venture Company incorporated for the purpose of carrying on a business in jurisdictions in the Territory other than the Greater China Region will also be removed. The provisions conferring the right on each holder of class A shares in Melco PBL Holdings and class B shares in Melco PBL Holdings to appoint an equivalent number of directors to the board of each subsidiary of Melco PBL Holdings will be retained.
- (b) Subject to the adoption of a dividend policy by a resolution of not less than two thirds of the board of directors of Melco PBL Holdings and other provisions in any approved business plan or budget for any financial year, the directors of Melco PBL Holdings shall cause to be declared and the shareholders of Melco PBL Holdings agree to approve dividends or otherwise to cause a distribution by Melco PBL Holdings of not less than 75 per cent. of the consolidated profits of Melco PBL Holdings and its subsidiaries available for distribution in a financial year, to be made after 30 March and prior to 30 June following such financial year, save that no dividends shall be declared prior to 30 March 2007. The provisions relating to preparation of the business plan are amended to also include information about dividends.
- (c) Melco PBL Holdings shall issue to its shareholders a certificate of funding immediately upon receiving funds from such shareholder.
- (d) In relation to the restrictions on share transfers set out in the Deed, it is clarified that any failure of any permitted transferee, being a wholly owned subsidiary of PBL or PBL Asia or of the Company or Melco Leisure and Entertainment Group Limited, to execute a deed of adherence relating to the Deed or a failure to transfer its shareholdings in the Company to a permitted transferee within 5 business days of it ceasing to be a wholly owned subsidiary of a shareholder of Melco PBL Holdings or ceasing to be a permitted transferee, will constitute an event of default for the purpose of the Deed.
- (e) If on or after 1 April 2007 a relevant gaming regulatory authority directs either the Company or PBL or any other member of their respective groups in writing to terminate the arrangements contemplated by the Deed or takes any decision likely to have a material adverse effect on any of the rights or benefits of either the Company or PBL in relation to the arrangements contemplated by the Deed or in respect of any other business carried on directly or indirectly by them, then notwithstanding any other provisions of the Deed restricting a transfer of shares in the Joint Venture prior to a specified date, a transfer of shares in accordance with the regulatory requirements will be permitted and the existing provisions of the Deed relating to selling to third parties and tag along rights will be applicable to facilitate such a transfer.

(f) If prior to 31 March 2007 as a result of any matters arising out of their review of PBL's relationship with the Company, the Victorian Commission for Gambling Regulation (under Section 28A of the Casino Control Act 1991(Vic)) or the Western Australian Gaming Wagering Commission (under Section 21A of the Casino Control Act 1984 (WA)):-

- (i) requires PBL or its group companies in writing to terminate specified definitive documents such as the Deed or otherwise terminate its relationship with the Company or the Group companies or their respective connected persons, the Joint Venture Companies or any person with a direct or indirect contractual or other relationship with the Group or the Joint Venture Companies; or
- (ii) makes any decision which would be likely to have a material adverse effect on any of the rights or benefits of PBL or its group companies, either under any of the specified definitive documents such as the Deed or in respect of any other business carried on directly or indirectly by PBL or its group companies,

then, in either case, PBL Asia will have a put option to require the Company to purchase all or, in the event that the relevant regulatory authority requires disposal of only part of its shareholding, then part only of its shares in Melco PBL Holdings with the sale price being the amount equal to the aggregate amount or proportionate amount of funds contributed by PBL Asia to Melco PBL Holdings and PBL Macau. Such provisions will apply to the exclusion of the provisions set out in paragraph (e) above.

(g) The scope of the Deed will be amended to include the shareholders' arrangements relating to PBL Macau so that the provisions relating to the operation of Melco PBL Holdings and the other Joint Venture Companies will apply to PBL Macau upon PBL Macau becoming a Joint Venture Company and the proposed group structure as set out in the section headed "After implementation of the arrangements described above to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies" of this announcement having been put in place. Melco PBL International and PBL Asia will enter into a separate shareholders agreement in relation to PBL Macau governed by the law of Macau SAR which will replicate the relevant provisions of the Deed. In the Deed and/or such shareholders' agreement, it will be specified that PBL Asia may only exercise its voting rights in relation to its shareholding in PBL Macau in the same manner as Melco PBL International. As such, the voting rights in relation to the 18% and 72% respectively held by PBL Asia and Melco PBL International will effectively be controlled by the Joint Venture. In accordance with applicable requirements of the Macau Government, there will be no restrictions on the voting rights in relation to the 10% held by the Managing Director.

