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If you have sold or transferred all your shares in Melco International Development Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**MAJOR TRANSACTIONS
ACQUISITION OF SUBCONCESSION
FOR PURSUANCE OF GAMING BUSINESS IN MACAU**

Financial Adviser to Melco International Development Limited



VC CAPITAL LIMITED

滙盈融資有限公司

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

Independent Financial Adviser to the Independent Board Committee

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

A letter from the Board is set out on pages 7 to 41 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on page 42 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee is set out on pages 43 to 50 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at 11:30 a.m. on Friday, 16 June 2006 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, is set out on pages 152 to 153 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM or any adjourned meeting in person, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company’s registered office at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

30 May 2006

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	
Introduction	7
The MOA	
Background	9
Principal terms of the MOA	11
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	14
Proposed revisions to the Deed	23
Termination of arrangements with SJM	27
Transfer of interest in Mocha Slot and previous funding of Joint Venture	28
Macau gaming regulatory regime	29
Information on the Group	30
Information on PBL	31
Reasons and benefits for entering into the MOA and the Transactions	31
Basis of determination of the loan provided by the Company	33
Financial and trading prospects of the Group	34
Liquidity and financial resources/capital structure/change on the Group's assets	36
Material acquisitions	37
Headcount/employees' information	37
Futures plans and material investments or capital assets	38
Contingent liabilities	39
Financial information of the enlarged group	39
Financial implications of the Transactions	39
Implications under the Listing Rules	40
Extraordinary general meeting	40
Recommendation	41
General	41
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	42
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	43
APPENDIX I – VALUATION REPORT	51

CONTENTS

APPENDIX II – FINANCIAL INFORMATION OF PBL MACAU	60
APPENDIX III – FINANCIAL INFORMATION OF THE GROUP	65
APPENDIX IV – FINANCIAL INFORMATION OF THE ENLARGED GROUP	131
APPENDIX V – LEGAL OPINION	137
APPENDIX VI – GENERAL INFORMATION	140
NOTICE OF EXTRAORDINARY GENERAL MEETING	152

DEFINITIONS

In this circular, the following expressions shall have the following meanings 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 be held at 11:30 a.m. on Friday, 16 June 2006 by the notice of meeting set out on pages 152 to 153 of this circular and any adjournment of that meeting

DEFINITIONS

“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 PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the board of directors of the Company comprising the Independent Directors and established by the Company and under Article 129 of the Company’s Articles of Association, to consider the Transactions and advise the Shareholders as to whether the terms of the Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole
“Independent Directors”	Sir Roger Lobo and Dr. Lo Ka Shui, being all the independent non-executive directors of the Company
“Independent Financial Adviser”	Anglo Chinese Corporate Finance Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Shareholders whether the terms of the Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Shareholders how to vote at the EGM
“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 circular: (a) Great Wonders, which is the owner and developer of the Crown Macau hotel and casino project in Taipa, Macau;

DEFINITIONS

	(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
“Latest Practicable Date”	26 May 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 PRC
“Macau DICJ”	Direcção de Inspeção e Coordenação de Jogos de Macau, or the Gaming Inspection and Coordination Bureau of the Government of Macau
“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
“Mainland China”	PRC, excluding Hong Kong, Macau and Taiwan
“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 and PBL has an indirect 40% interest in Melco PBL Entertainment

DEFINITIONS

“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 between the same parties entered into on 26 May 2006), the principal terms of which are described in this circular
“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
“Mr. Lawrence Ho”	Mr. Ho, Lawrence Yau Lung, the Chairman and Chief Executive Officer of the Company and the son of Dr. Stanley Ho
“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 a joint venture partner with the Company in relation to gaming, entertainment and hospitality businesses in the Territory
“PBL Asia”	PBL Asia Investments Limited, a company incorporated under the laws of the Cayman Islands and which is a wholly owned subsidiary of PBL
“PBL Macau”	PBL Entertainment (Macau) Limited, a limited liability company incorporated in Macau 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” in the Letter from the Board

DEFINITIONS

“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” in the Letter from the Board
“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
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“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 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, 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

DEFINITIONS

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

“%” per cent.

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

US\$1.00 : HK\$7.8

MOP1.03 : HK\$1.00.

LETTER FROM THE BOARD



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

Executive Directors:

Mr. Ho, Lawrence Yau Lung
(Chairman and Chief Executive Officer)
Mr. Tsui Che Yin, Frank
Mr. Chung Yuk Man, Clarence

Registered office:

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

Non-executive Director:

Mr. Ng Ching Wo

Independent Non-executive Directors:

Sir Roger Lobo
Dr. Lo Ka Shui

30 May 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS ACQUISITION OF SUBCONCESSION FOR PURSUANCE OF GAMING BUSINESS IN MACAU

INTRODUCTION

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

LETTER FROM THE BOARD

Company and PBL 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. This circular describes the Memorandum of Agreement dated 5 March 2006 as amended by the supplemental agreement dated 26 May 2006.

Under the MOA, it was agreed that:

- (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 Letter from the Board will also result in Melco PBL Entertainment ceasing to be a subsidiary of the Company.

LETTER FROM THE BOARD

The Transactions constitute a major transaction 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.

The purposes of this circular are to set out:

- (a) further information on the MOA;
- (b) the proposed ownership structure of PBL Macau and the Joint Venture Companies;
- (c) details of the proposed operational arrangements for the sharing of the economic value/benefits of the projects and businesses of PBL Macau and the Joint Venture Companies;
- (d) the proposed amendments to the Deed including the proposed shareholders' arrangements relating to PBL Macau;
- (e) information on applicable regulatory matters in Macau;
- (f) the recommendation from the Independent Board Committee to the Shareholders as to whether the terms of the Transactions are fair and reasonable, whether the Transactions are in the interests of the Company and its Shareholders as a whole and advising the Shareholders how to vote at the EGM;
- (g) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders as to whether the terms of the Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole and advising the Shareholders how to vote at the EGM; and
- (h) a notice convening the EGM at which a resolution will be proposed for the Shareholders to consider and, if thought fit, approve the Transactions. The voting at the EGM will be conducted by way of poll.

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.

LETTER FROM THE BOARD

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. To the best of the knowledge and information of the Directors, after the granting of the Subconcession, Wynn Macau will continue to conduct gaming business in Macau under its original concession independently from PBL Macau.

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, as referred to on page 12 of this circular.

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 then 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.

LETTER FROM THE BOARD

PRINCIPAL TERMS OF THE MOA

Status

The Memorandum of Agreement entered into between the Company and PBL on 5 March 2006 and described in the Announcement is a legally binding document. However, the Memorandum of Agreement was essentially a framework document, covering a number of key commercial agreements between the Company and PBL which in a number of cases contemplated further agreements to be entered into or 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 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. This circular describes the Memorandum of Agreement dated 5 March 2006 as amended by the supplemental agreement dated 26 May 2006.

Dates and Parties

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

Parties: The Company; and
PBL

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.

LETTER FROM THE BOARD

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.

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 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 on page 19 of this circular) having voting rights but 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 on page 19 of this circular) 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 Letter from the Board. 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 on page 19 of this circular. 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.

LETTER FROM THE BOARD

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.

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 Letter from the Board 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 capitals 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.

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.

LETTER FROM THE BOARD

The detailed terms which have been agreed for implementing these principles are described in the section 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”.

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).

Condition precedent

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

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 provision 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.

LETTER FROM THE BOARD

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 on page 16 of this circular.

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 circular, the Joint Venture does not hold any interests in gaming, entertainment or hospitality businesses in the Territory other than in Greater China.

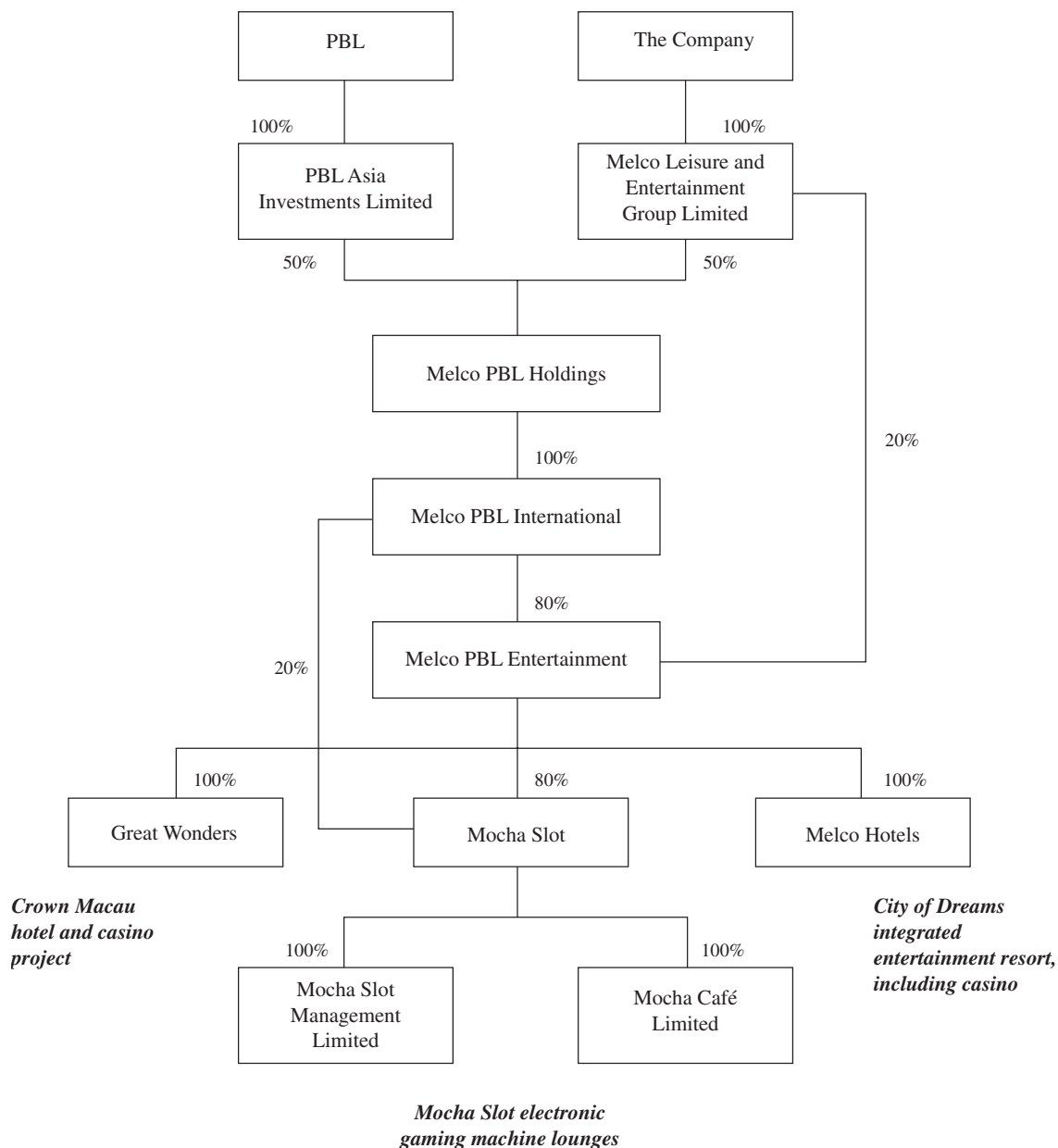
The Memorandum of Agreement entered into by the Company and PBL on 5 March 2006 provided for PBL to have a 60% ownership interest in PBL Macau and for the Company to have a 40% ownership interest, but with arrangements to ensure that the economic value and benefits of PBL Macau (and the associated risks, 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 below.

LETTER FROM THE BOARD

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

Before the establishment of PBL Macau

The existing group structure of 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.

LETTER FROM THE BOARD

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 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 page 18 of this circular. 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.

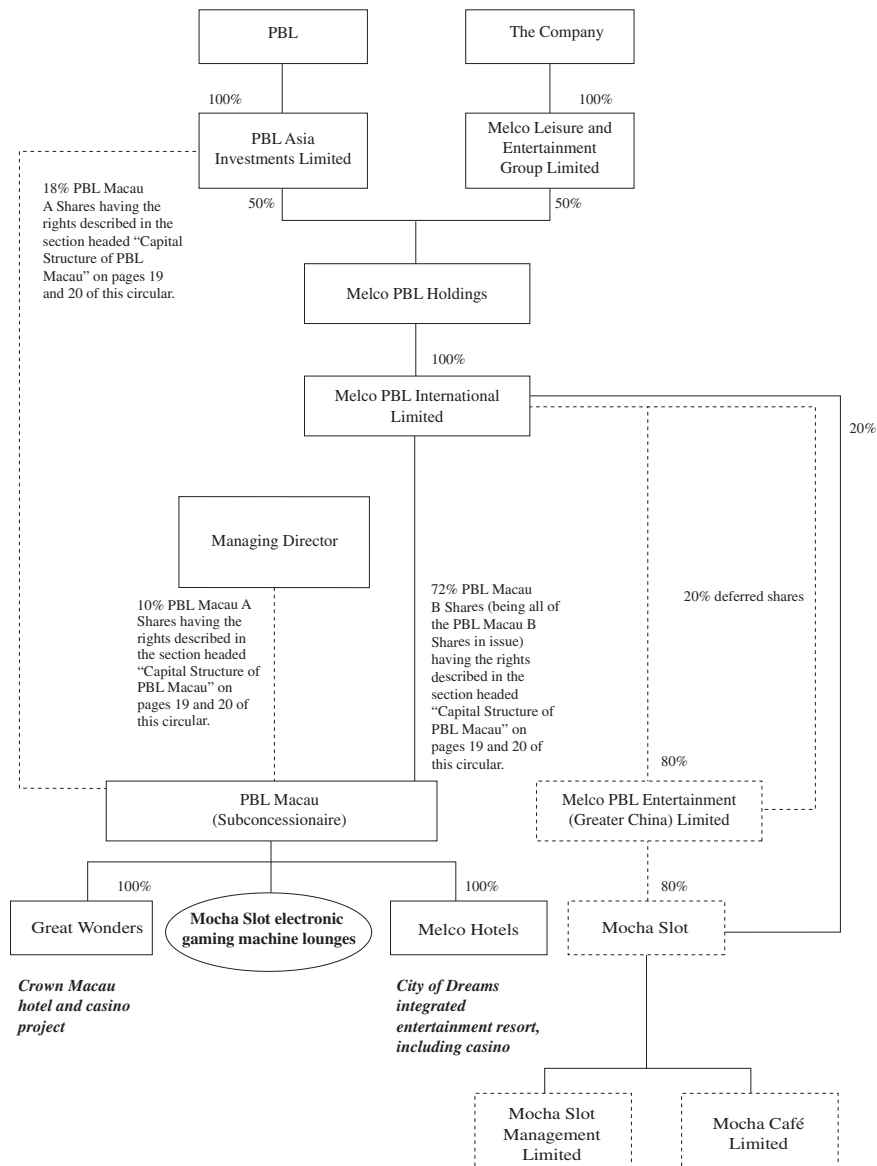
Following the completion of the transfers contemplated in (d) above, Melco PBL Entertainment will have no material remaining business or assets. The 20% holding of deferred shares in Melco PBL

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

Capital structure of PBL Macau

The capital and shareholding 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 though the 18% shareholding of PBL Asia in PBL Macau will have effectively no economic interest. Under Macau law, the managing 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 MOP1.00. Pursuant to the

LETTER FROM THE BOARD

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 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 MOP1.00. 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 expected that the Managing Director to be appointed will be a Partner of a firm of Macau lawyers, independent of the Company and its connected persons. 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 on page 18, with Melco PBL Holdings indirectly owning all the PBL Macau B Shares representing 72% of the entire 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 MOP1.00 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 and that any amounts received by PBL Asia in respect of the PBL Macau A Shares held by it on a re-organisation, merger or liquidation of PBL Macau will be contributed to the Joint Venture.
- (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 on page 19 of this circular.

LETTER FROM THE BOARD

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.

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 on page 19 of this circular) 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 on page 19 of this circular.

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, as referred to on page 11 of this circular, 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

LETTER FROM THE BOARD

- (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 Melco International. 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 on page 19 of this circular;
- (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), as referred to on page 19 of this circular, 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

LETTER FROM THE BOARD

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.

PROPOSED REVISIONS TO THE DEED

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' deed 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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- (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 on page 18 of this circular 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 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.

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

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. Reference is made to the legal opinion issued by Messrs. Richards Butler in connection with the enforceability of the participating convertible bonds as set out in Appendix V of this circular. In the legal opinion, Messrs. Richards Butler stated that based on the assumptions and subject to the qualifications as set out in such opinion, the participating convertible bonds having the features as described in this Letter from the Board would constitute valid, legally binding and enforceable obligations of PBL Macau under Hong Kong law.

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.

The text of a legal opinion from Messrs. Richards Butler in relation to, among other things, the legality, effectiveness and risks in relation to the proposed arrangements for amendment of the terms of the Loan, which are intended to effect a 50:50 sharing of the economic value and benefits of PBL Macau between the Company and PBL in circumstances where the Macau Government approval for PBL Macau to become a Joint Venture Company cannot be obtained, is set out in Appendix V.

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

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

MACAU GAMING REGULATORY REGIME

History of Macau's gaming market

Gaming has been lawful in Macau since 1937. In 1962, the then government of Macau awarded an exclusive casino gaming concession to STDM, whose operations are now conducted through its successor, SJM.

In December 1999, control of Macau reverted to Mainland China. The new Macau Government has recognised gaming as a tool to promote tourist traffic to Macau and anchor an expanded tourism industry. The Macau Government concluded that liberalisation would create the impetus to bring its facilities up to international physical and operating standards, but more importantly, the motivation that would promote investment in the development of an entirely new series of gaming, resort, entertainment and exhibition operations.

In December 2001, the Macau Government decided to bring an end to STDM's monopoly of the gaming industry and to liberalise laws and regulations applicable to gaming activities. According to the Macau DICJ, in 2002, gaming concessions were granted to three concessionaires after tendering. The three operators are (i) SJM, whose concession is valid until March 2020, and which granted a subconcession to MGM Grand Macau, (ii) Wynn Macau, whose concession is valid until June 2022, and (iii) Galaxy Casino, S.A., whose concession is valid until June 2022. Galaxy Casino, S.A. granted a subconcession in December 2002 to Venetian Macau, S.A.

It is provided under Law 16/2001 of Macau that the maximum number of gaming concessions shall be three. The Macau Government is precluded from granting any additional gaming concessions until 2009. It is further provided in the gaming concessions granted to SJM, Wynn Macau and Galaxy Casino, S.A. that the concessionaires shall not grant any subconcessions without the approval of the Macau Government. The Macau Government has made clear in public pronouncements that only one subconcession will be permitted per concession.

Regulatory Framework

Overview

The ownership and operation of casino gaming facilities in Macau is unlawful unless the owner/operator has an appropriate concession or subconcession. Concessions and subconcessions are subject to the general laws of Macau and to specific gaming laws, in particular, Law No. 16/2001. Various regulations govern the different aspects of gaming, including the instructions that may from time to time be issued by the Macau Government, mainly through the Macau DICJ, as well as the terms of their respective concession or subconcession agreements.

According to the applicable Macau laws, the shareholders of each subconcessionaire shall include at least one Macau permanent resident owning not less than 10% of the issued share capital of the subconcessionaire. As further described on pages 19 of this circular, it is proposed that the issued share capital of PBL Macau as the proposed subconcessionaire shall be owned as to 10% by its managing director in the form of PBL Macau A Shares which carry no meaningful economic value or interests.

LETTER FROM THE BOARD

The Macau DICJ is the primary regulatory entity that supervises the casino gaming operations and the compliance of the concessionaires and subconcessionaires with their legal and contractual obligations.

The concession system in Macau is composed of a legal framework which includes, among others:

- **The provisions of Law no. 16/2001 of 2001**, as amended, that sets out the legal system for the operation of games of chance in casinos, governing the operation of games of fortune or chance or other games in casinos.
- **Administrative Regulation no. 26/2001 of 2001** (as subsequently amended and supplemented), that provides for the tender procedures, the concession agreements for the operation of games of chance in casinos and the suitability and financial capacity requirements of the operators.
- **The rules of the games** of fortune or chance, referred to in Article 55 of Law No.16/2001.
- **Administrative Regulation no. 6/2002**, governing the requirements and procedures to access and exercise the casino gaming promotion activity.
- **Law 5/2004 of 2004**, which sets out the legal system for gaming credit concession.
- **Law 8/96/M of 1996**, that addresses illicit gaming.
- **Decree-Law no. 24/98/M**, which sets out a compulsory obligation of communication regarding operations suspected of constituting money laundering.
- **Law 6/97/M of 30 July 1997** – law on organised crime - that in its Article 10 criminalizes money laundering.

In respect of the gaming industry, the reform of Macau's gaming legal framework improved the regulation and transparency of all entities involved in the gaming industry, as well as the 'fit and proper' testing of all gaming operators and gaming promoters, their shareholders, directors and key employees.

The operation of casino and gambling activities by the Joint Venture in Macau will be in compliance with all applicable laws and regulations and the Company will use its best endeavours to seek to ensure that the Joint Venture operates its casino and gambling activities only in compliance with all applicable laws and does not breach the Gambling Ordinance of Hong Kong or any other relevant laws in Hong Kong. The Directors note that there will be a risk of suspension and cancellation of listing of the Company should there be any breach of such legal requirements.

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.

LETTER FROM THE BOARD

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.

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 Letter from the Board, 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.

LETTER FROM THE BOARD

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.

As stated in the valuation report set out in Appendix I to this circular, the fair market value of the Subconcession to a typical market participant as an official casino operator would be the sum of the present value of the net savings each year over the sub-concession period as more particularly set out in the valuation report. Based upon the investigation and analysis and on the appraisal method employed as outlined in the valuation report, American Appraisal have opined in the valuation report that the fair market value of the Sub-concession as of 28 February, 2006 to a typical market participant as an official casino operator based on the sum of the present value of the net savings each year over the sub-concession period as described in the valuation is reasonably stated at the amount of US\$1,361,000,000.

In assessing the valuation conducted by American Appraisal, the Directors has discussed the major assumptions and methodologies used by American Appraisal in arriving at the valuation of the Subconcession, including but not limited to, Macau overall gaming market and its potential growth and other market structure and practices, the business plan prepared by the management of the Company, industry trends and market condition and gaming revenue growth rate and expected market share. The management of the Company have reviewed the fairness, reasonableness and completeness of all major assumptions as set out in the valuation report and consider that all assumptions used by American Appraisal are consistent with market practice and are of the view that no major assumption used by American Appraisal is unreasonable and incomplete.

According to the valuation report contained in Appendix I to this circular, in the appraisal of a business, there are three basic approaches to value regardless of their diversity, location or technological complexity. The descriptive titles typically attached to these approaches are cost, income and market.

According to the valuation report contained in Appendix I to this circular:–

- Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. Cost approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraisal. Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by market approach. Income approach is the conversion of expected periodic benefits of ownership into an indication of value.
- In normal circumstances, American Appraisal (as valuers) will consider all three approaches, as any, or perhaps all, may provide reliable measures of value. To develop their opinion of value, the three generally accepted approaches to value were considered: cost, market and income. American Appraisal considered that (i) the cost approach is generally not considered applicable to the valuation of business licenses, as it does not capture future earning potential of the business in early stages of development and(ii) the market approach was not utilized in the valuation due to the lack of comparable transactions. Accordingly, American Appraisal

LETTER FROM THE BOARD

relied upon the income approaches to value the Sub-concession based on the net saving attributable to the Sub-concession in forming their opinion.

- It is considered by American Appraisal and the Directors that the use of discounted cashflow method would be consistent with market practice. The discounted cashflow method of the income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future cash flows attributable to the Sub-concession only up to June 2022 at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.
- Under the current market practices, the gaming concession or sub-concession holder is responsible for daily casino operation mainly including staffing and training and share net win from casino operations, whereas its casino business partner is responsible for the construction and maintenance of the physical property and soliciting customers and capture the remaining net win after paying gaming tax. From the standpoint of a casino business partner, the benefits attributable to the Sub-concession being acquired is the net savings that is the shared portion of net win from 20% - 30% paid to the official casino operator minus incremental operating expenses of approximately 8% - 10%. These assumptions of the share portion of net wins and operating expenses were based on the market practices, the existing arrangement between the Company and SJM, discussion with the management of the Company, market analyst reports and government statistics. The fair market value of the Sub-concession to a typical market participant as an official casino operator is the sum of the present value of these net savings each year over the sub-concession period.
- The rate at which the annual net cash flows discounted to present value is based the cost of equity. The cost of equity for the valuation is developed through the application of the Capital Asset Pricing Model (“CAPM”), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (also known as Beta) times equity market premium in general assuming all-equity financing.
- With the consideration of the industry systematic risks and non-systematic risks (mostly related to company-specific risk) of the Company, American Appraisal believed that the discount rate of 13% was appropriate in valuing the Sub-concession based on the average estimated required return of the five comparable companies including MGM Mirage, Wynn Resorts, Las Vegas Sands, Galaxy Entertainment and the Company itself.