As referred to in the Announcement, the Memorandum of Agreement entered into by the Company and PBL on 5 March 2006 contemplated that, although the economic value and benefits of PBL Macau (and the associated risks, liabilities, commitments and capital contributions) would be shared by the Company and PBL on a 50:50 basis, the shares in PBL Macau would be held by the Company and PBL in the proportions of 40% and 60% respectively and that a separate shareholders agreement would be entered into in relation to PBL Macau to ensure that it is effectively operated as a 50:50 joint venture of the Company and PBL. However, as part of the further elaboration of the

detailed implementation of the key commercial agreements set out in the 5 March 2006 Memorandum of Agreement and as a term of the supplemental agreement entered into by the same parties on 26 May 2006 amending the original Memorandum of Agreement, it is now considered, and has been agreed in the amended MOA, that the key commercial objectives that the economic value and benefits of PBL Macau (and the associated risks, liabilities, commitments and capital contributions) be shared between the Company and PBL on a 50:50 basis and that PBL Macau be effectively operated as a 50:50 joint venture between the Company and PBL are better achieved by PBL Macau becoming a subsidiary of Melco PBL Holdings on the basis shown in the structure chart set out above and described in the previous sections.

Following PBL Macau becoming a subsidiary of Melco PBL Holdings, PBL Macau will, subject to the approval of the Macau Government, then be subject to the provisions of the Deed (to be amended as described above) which governs the management and operation of Melco PBL Holdings and its subsidiaries. Melco PBL International, PBL Asia and the Managing Director will enter into a separate shareholders agreement in relation to PBL Macau governed by the law of Macau SAR which will replicate the relevant provisions of the Deed.

2. Further Modifications Required by the Macau Government

The foregoing describes the proposed arrangements and detailed implementing steps to effect a 50:50 sharing between the Company and PBL of the economic value and benefits of PBL Macau and the Joint Venture Companies. The foregoing is subject to the approval of, and any further modifications or amendments required by, the Macau Government. Based on discussions to date with the Macau Government, although the Macau Government may require modifications or amendments to be made to the detailed implementing steps to effect a 50:50 sharing of the economic value and benefits of PBL Macau and the Joint Venture Companies between the Company and PBL, it is not anticipated that any such modifications or amendments would change the economics of, or make any other substantive changes to the commercial terms of, the proposed arrangements.

3. Proposed arrangements to effect a 50:50 sharing of the economic value and benefits of PBL Macau if Macau Government approval cannot be obtained for PBL Macau to become a Joint Venture Company

As referred to in the MOA, Macau Government approval is required for PBL Macau to become a Joint Venture Company. The MOA provides that if the Macau Government does not give its approval for PBL Macau to become a Joint Venture Company, then the Company's participation in PBL Macau shall remain in the form of the Loan until such time as the consent of the Macau Government is obtained, but the Company and PBL shall adjust the terms of the Loan and their arrangements to ensure that the Company will share the risks, liabilities, commitments, capital contributions and economic value and benefits of PBL Macau on a 50:50 basis.

There is no long stop date in relation to the completion of the transactions contemplated by the MOA. Furthermore, the Board are confident that the required approval of the Macau Government can be obtained by the Company. However, in the event that it is not, the terms of the Loan and the terms of the US\$160,000,000 loan to PBL Macau advanced by PBL Asia would each be amended so that they will be held as participating convertible bonds with a maturity date of 80 years from their date of issue. Such participating convertible bonds will only be issued in the event that the Subconcession

is granted to PBL Macau and if Macau Government Approval cannot be obtained for PBL Macau to become a Joint Venture Company. Subject to obtaining the approval of the Macau Government for the conversion, each participating convertible bond would be convertible into PBL Macau B Shares representing 50% of the aggregate number of PBL Macau B Shares to be issued on conversion of all the participating convertible bonds outstanding. All other shares of PBL Macau in issue at the time of conversion which are not already PBL Macau A Shares would be amended and reclassified as PBL Macau A Shares on conversion of the participating convertible bonds and the shareholders of PBL Macau would be parties to the participating convertible bonds documents in order to achieve this. Following conversion of the participating convertible bonds, the operations and management of PBL Macau would be subject to one or more shareholders' agreements which would replicate the provisions of the Deed and the shareholders' agreements described above which would apply if PBL Macau becomes a Joint Venture Company.