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.

LETTER FROM THE BOARD

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.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company experienced significant growth in turnover and profitability in 2005. The Group's consolidated turnover increased to approximately HK\$600.6 million as compared to that of 2004 in the amount of approximately HK\$408.1 million, representing an increase of 47% for the year ended 31 December 2005. Net profit attributable to shareholders surged 819% to approximately HK\$548.7 million of which approximately HK\$514.4 million was deemed profit upon the disposal of partial interests in Mocha Slots and Great Wonders arising from the formation of the Melco PBL joint venture.

All of the Group's business divisions achieved segmental profitability during the year. These business divisions include four main streams of segmental results including (i) Leisure, Gaming and Entertainment, (ii) Investment Banking and Financial Services, (iii) Technology and (iv) Property and Other Investments. As at 31 December 2005, the shareholders' equity amounted to approximately HK\$3,558.2 million, with a substantial increase of 189% as compared to that of 2004.

Leisure, gaming and entertainment

The Group's Leisure, Gaming and Entertainment Division currently has four sub-divisions, namely, Mocha Slots, Crown Macau, The City of Dreams and Jumbo Kingdom. During the year, Mocha Slots has made a remarkable contribution to the Group's business. The Group's Crown Macau hotel and casino and the City of Dreams integrated entertainment resort projects are progressing smoothly.

For the year ended 31 December 2005, the Leisure, Gaming and Entertainment Division recorded a turnover of approximately HK\$241.9 million as compared to that of 2004 in the amount of approximately HK\$123 million and segmental profit surged 95 times to approximately HK\$539.7 million as compared to that of 2004 in the amount of approximately HK\$5.6 million, of which, approximately HK\$514.4 million was deemed profit upon the disposal of partial interests in Mocha Slot and Great Wonders arising from the formation of the Melco PBL joint venture. Excluding this extraordinary gain, segmental profit of the division still reported growth at an encouraging 348%.

LETTER FROM THE BOARD

Investment banking and financial services

For the year ended 31 December 2005, turnover of the Group's financial arm, Value Convergence Holdings Limited (Value Convergence, Stock Code: 8101) amounted to approximately HK\$115.1 million. Segmental profit for the year ended 31 December 2005 was approximately HK\$12.9 million.

The Group's financial arm achieved a profitable result in 2005 as a result of its relentless efforts to fortify its business. Looking forward, Value Convergence will forge ahead with expanding its products and geographical coverage.

Technology

Headed by the group companies Elixir Group Limited and iAsia Technology Ltd. and their subsidiaries, the Group's technology division recorded a turnover of approximately HK\$197.5 million for the year ended 31 December 2005 as compared to that of 2004 in the amount of approximately HK\$154.8 million, representing an increase of 28%. Segmental profit after the elimination of intercompany transactions amounted to HK\$21.9 million as compared to that of 2004 in the amount of approximately HK\$14.5 million.

Property and other investment

During the year of 2005, the turnover and segmental profit of this division were approximately HK\$46.2 million as compared to that of 2004 in the amount of approximately HK\$3.9 million and HK\$56.4 million as compared to that of 2004 in the amount of approximately HK\$65.3 million respectively, owing to the increase in income from the Group's treasury function. Last year's profit was mainly attributable to the gain on disposal of an investment property of the Group in 2004, with approximately HK\$57.2 million being recorded.

Outlook

In recent years, Macau's gaming and entertainment industry is booming with various opportunities, and value-added entertainment facilities to casinos are bringing in an increasing number of visitors from around the world. In the past year, Macau reportedly achieved gaming revenue roughly the same as that of Las Vegas, with far fewer operators. Backed by the strong economic growth of Mainland China, the gaming market of Macau can expect growth in the years to come.

Subject to the approval of the Macau Government for PBL Macau becoming part of the Joint Venture, the Subconcession will give the Joint Venture (through PBL Macau) the right to own and operate hotel casino resorts in Macau. With such rights, the Group will have much greater flexibility in planning and operating future projects. Under the arrangement, Melco and PBL will share the economic benefit of all gaming and entertainment projects in Macau and Asia on a 50:50 basis. The Subconcession will allow the Joint Venture to independently operate the two proposed Macau gaming projects respectively located at Crown Macau hotel and City of Dreams integrated resort.

LETTER FROM THE BOARD

The Group also entered into an amicable agreement with SJM to terminate the existing slot halls operation arrangement. The Joint Venture intends to continue to operate its slot halls business under the Subconcession. With all three gaming assets, namely, Mocha Slot, Crown Macau and the City of Dreams, covering all segments of the market, the Group will fully capitalize on the tremendous opportunities in the booming tourist industry.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE/CHARGE ON THE GROUP'S ASSETS

The Group financed its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

As at 31 December 2005, total assets of the Group were approximately HK\$5,581.3 million as compared to that of 2004 in the amount of approximately HK\$1,584.8 million which was financed by shareholders' funds of approximately HK\$3,558.2 million as compared to that of 2004 in the amount of approximately HK\$1,229.9 million, minority interests of approximately HK\$629.5 million as compared to that of 2004 in the amount of approximately HK\$75.6 million and current liabilities of approximately HK\$306.5 million as compared to that of 2004 in the amount of approximately HK\$159 million and non-current liabilities of approximately HK\$1,087.1 million as compared to that of 2004 in the amount of approximately HK\$120.4 million. The current ratio, expressed as current assets over current liabilities, of the Group was maintained at the satisfactory level of 9.4 as compared to the level of 5.3 in 2004. During the year ended 31 December 2005, the Group recorded a net cash inflow of approximately HK\$1,955.3 million as compared to that of 2004 in the amount of approximately HK\$252.2 million.

As at 31 December 2005, cash and cash equivalents of the Group totalled approximately HK\$2,350.3 million as compared to that of 2004 in the amount of approximately HK\$395 million. Gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, obligation under finance lease, convertible loan notes and shareholder's loan) over shareholders' funds, was at the satisfactory level of 0.31 times as at 31 December 2005 as compared to the level of 0.15 times in 2004. The Group adopts a prudent treasury policy. The cash and bank balances consisted of about 6% cash and bank balances and 94% short term fixed deposits. All the borrowings and the majority of cash and bank balances are denominated in Hong Kong dollars to maintain minimum exposure to foreign exchange risks. It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimize currency risks. The Group's principal business are conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure is minimal. Hence, no hedging against foreign currency exposure is necessary.

As at 31 December 2005, the Group's total available banking facilities amounted to approximately HK\$229.8 million as compared to that of 2004 in the amount of approximately HK\$224.8 million, of which HK\$80 million as compared to that of 2004 in the amount of approximately HK\$70 million were secured by margin clients listed securities, and approximately HK\$49.8 million as compared to that of 2004 in the amount of approximately HK\$49.8 million in banking facilities were secured by pledging HK\$85 million of the Group's assets. As at 31 December 2005, the Group utilized approximately HK\$23 million and approximately HK\$5 million of unsecured and secured banking facilities respectively as compared to that of 2004 in the amount of approximately unsecured HK\$15 million and these amounts had matured and were repaid by 5 January 2006.

LETTER FROM THE BOARD

MATERIAL ACQUISITIONS

In 2005, the Group was actively involved in several substantial acquisitions.

Since February 2005, the Group purchased a total of 70% of Great Wonders from STDM for a total consideration of HK\$156 million, which was settled by the Company issuing two convertible notes to the vendor. The Group entered into a further agreement with STDM to purchase STDM's remaining 30% equity interest in Great Wonders for a consideration of HK\$400 million in March 2005. HK\$200 million of the consideration was settled in cash and the remaining HK\$200 million by the issue of 22,222,222 ordinary shares of the Company. This transaction was completed in July 2005. The principal activities of Great Wonders are to apply to the Macau Government for the concession of the land located at Taipa, Macau and to develop the land into the Crown Macau a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas in Macau.

Pursuant to a subscription agreement dated 23 December 2004, the Company formed a joint venture with PBL in March 2005 to undertake all the gaming and hospitality business in the Territory. The Company contributed its 80% interest in Mocha Slot and 70% interest in Great Wonders to Melco PBL Entertainment, a company owned as to 80% indirectly by Melco PBL Holdings and 20% indirectly by the Company, while PBL contributed HK\$1.27 billion (equivalent to approximately US\$163 million) cash to Melco PBL Entertainment. In addition, the Company also contributed its 50.8% interest in Melco Hotels to Melco PBL Entertainment. Pursuant to an agreement signed with Great Respect Limited on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, acquired from Great Respect Limited the remaining 49.2% interest in a piece of land located at Taipa, on the Cotai Strip in Macau, at a consideration of HK\$1,175 million. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible notes in the principal amount of HK\$1,175 million, which are non-interest bearing and convertible into shares in the Company. The Macau Government had on 21 April 2005 offered to Melco Hotels a medium term lease in respect of the land for development of an integrated entertainment resort, which is to be known as the City of Dreams.

Save as disclosed in this circular, no member of the Group has, since 31 December 2005, acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published accounts of the Company.

HEADCOUNT/EMPLOYEES' INFORMATION

Coupled with the business expansion of the Group, the number of employees has increased from 710 employees as at 31 December 2004 to 842 employees as at 31 December 2005. This represents more than 18% increase and 132 new positions within the Group. Among the 842 employees, 417 are located in Hong Kong and the remaining are based in Macau and the PRC. The majority of the newly created positions are for our Macau business. The related staff costs for 2005, including Directors' emoluments and share options expenses, amounted to HK\$137.8 million as compared to that of 2004 in the amount of approximately HK\$112.6 million.

LETTER FROM THE BOARD

The Group believes that the key to success lies in its people. All of the Group's employees are given equal opportunities for advancement and personal growth. The Group believes only by growing its business it creates opportunities and delivers value to its employees. Thus, the Group encourages its employees to offer their best at work and grow with the business. The Group builds staff loyalty through recognition, involvement and participation.

The Group's people policy, systems and practices are directly aligned with the Group's mission and values, and are conducive to desired behaviours, which contribute to business success.

1. Recruitment

The Group is an equal opportunity employer and recruits talents with above average professional competence, personal qualities and commitment and the Group hire the right people to co-shape its future. The Group identifies and validates talents through different recruitment sources and regularly reviews its recruitment structure and assessment criteria. The Group also employs suitable tools to assess candidates' potential.

2. Performance and Rewards

The Group demands and appreciates high performance. The Group's reward principle is primarily performance based and it rewards its employees competitively, based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

3. Learning & Development

The Group provides training to develop the necessary and other skills needed to satisfy business needs, which, on the one hand, would improve performance and delivered value and, on the other hand, would enhance personal growth.

The Group adopts a systematic approach in structuring its training programs and the training programs are focused to individual and corporate needs. Training objectives would first be established with the desired outcomes clearly defined and quantified and results are continually reviewed.

FUTURES PLANS AND MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 5 March 2006, the Company entered into the MOA with PBL, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary the Loan to PBL Macau, to be applied towards the purchase of the Subconcession.

Material capital expenditure will be incurred for the development of the projects within the Joint Venture in the coming years. The Company expects the respective project companies within the Joint Venture to arrange their required fundings as far as possible using different financing options available to them. Also, the Company will provide the required equity capital to these project companies.

LETTER FROM THE BOARD

CONTINGENT LIABILITIES

At 31 December 2005, the Company provides a guarantee of approximately HK\$4,680,000 as compared to that of 2004 in the amount of approximately HK\$4,680,000 to a supplier in respect of the goods purchased by the Company's subsidiaries.

FINANCIAL INFORMATION OF THE ENLARGED GROUP

Appendix IV of this circular sets out financial information in relation to the enlarged group upon the proposed group structure as set out on page 131 of this circular having been put in place.

FINANCIAL IMPLICATIONS OF THE TRANSACTIONS

Upon completion of the Subconcession acquisition and (with the approval of the Macau Government) PBL Macau becoming part of the Joint Venture, the Company and PBL will share the economic benefit of all gaming projects in Macau and Asia on a 50:50 basis.

As at 31 December 2005, the total outstanding borrowings of the Group were approximately HK\$1,110.3 million, total assets of the Group were approximately HK\$5,581.3 million and shareholders' funds were approximately HK\$3,558.2 million. Gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, was approximately 31% as at 31 December 2005. With reference to the total outstanding borrowings and shareholders' funds of the Enlarged Group as set out in Appendix IV to this circular, which amounted to approximately HK\$1,065.2 million and HK\$3,701.3 million respectively, the gearing ratio of the Group will decrease to approximately 29% after completion of the Subconcession Agreement.

It is stated in the 2005 annual report of the Company that the net tangible asset attributable to the equity holder of the Company value (net assets less goodwill, trading rights, other tangible assets and minority interests) of the Group amounted to approximately HK\$3,201.9 million. Based on 1,160,401,374 Shares in issue as at the Latest Practicable Date, the net tangible asset attributable to the equity holder of the Company value of the Group as at 31 December 2005 was approximately HK\$2.76 per Share. After completion of the Subconcession acquisition and (with the approval of the Macau Government) PBL Macau becoming part of the Joint Venture, the unaudited pro-forma consolidated net tangible assets value of the Enlarged Group attributable to the equity holder of the Company would be approximately HK\$3,667.9 million as set out in Appendix IV to this Circular. The net tangible asset value per Share in issue attributable to the equity holder of the Company as at the Latest Practicable Date of the Group will increase from approximately HK\$2.76 to approximately HK\$3.16.

Upon the completion of the MOA, Melco PBL Entertainment will no longer be a subsidiary of the Company. The Company will be deemed to have disposed of Melco PBL Entertainment and its subsidiaries and their results will no longer be consolidated in the results of the Group, but rather will be equity accounted for as interests in jointly controlled entities. The financial effect to the income as a result of the deemed disposal will result in a gain of approximately HK\$143 million which is represented by (i) the Group's 50% interest in the Joint Venture Companies of HK\$2,409 million, as extracted from Appendix III note (d), upon completion of the Transactions, less (ii) the Group's capital contribution of HK\$1,248 million to Melco PBL, and less (iii) the carrying amounts of Melco PBL Entertainment and its subsidiaries attributable to the Company of HK\$1,018 million, as extracted from the Group's consolidated financial statements as of 31 December 2005.

LETTER FROM THE BOARD

The gearing ratio is expressed as a percentage of total borrowings (including bank borrowings, obligations under finance leases, convertible loan notes and shareholder's loan) over shareholders' funds.

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 subsidiaries 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 subsidiaries 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.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 11:30 a.m. on Friday, 16 June 2006 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on pages 152 to 153 of this circular at which an ordinary resolution will be proposed and, if thought fit, passed by the Shareholders (by way of poll), to approve the Transactions.

The Independent Board Committee comprising the Independent Non-executive Directors, namely Sir Roger Lobo and Dr. Lo Ka Shui, has been appointed to advise the Shareholders as to whether or not the Transactions are fair and reasonable and in the interests of the Shareholders as a whole and to advise the Shareholders how to vote at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Shareholders as to whether or not the terms of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Shareholders how to vote at the EGM.

A proxy form for use by the Shareholders at the EGM is enclosed. Whether or not you are available to attend the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the registered office of the

LETTER FROM THE BOARD

Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 42 of this circular which contains the recommendations of the Independent Board Committee to the Shareholders concerning the Transactions; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders set out on pages 43 to 50 of this circular containing its advice to the Independent Board Committee and the Shareholders in this regard.

The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser in relation to the Transactions, considers that the Transactions are fair and reasonable so far as the Shareholders are concerned and that the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions.

The other Directors also consider that the terms of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and, accordingly, the Board recommends that the Company's Shareholders vote in favour of the resolution to be proposed in relation to the Transactions at the EGM.

GENERAL

In accordance with the requirements of the Stock Exchange, the Company will use its best endeavours in its capacity as PBL's joint venture partner to ensure that the gaming activities carried out or to be carried out by the Joint Venture shall be in compliance with applicable laws; and/or will not be in contravention of 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 of this circular, the Board comprises three Executive Directors, namely, Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Clarence Chung, one Non-executive Director, namely, Mr. Ng Ching Wo, and two Independent Non-executive Directors, namely, Sir Roger Lobo and Dr. Lo Ka Shui.

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

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

30 May 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS ACQUISITION OF SUBCONCESSION FOR PURSUANCE OF GAMING BUSINESS IN MACAU

We have been appointed as members of the Independent Board Committee to advise you in connection with the Transactions, details of which are set out in the “Letter from the Board” in the circular dated 30 May 2006, of which this letter forms part. Terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 43 to 50 of this circular, which contains its advice and recommendation to us as to whether or not the Transactions are fair and reasonable and in the interests of the Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, the Independent Financial Adviser as stated in its aforementioned letter of advice, we are of the opinion that the Transactions are fair and reasonable so far as the Shareholders are concerned and the Transactions are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

ANGLO CHINESE CORPORATE FINANCE, LIMITED

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

財務顧問有限公司
美高

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

30 May 2006

Dear Sirs,

ACQUISITION OF SUBCONCESSION FOR PURSUANCE OF GAMING BUSINESS IN MACAU

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Transactions. Details of the Transactions are contained in the circular of the Company dated 30 May, 2006 (the "Circular"), of which this letter forms part. Expressions used in this letter have the same meaning as defined in the Circular.

The Transactions constitute a major transaction for the Company under the Listing Rules and will also effect a disposal for the purpose of the Listing Rules as Melco PBL Entertainment will cease to be a subsidiary of the Company.

The Independent Board Committee, comprising the Company's two independent non-executive Directors, namely Sir Roger Lobo and Dr. Lo Ka Shui, has been formed to consider whether the Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Shareholders in these regards.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates.

PRINCIPAL FACTORS

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

Background

In 2004, the Group established Macau gaming as a principal activity with the acquisition of Mocha Slot in June, the announcement of the Taipa casino development in September and entering into the Deed to establish a joint venture with the PBL Group in November of that year. Pursuant to the Deed, all gaming activities of the PBL Group and the Group in Asia Pacific (excluding Australia and New Zealand), would be operated in future through the Joint Venture. In Greater China (including Macau), economic value and benefits of the Joint Venture were agreed to be shared between the PBL Group and the Group on a basis of 40:60. In the Territory other than Greater China, economic value and benefits of the Joint Venture were to be shared between the PBL Group and the Group on a basis of 60:40. The financing of the Joint Venture's gaming activities were to be funded by the PBL Group and the Group on the same 40:60 ratio in Greater China and 60:40 ratio in the Territory (excluding Greater China). Subsequently, in 2005, the Joint Venture acquired land in the Cotai strip of Macau for development as an integrated entertainment resort featuring multiple hotels and casinos. The development has been named "The City of Dreams".

On 4 March 2006, PBL, Wynn and Wynn Macau entered in the Subconcession Agreement whereby PBL agreed to purchase from Wynn Macau the Subconcession for a total of US\$900,000,000. The Subconcession allows the holder to operate gaming and casino activities in Macau until 26 June 2022. Upon completion of the Subconcession Agreement, PBL Macau, a wholly-owned subsidiary of PBL, will hold the Subconcession.

Also on 4 March 2006, SJM and Great Wonders, a subsidiary of the Company, mutually terminated the letter of confirmation issued by SJM dated 11 November 2004 whereby the parties had agreed to enter into a proposed lease agreement for SJM to operate the Group's Crown Macau Casino. As PBL and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Company were not holders of a gaming concession or subconcession in Macau, the gaming and casino activities of the PBL Group and the Group in Macau have been operated through services agreements with SJM which holds a concession to operate gaming and casinos in Macau. These service agreements include the operations of Mocha Slot and were proposed to include the operations of Great Wonders.

On 5 March 2006, the Company and PBL entered into the MOA whereby the Company conditionally agreed to provide a loan to PBL Macau in the amount of US\$160,000,000 for the acquisition of the Subconcession representing 40% of the Premium excluding the amount to be financed by non-recourse financing. Upon obtaining the necessary approvals from the Macau government, the Company will have the right to convert the Loan into shares of PBL Macau representing 50% of the economic value of PBL Macau to the Company.

As referred to in the Company's announcement dated 9 March 2006, the MOA, although it is a legally binding document, only sets out the agreed principles for the future operation of PBL Macau and the Joint Venture Companies. The Letter from the Board contained in the Circular, therefore, in addition to describing the terms of the MOA, also describes the further agreements reached between the Company and PBL elaborating the framework provided by the MOA and establishing definitive terms in relation to:

- (a) the proposed ownership structure of PBL Macau and the Joint Venture Companies;
- (b) details of the operational arrangements for the sharing of the economic value/benefits of the projects and businesses of PBL Macau and the Joint Venture Companies; and
- (c) the proposed amendments to the Deed to reflect a 50:50 sharing basis, including the proposed shareholders' arrangements relating to PBL Macau.

The Subconcession

In 2002, the Macau government liberalised the gaming industry in Macau by granting multiple licences to operate gaming and casinos, where previously a monopoly had existed. The Macau government had envisioned that three concessions would be granted which would give the holders the right to operate gaming and casino activities in Macau. These three concessions were granted to SJM, Wynn Macau and a consortium group. However, during the time of grant of concession to the consortium group, the two consortium members decided to dissolve their partnership due to undisclosed differences. In order to resolve the problem of which consortium member would retain the concession, the Macau government approved the grant of a subconcession under the contested gaming concession. The subconcession would have the same rights to operate gaming activities in Macau as the main concession, effectively increasing the number of concessions to four.

As the grant of a subconcession to only one of the three main concessions was seen as unfair to SJM and Wynn Macau, SJM proposed to issue a subconcession under its main concession. This proposed subconcession was approved by the Macau government, and sold by SJM to a consortium which includes the daughter of Dr. Stanley Ho for a reported consideration of US\$200,000,000 in April 2005. Since that time, a third and final subconcession has been expected to be granted under the concession of Wynn Macau.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Under the Subconcession Agreement between PBL, Wynn and Wynn Macau, entered into on 4 March 2006, the final subconcession was agreed to be acquired by PBL for US\$900,000,000. PBL was required to pay a deposit of US\$100,000,000 upon execution of the agreement with the balance due upon closing of the Subconcession Agreement, which is expected to take place on or before 30 September 2006. During the negotiations for the acquisition, other interested parties were believed to be in talks with Wynn to acquire the Wynn subconcession. The final Purchase Price was agreed between PBL and Wynn, who is an independent third party and is not a connected person of the Company as defined in the Listing Rules, after arm's length negotiations. PBL negotiated the price for the Subconcession in a competitive situation and with reference to the performance and prospects of the gaming industry in Macau, and the transactions contemplated under the MOA, reflects directly the split of the consideration payable by PBL and the Company under the Deed. Accordingly PBL's and the Company's interest are identical in respect of the terms secured in negotiating the Subconcession Agreement and the MOA.

Each of the concessions and subconcessions operate independently of each other and give their holders the right to operate an unlimited number of gaming and casino operations in Macau. The SJM concession and its subconcession have been issued for a term ending on 31 March 2020, while the remaining four concessions and subconcessions (including the Subconcession) will expire on 26 June 2022.

Provision of the Loan

Under the MOA, PBL and the Company agreed to fund US\$240,000,000 and US\$160,000,000 respectively toward the acquisition of the Subconcession. The amount to be paid by PBL will be made in consideration for issue of shares in PBL Macau and a subordinated interest free loan while the Company's payment will be in the form of the Loan, being subordinated non-interest bearing loan to PBL Macau. The MOA provides that upon grant of the Subconcession, and conditional upon approval by the Macau government, the Company will have the right to convert the Loan into PBL Macau B Shares, representing 50% of the economic benefits of PBL Macau. The remaining 50% economic benefit in PBL Macau is to be held by the PBL Group. On 26 May 2006, the structure was amended to account for the legal requirements of Macau for PBL Macau to have a managing director who is a permanent resident of Macau, and in keeping with basis of the 50:50 sharing of economic value and benefits. The definitive shareholding structure designed to achieve this 50:50 sharing of economic benefits is described in the Letter from the Board in the Circular. In the event that the Macau government does not grant approval for the Company to hold interests in the Subconcession, the terms of the Loan will be amended to effect a 50:50 sharing of the economic benefits of the Subconcession with the right to appoint half of the directors of PBL Macau. The amendments to the Loan will reflect a participating convertible loan instrument of PBL Macau, convertible into 50% of the total issued PBL Macau B Shares upon exercise, when such exercise of conversion is permitted by the Macau government.

The balance of the Purchase Price of US\$500,000,000 is intended to be paid by means of a non-recourse loan. As at the Latest Practicable Date, PBL Macau is in advanced negotiations with lending institutions and we have been informed by the Company that it is highly likely that a bank loan of US\$500,000,000 can be obtained in due course although a firm commitment has not yet been received. Shareholders' should be aware that if in the event that PBL Macau is not able to secure the bank loan, the Group would be responsible to pay an additional US\$200,000,000, being 40% of the outstanding US\$500,000,000 upon closing of the Subconcession Agreement. If this should occur, the Company will

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

have insufficient internal funds to meet this obligation, but has indicated that it intends to raise funds through either the issue of equity or debt securities in the Company.

Proposed revisions to the Deed

The MOA requires that all the gaming operations of PBL and the Company be operated under the Subconcession. Currently, the operations of Mocha Slot are operated by SJM pursuant to numerous service agreements and it was the intention of PBL and the Company that Great Wonders would enter into similar arrangements with SJM upon completion of its hotel casino development in Taipa. As announced by the Company on 23 March 2006, in contemplation of the grant of the Subconcession to PBL Macau and the continuation of the Mocha Slot gaming machine lounges under the Subconcession of PBL Macau, the relevant members of the Group entered into a termination agreement with SJM 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 Mocha Slot's electronic gaming machine lounges and the related sub-leases of the relevant premises will be terminated upon PBL Macau obtaining the Subconcession Agreement. These arrangements will be replaced by similar agreements between PBL Macau and the relevant members of the Group holding the gaming operations of the Joint Venture in Macau after completion of the acquisition of the Subconcession and assignment thereof to PBL Macau. However, until such time the Subconcession is obtained by PBL Macau, or a later date at the request of the management of Mocha Slot, the current service agreements will continue to be in effect. Under the Deed, gaming operations of PBL and the Company in Greater China (including Macau) are to share economic value and benefits on a 40:60 basis respectively; and in the Territory excluding Greater China on a 60:40 basis, respectively. It should be noted also that the Deed currently provides that the financing of gaming and casino operations in Greater China (including Macau) be provided on a 40:60 basis for PBL and the Company respectively. Under the MOA the parties will revise the Deed so that upon completion of the Subconcession Agreement and the MOA (and the transactions contemplated thereunder), PBL and the Company will share economic value and benefits, and responsibilities to provide funding, on a 50:50 basis not only in Macau but also in the rest of the Territory.

Upon grant of the Subconcession to PBL Macau and completion of the Subconcession Agreement, PBL Macau will become a subsidiary of the Joint Venture and subject to the terms of the Deed. The shareholding structure of PBL Macau has been designed to reflect the 50:50 sharing of economic benefit of PBL Macau between PBL and the Company, by issuing of PBL Macau A Shares to all its shareholders except Melco PBL International Limited. PBL Macau A Shares have no meaningful economic interest in the profits and distributions of PBL Macau, resulting in all economic benefits belonging to the Joint Venture and shared evenly between PBL and the Company.

To reflect further the proposed 50:50 sharing of all economic benefits of the Joint Venture Companies, it is proposed that upon PBL Macau becoming a subsidiary of Melco PBL Holdings, all the issued share capital of Great Wonders and Melco Hotels and the operations of Mocha Slots held by Melco PBL Entertainment be transferred to PBL Macau resulting in all gaming operations of the Joint Venture operating under the holder of the Subconcession. This amendment, will also result in Great Wonders, Melco Hotels and Mocha Slots no longer remaining as indirect subsidiaries of the Company and their results no longer being consolidated in the accounts of the Company but instead accounted for as jointly controlled entities using equity accounting standards.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In Macau, no income tax is charged on gaming and casino profit, but rather the government of Macau receives 40% of the gross revenues. Under the current service agreements between Mocha Slot and SJM, SJM pays the Joint Venture 31% of the gross revenue from each slot machine. And, under the letter of confirmation dated 11 November 2004 between Great Wonders and SJM, SJM would pay the Joint Venture 40% of gross revenue from each of the first 60 gaming tables. This means that under the current arrangements under the Deed whereby economic benefits of the Joint Venture in Greater China are shared 40:60 for PBL and the Company respectively, the Company would have access to 18.6% and 24.0% of the gross revenues of Mocha Slot and Great Wonders, respectively, being 60% of the Joint Venture's entitled 31% and 40% share respectively. Following the grant of the Subconcession and termination of service agreements with SJM, the Joint Venture will no longer need to share revenues with SJM and thus retain the entire 60% share of the gross revenues net of the Macau government's 40%. Following which, under the revised Deed reflecting a 50:50 basis for sharing of economic value of the Joint Venture, the Group's access to the gross revenues of both Mocha Slot and Great Wonders would increase to 30%, being half of the 60% gross gaming revenue.

At present, the Company controls the majority voting rights and the board of Melco PBL Entertainment. If the Deed is amended as contemplated under the MOA, operations of Melco PBL Entertainment will no longer be majority controlled by the Company and its subsidiaries, Great Wonders and Melco Hotels, and the Mocha Slots operations will be transferred to PBL Macau. After such transfers Melco PBL Entertainment will have no material remaining business or assets. The transferred gaming businesses and operations will be controlled by the Joint Venture which holds 72% of the voting rights of PBL Macau. As the board and voting rights of the Joint Venture are controlled and held 50:50 by PBL and the Company and there exists no casting vote in the event of an equality of votes, all decisions will require the consent of both PBL and the Company. If any disagreements in the operation of Melco PBL Entertainment arise, delays may occur and the business of Melco PBL Entertainment may be affected.

It should be noted that in addition to sharing the economic benefits of the Joint Venture on a 50:50 basis, the revised Deed also required that the responsibility for the provision of future funding of the Joint Venture be shared on a 50:50 basis. In Greater China (including Macau), this amendment will result in a reduction of possible future capital commitments to the Joint Venture by the Company from 60% to 50%. Conversely, in the Territory (excluding Greater China), the Company's relative possible capital commitments will increase from 40% to 50%. However, as the board and voting rights of the joint venture company to be formed to hold gaming and casino operations in the Territory (excluding Greater China) will be held 50:50 under the revised Deed, the Company has the ability to veto the investment in any gaming and casino opportunities which it considers may not be in the interests of the Company or which may over extend the financial ability of the Company.

Financial effects

As a result of the revision of the Deed to reflect a sharing of economic value on a 50:50 basis and the changes in the shareholding structure to accommodate the revision, Melco PBL Entertainment will no longer be a subsidiary of the Company. The Company will be deemed to have disposed of Melco PBL Entertainment and its subsidiaries and their results will no longer be consolidated in the results of the Group, but rather will be equity accounted for as interests in jointly controlled entities. This deemed disposal of Melco PBL Entertainment and its subsidiaries will result in a gain of approximately HK\$143 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the basis of the pro forma financial information of the Group as set out in Appendix IV of the Circular, the principal effects of the transactions contemplated under the MOA on the Company would be as follows:

- Gearing – As at 31 December 2005, the Group had total outstanding debt of approximately HK\$1,110.3 million (including convertible notes) giving rise to a debt to equity ratio of approximately 0.31 times. On completion of the transactions contemplated under the MOA (and the resulting deemed disposal of Melco PBL Entertainment and its subsidiaries), on a pro forma basis the debt and gearing of the Group would have been approximately HK\$1,065.2 million and 0.29 times, respectively. We consider such level of gearing to be reasonable. However, in the event that the US\$500,000,000 non-recourse loan is not obtained by PBL Macau and the Group funds its obligations with the issue of debt securities, the Group's total debt and gearing would increase to approximately HK\$2,625.2 million and 0.71 times. Although the potential increase in gearing is significant, we have been informed by the Company that it is highly likely that the bank loan can be secured in due course although a firm commitment has not yet been received.
- Net tangible asset value – As at 31 December 2005, the Group had net tangible asset value (excluding minority interests) of approximately HK\$3,201.9 million, representing approximately HK\$2.76 per Share based on the number of Shares issued as at the Latest Practicable Date. Following completion this will increase to approximately HK\$3,667.9 million, representing approximately HK\$3.16 per Share.
- Working capital – As at 31 December 2005, the Group had cash and bank balances of approximately HK\$2,350.3 million. On completion of the transactions contemplated under the MOA the cash and bank balances of the Group will decrease to approximately HK\$952.6 million. Taken into consideration together with the expected cash flows and banking facilities, the Directors are of the opinion that the Group will have sufficient working capital for at least the next 12 months.

Reasons for and benefits of the transactions contemplated under the MOA

The Group currently operates gaming and casino business in Macau through SJM which is a holder of a gaming concession in Macau. This dependence upon SJM reduces the Group's control over its gaming and casino interests in Macau and its flexibility to plan and expand. New casino operations must be contracted to SJM to operate and as SJM also operates its own casinos in Macau, if there is any conflict of interest, SJM would be expected to act in its own best interests and not necessarily in the best interest of the Company if not contractually inhibited from so doing. By having interests in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subconcession and operating the Joint Venture's gaming and casino business in Macau through the Subconcession, the Company can ensure the running of the business are performed in best interests of the Joint Venture. Furthermore, the Joint Venture will be unconstrained from planning further gaming and casino operations in Macau, and will be able dealing directly with the Macau government for development approvals, allowing the Subconcession to be exploited to the Company's and PBL's benefit. An additional benefit of acquiring the Subconcession, is to restrict the entry of new competitors into the Macau gaming and casino market as there are no further concessions and subconcessions available. The Subconcession is expected to be the last subconcession to be granted by the Macau government in the foreseeable future, thus any new competitor may only operate gaming and casino business through existing holders of concessions and subconcessions.

Taking into account that: (i) the Purchase Price was negotiated between independent third parties; (ii) PBL will pay US\$240,000,000 representing 60% of Purchase Price (less US\$500,000,000 which is intended to be funded by a non-recourse bank loan); (iii) the Loan of US\$160,000,000 provided by the Company, representing 40% of the Purchase Price (less US\$500,000,000 which is intended to be funded by a non-recourse bank loan), can be converted into an effective 50% economic interest in PBL Macau; (iv) under the existing Deed, the Company is responsible to provide 60% of the financing to gaming and casino business in Greater China, including Macau; (v) the revision of the Deed to represent a 50:50 share basis will increase the amount of revenue to the Group; (vi) PBL and the Company will have direct control over its gaming and casino operations; (vii) PBL and the Company will have the right to operate an unlimited number of gaming and casino operations in Macau; and (viii) new competitors will be restricted from entering the Macau gaming market, we consider the terms of the Transactions, including the MOA, the proposed terms of the Loan, shareholding structure of the Joint Venture Companies, and revisions to the Deed, all as described in the Letter from the Board set out in the Circular, to be fair and reasonable to Shareholders and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions and that the Independent Board Committee advises the Shareholders accordingly.

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



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www.american-appraisal.com.hk

April 4, 2006

The Directors
Melco International Development Limited
Penthouse 38/F., The Centrium,
60 Wyndham Street,
Central, Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the fair market value of the sub-concession (the "Sub-concession") as of February 28, 2006 (the "Valuation Date"). The Sub-concession is a right which commences on the date of grant of the Sub-concession by the Macau Government and expires on June 26, 2022 to operate gaming operations in Macau. The Sub-concession is expected to be granted by the Macau Government to a subsidiary of Publishing and Broadcasting Limited ("PBL") following Wynn Resorts (Macau) SA ("Wynn Macau") having exercised its right under its own concession to subconcede, in consideration for the payment by PBL of a premium of US\$900 million under an agreement dated March 4, 2006 between PBL and Wynn Macau, as amended (the "Sub-concession Agreement").

This letter identifies the assets appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. We conducted our appraisal in compliance with the reporting requirements under the Uniform Standards of Professional Appraisal Practice ("USPAP"), which are valuation standards generally accepted and be followed by professional practitioners in the United States.

In valuation context, "*fair market value*" is the estimated amount at which an enterprise or asset may be expected to exchange between a willing buyer and a willing seller, neither being under any compulsion and each having reasonable knowledge of all relevant facts.

PURPOSE OF VALUATION

On March 5, 2006, Melco International Development Limited ("Melco" or the "Company" or "Client") have entered into the agreement (the "Memorandum of Agreement") with PBL, pursuant to which the Company will provide the financial assistance to PBL Macau, a company initially wholly owned by PBL as a vehicle to hold the Sub-concession upon the completion of the Sub-concession Agreement, to be applied towards the purchase price of the Sub-concession Agreement.

It is our understanding that this appraisal is served for the reference by the Company's shareholders for the approval of the Memorandum of Agreement. It is inappropriate to use this appraisal for purposes other than its intended use as so stated in this letter. We understand that Melco will disclose this letter in the circular to the shareholders of Melco and to the Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the requirements of the Rules Governing the Listing of Security on SEHK.

SCOPE OF WORK AND ASSUMPTION

Our work included discussions with the management of Melco in relation to the history, operations and prospects of the planned casino operations (the “Business”), study of the industry environment and market practices, a review of research reports on industry growth (the “Industry Forecasts”), the deployment plan of the Business (the “Business Plan”), as well as other relevant documents.

We have assumed, and have no reason to believe otherwise, that the data we obtained in the course of this valuation as well as the information, opinions and representation provided to us by the management of the Company, which we cannot verify through standard procedures, are true and accurate. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- Macau overall gaming market and its potential growth. We studied the industry research on the overall size of Macau gaming market and its potential growth to assess the reasonableness of the respective principal assumptions made by the Management
- the market structure and practices of Macau gaming industry
- the financial condition of the Company and PBL. We reviewed the financial ratio of the Company and PBL to assess whether they have the capability to execute the Business Plan through internal resources or external financing
- the economic outlook in Macau, Hong Kong and China in general and the specific economic and competitive elements affecting the gaming industry in Macau
- the stage of development of the Business. With reference to the stage of development of the Business, we assessed the timing when the Sub-concession would generate cash-flow and economic benefits to the Company
- Gaming concession and sub-concession agreements. The terms of these agreements include the responsibilities of the gaming concession or sub-concession holders, as well as the gaming tax rates, which they will be subject to. As such, we reviewed the terms of these agreements to assess the basis of underlying assumptions of future cash flow
- the operation and financial risks of the Business. We assessed the operation and financial risks of the Business as a basis to determine the required rate of return
- analysis of the industry and competitive environment
- analysis of the comparable companies as described hereunder which has been undertaken for the purpose of estimation of future growth potential expected by market participants, profitability and derivation of discount rate

Due to the changing environment in which affect the value of Sub-concession, a number of assumptions have to be established in order to sufficiently support our concluded value. All the principal assumptions adopted in this appraisal are stated as follows:

- the Business Plan have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Company
- the Business Plan provided by the Company's management will materialize
- there will be no major changes in the existing political, legal and economic conditions in Macau in which Melco will carry on its business
- industry trends and market conditions for Macau's gaming will not deviate significantly from the forecast
- Macau's gaming revenue will grow at compound annual growth rate at appropriate 18% from 2005 to 2009 and remain constant at 5% thereafter over the remaining period of the concession
- apart from the existing three concessions and probably up to three sub-concessions, there will be no further concessions or sub-concessions granted during the concession period
- the required rate of return devised from comparable data in an efficiency market have reflected both existing competition and expected future competition
- given the number of concessions and sub-concessions issued or to be issued, a typical Macau's gaming market participant will capture one sixth the market share
- the concession and sub-concession holders as official casino operators can share 20% – 30% of gaming revenue with casino business partners but bear operating expenses of 8% – 10% so that net saving attributable to the Sub-concession is assumed at 12%. These assumptions of the share portion of net wins and operating expenses were based on the market practices, the existing arrangement between the Company and SJM, discussion with the management of the Company, market analyst reports and government statistics
- Gaming operations are subject to gaming tax plus statutory contributions of approximately 40% on gross gaming revenues but not income tax on the gaming operations
- there will be no major changes in the current taxation law in Macau in which Melco operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with
- the availability of finance will not be a constraint on the development growth of operation in accordance with the Business Plan

- exchange rates and interest rates will not differ materially from those presently prevailing
- the Company will retain competent management, key personnel and technical staff to support their ongoing operations

VALUATION METHODOLOGY

In the appraisal of a business, regardless of their diversity, location or technological complexity, there are three basic approaches to value. The descriptive titles typically attached to these approaches are cost, income and market.

Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. Cost approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraisal. Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by market approach. Income approach is the conversion of expected periodic benefits of ownership into an indication of value.

In normal circumstances, we (as the appraiser) will consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. The cost approach is generally not considered applicable to the valuation of business licenses, as it does not capture future earning potential of the business in early stages of development. The market approach was not utilized in the valuation due to the lack of comparable transactions. In forming our opinion we relied upon the income approaches to value the Sub-concession based on the net saving attributable to the Sub-concession.

DISCOUNTED CASHFLOW METHOD

The discounted cashflow method of the income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future cash flows attributable to the Sub-concession only up to June 2022 at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

Under the current market practices, the gaming concession or sub-concession holder is responsible for daily casino operation mainly including staffing and training and share net win from casino operations, whereas its casino business partner is responsible for the construction and maintenance of the physical property and soliciting customers and capture the remaining net win after paying gaming tax. From the standpoint of a casino business partner, the benefits attributable to the Sub-concession being acquired is the net savings that is the shared portion of net win from 20% – 30% paid to the official casino operator

minus incremental operating expenses of approximately 8% – 10%. The fair market value of the Sub-concession to a typical market participant as an official casino operator is the sum of the present value of these net savings each year over the sub-concession period.

The rate at which the annual net cash flows discounted to present value is based the cost of equity. The cost of equity for the valuation is developed through the application of the Capital Asset Pricing Model (“CAPM”), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (also known as Beta) times equity market premium in general assuming all-equity financing.

With the consideration of the industry systematic risks and non-systematic risks (mostly related to company-specific risk) of the Company, we believed that the discount rate of 13% was appropriate in valuing the Sub-concession based on the average estimated required return of the five comparable companies including MGM Mirage, Wynn Resorts, Las Vegas Sands, Galaxy Entertainment and the Company itself.

SENSITIVITY ANALYSIS

We tested the two most important factors to which the value conclusion are most sensitive and covered the most likely range of fluctuations based on our professional judgment. The sensitivity analysis of the Sub-concession based on various net saving and market share is as follow:

	Worst	Base	Optimistic
Net saving attributable the Sub-concession (<i>Note 1 and 2</i>)	12%	12%	17%
Market share of a typical market participant as an official casino operator (<i>Note 3</i>)	10%	16.7%	16.7%
Indicated valued (<i>US\$ Mn</i>)	865	1,361	1,928

Note 1: the net savings is defined as the shared portion of net win paid to the official casino operator minus incremental operating expenses

Note 2: in worst and base case, it is assumed the net saving will be equal to the shared portion of net win of 22% (close to low end of the range of 20%-30%) minus the incremental operating expenses of 10%.

In optimistic case, it is assumed that the shared portion of net win will be 25% (mid point of 20%-30%) and the incremental operating expenses will be 8%

Note 3: in worst case, it is assumed that SJM will have 50% of the market share and the other five concession and sub-concession holders will evenly share the remaining 50% of the market. In base case and optimistic case, it is assumed that the SJM and the other five concession and sub-concession holders will evenly share the market and therefore each player will obtain 1/6 (i.e. 16.7%) of the market.

CONCLUSION OF VALUE

Based upon our investigation and analysis as outlined above and on the appraisal method we employed, it is our opinion that the fair market value of the Sub-concession as of February 28, 2006 to a typical market participant as an official casino operator based on the sum of the present value of these net savings each year over the sub-concession period is reasonably stated at the amount of **UNITED STATES DOLLARS ONE BILLION THREE HUNDRED AND SIXTY ONE MILLION (US\$1,361,000,000) ONLY.**

We arrive at this conclusion of value on the basis of generally accepted valuation procedures and practices, which rely to considerable extent on use of assumptions and consideration of uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated title to, or on liabilities against, assets appraised.

We certify that we have neither present nor prospective interest in the Company or on the value conclusion of its business hereby reported on.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Ricky Lee, ACCA, ASA
Vice President

Note: Mr. Ricky Lee is a member of the Association of Chartered Certified Accountants in the United Kingdom and accredited senior appraiser of the American Society of Appraisers and has been conducting business valuations, which include infrastructure projects and entertainment businesses, in the Greater China region since 1995.

The Company has received from its reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, and its financial adviser, VC Capital Limited, the following letters prepared for inclusions of this circular in respect of the appraisal valuation on the fair market value of the Subconcession prepared by American Appraisal China Limited. The reporting accountants have checked the calculation of the discounted cash flow and the valuation conducted by American Appraisal China Limited.

A. REPORT FROM DELOITTE TOUCHE TOHMATSU

Deloitte.
德勤

30 May 2006

The Board of Directors
Melco International Development Limited
Penthouse 38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Dear Sirs,

REPORT OF FACTUAL FINDINGS

We have performed the procedures agreed with you and enumerated below with respect to the appraisal valuation of subconcession as at 28 February 2006 (“Valuation Report”) prepared by American Appraisal China Limited dated 4 April 2006 in connection with the Memorandum of Agreement entered into between the Company and Publishing and Broadcasting Limited dated 5 March 2006 (the “Proposed Transaction”).

Our engagement was undertaken in accordance with the Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The procedures were performed solely to assist the directors of the Company to comply with Rule 14.71 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”),:

Our procedures are summarised as follows:

1. We obtained the supporting worksheets of the Valuation Report provided by the Company which comprises the value of subconcession under different assumptions.
2. We checked the mathematical accuracy of the calculations of the value of the subconcession contained in the supporting worksheets of the Valuation Report.

3. We made inquiry of American Appraisal China Limited whether the accounting policies of the Company have been adopted in the preparation of the Valuation Report.

We report our findings below:

- a) With respect to item 1, we obtained the supporting worksheets of the Valuation Report provided by the Company which comprises the value of subconcession under different assumptions.
- b) With respect to item 2, we found that the calculations of the value of the subconcession contained in the supporting worksheets of the Valuation Report are mathematically accurate.
- c) We were informed by American Appraisal China Limited that as this is a discounted cash flow model, no accounting policies of the Company have been adopted in the preparation of the supporting worksheets of the Valuation Report.

Because the above procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by HKICPA, we do not express any such assurance on the Valuation Report.

Had we performed additional procedures or had we performed an assurance engagement of the Scenario Analysis in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by HKICPA, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be filed with, or referred to (either in whole or in part) or otherwise quoted, circulated or used for any other purpose or to be distributed to any other parties, without our prior written consent, except that we understand a copy of this report will be distributed to the Stock Exchange. However, for the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties, including the Stock Exchange, are specifically disclaimed. This report relates only to the matters specified above and does not extend to any financial statements of the Company, taken as a whole.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B. REPORT FROM VC CAPITAL LIMITED

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

30 May 2006

Dear Sirs

We refer to the business valuation prepared by American Appraisal China Limited (“American Appraisal”) in relation to the appraisal of the fair market value (the “Valuation”) of the Subconcession as of 28 February 2006 and the requirements under Rules 14.62 and 14A.59(17)(b) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Capitalised terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

We note that the Valuation has been developed by American Appraisal through the application of the discounted cashflow method under the income approach.

We also note that American Appraisal has prepared the Valuation with reference to the deployment plan of the casino operation (the “Business Plan”) made by the management of the Company. We have discussed with American Appraisal, the management of Company and yourselves on the bases and assumptions upon which the Business Plan have been made. We have also considered the letter dated 30 May 2006 addressed to yourselves from Deloitte Touche Tohmatsu regarding the Valuation.

On the basis of the foregoing, we are of the opinion that the Valuation, for which you are responsible, have been made after your due and careful enquiry.

Your faithfully
For and on behalf of
VC Capital Limited
Philip Chau
Managing Director

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should read in conjunction with PBL Macau's audited consolidated financial statements, including notes thereto included elsewhere in this Circular.

I. Overview

PBL Macau is incorporated on 10 May 2006. PBL Macau does not commence business since its incorporation. Upon the completion of Subconcession Agreement, PBL Macau will hold the Subconcession and PBL Macau, through its subsidiaries, will operate games of fortune of chance, other casino games and entertainment related businesses. Details of PBL Macau is set out under the section headed "Proposed shareholding structure of the Joint Venture Companies and arrangements for sharing economic value/benefits of PBL Macau and other Joint Venture Companies on a 50:50 basis" of the "Letter from the Board" to this Circular.