The participating convertible bonds held by the Company and PBL (or their respective subsidiaries) would each be assigned by their respective holders to Melco PBL International, as additional contributions by the Company and PBL (or their respective holders) to the Joint Venture. All of the participating convertible bonds outstanding would be required to be converted promptly following Macau Government approval having been obtained which would permit conversion. Partial conversion of the participating convertible bonds would not be permitted.

Prior to the conversion of the participating convertible bonds, no dividends would be permitted to be paid or other distributions made in respect of any shares of PBL Macau without the prior consent of Melco PBL International as bondholder and the bondholder would be entitled to a participation right the terms of which would entitle Melco PBL International to substantially all the economic value and benefits of PBL Macau. The participating convertible bonds would contain a list of matters relating to PBL Macau and its subsidiaries requiring the prior consent of Melco PBL International as bondholder, in order to protect the rights of the bondholders.

The Deed would require that any consent to be given by Melco PBL International as bondholder would only be given if the giving of the consent is approved by a unanimous resolution of the board of directors of Melco PBL International.

E. TERMINATION OF ARRANGEMENTS WITH SJM

As referred to above, on 4 March 2006, SJM and Great Wonders mutually terminated the letter of confirmation issued by SJM dated 11 November 2004 (which was countersigned by Great Wonders) relating to a proposed lease agreement between SJM and Great Wonders for the operation of the Joint Venture's Crown Macau casino which has not yet commenced operation. It is anticipated that the Crown Macau casino, together with the City of Dreams integrated entertainment resort casino, will be operated by PBL Macau under the Subconcession, following the grant of the Subconcession.

As announced by the Company on 23 March 2006, in contemplation of the potential grant of the Subconcession to PBL Macau and the continuation of the Mocha Slot gaming machine lounges under the Subconcession of PBL Macau, the Company, Mocha Slot, Mocha Slot Management Limited and SJM entered into a termination agreement on 15 March 2006 pursuant to which the parties to the termination agreement have agreed that the existing service agreements with SJM relating to the operation of the Joint Venture's electronic

gaming machine lounges and the related leases and/or sub-leases of the relevant premises will be terminated. The termination of those arrangements will facilitate the operation of the Mocha Slot electronic gaming machine lounges by PBL Macau under the Subconcession, following the grant of the Subconcession. This will be beneficial to the Company because the Joint Venture will retain 100% of the gross gaming revenues from the Mocha Slot gaming machine lounges, rather than receiving a proportion of those gross gaming revenues from SJM under the existing arrangements with SJM.

The arrangements with SJM has been terminated. Accordingly, if the Transactions are not approved by the shareholders then the Group would not be able to operate the Mocha Slot business until it had entered into a new arrangement with a person holding a concession or subconcession to conduct the gaming business in Macau, whether SJM or another concession or subconcession holder. The Company will negotiate with various concession and/or subconcession holders to discuss any possible new arrangements to be entered into in relation to its Mocha Slot business if and when shareholders' approval cannot be obtained.

F. TRANSFER OF INTEREST IN MOCHA SLOT AND PREVIOUS FUNDING OF JOINT VENTURE

As disclosed in the Company's announcement dated 9 May 2006, Melco PBL International entered into a sale and purchase agreement with Dr. Stanley Ho on 9 May 2006 in relation to the sale by Dr. Stanley Ho to Melco PBL International of all of his shareholding in Mocha Slot, representing 20% of the issued share capital of Mocha Slot, and a shareholder's loan advanced by Dr. Stanley Ho to Mocha Slot in the amount of approximately HK\$45.7 million. The sale and purchase of such shares and assignment of such shareholders' loan under the sale and purchase agreement including the payment of consideration were completed on the same date. As it is intended that the business of Mocha Slot will be conducted by the Joint Venture, it was reasonable for the purchase to be made by a Joint Venture Company and for the Joint Venture to bear the cost of acquisition.