II. Accountants' report of PBL Macau

Deloitte.
德勤

30 May 2006

The Directors
Melco International Development Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to PBL Entertainment (Macau) Limited ("PBL Macau") as of 10 May 2006 (the "Date") for inclusion in the circular of Melco International Development Limited ("Melco") dated 30 May 2006 (the "Circular") in connection with the proposed acquisition of a subconcession for pursuance of gaming business in Macau.

PBL Macau was incorporated as a share company in Macau on 10 May 2006.

The Financial Information for the Date set out in this report have been prepared from the audited financial statements of PBL Macau prepared in accordance with Hong Kong Financial Reporting Standards (the "Underlying Financial Statements"). We have acted as auditors of PBL Macau as of 10 May 2006. We have examined the Underlying Financial Statements for the Date in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Preparation of the Underlying Financial Statements is the responsibility of the directors of PBL Macau. The directors of Melco are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of PBL Macau as at 10 May 2006.

BALANCE SHEET*AT 10 MAY 2006 (DATE OF INCORPORATION)*

	<i>NOTES</i>	<i>HK\$</i>
Non-current asset		
Deposit for subconcession	7	778,000,000
Current assets		
Amount due from immediate holding company	8	970,680
Amounts due from fellow subsidiaries	8	194
		<u>970,874</u>
Current liabilities		
Other payable	9	311,200,000
Amount due to ultimate holding company	9	466,800,000
		<u>778,000,000</u>
Net current liabilities		<u>(777,029,126)</u>
		<u>970,874</u>
Share capital	10	<u>970,874</u>

STATEMENT OF CHANGE IN EQUITY*AS OF 10 MAY 2006 (DATE OF INCORPORATION)*

	Share capital HK\$
At 10 May 2006 (Date of incorporation)	<u>970,874</u>

NOTES TO THE FINANCIAL STATEMENTS*AS OF 10 MAY 2006 (DATE OF INCORPORATION)***1. GENERAL**

PBL Macau is a share company incorporated in Macau. Its immediate holding company is PBL Asia Investments Limited, a company incorporated in the Cayman Islands. Its ultimate holding company is Publishing and Broadcasting Limited, a company incorporated in Australia whose shares are listed on the Australian Stock Exchange. The address of the registered office and principal place of business of PBL Macau is 25 Avenida Doutor Mario Soares, Montepio Building, Macau.

The functional currency of PBL Macau is Macau Patacas. The presentation currency of PBL Macau is Hong Kong dollars for the convenience of readers.

PBL Macau has not commenced operation as of 10 May 2006. No income statement has been prepared as no revenue or cost was generated or incurred as of 10 May 2006. All the administrative costs as of 10 May 2006 were borne by its holding companies.

No cash flow statement has been prepared because PBL Macau has no cash transaction as of 10 May 2006.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The financial information has been prepared on a going concern basis because the ultimate holding company has committed to provide adequate funds to enable to meet in full its financial obligations as they fall due for the foreseeable future.

3. ADOPTION OF NEW HONG KONG FINANCING REPORTING STANDARDS

PBL Macau has not early applied the following new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INT”) that have been issued by the HKICPA but are not yet effective. The directors of PBL Macau anticipate that the application of these standards or INT will have no material impact on the financial statements of PBL Macau.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ²

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 June 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention except for financial instruments which are initially measured at fair value and in accordance with HKFRS. The principal accounting policies adopted are materially consistent with those of Melco International Development Limited and are set out as below:

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when PBL Macau becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from fellow subsidiaries and immediate holding company) are carried at amortised cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss is reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by PBL Macau are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of PBL Macau after deducting all of its liabilities.

Financial liabilities

Financial liabilities including other payable and amount due to ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by PBL Macau are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and PBL Macau has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in income statement.

For financial liabilities, they are removed from PBL Macau's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

Foreign currencies

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

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

For the purposes of presenting the financial statements, the assets and liabilities of PBL Macau's operations are translated into the presentation currency of PBL Macau (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date. Exchange difference arising, if any, are recognised as a separate component of equity (the translation reserve).

5. DIRECTORS' EMOLUMENTS

None of the directors received or will receive any fees or emoluments in respect of their services to PBL Macau as of 10 May 2006.

6. TAXATION

No provision for Hong Kong and overseas profits tax has been made as the Company has no assessable profit as of 10 May 2006.

7. DEPOSIT FOR SUBCONCESSION

On 4 March 2006, the ultimate holding company has entered into a Subconcession Agreement ("Agreement") with Wynn Macau S.A. (Wynn Macau") for the grant of subconcession ("Subconcession") to PBL Macau.

Pursuant to the Agreement, Wynn Macau will grant and cause the Macau Government to grant a Subconcession to PBL Macau at a consideration of HK\$70,020,000,000 (US\$900,000,000). The deposit is paid for the acquisition of the Subconcession in accordance with the Agreement. The balance of the consideration will be payable upon the grant of the subconcession to PBL Macau.

The Subconcession will allow its holder to operate gaming businesses in Macau. So far there are only three concessions and two subconcessions granted by the Macau government for the operation of gaming businesses and casinos in Macau. The Subconcession will be the third subconcession to operate the gaming business in Macau.

8. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand. The fair values of amounts due from immediate holding company/fellow subsidiaries approximate to their carrying amounts.

9. OTHER PAYABLE/AMOUNT DUE TO ULTIMATE HOLDING COMPANY

Melco International Development Limited paid HK\$311,200,000 and the ultimate holding company paid HK\$466,800,000 as deposit for the acquisition of the Subconcession on behalf of PBL Macau, which gives rise to the balances of other payable and amount due to ultimate holding company as of 10 May 2006.

The other payable and amount due to ultimate holding company are unsecured, non-interest bearing and repayable on demand. The fair values of other payable and amount due to ultimate holding company approximate to their carrying amounts.

10. SHARE CAPITAL

	At 10 May 2006
Registered shares of MOP100 each:	
Authorised	<u>MOP200,000,000</u>
Issued and fully paid	<u>MOP1,000,000</u>
Shown in the financial statements as	<u>HK\$970,874</u>

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of PBL Macau have been prepared in respect of any period subsequent to 10 May 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

I. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31 December 2005 and the audited balance sheets of the Group as at 31 December 2003, 31 December 2004 and 31 December 2005, as extracted from the Company's audited financial statements for each of the three years ended 31 December 2005.

Consolidated Income Statement*For the year ended 31 December 2005*

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i>
Revenue	600,640	408,076	165,263
Other income	1,422	7,164	4,067
Investment income (loss)	3,407	(1,175)	10,386
Cost of inventories sold	(182,533)	(157,183)	(36,703)
Employee benefits expense	(137,762)	(112,555)	(76,499)
Depreciation of property, plant and equipment	(35,322)	(17,683)	(16,154)
Amortisation of intangible assets	(507)	(507)	(464)
Commission expenses	(38,826)	(50,607)	(26,088)
Gain on disposal of investment properties	–	57,176	–
Amortisation of goodwill	–	–	(2,614)
Gain on deemed disposal of partial interests in subsidiaries	514,407	–	–
Increase in fair value of investment properties	8,000	–	–
Other operating expenses	(140,943)	(61,809)	(51,968)
Finance costs	(31,747)	(4,199)	(2,007)
Share of profit of jointly controlled entities	2,234	–	–
Profit before tax	562,470	66,698	(32,781)
Income tax expense	(6,010)	(2,490)	(1,201)
Profit (loss) for the year	<u>556,460</u>	<u>64,208</u>	<u>(33,982)</u>
Attributable to:			
Equity holders of the Company	548,718	59,722	(26,334)
Minority interests	7,742	4,486	(7,648)
	<u>556,460</u>	<u>64,208</u>	<u>(33,982)</u>
Dividend paid	<u>16,168</u>	<u>3,776</u>	<u>–</u>
Earnings (loss) per share			
Basic	<u>HK52.19 cents</u>	<u>HK9.19 cents</u>	<u>HK(15.89) cents</u>
Diluted	<u>HK47.34 cents</u>	<u>HK8.50 cents</u>	<u>N/A</u>

Consolidated Balance Sheet*At 31 December 2005*

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i>
Non-current assets			
Investment properties	85,000	77,000	159,000
Property, plant and equipment	256,151	127,174	28,916
Hotels and entertainment complex under development	1,881,824	–	–
Prepaid lease payments	36,394	–	–
Deposit for land use right	48,590	–	–
Goodwill	351,470	389,937	19,705
Trading rights	2,279	2,786	3,293
Interests in jointly controlled entities	2,234	100,000	–
Investment securities	–	27,754	20,637
Available-for-sale investments	20,517	–	–
Other intangible assets	2,547	547	4,542
Long term deposits	8,074	14,780	4,219
Deferred tax assets	1,495	–	–
	<u>2,696,575</u>	<u>739,978</u>	<u>240,312</u>
Current assets			
Trade receivables	399,727	337,014	236,390
Prepayments, deposits and other receivables	45,177	40,919	9,150
Inventories	34,656	3,768	4,137
Prepaid lease payments	4,646	–	–
Investment in convertible loan notes	4,000	–	–
Other investments	–	40,641	40,638
Held-for-trading investments	45,002	–	–
Amount due from a jointly controlled entity	19	25,145	–
Amounts due from related companies	948	1,119	429
Tax recoverable	–	–	387
Certificate of deposit	–	1,100	–
Pledged bank deposits	270	177	304
Bank balances and cash	2,350,284	394,966	142,771
	<u>2,884,729</u>	<u>844,849</u>	<u>434,206</u>

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i>
Current liabilities			
Trade payables	103,936	60,462	110,538
Other payables	105,700	35,153	39,575
Amount due to a minority shareholder	9,104	–	–
Amount due to a jointly controlled entity	9	–	–
Amounts due to related companies	6,051	–	–
Taxation payable	8,594	1,888	–
Bank borrowing			
– due within one year	28,000	15,000	–
Convertible loan notes			
– due within one year	–	22,500	–
Obligation under finance lease	21	817	–
Shareholder's loan	45,085	23,158	–
	<u>306,500</u>	<u>158,978</u>	<u>150,113</u>
Net current assets	<u>2,578,229</u>	<u>685,871</u>	<u>284,093</u>
Total assets less current liabilities	<u>5,274,804</u>	<u>1,425,849</u>	<u>524,405</u>
Non-current liabilities			
Rental deposits	–	–	407
Deferred tax liabilities	49,847	2,256	324
Convertible loan notes			
– due after one year	1,037,163	118,126	–
Obligation under finance lease			
– due after one year	63	–	–
	<u>1,087,073</u>	<u>120,382</u>	<u>731</u>
	<u>4,187,731</u>	<u>1,305,467</u>	<u>523,674</u>
Capital and reserves			
Share capital	562,919	463,244	221,997
Reserves	2,995,266	766,607	238,725
Equity attributable to equity holders of the Company	3,558,185	1,229,851	460,722
Minority interests	629,546	75,616	62,952
	<u>4,187,731</u>	<u>1,305,467</u>	<u>523,674</u>

II. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is a summary of the audited financial statements of the Group for the year ended 31 December 2005 and one audited balance sheet of the Group as at 31 December 2005, as extracted from the Company's audited financial statements for the year ended 31 December 2005 as set out in the Company's annual report.

Consolidated Income Statement*For the year ended 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Revenue	7	600,640	408,076
Other income	9	1,422	7,164
Investment income (loss)	10	3,407	(1,175)
Cost of inventories sold		(182,533)	(157,183)
Employee benefits expense	11	(137,762)	(112,555)
Depreciation of property, plant and equipment		(35,322)	(17,683)
Amortisation of intangible assets		(507)	(507)
Commission expenses		(38,826)	(50,607)
Gain on disposal of investment properties		–	57,176
Gain on deemed disposal of partial interests in subsidiaries	12	514,407	–
Increase in fair value of investment properties		8,000	–
Other operating expenses		(140,943)	(61,809)
Finance costs	13	(31,747)	(4,199)
Share of profit of jointly controlled entities		2,234	–
		<hr/>	<hr/>
Profit before tax	14	562,470	66,698
Income tax expense	15	(6,010)	(2,490)
		<hr/>	<hr/>
Profit for the year		<u>556,460</u>	<u>64,208</u>
Attributable to:			
Equity holders of the Company		548,718	59,722
Minority interests		7,742	4,486
		<hr/>	<hr/>
		<u>556,460</u>	<u>64,208</u>
Dividend paid	18	<u>16,168</u>	<u>3,776</u>
Earnings per share			
Basic	19	<u>HK52.19 cents</u>	<u>HK9.19 cents</u>
Diluted		<u>HK47.34 cents</u>	<u>HK8.50 cents</u>

Consolidated Balance Sheet*At 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current assets			
Investment properties	20	85,000	77,000
Property, plant and equipment	21	256,151	127,174
Hotels and entertainment complex under development	22	1,881,824	–
Prepaid lease payments	23	36,394	–
Deposit for land use right	24	48,590	–
Goodwill	25	351,470	389,937
Trading rights	26	2,279	2,786
Interests in jointly controlled entities	28	2,234	100,000
Investment securities	30	–	27,754
Available-for-sale investments	30	20,517	–
Other intangible assets	31	2,547	547
Long term deposits	32	8,074	14,780
Deferred tax assets	47	1,495	–
		<u>2,696,575</u>	<u>739,978</u>
Current assets			
Trade receivables	33	399,727	337,014
Prepayments, deposits and other receivables		45,177	40,919
Inventories	34	34,656	3,768
Prepaid lease payments	23	4,646	–
Investment in convertible loan notes	35	4,000	–
Other investments	36	–	40,641
Held-for-trading investments	36	45,002	–
Amount due from a jointly controlled entity	37	19	25,145
Amounts due from related companies	38	948	1,119
Certificate of deposit		–	1,100
Pledged bank deposits	40	270	177
Bank balances and cash	41	2,350,284	394,966
		<u>2,884,729</u>	<u>844,849</u>
Current liabilities			
Trade payables	42	103,936	60,462
Other payables		105,700	35,153
Amount due to a minority shareholder	37	9,104	–
Amount due to a jointly controlled entity	37	9	–
Amounts due to related companies	38	6,051	–
Taxation payable		8,594	1,888
Bank borrowing – due within one year	43	28,000	15,000
Convertible loan notes – due within one year	44	–	22,500
Obligation under finance lease	45	21	817
Shareholder's loan	46	45,085	23,158
		<u>306,500</u>	<u>158,978</u>
Net current assets		<u>2,578,229</u>	<u>685,871</u>
Total assets less current liabilities		<u>5,274,804</u>	<u>1,425,849</u>

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current liabilities			
Deferred tax liabilities	47	49,847	2,256
Convertible loan notes			
– due after one year	44	1,037,163	118,126
Obligation under finance lease			
– due after one year	45	63	–
		<u>1,087,073</u>	<u>120,382</u>
		<u>4,187,731</u>	<u>1,305,467</u>
Capital and reserves			
Share capital	48	562,919	463,244
Reserves		<u>2,995,266</u>	<u>766,607</u>
Equity attributable to equity holders of the Company		3,558,185	1,229,851
Minority interests		<u>629,546</u>	<u>75,616</u>
		<u>4,187,731</u>	<u>1,305,467</u>

Balance Sheet*At 31 December 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current assets			
Investment in subsidiaries	29	46,349	29,394
Investment in jointly controlled entity		–	100,000
Other intangible asset	31	2,000	–
		<u>48,349</u>	<u>129,394</u>
Current assets			
Prepayments, deposits and other receivables		4,577	137
Amounts due from subsidiaries	39	1,975,334	956,956
Bank balances and cash	41	2,081,958	279,287
		<u>4,061,869</u>	<u>1,236,380</u>
Current liabilities			
Other payables		6,691	1,121
Amounts due to subsidiaries	39	70,201	67,589
Convertible loan notes – due within one year	44	–	22,500
		<u>76,892</u>	<u>91,210</u>
Net current assets		<u>3,984,977</u>	<u>1,145,170</u>
Total assets less current liabilities		<u>4,033,326</u>	<u>1,274,564</u>
Non-current liability			
Convertible loan notes – due after one year	44	1,037,163	118,126
		<u>2,996,163</u>	<u>1,156,438</u>
Capital and reserves			
Share capital	48	562,919	463,244
Reserves	49	2,433,244	693,194
		<u>2,996,163</u>	<u>1,156,438</u>

Consolidated Statement of Changes In Equity

For the year ended 31 December 2005

	Attributable to the equity holders of the Company														Total
	Share capital	Share premium	Issuable shares	Capital reserve	Special reserve	Convertible loan notes equity reserve	Investment property revaluation reserve	Other revaluation reserve	Exchange reserve	Legal reserve	Share options reserve	Accumulated (losses) profit	Total	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 2)	(Note 3)					(Note 4)					
At 1 January 2004	221,997	49,677	-	357,785	-	-	82,948	-	-	-	-	(251,685)	460,722	62,952	523,674
Reserve realised upon disposal of investment properties	-	-	-	-	-	-	(56,176)	-	-	-	-	-	(56,176)	-	(56,176)
Net expense recognised directly in equity	-	-	-	-	-	-	(56,176)	-	-	-	-	-	(56,176)	-	(56,176)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	59,722	59,722	4,486	64,208
Total recognised income for the year	-	-	-	-	-	-	-	-	-	-	-	59,722	59,722	4,486	64,208
Exercise of share options	11,869	5,066	-	-	-	-	-	-	-	-	-	-	16,935	-	16,935
Shares issued at premium	229,378	529,813	-	-	-	-	-	-	-	-	-	-	759,191	-	759,191
Share issuance expenses	-	(16,576)	-	-	-	-	-	-	-	-	-	-	(16,576)	-	(16,576)
Increase in minority interest resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	9,405	9,405
Transfer	-	-	-	-	-	-	-	-	-	254	-	(254)	-	-	-
Recognition of equity-settled share based payment	-	-	-	-	-	-	-	-	-	-	5,435	-	5,435	-	5,435
Recognition of equity component of convertible loan notes	-	-	-	-	-	4,374	-	-	-	-	-	-	4,374	-	4,374
Decrease in minority interest resulting from acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,227)	(1,227)
Dividend paid	-	-	-	(3,776)	-	-	-	-	-	-	-	-	(3,776)	-	(3,776)
At 31 December 2004	463,244	567,980	-	354,009	-	4,374	26,772	-	-	254	5,435	(192,217)	1,229,851	75,616	1,305,467
Effects of changes in accounting policies (Note 2A)	-	-	-	-	-	-	(26,772)	-	-	-	-	26,772	-	-	-
As restated	463,244	567,980	-	354,009	-	4,374	-	-	-	254	5,435	(165,445)	1,229,851	75,616	1,305,467

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

Attributable to the equity holders of the Company															
	Share capital HK\$'000	Share premium HK\$'000	Issuable shares HK\$'000 (Note 1)	Capital reserve HK\$'000 (Note 2)	Special reserve HK\$'000 (Note 3)	Convertible		Other revaluation reserve HK\$'000	Exchange reserve HK\$'000	Legal reserve HK\$'000 (Note 4)	Share options reserve HK\$'000	Accumulated (losses) profit HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
						loan equity reserve HK\$'000	Investment property revaluation reserve HK\$'000								
Increase in other revaluation reserve resulting from acquisition of a subsidiary	-	-	-	-	-	-	-	76,477	-	-	-	-	76,477	-	76,477
Realisation of other revaluation reserve upon deemed disposal of partial interest in subsidiaries	-	-	-	-	-	-	-	(30,591)	-	-	-	30,591	-	-	-
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	(43)	-	-	-	(43)	(22)	(65)
Net income (expense) directly recognised in equity	-	-	-	-	-	-	-	45,886	(43)	-	-	30,591	76,434	(22)	76,412
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	548,718	548,718	7,742	556,460
Total recognised income for the year	-	-	-	-	-	-	-	-	-	-	-	548,718	548,718	7,742	556,460
Exercise of share options	10,110	10,697	-	-	-	-	-	-	-	-	-	-	20,807	-	20,807
Shares issued at premium	70,000	1,207,500	-	-	-	-	-	-	-	-	-	-	1,277,500	-	1,277,500
Share issuance expenses	-	(38,397)	-	-	-	-	-	-	-	-	-	-	(38,397)	-	(38,397)
Shares conversion on convertible loan notes	19,565	25,435	-	-	-	-	-	-	-	-	-	-	45,000	-	45,000
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	7,617	7,617
Increase in minority interests on deemed disposal of partial interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	612,390	612,390
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	-	5,350	-	5,350	-	5,350
Transfer to share premium upon exercise of share option	-	3,033	-	-	-	-	-	-	-	-	(3,033)	-	-	-	-
Increase in minority interest resulting from acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	105,886	105,886
Decrease in minority interest upon acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(105,763)	(105,763)
Shares issuable on acquisition of additional interest in a subsidiary	-	-	196,667	-	-	-	-	-	-	-	-	-	196,667	-	196,667
Special reserve arise on acquisition of additional interest in a subsidiary	-	-	-	-	(110,880)	-	-	-	-	-	-	-	(110,880)	(73,920)	(184,800)
Recognition of equity component of convertible loan notes	-	-	-	-	-	323,303	-	-	-	-	-	-	323,303	-	323,303
Dividend paid	-	-	-	(16,168)	-	-	-	-	-	-	-	-	(16,168)	-	(16,168)
At 31 December 2005	562,919	1,776,248	196,667	337,841	(110,880)	327,677	-	45,886	(43)	254	7,752	413,864	3,558,185	629,546	4,187,731

- Note 1:* The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary which will be issued on the actual date of grant of the concession of a land by the Macau Government (see Note 51).
- Note 2:* Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK\$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK\$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK\$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is not outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.
- Note 3:* The special reserve represents the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired during the year (see Note 51).
- Note 4:* All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the income statement and is not available for distribution to the shareholders of the entity. The appropriation of legal reserve is recorded in financial statements in the period in which it is approved by the board.

Consolidated Cash Flow Statement*For the year ended 31 December 2005*

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
OPERATING ACTIVITIES		
Profit before tax	562,470	66,698
Adjustments for:		
Share of profit of jointly controlled entities	(2,234)	–
Net loss on other investments	–	2,113
Amortisation of trading rights	507	507
Amortisation of prepaid lease payments	1,936	–
Depreciation of property, plant and equipment	35,322	17,683
Written back of allowance for doubtful debts	(1,790)	–
Allowance for doubtful debts	2,843	1,910
Finance costs	31,747	4,199
Dividend income	(2,756)	(938)
Impairment loss on available-for-sale investments	120	–
Gain of disposal of investment properties	–	(57,176)
Reversal of impairment of investment securities	–	(3,117)
Discount on acquisition of subsidiaries	–	(1,204)
Gain on deemed disposal of partial interests in subsidiaries	(514,407)	–
Share-based payment expense	5,350	5,435
Increase in fair value of investment properties	(8,000)	–
Loss (gain) on disposal of property, plant and equipment	500	(1,400)
Operating cash flows before movements in working capital	111,608	34,710
(Increase) decrease in inventories	(30,888)	369
Increase in trade receivables	(65,335)	(96,702)
Increase in prepayments, deposits and other receivables	(2,768)	(24,204)
Increase in held-for-trading investments	(4,361)	–
Decrease (increase) in amounts due from related companies	1,140	(690)
Increase in amounts due to related companies	820	–
Increase (decrease) in trade payables	43,474	(50,196)
Increase (decrease) in other payables	13,942	(16,783)
Increase in amount due to a minority shareholder	9,104	–
Increase in amount due to a jointly controlled entity	9	–
Decrease in rental deposits	–	(407)
Cash from (used in) operations	76,745	(153,903)
Income tax (paid) refunded	(1,208)	849
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	75,537	(153,054)

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
INVESTING ACTIVITIES			
Proceeds from disposal of partial interests in subsidiaries	12	1,271,368	–
Decrease (increase) in long term deposits		6,706	(10,561)
Proceeds from disposal of available-for-sale investments		3,117	–
Dividend received		2,756	938
Proceeds from disposal of property, plant and equipment		2,627	2,168
Decrease in certificate of deposits		1,100	–
Acquisition of hotels and entertainment complex under development		(217,005)	–
Acquisition of additional interest in a subsidiary/ subsidiaries	51	(200,000)	10,265
Purchase of property, plant and equipment		(167,309)	(49,770)
Increase in deposits for land use right		(48,590)	–
Increase in prepaid lease payments		(42,976)	–
Increase in amount due from a jointly controlled entity		(8,103)	(25,145)
(Acquisition) disposal of other intangible assets		(2,000)	405
(Increase) decrease in pledged bank deposits		(93)	127
Proceeds from disposal of investment properties		–	83,000
Purchase of investment securities		–	(4,000)
Purchase of other investments less proceeds from subsequent disposal		–	(2,112)
Direct expense incurred for acquisition of additional interests in subsidiaries		–	(250)
NET CASH FROM INVESTING ACTIVITIES		<u>601,598</u>	<u>5,065</u>
FINANCING ACTIVITIES			
Proceeds from issue of shares		1,277,500	394,680
Advance from a shareholder		21,927	23,158
Proceeds from exercise of share options		20,807	16,935
Bank borrowings raised		13,000	15,000
Capital contribution from minority shareholders		7,617	–
Share issuance expenses		(38,397)	(16,576)
Dividend paid		(16,168)	(3,776)
Interest paid		(7,267)	(4,199)
Repayment of obligation under finance lease		(836)	(482)
Repayment of former shareholder's loans		–	(24,556)
NET CASH FROM FINANCING ACTIVITIES		<u>1,278,183</u>	<u>400,184</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>1,955,318</u>	<u>252,195</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>394,966</u>	<u>142,771</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		<u><u>2,350,284</u></u>	<u><u>394,966</u></u>

Notes to the Financial Statements*For the year ended 31 December 2005*

(as extracted from the Company's annual report 2005)

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are divided into four divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Investment Banking and Financial Services Division; (iii) Technology Division; and (iv) Property and Other Investments Division.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 *Business Combination*, HKAS 36 *Impairment of Assets* and HKAS 38 *Intangible Assets* where the Group has early adopted in previous year. The application of the other new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Company's and the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Share-based Payments

In the current year, the Company and the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Company and the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Company and the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Company and the Group did not recognise the financial effect of these share options until they were exercised. The Company and the Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Company and the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Company and the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 2A for the financial impact).

Financial Instruments

In the current year, the Company and the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32, HKAS 39 are summarised below:

Convertible loan notes

The principal impact of HKAS 32 on the Company and the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated (see Note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of HKAS 17 *Leases* has been no material effect on how the results for the current and prior accounting period are prepared and presented.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses (see Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively resulting in a recognition of HK\$9,492,000 deferred tax liability for the revaluation of the investment properties and HK\$9,492,000 deferred tax asset for unused tax losses on 1 January 2004.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in fair value of investment properties	8,000	–
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
	<u>(16,599)</u>	<u>(5,435)</u>
Decrease in profit for the year	<u>(16,599)</u>	<u>(5,435)</u>
	THE COMPANY	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
	<u>(24,599)</u>	<u>(5,435)</u>
Decrease in profit for the year	<u>(24,599)</u>	<u>(5,435)</u>

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	THE GROUP				
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
<i>Balance sheet items</i>					
Investment securities	27,754	–	27,754	(27,754)	–
Available-for-sale investments	–	–	–	27,754	27,754
Other investments	40,641	–	40,641	(40,641)	–
Held-for-trading investments	–	–	–	40,641	40,641
Convertible loan notes – due after one year	(122,500)	4,374	(118,126)	–	(118,126)
Total effects on assets and liabilities	<u>(54,105)</u>	<u>4,374</u>	<u>(49,731)</u>	<u>–</u>	<u>(49,731)</u>
THE GROUP					
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Accumulated losses	(186,782)	(5,435)	(192,217)	26,772	(165,445)
Share options reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	–	4,374	4,374	–	4,374
Investment property revaluation reserve	26,772	–	26,772	(26,772)	–
Minority interests	–	75,616	75,616	–	75,616
Total effects on equity	<u>(160,010)</u>	<u>79,990</u>	<u>(80,020)</u>	<u>–</u>	<u>(80,020)</u>
Minority interests	<u>75,616</u>	<u>(75,616)</u>	<u>–</u>	<u>–</u>	<u>–</u>

	THE COMPANY				
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
<i>Balance sheet items</i>					
Convertible loan notes – due after one year	(122,500)	4,374	(118,126)	–	(118,126)
Accumulated losses	(233,169)	(5,435)	(238,604)	–	(238,604)
Share option reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	–	4,374	4,374	–	4,374
Total effects on equity	(233,169)	4,374	(228,795)	–	(228,795)

The application of the new HKFRSs has resulted in the reclassification of minority interest of HK\$62,952,000 to the Group's equity at 1 January 2004.

The application of the new HKFRSs does not have any significant financial effect to the Company's equity at 1 January 2004.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ³
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

3. CHANGES IN ACCOUNTING ESTIMATES

In previous years, the gaming machine was depreciated at 10% per annum. With effect from July 2005 after a reassessment of the useful life of the gaming machine, the gaming machine is to be depreciated at 20% per annum, which reflects the Group's previous experience of the useful lives of its assets. This change in depreciation rate has increased the depreciation charge for the year by approximately HK\$6,306,000.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the goodwill and the carrying values of the underlying asset and liabilities attributable to the additional interests in a subsidiary is debited to special reserve. On subsequent disposal of a subsidiary, the attributable special reserve is transferred to accumulated profit.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the balance sheet or consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities are included in the Company's balance sheet at cost, less any identified impairment loss.

Revenue recognition

Revenue from management of electronic gaming machine lounge is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

Revenue from the provision of catering services, management services and investment banking and financial services are recognised when the services are provided.

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

Revenue from sales of other products is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Restaurants, vessels, ferries and pontoons	5% to 10%
Buildings	2.5% to 4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to 33 ¹ / ₃ %
Gaming machine	20%
Motor vehicles	20%

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Hotels and entertainment complex under development

Hotels and entertainment complex in the course of development are classified as non-current assets and are stated at cost less accumulated amortisation and accumulated impairment loss. Cost comprises acquisition cost relating to the leasehold interests in lands and direct development costs attributable to such properties. Interests in lands are amortised over the expected useful life and are included as part of cost of hotels and entertainment complex under development.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Consideration paid for land use rights are recorded as prepaid lease payments and are charged to profit or loss on a straight-line basis over the term of relevant land use rights acquired. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Segregated accounts

From the Group's ordinary business, it acts as a trustee and in other fiduciary capacities that result in the holding of client's monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its balance sheet. As at 31 December 2005, the Group maintained segregated account with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK\$1,670,000 (2004: HK\$1,390,000) and HK\$192,418,000 (2004: HK\$232,532,000) respectively, which are not otherwise dealt with in the financial statements.

Retirement benefits costs

Payments to defined contribution schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Share-based payment transactions

For share options granted after 1 January 2005 and share options granted before 1 January 2005 but not yet vested as at 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profit.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives (trading rights) is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives (club debentures) are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items especially technology solution system identified that are of minimal resale value due to technological changes. The management estimates the net realisable value for such inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is approximately HK\$351,470,000. Details of the recoverable amount calculation are disclosed in note 27.

Income taxes

As at 31 December 2005, a deferred tax asset of HK\$1,495,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, bank balances, borrowings, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The Group's fair value interest rate risk relates to fixed rate shareholder's loan which is interest bearing at 4% per annum. Short-term floating rate bank borrowings, which are Hong Kong Interbank Offered Rate ("HIBOR")-based, are used to fund margin financings of the securities brokerage business which are typically prime-based and is therefore exposed to cash flow interest rate risk. The principal risk lies with the interest rate differential between HIBOR and the prime rate. The Group mitigates the risk by monitoring the interest rate gap between the shareholder's loan and short-term bank loans and financing facilities and revises the financing rate if necessary.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in Hong Kong and Macau. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

Price risk

The Group's held-for-trading investments and available-for-sale investments are measured at fair value and cost less any identified impairment, respectively, at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of technology solution systems	197,459	154,799
Income from electronic gaming machines lounges	129,242	45,170
Catering service income	91,191	76,479
Brokerage commission from dealing in securities and futures and options contracts	57,433	85,589
Interest income from clients	30,305	24,656
Interest income from authorised institutions	57,707	446
Underwriting, sub-underwriting, placing and sub-placing commission	9,232	5,638
Arrangement, management, advisory and other fee income	18,116	10,521
Property rental income	8,002	4,178
Management fee income	1,200	600
Others	753	–
	<u>600,640</u>	<u>408,076</u>

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions including Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services, and Property and Other Investments. These divisions are the basis on which the Group reports its primary segment information.

The Leisure, Gaming and Entertainment Segment, which mainly comprises (a) management of electronic gaming machines lounges in Macau (b) provision of catering services, and (c) hotels and entertainment complex operation.

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

The Investment Banking and Financial Services Segment (operated through Value Convergence Holdings Limited), which mainly comprises (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory service and (b) broking and dealing for clients in securities, futures and options contracts.

The Property and Other Investments Segment, which mainly comprises property investments, other investments and related activities.

Inter-segment sales are charged at terms agreed by both parties.

Segment information about these businesses is presented below:

2005

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	241,875	197,459	115,086	46,220	-	600,640
Inter-segment sales	1,057	122,477	900	30,853	(155,287)	-
Total revenue	<u>242,932</u>	<u>319,936</u>	<u>115,986</u>	<u>77,073</u>	<u>(155,287)</u>	<u>600,640</u>
Segment result	<u>539,655</u>	<u>33,766</u>	<u>12,877</u>	<u>56,442</u>	<u>(11,871)</u>	630,869
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Share of profit of jointly controlled entities	2,234	-	-	-	-	2,234
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						<u>556,460</u>

Inter-segment sales are charged at terms agreed by both parties.

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	2,702,646	132,879	416,527	2,196,793	5,448,845
Interests in jointly controlled entities	2,234	-	-	-	2,234
Unallocated corporate assets					130,225
Consolidated total assets					<u>5,581,304</u>
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,154,498
Consolidated total liabilities					<u>1,393,573</u>

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital additions	2,039,933	2,769	806	50,703	2,094,211
Depreciation	29,846	903	2,627	1,946	35,322
Amortisation of trading rights	–	–	507	–	507
Amortisation of prepaid lease payments	–	–	–	1,936	1,936
Loss on disposal of property, plant and equipment	214	–	267	19	500
Allowance for doubtful debts, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	–	–	120	–	120

2004

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	123,007	154,799	126,404	3,866	–	408,076
Inter-segment sales	424	14,641	2,230	–	(17,295)	–
Total revenue	<u>123,431</u>	<u>169,440</u>	<u>128,634</u>	<u>3,866</u>	<u>(17,295)</u>	<u>408,076</u>
Segment result	<u>5,636</u>	<u>16,050</u>	<u>14,783</u>	<u>65,334</u>	<u>(1,546)</u>	100,257
Unallocated corporate expenses						(29,360)
Finance costs						(4,199)
Profit before tax						66,698
Income tax expense						(2,490)
Profit for the year						<u>64,208</u>

Inter-segment sales are charged at terms agreed by both parties.

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	598,842	57,226	433,372	290,633	1,380,073
Interest in a jointly controlled entity	100,000	-	-	-	100,000
Unallocated corporate assets					<u>104,754</u>
Consolidated total assets					<u><u>1,584,827</u></u>
Liabilities					
Segment liabilities	24,325	22,497	62,675	1,935	111,432
Unallocated corporate liabilities					<u>167,928</u>
Consolidated total liabilities					<u><u>279,360</u></u>
	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital additions	114,520	422	669	1,098	116,709
Depreciation	11,519	591	4,390	1,183	17,683
Amortisation of trading rights	-	-	507	-	507
(Gain) loss on disposal of property, plant and equipment	(1,661)	3	(21)	279	(1,400)
Allowance for doubtful debts, net	-	323	1,587	-	1,910
Reversal of impairment of investment securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,117)</u>	<u>(3,117)</u>

(b) Geographical segments

The Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services and Property and Other Investments divisions are located in the People's Republic of China ("PRC"), Macau and Hong Kong.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	279,906	209,327
Macau	320,734	198,486
The PRC	–	263
	<u>600,640</u>	<u>408,076</u>

Segment

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	2,699,829	1,264,058	5,644	23,551
Macau	2,880,582	318,436	2,088,530	92,195
The PRC	893	2,333	37	963
	<u>5,581,304</u>	<u>1,584,827</u>	<u>2,094,211</u>	<u>116,709</u>

9. OTHER INCOME

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Service fee from a jointly controlled entity	–	6,671
Others	1,422	493
	<u>1,422</u>	<u>7,164</u>

10. INVESTMENT INCOME (LOSS)

	2005 HK\$'000	2004 HK\$'000
Realised loss on trading of other investments	–	(3,425)
Unrealised gain on holding of other investments	–	1,312
Gain from fair value adjustment of held-for-trading investments	651	–
Dividend income from unlisted investment	2,090	–
Dividend income from listed investments	666	938
	<u>3,407</u>	<u>(1,175)</u>

11. EMPLOYEE BENEFITS EXPENSE

	2005 HK\$'000	2004 HK\$'000
Wages, salaries and staff welfare	126,499	103,210
Unutilised annual leave	858	(17)
Termination benefits	266	810
Social security costs	113	54
Provision for long service payment	102	(118)
Retirement benefit scheme contributions	3,225	3,390
Forfeiture of retirement benefit scheme contributions	(13)	(209)
Share-based employee expense	5,350	5,435
Recruitment costs	1,362	–
	<u>137,762</u>	<u>112,555</u>
Total employee benefits expense including directors' emoluments (note 16)	<u>137,762</u>	<u>112,555</u>

12. GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

On 11 November 2004, the Company entered into a Heads of Agreement (“Heads of Agreement”) with Publishing and Broadcasting Limited (“PBL”) and PBL Asia Investments Limited (“PBL Asia”), a wholly-owned subsidiary of PBL, to establish a joint venture group for pursuance of gaming and hospitality business (“JV Group”) led by Melco PBL Holdings Limited (“Melco PBL Holdings”), a 50/50 joint venture of the Company and PBL. The Heads of Agreement was superseded by a Subscription Agreement (“Subscription Agreement”) entered into between the parties on 23 December 2004.

Pursuant to the Subscription Agreement, the Company contributed its 80% interests of Mocha Slot Group Limited (“Mocha Slot”) and 70% interests of Great Wonders, Investment, Limited (“Great Wonders”) to Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) (“Melco PBL Entertainment”), which is a company owned as to 80% indirectly by Melco PBL Holdings and 20% indirectly by the Company, while PBL contributed HK\$1.27 billion (equivalent to US\$163 million) cash to Melco PBL Entertainment. In addition, a shareholder agreement was entered into between the Company and PBL upon the completion of the Subscription Agreement whereas 50.8% interests of Melco Hotels and Resorts (Macau) Limited (“Melco Hotels”) was also contributed by the Company to Melco PBL Entertainment.

As a result of the arrangement, the Company effectively holds 60% interests of Melco PBL Entertainment and controls the majority of the board of directors of Melco PBL Entertainment. Since its inception, Melco PBL Entertainment has been designated as the principal investment vehicle for all existing and future expansion and acquisition activities, if any, in the gaming and hospitality businesses in the Greater China region including Macau. The Subscription Agreement was completed on 8 March 2005.

As a result of the above arrangements, the Group’s effective equity interests in Mocha Slot, Great Wonders and Melco Hotels were decreased from 80%, 70% and 50.8%, respectively, to 48%, 42% and 30.5%, respectively, the Group then recognised a gain on deemed disposal of partial interests in subsidiaries of approximately HK\$514,431,000 (2004: Nil) during the year ended 31 December 2005 accordingly.

In addition, certain share options of a subsidiary of the Company are exercised by the share option holders, who are minority shareholders of the subsidiary. As a result of exercise of share options, the Group then recognised a loss on deemed disposal of partial interest in the subsidiary of approximately HK\$24,000 (2004: Nil) during the year ended 31 December 2005.

13. FINANCE COSTS

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	5,646	3,043
Obligations under finance leases	44	27
Shareholder's loan	1,079	23
Former shareholder's loan	–	95
Convertible loan notes	24,978	1,011
	<u>31,747</u>	<u>4,199</u>

14. PROFIT BEFORE TAX

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Auditors' remuneration	2,483	2,298
Allowance for doubtful debts, net	1,053	1,910
Loss on disposal of property, plant and equipment	500	–
Impairment loss on available-for-sale investments	120	–
and after crediting:		
Gross rental income	8,002	4,178
Less: outgoings	<u>(82)</u>	<u>(82)</u>
Net rental income	<u>7,920</u>	<u>4,096</u>
Gain on disposal of property, plant and equipment	–	1,400
Reversal of impairment of investment securities	–	3,117
Discount on acquisition of subsidiaries	<u>–</u>	<u>1,204</u>

15. INCOME TAX EXPENSE

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
– Hong Kong	224	1,668
– Other jurisdictions	8,151	–
	<u>8,375</u>	<u>1,668</u>
(Over)underprovision in prior years:		
– Hong Kong	91	(848)
– Other jurisdictions	(552)	–
	<u>(461)</u>	<u>(848)</u>
Deferred taxation (note 47)		
– Current	(1,364)	1,670
– Attributable to a change in tax rate	(540)	–
	<u>(1,904)</u>	<u>1,670</u>
	<u>6,010</u>	<u>2,490</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<u>562,470</u>	<u>66,698</u>
Tax at Hong Kong Profits Tax rate of 17.5%	98,432	11,672
Tax effect of expenses not deductible for tax purposes	8,628	89
Tax effect of income not taxable for tax purposes	(100,286)	(9,463)
Overprovision in respect of prior years, net	(461)	(848)
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	(3,679)	(392)
Tax effect of unrecognised deferred tax assets	10,122	6,968
Decrease in opening deferred tax liabilities as a result from decrease in applicable tax rate	(540)	–
Utilisation of tax losses previously not recognised	(6,234)	(5,536)
Others	28	–
Taxation for the year	<u>6,010</u>	<u>2,490</u>

16. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: nine) directors were as follows:

2005

	Dr. Stanley Ho <i>HK\$'000</i> <i>(Note 1)</i>	Mr. Lawrence Ho <i>HK\$'000</i>	Mr. Frank Tsui <i>HK\$'000</i>	Mr. Ho Cheuk Yuet <i>HK\$'000</i> <i>(Note 2)</i>	Mr. Ng Ching Wo <i>HK\$'000</i>	Sir Roger Lobo <i>HK\$'000</i>	Mr. Robert Kwan <i>HK\$'000</i> <i>(Note 1)</i>	Dr. Lo Ka Shui <i>HK\$'000</i>	Total 2005 <i>HK\$'000</i>
Fees	10	-	-	34	170	321	310	221	1,066
Other emoluments									
Salaries and other benefits	-	2,329	1,950	-	-	-	-	-	4,279
Retirement benefit scheme contributions	-	24	12	-	-	-	-	-	36
Total emoluments	<u>10</u>	<u>2,353</u>	<u>1,962</u>	<u>34</u>	<u>170</u>	<u>321</u>	<u>310</u>	<u>221</u>	<u>5,381</u>

Note 1: Dr. Stanley Ho and Mr. Robert Kwan resigned as directors of the Company on 15 March 2006.

Note 2: Mr. Ho Cheuk Yuet resigned as a director of the Company on 5 September 2005.

2004

	Dr. Stanley Ho <i>HK\$'000</i> <i>(Note 1)</i>	Mr. Lawrence Ho <i>HK\$'000</i>	Mr. Frank Tsui <i>HK\$'000</i>	Mr. Ho Cheuk Yuet <i>HK\$'000</i>	Mr. Ng Ching Wo <i>HK\$'000</i>	Sir Roger Lobo <i>HK\$'000</i>	Mr. Robert Kwan <i>HK\$'000</i>	Dr. Lo Ka Shui <i>HK\$'000</i>	Mr. Peter So <i>HK\$'000</i> <i>(Note 3)</i>	Total 2004 <i>HK\$'000</i>
Fees	10	-	-	50	253	300	300	62	13	988
Other emoluments										
Salaries and other benefits	-	2,329	1,899	-	-	-	-	-	-	4,228
Retirement benefit scheme contributions	-	24	12	-	-	-	-	-	-	36
Total emoluments	<u>10</u>	<u>2,353</u>	<u>1,911</u>	<u>50</u>	<u>253</u>	<u>300</u>	<u>300</u>	<u>62</u>	<u>13</u>	<u>5,252</u>

Note 3: Mr. Peter So resigned as a director of the Company on 1 April 2004.

No director waived any emoluments in the years ended 31 December 2005 and 2004.

During the year, no share option (2004: 3,600,000 share options) was granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 50.

17. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, two directors (2004: two directors), of the Company whose emoluments are included in note 16 above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	4,454	7,407
Retirement benefit scheme contributions	36	35
	<u>4,490</u>	<u>7,442</u>

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
	<u>3</u>	<u>3</u>

18. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid: HK1 cent (2004: HK0.5 cent) per share (note)	11,258	3,776
2004 final dividend proposed: HK0.5 cent (2003: nil) per share	4,910	–
	<u>16,168</u>	<u>3,776</u>

On 31 March 2006, the directors propose that final dividend of HK1 cent per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2005 is payable to all shareholders whose names are on the Register of Members as at 17 May 2006.

Note: The dividend per share data has been adjusted for the share subdivision on 19 May 2005 (note 48).

19. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	548,718	59,722
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	24,897	838
Adjustments to the share of result of a subsidiary based on potential dilution of its earnings per share	(8,046)	–
Earnings for the purpose of diluted earnings per share	<u>565,569</u>	<u>60,560</u>
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,051,429	649,710
Effect of dilutive potential ordinary shares:		
Share options	28,312	40,942
Convertible loan notes	114,945	22,085
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,194,686</u>	<u>712,737</u>

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been adjusted for the share subdivision on 19 May 2005 (Note 48).

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 <i>cents</i>	2004 <i>cents</i>	2005 <i>cents</i>	2004 <i>cents</i>
Figures before adjustments	107.54	20.06	97.46	18.52
Adjustments arising from changes in accounting policies (see note 2A)	(3.16)	(1.68)	(2.78)	(1.52)
Adjustments arising from share subdivision on 19 May 2005 (note 48)	(52.19)	(9.19)	(47.34)	(8.50)
	<u>52.19</u>	<u>9.19</u>	<u>47.34</u>	<u>8.50</u>

20. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
FAIR VALUE	
At 1 January 2004	159,000
Disposals	<u>(82,000)</u>
At 1 January 2005	77,000
Net increase in fair value recognised in the income statement	<u>8,000</u>
At 31 December 2005	<u><u>85,000</u></u>

The Group's investment properties comprise of leasehold land in Hong Kong held under long term lease.

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. The valuation, which conforms to valuation standards published by Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

21. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Gaming machine HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP COST								
At 1 January 2004	43,665	614	7,477	90,585	-	-	-	142,341
Acquired on acquisition of subsidiaries	-	-	3,829	16,983	43,637	-	-	64,449
Additions	7,475	-	6,093	9,262	17,137	263	12,030	52,260
Transfers	11,545	-	134	(134)	-	-	(11,545)	-
Disposals	(135)	(474)	-	(20,130)	-	-	-	(20,739)
At 31 December 2004	62,550	140	17,533	96,566	60,774	263	485	238,311
Exchange adjustments	-	-	7	11	-	7	-	25
Additions	2,680	3,861	23,394	36,138	100,274	1,064	-	167,411
Transfer	-	-	-	485	-	-	(485)	-
Disposals	(1,506)	-	(731)	(3,453)	(1,723)	-	-	(7,413)
At 31 December 2005	63,724	4,001	40,203	129,747	159,325	1,334	-	398,334
ACCUMULATED DEPRECIATION								
At 1 January 2004	34,970	189	2,091	76,175	-	-	-	113,425
Provided for the year	1,989	5	4,060	7,944	3,659	26	-	17,683
Disposals	(17)	(142)	-	(19,812)	-	-	-	(19,971)
At 31 December 2004	36,942	52	6,151	64,307	3,659	26	-	111,137
Exchange adjustments	-	-	5	4	-	1	-	10
Provided for the year	3,522	67	6,633	10,169	14,670	261	-	35,322
Disposals	(1,039)	-	(37)	(2,870)	(340)	-	-	(4,286)
At 31 December 2005	39,425	119	12,752	71,610	17,989	288	-	142,183
NET BOOK VALUE								
At 31 December 2005	<u>24,299</u>	<u>3,882</u>	<u>27,451</u>	<u>58,137</u>	<u>141,336</u>	<u>1,046</u>	<u>-</u>	<u>256,151</u>
At 31 December 2004	<u>25,608</u>	<u>88</u>	<u>11,382</u>	<u>32,259</u>	<u>57,115</u>	<u>237</u>	<u>485</u>	<u>127,174</u>

At 31 December 2005, the net book value of furniture, fixtures and equipment of the Group includes an amount of approximately HK\$89,000 (2004: HK\$2,120,000) in respect of assets held under finance leases.

The Group's buildings of approximately HK\$85,000 and HK\$3,797,000 are located in Hong Kong under long term lease and outside Hong Kong under short term lease, respectively.

22. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	THE GROUP <i>HK\$'000</i>
Interest in a piece of land arising on acquisition of a subsidiary (<i>note 51</i>)	400,000
Acquisition of additional interest in another piece of land (<i>note</i>)	1,175,000
	<hr/>
	1,575,000
Amortisation of interests in lands	(31,650)
Capitalisation of amortisation of interests in lands	31,650
Other construction costs	306,824
	<hr/>
At 31 December 2005	<u>1,881,824</u>

The hotels and entertainment complex under development represents leasehold interests in various lands in Macau and construction cost incurred. Additional payments to the Macau government are required when the lands are officially granted by the Macau Government and the respective lease term are finalised.

Note: Pursuant to an agreement signed on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Group, acquired from Great Respect Limited, a company controlled by a discretionary family trust of a director and substantial shareholder of the Company, Dr. Stanley Ho, the remaining 49.2% interest in a piece of land located at Taipa, Macau, on the Cotai Strip ("Cotai Land") at a consideration of HK\$1,175,000,000, subject to certain conditions precedents from Great Respect Limited. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible loan notes having a principal amount of HK\$1,175,000,000, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK\$9.965 per share, after adjustment for the share subdivision on 19 May 2005. The Macau Government had offered a medium term lease in respect of the land for development of an integrated entertainment resort to Melco Hotels on 21 April 2005.

23. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises leasehold land outside Hong Kong under short-term lease.

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:		
Current assets	4,646	–
Non-current assets	36,394	–
	<hr/>	<hr/>
	<u>41,040</u>	<u>–</u>

Amortisation of prepaid lease payments amounted to approximately HK\$1,936,000 for the year ended 31 December 2005.

24. DEPOSIT FOR LAND USE RIGHT

THE GROUP

At 31 December 2005, the Group paid approximately HK\$48,590,000 (2004: Nil) for the acquisition of a land use right in Macau (Note 54).

25. GOODWILL

	THE GROUP <i>HK\$'000</i>
At 1 January 2004	19,705
Arising on acquisition of a subsidiary	361,427
Arising on acquisition of additional interest in subsidiaries	<u>8,805</u>
At 1 January 2005	389,937
Realised upon deemed disposal of partial interests in subsidiaries	(144,571)
Arising on acquisition of additional interest in a subsidiary (<i>note 51</i>)	<u>106,104</u>
At 31 December 2005	<u><u>351,470</u></u>

Particulars regarding impairment testing on goodwill are disclosed in note 27.

26. TRADING RIGHTS

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>5,066</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	1,773
Provided for the year	<u>507</u>
At 31 December 2004	2,280
Provided for the year	<u>507</u>
At 31 December 2005	<u>2,787</u>
CARRYING VALUE	
At 31 December 2005	<u><u>2,279</u></u>
At 31 December 2004	<u><u>2,786</u></u>

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

27. IMPAIRMENT TESTING ON GOODWILL

THE GROUP

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives set out in note 25 have been allocated to four individual cash generating units (CGUs) determined based on the related segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2005 allocated to these units are as follows:

	Goodwill <i>HK\$'000</i>
Gaming machine	216,857
Hotels and entertainment complex	106,103
Investment banking and financial services	1,800
Technology	26,710
	<u>351,470</u>

During the year ended 31 December 2005, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3 to 10-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of 8%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Nil growth rate is used to extrapolate the cash flow during the finance budget period. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Note)</i>
Cost of unlisted investment in jointly controlled entities	–	100,000
Share of post-acquisition profit	2,234	–
	<u>2,234</u>	<u>100,000</u>

As at 31 December, 2005, the Group had interests in the following jointly controlled entities:

Name	Place of incorporation/operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Holdings Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding
Melco PBL International Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding

Note: On 8 September 2004, the Company entered into an agreement (“First agreement”) with Sociedade de Turismo e Diversões de Macau, S.A. (“STDM”) to acquire 50% equity interests of Great Wonders at a consideration of HK\$100 million which was satisfied by issuing of convertible loan notes. Great Wonders has applied to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the “Land”) and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas.

Following the acquisition under the First Agreement, the Company entered into another agreement (“Second Agreement”) with STDM on 11 November 2004 pursuant to which the Company acquired an additional 20% issued share capital of Great Wonders from STDM by issuing of convertible loan notes with a principal amount of HK\$56 million. The fair value of convertible loan note issued is determined with reference to the fair value of the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition. The Second Agreement was approved by the independent shareholders of the Company at its extraordinary general meeting. Great Wonders became a subsidiary of the Company and its results was consolidated in the Company’s consolidated financial statements upon the completion of such acquisition (See Note 51).

The summarised unaudited financial information in respect of the Group’s jointly controlled entities is set out below:

	2005 HK\$’000	2004 HK\$’000
Total assets	4,491	252,418
Total liabilities	(23)	(52,418)
Net assets	<u>4,468</u>	<u>200,000</u>
Group’s share of net assets of jointly controlled entities	<u>2,234</u>	<u>100,000</u>
Revenue	<u>4,883</u>	–
Profit for the year	<u>4,468</u>	–
Group’s share of profit of jointly controlled entities for the year	<u>2,234</u>	–

29. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>46,349</u>	<u>29,394</u>

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 59.

30. AVAILABLE-FOR-SALE INVESTMENTS (FORMERLY CLASSIFIED AS INVESTMENT SECURITIES)

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments, at cost	21,837	26,499
Unlisted debt investments, at cost	–	4,000
Impairment losses	<u>(1,320)</u>	<u>(2,745)</u>
	<u>20,517</u>	<u>27,754</u>

The amount represents unlisted equity investments for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The impairment losses are not reversible.

31. OTHER INTANGIBLE ASSETS

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1 January 2004 and 1 January 2005	1,839
Additions	<u>2,000</u>
At 31 December 2005	<u>3,839</u>
IMPAIRMENT	
At 1 January 2004, 1 January 2005 and 31 December 2005	<u>1,292</u>
CARRYING VALUE	
At 31 December 2005	<u>2,547</u>
At 31 December 2004	<u>547</u>
	THE COMPANY
	<i>HK\$'000</i>
COST	
Additions and at 31 December 2005	<u>2,000</u>

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

32. LONG TERM DEPOSITS

THE GROUP

Amounts represent deposits for acquisition of property, plant and equipment and deposits with various exchanges and clearing houses. These amounts are non-interest bearing. The fair value of these assets at the balance sheet date approximates to their carrying amount.

33. TRADE RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables (excluding receivables balance arising from margin clients' securities transactions)	221,790	171,681
Allowance for doubtful receivables	–	(323)
	<u>221,790</u>	<u>171,358</u>
Trade receivables arising from margin clients' securities transactions (Note b)	177,937	165,656
	<u>399,727</u>	<u>337,014</u>

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	173,935	157,881
31 – 90 days	22,930	10,624
Over 90 days	24,925	3,176
	<u>221,790</u>	<u>171,681</u>

Note:

- (a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.
- (b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2005 amounted to approximately HK\$319,499,000 (2004: HK\$306,189,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

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

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

The fair value of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amount.

34. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Food and beverages	1,346	2,389
Consumable stores	594	98
Merchandise	32,716	1,281
	<u>34,656</u>	<u>3,768</u>

35. INVESTMENT IN CONVERTIBLE LOAN NOTES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Unlisted convertible loan notes	<u>4,000</u>	<u>–</u>

The amount represents debt element of the convertible loan notes while the derivative portion relating to the conversion option was accounted for separately with insignificant fair value. The convertible loan notes have a maturity date of 6 January 2006 and they have been subsequently settled in full at the maturity date.

36. HELD-FOR-TRADING INVESTMENTS (FORMERLY CLASSIFIED AS OTHER INVESTMENTS)

THE GROUP

Held-for-trading investments as at 31 December 2005 represents equity securities listed in Taiwan and Hong Kong of HK\$495,000 and HK\$44,507,000, respectively. The fair value of the held-for-trading investments are determined based on the quoted market bid price available on the relevant exchange.

37. AMOUNTS DUE FROM (TO) A JOINTLY CONTROLLED ENTITY/MINORITY SHAREHOLDER

THE GROUP

The amounts are unsecured, interest free and have no fixed repayment term. The fair value of the amounts as at the balance sheet date approximates to their carrying amount.

38. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
STDM (note a)	948	519
Gold Carousel Investment Limited ("GCIL") (note b)	–	600
	<u>948</u>	<u>1,119</u>

Notes:

- (a) The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, is unsecured, interest free, repayable on demand and aged over 90 days.
- (b) The amount due from GCIL, a related company of which Dr. Stanley Ho is a director, is unsecured, interest free and repayable on demand.

The fair value of the amounts due from (to) related companies as at the balance sheet date approximates to their carrying amount.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES**THE COMPANY**

Included in amounts due from subsidiaries are i) loan to a subsidiary of HK\$211.9 million (2004: HK\$218.9 million) which is unsecured, interest bearing at prime rate minus 2% per annum or HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company; ii) loan to a subsidiary of nil (2004: HK\$93.1 million) which is unsecured, interest bearing at 4% per annum and repayable on demand; iii) loan to a subsidiary of HK\$523.7 million which is unsecured, interest bearing at 9% per annum and repayable on demand. Other amounts due from (to) subsidiaries are unsecured, interest free and repayable on demand.

The fair value of amounts due from (to) subsidiaries at 31 December 2005 approximates to the corresponding carrying amount.

40. PLEDGED BANK DEPOSITS**THE GROUP**

At 31 December 2005, the Group's bank deposit and investment properties amounting to approximately HK\$270,000 (2004: HK\$177,000) and HK\$85,000,000 (2004: HK\$77,000,000) were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group respectively.

The deposits carry fixed interest rate of about 3%. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

41. BANK BALANCES AND CASH**THE GROUP AND THE COMPANY**

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The fair value of these assets approximates to the corresponding carrying amount.

42. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	38,330	14,313
31-90 days	19,551	4,459
Over 90 days	12,674	5,224
	70,555	23,996
Trade payables arising from the ordinary course of business of dealing in securities transactions (Note)	33,381	36,466
	103,936	60,462

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the investment banking and financial services segment are usually two trading days after trade date. These trade payables which are repayable on demand and aged within 30 days.

The fair value of the Group's trade payables at 31 December 2005 approximates to the corresponding carrying amount.

43. BANK BORROWING – DUE WITHIN ONE YEAR**THE GROUP**

The amount represents short-term bank borrowing of HK\$28,000,000 which is repayable on demand. They are partially secured by a charge over certain marketable securities from margin clients of the investment banking and financial services segment. One of the subsidiary of the Company also provided a corporate guarantee for the facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually. The fair value of the amounts at the balance sheet date approximates to the corresponding carrying amounts.

44. CONVERTIBLE LOAN NOTES**THE GROUP AND THE COMPANY**

On 9 June 2004, the Company issued convertible loan notes due on 30 June 2005 and 30 June 2006 with principal amount of HK\$22,500,000 and HK\$22,500,000, respectively, which are interest-bearing at 4% per annum. The convertible loan notes were issued to partially replace the shareholders' loans of Mocha Slot acquired by the Company during the year ended 31 December 2004.

On 11 April 2005, convertible loan note due on 30 June 2005 and 30 June 2006 had been converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005.

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK\$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company has also issued another convertible loan note due on 7 February 2010 with a principal amount of HK\$56,000,000, which is also interest-bearing at 4% per annum. Both convertible loan notes were issued for the acquisition of equity interests in Great Wonders (Note 28). The fair value of the convertible loan note with a principal amount of HK\$56,000,000 is determined with reference to the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$2 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 8 November 2009.

The convertible loan note due on 7 February 2010 is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$4.1 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 7 February 2010.

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with principal amount of HK\$1,175,000,000 which is non-interest bearing. This convertible loan note was issued for the acquisition of additional interest of the Cotai Land in Macau (Note 22). This convertible loan note is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$9.965 per share convertible in the period, commencing 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

The conversion prices mentioned above have been adjusted for the share subdivision on 19 May 2005.

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 *Financial Instruments: Disclosure and Presentation* (see Note 2A for details), the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible loan notes equity reserve". The effective interest rate of the liability component is 4.5%-6.25%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Liability component at the beginning of the year	140,626	–
Convertible into the Company's shares	(45,000)	–
Issue of convertible loan notes	922,288	140,626
Interest on convertible loan notes (Note 13)	24,978	1,011
Interest paid	(498)	(1,011)
Interest payable transferred to amounts due to related companies	(5,231)	–
	<u>1,037,163</u>	<u>140,626</u>
Liability component at the end of the year	1,037,163	140,626
Less: Amount due within one year shown under current liabilities	–	(22,500)
	<u>1,037,163</u>	<u>118,126</u>

The fair value of the liability component of the convertible loan notes at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK\$991,125,000.

45. OBLIGATION UNDER FINANCE LEASE

THE GROUP

It is the Group's policy to lease certain of its furniture, fixtures and equipment under finance leases. The average lease term is five years. Interest rates underlying all obligation under finance leases are fixed at respective contract dates at 8% (2004: 3%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	28	837	21	817
In more than one year but not more two years	28	–	21	–
In more than two years but not more three years	28	–	21	–
In more than three years but not more than four year	28	–	21	–
In more than four years but not more than five year	1	–	–	–
	<u>113</u>	<u>837</u>	<u>84</u>	<u>817</u>
Less: future finance charges	(29)	(20)	–	–
Present value of lease obligations	<u>84</u>	<u>817</u>	84	817
Less: Amount due within one year shown under current liabilities			(21)	(817)
			<u>63</u>	<u>–</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the Group's entity which enters into the lease transaction.

The directors consider that the carrying amount of the obligation under finance leases approximates their fair value.

46. SHAREHOLDER'S LOAN

THE GROUP

Amount represents loan from Dr. Stanley Ho. Such amount is unsecured, interest-bearing at 4 per cent per annum and repayable on demand.

The fair value of the Group's shareholder's loan at 31 December 2005 was approximate to the corresponding carrying amount.

47. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year and prior reporting period:

	THE GROUP			
	Accelerated tax depreciation <i>HK\$'000</i>	Others <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004, as originally stated	3,147	324	(3,147)	324
Effect of change in accounting policies (<i>Note 2</i>)	9,492	–	(9,492)	–
At 1 January 2004, as restated	12,639	324	(12,639)	324
Acquired on acquisition of a subsidiary	262	–	–	262
Charge (credit) to income statement for the year	1,845	(324)	149	1,670
At 1 January 2005	14,746	–	(12,490)	2,256
Effect of change in tax rate	(540)	–	–	(540)
Acquired on acquisition of a subsidiary	48,000	–	–	48,000
(Credit) charge to income statement for the year	(1,705)	–	341	(1,364)
At 31 December 2005	<u>60,501</u>	<u>–</u>	<u>(12,149)</u>	<u>48,352</u>

As at the balance sheet date, the Group has unused tax losses of approximately HK\$389,021,000 (2004: HK\$360,543,000). A deferred tax asset has been recognised in respect of HK\$69,426,000 (2004: HK\$71,372,000) to the extent that realisation of the related tax benefit through future taxable profit is probable. A deferred tax asset is recognised on the balance sheet in view that the relevant subsidiary in the investment banking and the financial services segment has been profit making in recent years. No deferred tax asset has been recognised in respect of the remaining tax loss due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK\$4,651,000 (2004: Nil) that will expire in 2008. Other losses may be carried forward indefinitely.

THE COMPANY

As at the balance sheet date, the Company has unused tax loss of approximately HK\$533,000 (2004: HK\$11,862,000). No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. The tax loss may be carried forward indefinitely.

48. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2005	2004	2005 HK\$'000	2004 HK\$'000
Authorised:				
At the beginning of the year of HK\$1 each	700,000,000	480,000,000	700,000	480,000
Increase in authorised ordinary share capital (note a)	–	220,000,000	–	220,000
Subdivision of one share of HK\$1 each into two shares of HK\$0.5 each (note b)	700,000,000	–	–	–
At the end of the year of HK\$0.5 each (2004: HK\$1 each)	<u>1,400,000,000</u>	<u>700,000,000</u>	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:				
At beginning of the year of HK\$1 each	463,244,054	221,997,007	463,244	221,997
Exercise of share options before subdivision	8,210,000	11,868,786	8,210	11,869
Conversion of convertible loan notes	19,565,216	–	19,565	–
Subdivision of one share of HK\$1 each into two shares of HK\$0.5 each (note b)	491,019,270	–	–	–
Issue of shares (notes c and d)	140,000,000	229,378,261	70,000	229,378
Exercise of shares options after subdivision	3,800,000	–	1,900	–
At the end of the year of HK\$0.5 each (2004: HK\$1 each)	<u>1,125,838,540</u>	<u>463,244,054</u>	<u>562,919</u>	<u>463,244</u>

Notes:

- (a) Pursuant to an ordinary resolution passed on 20 May 2004, the authorised ordinary share capital of the Company was increased from HK\$480,000,000 to HK\$700,000,000 by the creation of 220,000,000 new shares of HK\$1 each.
- (b) On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the “Subdivision”) of each issued and unissued shares of HK\$1 each in the authorised share capital into two ordinary shares of HK\$0.5 each. The Subdivision became effective on 19 May 2005.
- (c) On 9 June 2004, 153,478,261 ordinary shares of HK\$1 each were issued at a price HK\$2.375 per share for a total consideration of HK\$364,511,000 before related expenses for the acquisition of Mocha Slot during the year ended 31 December 2004 (Note 51). In addition, on 29 October 2004, 75,900,000 ordinary shares of HK\$1 each were issued at a price of HK\$5.2 per share by way of placement for a total consideration of HK\$394,680,000 before related expenses for the purpose of funding its operations under Leisure, gaming and entertainment segment.
- (d) In order to finance the Group’s expansion and general operations, the Company issued 140,000,000 ordinary shares of HK\$0.5 each for a total consideration of HK\$9.125 per share. The shares was issued on 20 May 2005 to independent investors. The new shares rank pari passu with the existing shares in all respects.

49. RESERVES

	Share premium <i>HK\$'000</i>	Issuable shares <i>HK\$'000</i> <i>(Note)</i>	Capital reserve <i>HK\$'000</i>	Convertible loan notes equity reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY							
At 1 January 2004	49,677	-	357,785	-	-	(227,464)	179,998
Net loss for the year	-	-	-	-	-	(11,140)	(11,140)
Recognition of equity - settled share based payment	-	-	-	-	5,435	-	5,435
Issue of shares	529,813	-	-	-	-	-	529,813
Share issuance expenses	(16,576)	-	-	-	-	-	(16,576)
Exercise of share options	5,066	-	-	-	-	-	5,066
Recognition of equity components of convertible loan notes	-	-	-	4,374	-	-	4,374
Dividend paid	-	-	(3,776)	-	-	-	(3,776)
At 31 December 2004 and 1 January 2005	567,980	-	354,009	4,374	5,435	(238,604)	693,194
Net profit for the year	-	-	-	-	-	25,663	25,663
Issue of shares	1,207,500	-	-	-	-	-	1,207,500
Share issuance expenses	(38,397)	-	-	-	-	-	(38,397)
Exercise of share options	10,697	-	-	-	-	-	10,697
Share conversion on convertible loan notes	25,435	-	-	-	-	-	25,435
Recognition of equity - settled share based payment	-	-	-	-	5,350	-	5,350
Transfer to share premium upon exercise of share option	3,033	-	-	-	(3,033)	-	-
Recognition of equity components of convertible loan notes	-	-	-	323,303	-	-	323,303
Shares issuable on acquisition of additional interest in a subsidiary	-	196,667	-	-	-	-	196,667
Dividend paid	-	-	(16,168)	-	-	-	(16,168)
At 31 December 2005	<u>1,776,248</u>	<u>196,667</u>	<u>337,841</u>	<u>327,677</u>	<u>7,752</u>	<u>(212,941)</u>	<u>2,433,244</u>

Note: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary which will be issued on the actual date of grant of concession of the Land by the Macau Government (see Note 51).

50. SHARE OPTIONS SCHEMES**(a) Share option scheme of the Company**

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

The maximum number of share of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company’s shares in issue as at 19 November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 44,399,400 shares of HK\$0.5 each. The Company may seek approval of the Company’s shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as “refreshed” may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

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

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The following share options were outstanding under the Scheme during the year ended 31 December 2005:

Category of participant	Outstanding at 1.1.2004 ²	Granted in 2004 ²	Exercised during 2004 ²	Outstanding at 1.1.2005 ²	Granted during the year ²	Exercised during the year ^{2,4}	Outstanding at 31.12.2005 ²	Date of grant of share options ¹	Share price at date of grant of share options ²	Exercise price of share options ^{2,3}
Directors ⁵	10,897,836	-	(10,865,224)	32,612	-	-	32,612	8 March 2002	HK\$0.41 ²	HK\$0.5 ²
Directors ⁶	-	7,200,000	-	7,200,000	-	(3,600,000)	3,600,000	19 February 2004	HK\$1.175	HK\$1.2025
Sub-total	10,897,836	7,200,000	(10,865,224)	7,232,612	-	(3,600,000)	3,632,612			
Employee	1,500,004	-	(1,500,004)	-	-	-	-	8 March 2002	HK\$0.41	HK\$0.5
Employees ⁷	6,915,340	-	(2,460,000)	4,455,340	-	(2,400,000)	2,055,340	13 September 2002	HK\$0.5534 ²	HK\$0.5534 ²
Employees ⁸	-	16,340,000	-	16,340,000	-	(8,120,000)	8,220,000	19 February 2004	HK\$1.175	HK\$1.2025
Employees ⁹	-	7,800,000	(3,932,000)	3,868,000	-	(1,200,000)	2,668,000	17 September 2004	HK\$1.6875	HK\$1.6875
Employees ¹⁰	-	-	-	-	2,059,400	-	2,059,400	1 February 2005	HK\$7.4	HK\$7.4
Sub-total	8,415,344	24,140,000	(7,892,004)	24,663,340	2,059,400	(11,720,000)	15,002,740			
Others	8,880,344	-	(4,980,344)	3,900,000	-	(3,900,000)	-	13 September 2002	HK\$0.5534	HK\$0.5534
Others ¹¹	-	2,000,000	-	2,000,000	-	(1,000,000)	1,000,000	19 February 2004	HK\$1.175	HK\$1.2025
Others ¹²	-	9,000,000	-	9,000,000	-	-	9,000,000	17 September 2004	HK\$1.6875	HK\$1.6875
Sub-total	8,880,344	11,000,000	(4,980,344)	14,900,000	-	(4,900,000)	10,000,000			
Total	<u>28,193,524</u>	<u>42,340,000</u>	<u>(23,737,572)</u>	<u>46,795,952</u>	<u>2,059,400</u>	<u>(20,220,000)</u>	<u>28,635,352</u>			

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The number of share options granted and the exercise price of the share options were adjusted after the completion of the rights issue in 24 September 2003 and share subdivision on 19 May 2005.
- As at 31 December 2005, the Company had 28,635,352 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,635,352 additional ordinary shares of the Company and additional share capital of approximately HK\$14,318,000 and share premium of approximately HK\$37,181,000 before issue expenses.
- In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK\$9.67 (2004: HK\$3.74).
- As at 31 December 2005, 32,612 options may be exercised during the period from 8 September 2002 to 7 March 2012.
- As at 31 December 2005, 3,600,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

7. Among 2,055,340 options as at 31 December 2005, 1,027,670 options may be exercised during the period from 13 September 2002 to 7 March 2012 and 1,027,670 options may be exercised during the period from 13 March 2003 to 7 March 2012.
8. As at 31 December 2005, 8,220,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
9. Among 2,668,000 options as at 31 December 2005, 800,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 1,188,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 350,000 options may be exercised during the period from 17 September 2006 to 7 March, 2012 and 330,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.
10. Among 2,059,400 options as at 31 December 2005, 944,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, 915,400 options may be exercised during the period from 17 March 2008 to 7 March 2012 and 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.
11. At 31 December 2005, 1,000,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
12. Among 9,000,000 options as at 31 December 2005, 4,500,000 options may be exercised during the period from 17 March 2005 to 7 March 2012 and 4,500,000 options may be exercised during the period from 17 September 2005 to 7 March 2012.

During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair values of the options granted on those dates is approximately HK\$3,066,000 respectively. During the year ended 31 December 2004, options were granted on 19 February 2004 and 17 September 2004. The estimated fair value of the options granted on those dates are HK\$5,613,000 and HK\$4,248,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share option grant date		
	1 February 2005	17 September 2004	19 February 2004
Exercise price	HK\$7.4	HK\$1.6875	HK\$1.2025
Expected volatility	42.86%	45.95%	42.18%
Expected life	2-5 years	1.5-4 years	2-2.5 years
Risk-free rate	2.734-3.39%	2.503-3.316%	2.212-2.583%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK\$5,350,000 for the year ended 31 December 2005 (2004: HK\$5,435,000) in relation to share options granted by the Company.