It was agreed that the consideration payable in relation to the purchase of 20% shareholding of Mocha Slot by Melco PBL International would be paid by way of shareholders' loan to be contributed by the Company and PBL on a pro rata basis. Accordingly, at or around completion, each of the Company and PBL respectively advanced its 50% share of the consideration to Melco PBL International. The amount of the consideration was left outstanding as two shareholder's loans in the amount of approximately HK\$147.85 million each due and owing from Melco PBL International to each of the Company and PBL. These shareholders' loans carry interest at the rate of 9% per annum.

All other existing projects in the Joint Venture are owned by Melco PBL Entertainment, which is a subsidiary of the Company. All previous funding for projects of the Joint Venture by the Company or its subsidiaries (other than for the acquisition of the 20% shareholding in Mocha Slot referred to above and the initial subscription monies paid by Melco Leisure and Entertainment Group Limited for the subscription of 100 shares of US\$0.01 each in Melco PBL Holdings of US\$1.00) was provided to Melco PBL Entertainment, the Company's subsidiary, by way of shareholders loan to develop the projects held by Melco PBL Entertainment. This funding provided to a subsidiary is exempted from the definition of "transaction" under Rule 14.04(1)(e)(ii) and thus will not be subject to the requirements of Chapter 14 of the Listing Rules. However, in the future, the forms of funding provided by the Company to the Joint Venture may be changed, in which case, any such change in forms of funding will be subject to relevant disclosure and/or approval requirements under the Listing Rules and the Company will ensure full compliance with the applicable provisions of the Listing Rules.

G. INFORMATION ON THE GROUP

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

H. INFORMATION ON PBL

PBL is a company incorporated in Australia and whose securities are listed on the Australian Stock Exchange. PBL is one of Australia's largest diversified media and entertainment companies, the core businesses of which include television production and broadcasting, magazine publishing and distribution, as well as gaming and entertainment. Through its wholly owned subsidiary, Crown Limited, PBL operates one of the largest entertainment 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, both located in Melbourne, Australia.

I. REASONS AND BENEFITS FOR ENTERING INTO THE MOA AND THE TRANSACTIONS

As the Company does not currently have any interest in the ownership of a concession or subconcession to operate gaming businesses and casinos in Macau, the Company has to rely on certain lease and other commercial agreements with SJM to operate the Joint Venture's gaming projects and businesses. Upon the granting of the Subconcession to PBL Macau, the Company and PBL intend to operate all their gaming projects and businesses in Macau under the Subconcession, subject to the finalization of the arrangements contemplated under the MOA, by procuring the relevant project companies (including Great Wonders and Melco Hotels) and Mocha Slot or its relevant subsidiaries to enter into lease agreements and commercial agreements with PBL Macau and such gaming projects and businesses will then operate under the Subconcession. As referred to above, the Company has agreed with SJM to terminate the existing lease arrangements in respect of the Mocha slots lounge operation with SJM and has terminated the letter of confirmation issued by SJM dated 11 November 2004 relating to the Crown Macau.

Also, as described in the section headed "Detailed Implementing Steps" in this announcement, the electronic gaming machine business of Mocha slot and its subsidiaries will be transferred to PBL Macau. It is intended that the Casino and Mocha business of the Joint Venture will be operated by PBL Macau under the Subconcession.

The Directors believe that the leisure and entertainment business provides strong future growth prospects. According to the Macau DICJ, the gross revenue generated from games of fortune for the past three years experienced significant growth from approximately MOP27,849 million (approximately HK\$27,038 million) in 2003 to approximately MOP44,725 million (approximately HK\$43,422 million) in 2005. Given there will be a number of new openings of gaming, hospitality and entertainment activities in Macau in the years to come, the Directors are confident that the relevant revenue, in particular the revenue from games of fortune, will continue to increase. Once the Subconcession is granted to PBL Macau, the Directors are optimistic that the Company and its joint venture partner, PBL could make good use of such Subconcession to expand the Joint Venture's gaming business in Macau to tap on the growth of the gaming industry there. The Company has a proven history in such business operations, which have generated good profits for investors. Since there are only a

limited number of concessions and subconcessions available for the operation of casinos in Macau, the Subconcession to be owned by PBL Macau is a valuable asset which will enhance the future profitability of the Company and the interests of the Shareholders. Gaining an equity interest in PBL Macau and the subsequent conclusion of the arrangements between the Company and PBL as shareholders of PBL Macau and the other Joint Venture Companies, in the manner described above, are expected to facilitate the efficient operation of the Group and give the Group more flexibility in operating its gaming business in Macau, as the Directors strongly believe that PBL Macau could make good use of such Subconcession to expand its gaming business in Macau without, or minimizing its reliance on, other gaming concession holders.

The Directors also believe that the Transactions not only secure the Company's future business in the leisure and entertainment industry, but also provide a good opportunity for the Group to extend its operation coverage and product offering into the industry.

Further information relating to the reasons and benefits for the entering into for the Transaction as well as a valuation report in relation to the Subconcession will be set in the circular to be despatched on or before 30 May 2006.

J. BASIS OF DETERMINATION OF THE LOAN PROVIDED BY THE COMPANY

The Loan is provided to PBL Macau for the purpose of acquiring the Subconcession. The amount of such Loan and the terms on which it is provided were determined with reference to the Premium payable under the Subconcession Agreement. The Premium of US\$900,000,000 was determined between PBL and Wynn Macau based on arm's length negotiations, with reference to the performance and prospects of the gaming industry in Macau. As mentioned above it is the intention of the Company and PBL that part of the Premium in the sum of US\$500,000,000 will be funded by means of non-recourse finance to be arranged by PBL Macau, failing which the Company will be responsible for 40% of such sum, being US\$200,000,000. If non-recourse financing on acceptable terms cannot be obtained, it is contemplated that the Company will finance such additional sum required to be paid by it by way of internal financial resources and, if necessary, raising debt and/or equity financing and that the balance of the Premium would be funded by capital contributions from the Company and PBL on a 40:60 basis. The Loan, which will be funded from internal resources of the Group, represents 40% of the initial capital contributions to the Premium for the Subconcession agreed to be paid by PBL and the Company in aggregate.

The Directors (including the Independent Non-executive Directors) consider that the terms of the MOA were entered into after arm's length negotiations between the parties thereto and that the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into consideration the benefits brought to the Group as described under the paragraph headed "Reasons and benefits for entering into the MOA" above.

K. IMPLICATIONS UNDER THE LISTING RULES

The Transactions constitute major transactions for the Company under Rule 14.08 of the Listing Rules. The Transactions include, without limitation, the reclassification of the existing 20% shareholding in Melco PBL Entertainment held by Melco Leisure and Entertainment Group Limited into non-voting deferred shares whereby such shares will carry negligible economic interest. The reclassification of such shares into non-voting deferred shares will be a disposal for the purpose of Chapter 14 of the Listing Rules as upon such reclassification, Melco PBL Entertainment will cease to be a subsidiary of the Company. In addition to the Loan and other funding commitments under the MOA, the proposed acquisition of an equity

interest in PBL Macau and the amendments to the Deed, all as described above, the Transactions also include Melco PBL Entertainment ceasing to be a subsidiary of the Company, and the disposal of Great Wonders and Melco Hotels and the business and operations of Mocha Slot and its subsidiaries to PBL Macau at the point in time when PBL Macau is to become a Joint Venture Company. PBL Macau will not be a subsidiary of the Company but will be a joint venture of the Company and will be accounted for as such. The Transactions continue to constitute major transactions for the Company under Rule 14.08 of the Listing Rules when Melco PBL Entertainment ceasing to be a subsidiary of the Company and the transfers of Great Wonders, Melco Hotels and the business and operations of Mocha Slot and its subsidiaries are taken into account.

Therefore, the Transactions are subject to the approval of the Shareholders (by way of poll) at the EGM. Under Rule 14.46 of the Listing Rules, the Stock Exchange will require any Shareholder of the Company and his associates to abstain from voting at the EGM on the relevant resolution if such Shareholder has a material interest in the Transactions. In this case, to the best of the knowledge and belief of the Directors, there are no Shareholders having a material interest in the Transactions for the purposes of Rule 14.46 of the Listing Rules accordingly, all Shareholders are entitled to vote on the resolution to be proposed at the EGM. The resolution to be proposed at the EGM will be taken on a poll.