(b) **Share options schemes of Value Convergence Holdings Limited (“Value Convergence”), a subsidiary of the Company**(i) *Pre-IPO share options plan*

Options granted on 6 April 2001 (“Pre-IPO Share Options”) pursuant to the Pre-IPO Share Options plan adopted by Value Convergence on 14 March 2001 (“Pre-IPO Share Options Plan”) at an exercise price of HK\$3.6 per share expired on 8 October 2005. The exercise price represents a discount of 30% of the adjusted initial public offering price. The share option granted under the Pre-IPO Share Options Plan have duration of approximately 4.5 years from the date of grant, i.e. between 6 April 2001 to 8 October 2005. According to the Pre-IPO Share Options Plan, any Pre-IPO Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Value Convergence Group. The following are details of the outstanding Pre-IPO Share Options as at 31 December 2005:

Categories of grantees	As at 31 December 2005 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options	As at December 31 2004 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options
Directors of the Company	–	4,606,510
Employees	–	1,262,188
Total	–	5,868,698

During the year ended 31 December 2005, Pre-IPO Share Options to subscribe for a total of 5,868,698 underlying shares granted to the director of the Company and employees lapsed as one employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of Value Convergence and the others have not exercised when the share options were expired on 8 October 2005. Since the date of the grant of the Pre-IPO Share Options up to 31 December 2005 and 31 December 2004, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows:

	Number of Pre-IPO Share Options	
	2005	2004
At beginning of the year	5,868,698	9,740,208
Lapsed during the year	(5,868,698)	(3,871,510)
At end of the year	–	5,868,698

(ii) *Share options scheme*

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

As at 31 December 2005, options to subscribe for an aggregate of 3,258,168 and 10,950,565 underlying shares granted on 9 July 2002 and 25 March 2004 ("Share Options") pursuant to the Share Options Scheme at an exercise price of HK\$1.0 per share and HK\$0.64 per share, respectively, were outstanding, which in total represents approximately 5.7% (2004: 11.5%) of the shares of Value Convergence in issue as at 31 December 2005. The adjusted closing price of Value Convergence's shares immediately before 9 July 2002 and the closing price of the Value Convergence's shares immediately before 25 March 2004 were HK\$0.65 and HK\$0.64 per share, respectively. The Share Options have duration of 10 years from the date of grant, i.e. between 9 July 2002 to 8 July 2012 and between 25 March 2004 to 24 March 2014, respectively. According to the Share Options Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Value Convergence Group. The following are details of the outstanding Share Options as at 31 December 2005:

Categories of grantees	Exercise price per share	As at	As at
		31 December 2005	31 December 2004
		Number of underlying shares to be issued upon the exercise of the Share Options	Number of underlying shares to be issued upon the exercise of the Share Options
Directors of the Company	HK\$1.0	982,114	982,114
Employees	HK\$1.0	694,842	1,782,539
Employees	HK\$0.64	8,900,565	23,160,565
Other eligible persons	HK\$1.0	1,581,212	1,424,065
Other eligible persons	HK\$0.64	2,050,000	–
Total		<u>14,208,733</u>	<u>27,349,283</u>

During the year ended 31 December 2005, certain Share Options to subscribe for a total of 1,654,323 underlying shares granted to eight employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. During the year ended 31 December 2005, certain Share Options to subscribe for a total of 756,227 and 10,730,000 underlying shares at an exercise price of HK\$1.0 and HK\$0.64 per share, respectively, granted to a total of 42 employees were exercised (2004: Nil). Since the date of the grant of the Share Options up to 31 December 2005 and 31 December 2004, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

	Number of Share Options	
	2005	2004
At beginning of the year	27,349,283	4,228,002
Share Options granted during the year	–	23,160,565
Exercised during the year	(11,486,227)	–
Lapsed during the year	(1,654,323)	(39,284)
At end of the year	<u>14,208,733</u>	<u>27,349,283</u>

51. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

As stated in note 28, the Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31 December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of the Land located at Taipa, Macau and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. Great Wonders accepted in principle a written offer issued by the Macau Government dated 24 June 2005 to grant to Great Wonders a medium term lease of the property.

The fair value of the assets and liabilities of Great Wonders at the date of acquisition of the 20% issued share capital of Great Wonders are as follows:

	Acquiree's amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i> <i>(note)</i>	Fair value <i>HK\$'000</i>
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	<u>954</u>	<u>352,000</u>	352,954
Minority interest			<u>(105,886)</u>
			<u>247,068</u>
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note			70,591
			<u>247,068</u>

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see note 12 for details.

On 28 July 2005, the Group completed the acquisition of the remaining 30% equity interest in Great Wonders from STDM at a consideration of HK\$400,000,000, of which HK\$200,000,000 is settled in cash and the remaining HK\$200,000,000 will be settled by the issue of 22,222,222 ordinary shares of the Company (Note). Goodwill amounting to approximately HK\$106,104,000, which represented the surplus of the consideration over the 30% of the fair value of Great Wonders at the date of acquisition of the remaining 30% equity interest in Great Wonders, arised as result. The difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in Great Wonders is charged to special reserve.

Great Wonders has insignificant income or expenditure for the year ended 31 December 2005 and insignificant contribution to the Group's revenue and profit before tax between the date of acquisition and 31 December 2005.

Note: Pursuant to the agreement with STDM, the 22,222,222 ordinary shares of the Company with par value of HK\$0.5 each will be issued on the actual date of grant of the concession of the Land by the Macau government. The fair value of the shares to be issued is approximately HK\$196,667,000 with reference to the quoted market price of the Company's share at the date of the exchange of HK\$8.85. The Land has been officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares to STDM, accordingly.

52. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into finance lease arrangement in respect of assets with a total capital value of approximately HK\$103,000 at the date of inception.

The consideration for the purchase of subsidiaries and the acquisition of additional interest in the Cotai Land during the year ended 31 December 2005 comprised shares and convertible loan notes as disclosed in note 51 and note 22, respectively.

53. OPERATING LEASES**(a) The Group as lessee**

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group made rental payment for properties under operating leases as follows:		
Minimum lease payments	20,279	9,342
Contingent rental payments	442	–
	<u>20,721</u>	<u>9,342</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	29,418	19,620
In the second to fifth year inclusive	79,058	46,835
Over five years	39,036	–
	<u>147,512</u>	<u>66,455</u>

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 3 to 10 years. In addition, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of revenue achieved by particular slot lounges.

(b) The Group as lessor

At 31 December 2004, the Group has entered into lease arrangements with Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of STD M, and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK\$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. This lease arrangement is superseded with another service agreement during the year ended 31 December 2005 where the Group provides management service to certain slot lounges owned by SJM and receives management service income in return.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	280
In the second to fifth year inclusive	–	1,118
Over five years	–	1,150
	<u>–</u>	<u>1,548</u>
	<u>–</u>	<u>2,548</u>

At 31 December 2005, the Group has entered into lease arrangements with certain tenants for its leased properties and investment properties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	14,810	2,101
In the second to fifth year inclusive	24,240	387
	<u>39,050</u>	<u>2,488</u>

The Company had no significant operating leases at the balance sheet date.

54. COMMITMENTS

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	<u>1,405,808</u>	<u>437</u>

In addition, Great Wonders has accepted a formal offer from the Macau Government to acquire the Land at a consideration of approximately HK\$145,085,000 (MOP149,728,000). As at 31 December 2005, Great Wonders has paid a deposit of HK\$48,590,000 (MOP50,000,000) for the Land. The remaining balance of approximately HK\$96,495,000 (MOP99,728,000) is interest-bearing at 5% per annum and shall be payable in 4 half-yearly instalments in equal amounts. The first instalment shall be paid within six months from the date of publication of the grant of concession of the Land in the Macau Government Gazette.

Also, Melco Hotels has accepted in principal another offer from the Macau government to acquire the Cotai Land in Macau at a consideration of approximately HK\$493,339,000 (MOP509,125,000). No payment has been made in respect of this offer by Melco Hotels as at 31 December 2005.

The Company had no significant capital commitment at the balance sheet date.

55. CONTINGENT LIABILITIES

At 31 December 2005, the Company provides guarantee of HK\$4,680,000 (2004: HK\$4,680,000) to a supplier in respect of the goods purchased by its subsidiaries.

56. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are switched to the MPF Scheme and all new eligible employees joining the Group on or after December 2000 are under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

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

57. RELATED PARTY TRANSACTIONS

- (a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK\$51,038,000 (2004: HK\$14,876,000).

The trade receivables include amounts due from SJM, in relation to the gaming machines business of approximately HK\$10,125,000 (2004: HK\$8,462,000).

The prepayments, deposits and other receivables include HK\$3,829,000 (2004: HK\$1,044,000) amount due from related companies in relation to sales of computer hardware and software.

- (b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK\$3,407,000 (2004: HK\$368,000).

- (c) Apart from the acquisition of subsidiaries and the acquisition of additional interest in the Land as disclosed in note 51 and note 22, respectively, the Group entered into the following related parties transactions:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Catering income earned from directors and related companies	6,363	4,306
Insurance premiums charged by a related company	1,122	1,004
Property management fees charged by a related company	–	276
Souvenirs sold to a related company	717	681
Brokerage commission income earned from certain directors of the Group or their relatives	145	243
Sales of computer hardware and software to related companies	100,534	81,644
Management fees received from a related company	393	600
Interest expense on loan from a related company	–	23
Interest expense on shareholder's loan	1,079	–
Interest expense on convertible loan notes to related companies	24,978	1,011
Income from electronic gaming machines lounges from a related company	128,180	44,890
Management fee received from a jointly controlled entity	–	6,071
Purchase of property, plant and equipment from a related company	7,982	–
Service charge paid to a minority shareholder	11,204	–
Rental expense paid to a related company	407	–
	<u>407</u>	<u>–</u>

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	13,635	12,566
Post-employment benefits	120	110
Share-based payments	1,610	1,974
	15,365	14,650

The remuneration of directors and key executives is determined by the executive resourcing committee having regard to the performance of individuals and market trends.

58. POST BALANCE SHEET EVENTS¹

- (i) On 13 February 2006, the Group has signed an agreement with syndicate banks for a HK\$1,280,000,000 transferable term loan facility to finance its hotels and entertainment complex under development.
- (ii) The publication of the grant of concession of the Land in the Macau Government Gazette was made on 1 March 2006 and the Land has therefore been officially granted by the Macau Government to Great Wonders on that date. Pursuant to an agreement with STDM as disclosed in note 51, the Company has allotted and issued 22,222,222 shares of the Company to STDM on 1 March 2006 for settlement of the purchase consideration.
- (iii) On 5 March 2006, the Company entered into the Memorandum of Agreement with PBL, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a loan capital contribution of US\$160,000,000 to a company to be incorporated ("PBL Macau") to be applied towards the purchase of the Subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Resort Limited, Wynn Resorts (Macau) S.A. and PBL at a consideration of US\$900,000,000.

The Subconcession will allow its holder to operate gaming businesses in Macau. So far there are only three concessions and two subconcessions granted by the Macau government for the operation of gaming businesses and casinos in Macau. The Subconcession will be the third subconcession to operate the gaming business in Macau.

Subject to any required approvals of the Macau government or other terms and conditions of the Subconcession and upon the grant of the Subconcession to PBL Macau, the Company shall have the right to convert the loan capital contribution into 40% of the issued share capital of PBL Macau. Upon conversion of the loan capital contribution, the Company will be interested in 40% of PBL Macau.

Upon the Company becoming a holder of 40% of issued share capital of PBL Macau, PBL and the Company shall (a) enter into a shareholders' agreement or amend the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business of Meclo PBL Holdings ("Deed") which will reflect the principle that material dealings of or under the Subconcession shall be subject to the unanimous approval of the board of PBL Macau; (b) the Company and PBL will share the economic benefit of the projects and businesses in Macau on a 50:50 basis; and (c) revise the Deed to reflect the agreement that all projects and business in the locations specified in the Deed shall be owned and carried out on a 50:50 basis.

Note 1: The post balance sheet events are as extracted from and as at the date of the publish of the Company's annual report 2005.

59. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Leisure and Entertainment Group Limited ¹	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) ²	Cayman Islands	Investment holding in Macau	40 A shares and 160 B shares of US\$0.01 each	60%
Mocha Slot Group Limited ²	British Virgin Islands	Leasing gaming machines and provision of ancillary management services to the lessees of its gaming machine in Macau	100 ordinary shares of US\$1 each	48%
Mocha Slot Management Limited ²	Macau	Provision of consultancy service for entertainment business and system management in Macau	2 quota shares of MOP24,000 and MOP1,000 each	48%
Melco Hotels and Resorts (Macau) Limited ²	Macau	Hotel properties development in Macau	2 quota shares of MOP24,000 and MOP1,000 each	60%
Great Wonders, Investments, Limited ²	Macau	Hotel properties development in Macau	10,000 ordinary shares of MOP100 each	60%
Aberdeen Restaurant Enterprises Limited ²	Hong Kong	Restaurant operations and property investment in and Hong Kong	8,060 A shares of HK\$1,000 each 33,930 B shares of HK\$500 each	86.68%
Tai Pak Sea-Food Restaurant Limited ²	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK\$100 each and 13,495 ordinary shares of HK\$100 each	84.76%
Jumbo Catering Management Limited ²	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK\$5,000	86.68%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
iAsia Online Systems Limited ²	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US\$1	100%
Elixir Group Limited ²	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK\$1 each	100%
Elixir Group (Macau) Limited ²	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	100%
Melco Financial Group Limited ¹	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Value Convergence Holdings Limited ^{2,3}	Hong Kong	Investment holding in Hong Kong	249,641,226 ordinary shares of HK\$0.1 each	64.46%
VC Brokerage Limited ²	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK\$1 each	64.46%
VC Futures Limited ²	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK\$1 each	64.46%
VC Capital Limited ²	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK\$1 each	64.46%
VC Capital (Shenzhen) Limited ²	PRC	Provision of consultancy services in the PRC	HK\$1,000,000	64.46%
VC Securities Investments Limited ²	Hong Kong	Investment holding in Hong Kong	2 ordinary of HK\$1 each	64.46%
VC Asset Management Limited ²	Hong Kong	Provision of asset management services to clients in Hong Kong	7,000,000 ordinary shares of HK\$1 each	64.46%

APPENDIX III
FINANCIAL INFORMATION OF THE GROUP

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
VC Investment Management Limited ²	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	64.46%
VC Finance Limited ²	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK\$1 each	64.46%
VC Research Limited ²	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK\$1 each	64.46%
VC Financial Advisory (Macau) Limited ²	Macau	Provision of financial consultancy and related services in Macau	2 quota shares of MOP24,000 and MOP1,000 each	64.46%
VC Services Limited ²	Hong Kong	Provision of Management Services to group companies in Hong Kong	10,000 ordinary shares of HK\$1 each	64.46%
Melco Services Limited ¹	British Virgin Islands	Provision of Management Services to group companies in Hong Kong	1 ordinary share of US\$1	100%
Melco Investment Holdings Limited ¹	British Virgin Islands	Investment holding in Macau	1 ordinary share of US\$1	100%
Zonic Technology Limited ²	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%

¹ Share held directly by the Company

² Share held indirectly by the Company

³ The shares of this company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

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

None of the subsidiaries had issued any debt securities at the end of the year.

III. INDEBTEDNESS**(a) Borrowings**

As at the close of business on 31 March 2006, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Group had total outstanding borrowings of approximately HK\$1,129.68 million, comprising secured bank borrowings of approximately HK\$6 million, unsecured bank borrowings of approximately HK\$27 million, convertibles notes of approximately HK\$1,051.1 million, shareholders' loan of approximately HK\$45.5 million and obligation under finance lease of approximately HK\$0.08 million. All of the secured and unsecured bank borrowings and shareholders' loan amounting to approximately HK\$78.5 million were due within one year. All of the convertible notes amounting to approximately HK\$1,051.1 million were due after one year. Obligation under finance lease amounting to approximately HK\$0.02 million and approximately HK\$0.06 million were due within one year and due after one year, respectively. The secured bank borrowings were pledged by a charge over certain marketable securities from margin clients of the investment banking and financial services segment.

As at 31 March 2006, the Group's bank deposit and investment properties amounting to approximately HK\$0.3 million and HK\$85 million were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group, respectively.

There were no borrowings outstanding for PBL Macau as at 31 March 2006.

(b) Contingent liabilities

As at 31 March 2006, the Group provides guarantee of approximately HK\$4.7 million to a supplier in respect of the goods purchased by its subsidiaries.

(c) Capital commitments

As at 31 March 2006, the Group had capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development amounting the approximately HK\$1,331.5 million.

In addition, Great Wonders has accepted a formal offer from the Macau Government to acquire the Land at a consideration of approximately HK\$145.1 million (equivalent to approximately MOP149.7 million). As at 31 March 2006, Great Wonders has paid a deposit of approximately HK\$48.6 million (equivalent to approximately MOP50 million) for the Land. The remaining balance of approximately HK\$96.5 million (equivalent to approximately MOP99.7 million) is interest-bearing at 5% per annum and shall be payable in 4 half-yearly installments in equal amounts.

Also, Melco Hotels has accepted in principal another offer from the Macau government to acquire the Cotai Land in Macau at a consideration of approximately HK\$493.3 million (equivalent to approximately MOP509.1 million). No payment has been made in respect of this offer by Melco Hotels as at 31 March 2006.

Save as disclosed in the above paragraph (a) to (c), and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other contingent liabilities outstanding at the close of business on 31 March 2006.

IV. WORKING CAPITAL

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

V. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up.



ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF MELCO INTERNATIONAL DEVELOPMENT LIMITED

TO THE DIRECTORS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED

新濠國際發展有限公司

(incorporated in Hong Kong with limited liability)

We report on the unaudited pro forma assets and liabilities (the "Statement") of Melco International Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the Memorandum of Agreement entered into between the Company and Publishing Broadcasting Limited dated 5 March 2006 might have affected the assets and liabilities of the Group presented, for inclusion in Appendix IV of the circular dated 30 May 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 133 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the Directors to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

APPENDIX IV FINANCIAL INFORMATION OF THE ENLARGED GROUP

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

- a) the Statement has been properly compiled by the Directors on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 May 2006

APPENDIX IV FINANCIAL INFORMATION OF THE ENLARGED GROUP

(I) Unaudited Pro Forma Financial Information of the Enlarged Group

The following is the unaudited pro forma financial information of Melco International Development Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and the incorporation of PBL Macau Limited (“PBL Macau”) (together with the Group hereinafter referred to as the “Enlarged Group”). PBL Macau was incorporated for the acquisition of the subconcession (“Subconcession”) for the pursuance of the gaming business in Macau.

The unaudited pro forma assets and liabilities of the Enlarged Group are prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 as extracted from the annual report of the Group for the year ended 31 December 2005 adjusted to reflect the completion of Memorandum of Agreement entered into between the Company and Publishing and Broadcasting Limited dated 5 March 2006 as at 31 December 2005.

This unaudited pro forma financial information is prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any dates.

APPENDIX IV FINANCIAL INFORMATION OF THE ENLARGED GROUP

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

	The Group as at 31 December 2005 <i>HK\$'000</i>	Pro forma adjustment for capital contribution in PBL Macau <i>HK\$'000</i>	Pro forma adjustment for de-consolidation of investment in MPE Group <i>HK\$'000</i>	Pro forma adjustment to equity account for 50% interests in MPE Group and PBL Macau <i>HK\$'000</i>	The Enlarged Group <i>HK\$'000</i>
		<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>	
Non-current assets					
Investment properties	85,000	–	–	–	85,000
Property, plant and equipment	256,151	–	(224,439)(b)	–	31,712
Hotels and entertainment complex – under development	1,881,824	–	(1,881,824)(b)	–	–
Prepaid lease payments	36,394	–	–	–	36,394
Deposit for land use rights	48,590	–	(48,590)(b)	–	–
Goodwill	351,470	–	(322,960)(c)	–	28,510
Trading rights	2,279	–	–	–	2,279
Interests in jointly controlled entities	2,234	1,248,000 (a)	–	1,161,076 (d)	2,411,310
Available-for sale investments	20,517	–	–	–	20,517
Other intangible assets	2,547	–	–	–	2,547
Long term deposits	8,074	–	(4,858)(b)	–	3,216
Deferred tax assets	1,495	–	–	–	1,495
	<u>2,696,575</u>	<u>1,248,000</u>	<u>(2,482,671)</u>	<u>1,161,076</u>	<u>2,622,980</u>
Current assets					
Trade receivables	399,727	–	(10,413)(b)	–	389,314
Prepayments, deposits and other receivables	45,177	–	(8,790)(b)	–	36,387
Inventories	34,656	–	(675)(b)	–	33,981
Prepaid lease payments	4,646	–	–	–	4,646
Investment in convertible loan notes	4,000	–	–	–	4,000
Held-for-trading investments	45,002	–	–	–	45,002
Amount due from a jointly controlled entity	19	–	932,804 (b)	–	932,823
Amounts due from related companies	948	–	(948)(b)	–	–
Pledged bank deposits	270	–	–	–	270
Bank balances and cash	2,350,284	(1,248,000)(a)	(149,717)(b)	–	952,567
	<u>2,884,729</u>	<u>(1,248,000)</u>	<u>762,261</u>	<u>–</u>	<u>2,398,990</u>

APPENDIX IV FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 31 December 2005 <i>HK\$'000</i>	Pro forma adjustment for capital contribution in PBL Macau <i>HK\$'000</i>	Pro forma adjustment for de-consolidation of investment in MPE Group <i>HK\$'000</i>	Pro forma adjustment to equity account for 50% interests in MPE Group and PBL Macau <i>HK\$'000</i>	The Enlarged Group <i>HK\$'000</i>
		<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>	
Current liabilities					
Trade payables	103,936	-	(1,116)(b)	-	102,820
Other payables	105,700	-	(55,923)(b)	-	49,777
Amount due to a minority shareholder	9,104	-	-	-	9,104
Amount due to a jointly controlled entity	9	-	(9)(b)	-	-
Amounts due to related companies	6,051	-	(838)(b)	-	5,213
Taxation payable	8,594	-	(4,433)(b)	-	4,161
Bank borrowing – due within one year	28,000	-	-	-	28,000
Obligation under finance lease	21	-	-	-	21
Shareholder's loan	45,085	-	(45,085)(b)	-	-
	<u>306,500</u>	<u>-</u>	<u>(107,404)</u>	<u>-</u>	<u>199,096</u>
Net current assets	<u>2,578,229</u>	<u>(1,248,000)</u>	<u>869,665</u>	<u>-</u>	<u>2,199,894</u>
Total assets less current liabilities	<u>5,274,804</u>	<u>-</u>	<u>(1,613,006)</u>	<u>1,161,076</u>	<u>4,822,874</u>
Non-current liabilities					
Deferred tax liabilities	49,847	-	(49,716)(b)	-	131
Convertible loan notes					
– due after one year	1,037,163	-	-	-	1,037,163
Obligation under finance lease – due after one year	63	-	-	-	63
	<u>1,087,073</u>	<u>-</u>	<u>(49,716)</u>	<u>-</u>	<u>1,037,357</u>
	<u>4,187,731</u>	<u>-</u>	<u>(1,563,290)</u>	<u>1,161,076</u>	<u>3,785,517</u>

Note: As at 31 December 2005, the gaming, entertainment and hospitality businesses in Macau (the “Macau business”) was carried out by Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) and its subsidiaries (the “MPE Group”). The Group had 60% equity interest in the MPE Group as of 31 December 2005 and the Group consolidated MPE Group in its consolidated financial statements for the year ended 31 December 2005.

According to the Memorandum of Agreement (“Agreement”) entered into between the Company and Publishing Broadcasting Limited (“PBL”) dated 5 March 2006, the Company and PBL will make capital contribution to PBL Macau as set out in (a) below. Afterward, the Company and PBL will enter into a shareholders’ agreement such that the Company and PBL will share the capital contributions and the economic values and benefits of the project and business in PBL Macau and the Macau business on a 50/50 basis.