L. GENERAL

An independent board committee of the Company comprising its independent non-executive Directors has been appointed to advise the Shareholders on whether or not the terms of the MOA and the transactions contemplated thereunder are fair and reasonable and in the interests of the Shareholders as a whole. A circular containing, among other things (i) further information on the MOA; (ii) the recommendation from the independent board committee of the Company in respect of the transactions contemplated under the MOA; (iii) a letter of advice from the independent financial adviser to the independent board committee of the Company in respect of the transactions contemplated under the MOA; and (iv) a notice of EGM will be dispatched to the Shareholders on or before 30 May 2006.

In accordance with the requirements of the Stock Exchange, the Company will use its best endeavours in its capacity as a joint venture partner of PBL to ensure that the gaming activities carried out or to be carried out by the Joint Venture shall be in compliance with the applicable laws; and/or will not contravene the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong). Shareholders are reminded that, in accordance with the guidelines relating to gambling activities, in the event that the two circumstances above are not fulfilled, the Stock Exchange, may, depending on the circumstances of the case, direct the Company to take remedial action, and/or suspend dealings in, or may cancel the listing of, the Shares under Rule 6.01 of the Listing Rules. The Company will use its best endeavors to ensure active trading and maintain the listing status of the Shares.

As at the date hereof, the Board comprises three Executive Directors, namely, Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Clarence Chung; a Non-executive Director, namely, Mr. Ng Ching Wo; and the two Independent Non-executive Directors, namely, Sir Roger Lobo and Dr. Lo Ka Shui.

DEFINITIONS

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

“Announcement”	the announcement dated 9 March 2006 of the Company relating to the major and connected transactions regarding the acquisition of subconcession for pursuance of gaming business in Macau
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Deed”	a shareholders deed dated 8 March 2005 entered into between the Company, Melco Leisure and Entertainment Group Limited, PBL, PBL Asia and Melco PBL Holdings relating to the affairs of Melco PBL Holdings. The principal terms of the shareholders deed have been disclosed in the circular of the Company dated 5 January 2005, and include, among others, that (i) the Company and PBL will be interested in the projects and operations of all gaming and hospitality businesses jointly developed by them in the Greater China Region on a 60:40 basis; and (ii) the Company and PBL will be interested in the projects and operations of all gaming and hospitality businesses jointly developed by them in the Territory other than the Greater China Region on a 40:60 basis
“Deposit”	a deposit in the sum of US\$100,000,000 which shall be applied towards payment of the Premium
“Director(s)”	the director(s) of the Company
“Dr. Stanley Ho”	Dr. Ho Hung Sun, Stanley, the former Chairman and a former executive Director of the Company, who resigned from those positions on 15 March 2006
“EGM”	the extraordinary general meeting of the Company convened to consider and approve the Transactions and any adjournment of that meeting
“Greater China Region”	the PRC, Hong Kong, Macau and Taiwan
“Great Wonders”	Great Wonders Investments, Limited, a company incorporated in Macau which is wholly owned by Melco PBL Entertainment and is, therefore, a subsidiary of Melco PBL Holdings and a Joint Venture Company

“Group”	the Company and its subsidiaries from time to time and a “member of the Group” shall be construed accordingly
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Joint Venture”	the joint venture established between the Company and PBL to undertake gaming, entertainment and hospitality businesses in the Territory
“Joint Venture Companies”	Melco PBL Holdings and its subsidiaries from time to time, including the following principal subsidiaries as at the date of this announcement: <ul style="list-style-type: none"> (a) Great Wonders, which is the owner and developer of the Crown Macau hotel and casino project in Taipa Macau; (b) Melco Hotels which is the owner and developer of the City of Dreams integrated entertainment resort on the Cotai Strip in Macau; and (c) Mocha Slot, which is the services provider to a series of electronic gaming machine lounges in Macau
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	a subordinated interest free loan of US\$160,000,000 to be made by the Company to PBL Macau to partly fund the Premium
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Macau Government”	the Government of Macau and the relevant governmental and other regulatory bodies in Macau responsible for the regulation and supervision of gaming business in Macau
“Managing Director”	the managing director of PBL Macau who is required under Macau law, following the grant of the Subconcession to PBL Macau, to be a Macau permanent resident and to hold not less than 10% of PBL Macau’s issued share capital
“Melco Hotels”	Melco Hotels and Resorts (Macau) Limited, a company incorporated in Macau which is wholly owned by Melco PBL Entertainment and is, therefore, a subsidiary of Melco PBL Holdings and a Joint Venture Company

“Melco PBL Entertainment”	Melco PBL Entertainment (Greater China) Limited, a company incorporated in the Cayman Islands which is owned as to 80% indirectly by Melco PBL Holdings and as to 20% indirectly by the Company, such that the Company has an indirect 60% interest in Melco PBL Entertainment (Greater China) Limited and PBL has an indirect 40% interest in Melco PBL Entertainment (Greater China) Limited
“Melco PBL Holdings”	Melco PBL Holdings Limited, a company incorporated under the laws of the Cayman Islands, being a joint venture company indirectly held as to 50% each by the Company and PBL, which is the principal holding company of the Joint Venture and is currently the holding company of a group of companies engaged in the businesses of gaming, entertainment and hospitality in the Asia Pacific and Greater China Region
“Melco PBL International”	Melco PBL International Limited, a company incorporated under the laws of the Cayman Islands, which is a wholly owned subsidiary of Melco PBL Holdings
“MOA”	the Memorandum of Agreement dated 5 March 2006 entered into between the Company and PBL (as amended by a supplemental agreement entered into between the same parties on 26 May 2006), the principal terms of which are described in this announcement
“Mocha Slot”	Mocha Slot Group Limited, a company incorporated in the British Virgin Islands which is owned as to 20% by Melco PBL International and as to 80% by Melco PBL Entertainment and which is, therefore, both a subsidiary of Melco PBL Holdings and a Joint Venture Company
“MOP”	Macau Pataca, the lawful currency of Macau
“PBL”	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange, and the Company’s joint venture partner in relation to gaming business in the Territory
“PBL Asia”	PBL Asia Investments Limited, a company incorporated under the laws of the Cayman Islands and which is a subsidiary of PBL
“PBL Macau”	PBL Entertainment (Macau) Limited, a limited liability company incorporated or to be incorporated in Macau to be initially wholly owned by PBL and its subsidiaries, which will hold the Subconcession upon closing of the Subconcession Agreement
“PBL Macau A Shares”	shares of MOP100 each in the capital of PBL Macau having the rights described in the section headed “Capital Structure of PBL Macau”

“PBL Macau B Shares”	shares of MOP100 each in the capital of PBL Macau having the rights described in the section headed “Capital Structure of PBL Macau”
“PRC”	the People’s Republic of China
“Premium”	the sum of US\$900,000,000 payable to Wynn Macau on the grant of the Subconcession under the Subconcession Agreement
“Shares”	ordinary share(s) of HK\$0.50 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a non wholly owned subsidiary of STDM
“STDM”	Sociedade de Turismo e Diversões de Macau, S.A., a company incorporated under the laws of Macau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subconcession”	a subconcession to operate games of fortune or chance or other casino games in Macau
“Subconcession Agreement”	an agreement dated 4 March 2006 (as amended from time to time) entered into between Wynn Macau and PBL pursuant to which Wynn Macau will use its commercially reasonable efforts to cause the Macau Government and relevant regulatory authorities to grant PBL Macau the Subconcession
“Territory”	means Macau, the PRC, Singapore, Thailand, Hong Kong, Vietnam, Japan, Philippines, Indonesia, Malaysia, Taiwan and such other countries as may be agreed from time to time but excluding Australia and New Zealand
“Transactions”	the entering into of the MOA and the performance of the transactions contemplated by the MOA
“US\$”	United States dollars, the lawful currency of the United States of America

“Wynn Macau”

Wynn Resorts (Macau) SA, a company incorporated under the laws of Macau

“%”

per cent.

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

Hong Kong, 26 May 2006

Please also refer to the published version of this announcement in South China Morning Post - Classified.