APPENDIX IV FINANCIAL INFORMATION OF THE ENLARGED GROUP

As stated under the section heading “Financial Implications of the Transactions” of the Letter From The Board, the MPE Group will no longer be subsidiaries of the Group upon completion of the Agreement such that the Group will cease to consolidate MPE Group in its consolidated financial statements. Instead, the Group will equity account for PBL Macau and MPE Group as interest in jointly controlled entities in its consolidated financial statements. Therefore, the assets and liabilities and goodwill attributable to the MPE Group will be de-consolidated from the Group’s consolidated financial statements as set out in (b) and (c) below. The details of the adjustments to reflect the capital contribution in PBL Macau and change in the Company’s interest in the Macau business from 60% to 50% are as follows:

- (a) cash payments for the capital contribution to PBL Macau, in accordance with the Agreement, amounted to HK\$3,120 million (which approximates the net asset value of PBL Macau as of the date of completion of the acquisition of the Subconcession), to be made by the Company and PBL of HK\$1,248 million (US\$160 million) and HK\$1,872 million (US\$240 million), respectively, to acquire the Subconcession;
- (b) de-consolidation of the assets and liabilities (excluding goodwill) of the MPE Group with reference to their carrying amounts as recorded in the consolidated financial statements of the Group as of 31 December 2005; the respective net assets value (excluding goodwill) of the MPE Group as included in the consolidated financial statements of the Group amounted to approximately HK\$1,240 million as of 31 December 2005;
- (c) the goodwill amount of approximately HK\$323 million represents the carrying amount of goodwill attributable to the MPE Group as recorded in the consolidated financial statements of the Group as of 31 December 2005. Out of the HK\$323 million, goodwill amount of approximately HK\$94 million, as derived from the consolidated financial statements of the Group as of 31 December 2005, is de-recognised since the MPE Group will be de-consolidated from the Group’s consolidated financial statements resulting from the decrease in interest in the MPE Group from 60% to 50%; and the carrying amount of goodwill attributable to the 50% interest in the MPE Group of approximately HK\$229 million, as derived from the consolidated financial statements of the Group as of 31 December 2005, is transferred to interest in jointly controlled entities; and
- (d) accounting for the effective 50% interests in the MPE Group and PBL Macau, using equity method amounting to HK\$1,161 million, which is represented by the total of (i) HK\$312 million, being the difference between the capital contribution to PBL Macau by the Company of HK\$1,248 million and 50% of the total capital contribution to PBL Macau of HK\$3,120 million as set out in (a) above, (ii) 50% of the net asset value (excluding goodwill) of the MPE Group of HK\$1,240 million, as set out in (b) above, amounted to approximately HK\$620 million, and (iii) the carrying amount of goodwill attributable to the 50% interest in the MPE Group of approximately HK\$229 million, as set out in (c) above, in interest in jointly controlled entities.

RICHARDS BUTLER

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30 May 2006

Dear Sirs,

We refer to the circular dated 30 May 2006 to be issued by Melco International Development Limited (the “**Company**”) to its shareholders in relation to the acquisition of subconcession for pursuance of gaming business in Macau, constituting major transactions of the Company (the “**Circular**”).

We have been requested to provide this opinion to the Company in relation to the proposed convertible participating bonds described on page 27 of the Circular in the section headed “Proposed arrangements to effect a 50:50 sharing of economic value and benefits of PBL Macau if Macau Government approval cannot be obtained for PBL Macau to become a Joint Venture Company” (the “**Bonds**”). Capitalised terms and expressions used in this opinion which are not defined herein shall have the meanings respectively assigned to those terms and expressions in the Circular.

OPINION

Assuming that the relevant documents constituting the Bonds are properly drafted and are expressed to be governed by Hong Kong law, Bonds having the features described on page 27 of the Circular in the section referred to above would constitute valid, legally binding and enforceable obligations of PBL Macau under Hong Kong law.

The term “enforceable” as used above means that the rights and obligations are of a type which the Hong Kong courts enforce in accordance with their terms, subject to a number of matters of general application, including (without limiting the generality of the foregoing) that enforcement may be limited by general principles of equity or otherwise be subject to the discretionary jurisdiction of the Hong Kong courts; enforcement may be limited by applicable laws relating to insolvency, bankruptcy, administration, reorganisation, liquidation, moratorium and other laws of general application relating to or affecting the rights of creditors; the enforcement of obligations may be invalidated by fraud; claims may become barred by statutory limitations or prescription or may become subject to set-off or counterclaim; the enforcement of obligations may be limited by the provisions of Hong Kong law applicable to agreements held to have been frustrated by events happening after their execution; where obligations are to be performed in a jurisdiction outside Hong Kong, they may not be enforceable in Hong Kong to the extent that performance would be illegal or contrary to public policy under the laws of that jurisdiction; and the term does not address the extent to which a judgment obtained in a court outside Hong Kong would be enforceable in Hong Kong.

ASSUMPTIONS

For the purposes of giving this opinion, we have assumed with your consent and without further enquiry that:

- (a) All relevant documentation creating the Bonds or under or pursuant to which the Bonds are issued or by which they are evidenced (collectively, the “**Bond Documents**”) will be governed by Hong Kong law.
- (b) The Bonds will be duly authorised, created and issued by PBL Macau and the Bond Documents will be duly authorised, executed and delivered by PBL Macau and, in each case, will constitute the valid, legally binding and enforceable obligations of PBL Macau under all applicable laws (other than the laws of Hong Kong) and PBL Macau will have obtained any and all necessary consents and authorisations necessary to issue the Bonds and to enter into and perform its obligations under the Bond Documents.
- (c) There are no provisions of the laws of any jurisdiction outside Hong Kong which would be contravened by the creation or issue of the Bonds or the execution or delivery of the Bond Documents and that, insofar as any obligation under the Bonds or the Bond Documents falls to be performed in any jurisdiction outside Hong Kong, its performance will not be illegal by virtue of the laws of that jurisdiction.

This opinion is addressed to the Company and is solely for the benefit of the Company and may not be relied upon by any other person for any purpose, nor may it be quoted or referred to in any public document other than the Circular, nor may it or copies of it be shown to or filed with any governmental or other agency or any other person without our prior consent in writing. This opinion is strictly limited to the matters stated herein and is not to be read as extending by implication to any other matter. This opinion relates only to the laws of Hong Kong, as at present interpreted and applied and we have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than Hong Kong. This opinion is to be governed by and construed in accordance with the laws of Hong Kong and is limited to and is given on the basis of the current law and practice in Hong Kong.

Yours faithfully,
RICHARDS BUTLER

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. PARTICULARS OF DIRECTORS

Name	Address
<i>Executive Directors</i>	
Mr. Ho, Lawrence Yau Lung	35 Black's Link Hong Kong
Mr. Tsui Che Yin, Frank	13A, Block 4 Braemar Hill Mansions 21 Braemar Hill Road Hong Kong
Mr. Chung Yuk Man, Clarence	Flat B, 31/F., Block 4 The Grand Panorama 10 Robinson Road Mid-level, Hong Kong
<i>Non-executive Director</i>	
Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong
<i>Independent non-executive Directors</i>	
Sir Roger Lobo, <i>C.B.E., LL.D., J.P.</i>	Woodland Heights E1, 2 Wongneichung Gap Road Happy Valley Hong Kong
Dr. Lo Ka Shui, <i>G.B.S., J.P.</i>	Unit 2A, Serenity Place 22 Mount Cameron Road The Peak Hong Kong

3. DISCLOSURE OF DIRECTORS' AND SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in Shares and underlying Shares

Name of Director	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Mr. Lawrence Ho	Corporate	404,041,630 (Note 2)	117,912,694 (Note 3)	44.98%
	Personal	7,232,612	–	0.62%
Mr. Frank Tsui	Personal	7,232,612	–	0.62%
Dr. Lo Ka Shui	Personal	2,000,000	–	0.17%
Mr. Clarence Chung	Personal	567,000	–	0.05%

Notes:–

- As at the Latest Practicable Date, the total number of issued shares of the Company were 1,160,401,374 Shares.
- Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.95% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 24.86% of the issued share capital of the Company.

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited (formerly "Melco Entertainment Limited") and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 9.22% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust of Dr. Stanley Ho, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.

(ii) Share Options

Name of Director	Date of Grant	Expiry Date	Exercise Price (HK\$)	No. of Underlying Shares comprised in the Options Outstanding	Approximate Percentage of the Issued Share Capital of the Company
Mr. Clarence Chung	17 September 2004	7 March 2012	1.6875	280,000	0.02%
	1 February 2005	7 March 2012	7.4	200,000	0.02%
	13 February 2006	31 January 2016	11.8	400,000	0.03%
Dr. Lo Ka Shui	3 April 2006	3 April 2012	15.87	300,000	0.03%
Sir Roger Lobo	3 April 2006	3 April 2012	15.87	300,000	0.03%
Ng Ching Wo	3 April 2006	3 April 2012	15.87	300,000	0.03%

(iii) Interests in shares of Value Convergence Holdings Limited

Name of Director	Nature of interest	Number of issued shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence (Note 1)
Mr. Lawrence Ho	Corporate	165,163,008 (Note 2)	65.33%

Notes:—

- As at the Latest Practicable Date, the total number of issued shares of Value Convergence were 252,797,679.
- Mr. Lawrence Ho is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 35.44% of the issued share capital of the Company which in turn holds approximately 63.66% of the issued capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of Value Convergence.

(iv) Interests in equity derivatives of Value Convergence Holdings Limited

Name of Director	Nature of interest	Number of underlying shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Mr. Lawrence Ho	Personal	491,057 (<i>Note</i>)	0.19%

Note:–

The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the share options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK\$1.00 per share of Value Convergence.

Save as disclosed herein, as at the Latest Practicable Date:

- (i) none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.
- (ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which was significant in relation to the business of the Group; and
- (iv) none of the Directors had a service contract with the Company or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

4. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of the Company and other persons in the Shares, underlying Shares and debentures of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of

Part XV of the SFO; or (b) were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein; or (c) were directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Better Joy Overseas Ltd.	Corporate	288,532,606 <i>(Note 2)</i>	–	24.86%
Lasting Legend Ltd.	Corporate	115,509,024 <i>(Note 2)</i>	–	9.95%
Great Respect Limited	Corporate	–	117,912,694 <i>(Note 3)</i>	10.16%
Dr. Stanley Ho	Corporate	7,298,456 <i>(Note 4)</i>	117,912,694 <i>(Note 3)</i>	10.79%
	Personal	22,749,278	–	1.96%
Mr. Lawrence Ho	Corporate	404,041,630 <i>(Note 5)</i>	117,912,694 <i>(Note 3)</i>	44.98%
	Personal	7,232,612	–	0.62%
Ms. Sharen Lo	Family	411,274,242 <i>(Note 6)</i>	117,912,694 <i>(Note 3)</i>	45.60%
SG Trust (Asia) Ltd	Corporate	–	117,912,694 <i>(Note 6)</i>	10.16%
STDM	Corporate	22,222,222	63,658,536 <i>(Note 7)</i>	7.40%
Shun Tak Shipping Company, Limited	Corporate	78,166,294	–	6.74%
Janus Capital Management LLC	Corporate	103,493,000	–	8.92%
State Street Corporation	Corporate	121,200,273 <i>(Note 8)</i>	–	10.44%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company were 1,160,401,374 Shares.
2. The Shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interest of Mr. Lawrence Ho in the Company.
3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited (formerly "Melco Entertainment Limited") and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 9.22% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust of Dr. Stanley Ho, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.
4. Dr. Stanley Ho is taken to be interested in 7,298,456 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.63% of the issued share capital of the Company.
5. Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.95% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 65% of the issued share capital of Better Joy which in turn holds approximately 24.86% of the issued share capital of the Company.
6. Ms. Sharen Lo is the spouse of Mr. Lawrence Ho and is deemed to be interested in shares of the Company in which Mr. Lawrence Ho is interested under the SFO.
7. Two convertible notes respectively for the principal amounts of HK\$100 million and HK\$56 million carrying the respective rights to subscribe for shares at an initial conversion price of HK\$4.00 and HK\$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005 respectively. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes is HK\$156 million. Due to the share subdivision on 19 May 2005, the said conversion prices of HK\$4.00 and HK\$8.2 have been adjusted to HK\$2.00 and HK\$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 63,658,536 Shares will be issued to STDM. STDM's said conversion rights are subject to the Company's early redemption rights and can only be exercised if the Company does not exercise its right to redeem the convertible loan notes before the conversion rights are exercised.
8. The interest is held to its lending pool.

Save as disclosed herein, so far as the Directors were aware, as at the Latest Practicable Date, no other persons had interests or short positions in the Shares, underlying Shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, nor were there any other persons required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

5. QUALIFICATION AND CONSENT OF EXPERTS

- (i) The followings are the qualifications of the experts who have given opinions or advice which are contained in the circular.

Name	Qualification
American Appraisal China Limited	Qualified valuer
Anglo Chinese Corporate Finance, Limited	A deemed licensed corporation under transitional arrangement within the meaning of the SFO to carry out types 1, 4, 6 and 9 regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Richards Butler	Hong Kong Solicitors

- (ii) As at the Latest Practicable Date, none of the experts referred to in paragraph 5(i) above has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (iii) As at the Latest Practicable Date, none of the experts referred to in paragraph 5(i) above has any interest, direct or indirect, in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (iv) Each of the experts referred to in paragraph 5(i) above has given, and has not withdrawn, its written consent to the issue of this circular, with inclusion of their respective documents including the letter of the Independent Financial Adviser set out in the section headed "Letter from the Independent Financial Adviser", 43 and 50 in this circular and the references to its name included herein in the form and context in which they respectively appear.

6. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 74 of the articles of association of the Company provides that at any general meeting a resolution put to the vote of the meeting shall be decided by a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

7. COMPETING INTERESTS

Dr. Stanley Ho, the former Chairman and a former Executive Director of the Company (resigned from these positions on 15 March 2006), has an equity interest in, as well as being a director of, STDM and SJM. As part of the businesses of STDM and SJM include gaming and hospitality businesses in Macau, there is a possibility that such part of the businesses of STDM and SJM may compete with the gaming business and hospitality business of the Group. Save as disclosed, as at the date of this circular, none of the Directors and their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

8. SERVICE CONTRACTS AND INTEREST IN ASSETS AND CONTRACTS AND COMPETING BUSINESS

Each of Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Clarence Chung has a service contract with Melco Services Limited, a wholly owned subsidiary of the Company, which may be terminated by either party to the relevant contract by not less than 3 months written notice to the other party.

Save as disclosed above, no Director has a services contract with the Company and/or any of its subsidiaries, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, to the best of the knowledge of the Directors, none of the Directors or proposed directors of the Company or any expert as named in this Circular had any interest, direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors and their respective associates were considered to have interests in any business which competes or may compete, either directly or indirectly, with the businesses of the Group or have or may have any other conflict of interests with the Group pursuant to the Listing Rules.

9. MATERIAL ADVERSE CHANGE

- (1) On 17 May 2006, a wholly owned subsidiary of Melco PBL Holdings, as purchaser, 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 plot of land with an area of approximately 6,480.00 square meters located at Zona dos Novos Aterros do Porto Exterior (NAPE), in Macau Peninsula. The aggregate consideration payable by the Purchaser is approximately HK\$1.5 billion, which is payable in cash and the acquisition is expected to be completed in the first quarter of 2007. An amount of approximately HK\$100 million was paid as a down payment on signing of the sale and purchase agreement. The balance of the aggregate consideration is payable on completion of the acquisition.
- (2) On 9 May 2006, Melco PBL International entered into the Sale and Purchase Agreement with Dr. Stanley Ho in relation to the sale by Dr. Stanley Ho to Melco PBL International of the Sale Shares, representing 20% of the issued share capital of Mocha Slot, and the Sale Loan for an aggregate consideration of approximately HK\$295.7 million, with approximately HK\$250 million being the consideration for the Sale Shares and approximately HK\$45.7 million being the consideration for the Sale Loan. The sale and purchase of the Sale Shares and the assignment of the Sale Loan under the Sale and Purchase Agreement were completed on the same date on which the Sale and Purchase Agreement was signed.

Save for the aforesaid transactions and the Transactions, there has not been any material adverse change in the financial or trading position of the Company since the date to which the latest published accounts of the Company was made up.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

11. MATERIAL CONTRACTS

In addition to the Memorandum of Agreement and the supplemental agreement dated 26 May 2006, the following contracts, not being contracts in the ordinary course of business, were entered into by the Company or its subsidiaries within the two years immediately preceding the date of the Announcement up to the Latest Practicable Date:

- (i) the agreement dated 8 September 2004 entered into between STDM and the Company regarding the acquisition of a 50% equity interest in Great Wonders by the Company from STDM for a consideration of HK\$100 million;
- (ii) the placing and subscription agreement dated 15 October 2004 entered into between the Company, Better Joy (as Vendor) and Deutsche Bank AG, Hong Kong Branch (as placing agent), in relation to the top-up placing of 75,900,000 Old Shares at a per Old Share price of not less than HK\$4.95 and not more than HK\$5.30;
- (iii) the agreement dated 11 November 2004 entered into between STDM and the Company regarding the acquisition of an additional 20% equity interest in Great Wonders by the Company from STDM for a consideration of HK\$56 million;
- (iv) the contract dated 24 November 2004 entered into between Great Wonders (as employer) and Paul Y. Construction Company, Limited, an independent third party, (as contractor) in relation to the development of a luxury hotel on a piece of land located at Taipa, Macau, for an estimated total development cost of approximately HK\$1,448 million;
- (v) the subscription agreement dated 23 December 2004 entered into amongst the Company, Melco PBL Holdings, PBL and PBL Asia Investment Limited in relation to the establishment of the joint venture group for pursuance of gaming, entertainment and hospitality businesses in Asia;
- (vi) the agreement dated 17 March 2005 entered into between STDM and the Company regarding the acquisition of the remaining 30% equity interest in Great Wonders by the Company from STDM for a consideration of HK\$400 million;
- (vii) the agreement dated 17 March 2005 entered into between the Company and Melco PBL Entertainment (Greater China) Limited (formerly “Melco Entertainment Limited”) regarding the acquisition by Melco PBL Entertainment (Greater China) Limited from the Company of a 30% equity interest in Great Wonders, to be acquired from STDM pursuant to the agreement mentioned in sub-paragraph (xi) above, for a consideration of HK\$400 million;
- (viii) the agreement dated 11 May 2005 entered into between Melco PBL Entertainment (Greater China) Limited (formerly “Melco Entertainment Limited”), Great Respect Limited and the Company regarding the acquisition by Melco PBL Entertainment (Greater China) Limited of a 49.2% equity interest of Great Respect Limited;

- (ix) the placing, underwriting and subscription agreement dated 17 May 2005 entered into between the Company, Better Joy (as vendor) and Credit Suisse First Boston (Hong Kong) Limited (as placing agent), in relation to the Placing of 70,000,000 Old Shares (or 140,000,000 New Shares) at a price of HK\$18.25 per Old Share (or HK\$9.125 per New Share) and the subscription by Better Joy of the same number of Shares;
- (x) the sale and purchase agreement dated 29 July 2005 entered into between San Pong Investment Company Limited (“San Pong”) and Melco Investment Holding Limited (“Melco Investment”) in relation to the purchase of the property at units C, D, E of Ground Floor of Kingsway at Rua de Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64A to 82 and Rua de Xiamen No. 37A to 59, Macau by Melco Investment from San Pong;
- (xi) the facility agreement dated 13 February 2006 entered into between Great Wonders, Investments, Limited, Melco PBL Entertainment (Greater China) Limited, Bank of China Limited, Macau Branch, Banco Bacional Ultramarino, S.A., Banco Comercial De Macau, S.A., Industrial and Commercial Bank of China (Asia) Limited, Banco Espiroiti Santo Do Oriente, S.A., and Liu Chong Hing Bank Limited, Macau Branch relating to a HKD1,280,000,000 transferable term loan facility;
- (xii) the agreement dated 15 March 2006 entered into between Mocha Slot Group Limited, Mocha Slot Management Limited and SJM regarding the termination of the Mocha Slot Halls Service Arrangement;
- (xiii) the sale and purchase agreement dated 9 May 2006 entered into between Dr. Stanley Ho and Melco PBL International in relation to the purchase of 20% of the issued share capital of Mocha Slot by Melco PBL International from Dr. Stanley Ho for a consideration of HK\$295.7 million; and
- (xiv) the agreement dated 17 May 2006 in relation to purchase the entire issued share capital of a company holding the rights to a Land Lease Grant in respect of a plot of land located in Macau Peninsula for a consideration of HK\$1.5 billion.

12. MISCELLANEOUS

- (i) The registered office of the Company is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (ii) The secretary of the Company is Mr. Samuel Tsang, a solicitor admitted in Hong Kong, England and Wales and Australia.
- (iii) The qualified accountant of the Company is Mr. Clarence Chung, a Fellow of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants; a member of the Society of Management Accountants of Canada.
- (iv) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, during normal business hours on any weekday, except Saturday, Sunday and public holidays, from the date hereof up to and including 15 June 2006:

- (i) the memorandum and articles of association of the Company;
- (ii) the MOA (including the 5 March 2006 Memorandum of Agreement and the supplemental agreement dated 26 May 2006 between the same parties);
- (iii) the Subconcession Agreement;
- (iv) the Deed;
- (v) the service contracts entered into between Melco Services Limited and each of Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Clarence Chung referred to in this Appendix;
- (vi) the material contracts referred to in the section headed "Material Contracts" in this Appendix;
- (vii) the annual reports of the Company for the three years ended 31 December 2005;
- (viii) the written consents referred to under the section headed "Qualification and Consent of Expert" in this Appendix;
- (ix) the letter from the Independent Board Committee;
- (x) the letter from the Independent Financial Adviser;
- (xi) the valuation report from American Appraisal, report from Deloitte Touche Tohmatsu and report from VC Capital Limited as set out in Appendix I of this Circular;
- (xii) the accountant's report of PBL Macau included in Appendix II of this Circular;
- (xiii) the unaudited pro forma financial information of the Enlarged Group and the report of Deloitte Touche Tohmatsu thereon, the text of which is set out in the section headed "Financial information of the Enlarged Group" in Appendix IV of this Circular; and
- (xiv) legal opinion dated 30 May by Richards Butler referred to in the Letter from the Board and included in Appendix V of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

NOTICE IS HEREBY GIVEN (the “Notice”) that an extraordinary general meeting (the “Meeting”) of Melco International Development Limited (the “Company”) will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, on Friday, 16 June 2006 at 11:30 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

“**THAT** the Transactions (as defined and more particularly described in the circular issued by Melco International Development Limited (the “Company”) to its shareholders dated 30 May 2006 (the “Circular”), being the entry into by the Company of the MOA (as defined in the Circular) with PBL (as defined in the Circular) and the performance of the transactions contemplated by the MOA, including (without limiting the generality of the foregoing):

- (a) the provision of funding and undertaking of obligations for the acquisition of the Subconcession (as defined in the Circular) by PBL Macau (as defined in the Circular), including but not limited to the provision of the Loan (as defined in the Circular), substantially on the terms described in the Circular;
- (b) the proposed arrangements for sharing the economic value and benefits (and the associated risks, liabilities, commitments and capital contributions) of PBL Macau and the Joint Venture Companies (as defined in the Circular), substantially in the terms described in the Circular;
- (c) the proposed capital structure of PBL Macau substantially in the terms described in the Circular and PBL Macau becoming a Joint Venture Company;
- (d) the transfer to PBL Macau of the entire issued share capitals of Great Wonders (as defined in the Circular) and Melco Hotels (as defined in the Circular) and the business and operations of Mocha Slot (as defined in the Circular) and its subsidiaries by Melco PBL Entertainment (as defined in the Circular) and each of Melco PBL Entertainment, Great Wonders, Melco Hotels, Mocha Slot and its subsidiaries ceasing to be subsidiaries of the Company, as described in the Circular;
- (e) the proposed amendments to the Deed (as defined in the Circular) substantially in the terms described in the Circular; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (f) the proposed arrangements to effect a 50:50 sharing of the economic value and benefits of PBL Macau (and the associated risks, liabilities, commitments and capital contributions) by amending the terms of the Loan if Macau Government approval cannot be obtained for PBL Macau to become a Joint Venture Company, substantially in the terms described in the Circular,

be and are hereby approved and the directors of the Company be and are hereby authorised to take all such actions and execute all such documents as are necessary or desirable or expedient in their opinion to implement and/or give effect to the terms of the Transactions and the matters referred to above in this resolution and in the Circular or which the directors of the Company otherwise consider necessary or desirable or expedient to be done in connection with any of the foregoing.”

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

Hong Kong, 30 May 2006

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

Notes:–

1. Any member of the Company entitled to attend and vote at the Meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the registered office, of the Company at Penthouse 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the proxy form, it will be deemed to have been revoked.