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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)*

**PROPOSED ACQUISITION OF ADDITIONAL LAND IN MACAU  
FOR DEVELOPMENT AS AN INTEGRATED ENTERTAINMENT RESORT  
VERY SUBSTANTIAL ACQUISITIONS  
AND CONNECTED TRANSACTIONS**

**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)*

**The Development Project**

The Directors are pleased to announce that, on 10th May 2005, Melco Hotels accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease in respect of a plot of land with an area of approximately 113,325 square metres in Taipa, Macau, on the Cotai Strip, for the construction and development of an integrated entertainment resort. The proposed development is expected to include:

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

The offer by the Macau Government to grant a long term lease in respect of the Land in the name of Melco Hotels was secured through the efforts of Great Respect, a company controlled by a discretionary trust of Dr. Stanley Ho, in the context of a joint venture established to apply to the Macau Government for the grant of one or more parcels of land in Cotai, Macau. The Macau Government offered the opportunity to be granted development rights in respect of the Land to Melco Hotels in a letter dated 21st April 2005, which sets out detailed specifications of the permitted uses and developable gross floor area of the site and the applicable land premium payable to take up the grant of the lease. The terms of the proposed grant were accepted in principle by Melco Hotels on 10th May 2005, although a legally binding commitment of Melco Hotels will only arise upon the execution by it of a legally binding contract with the Macau Government. That legally binding contract will only be entered into by Melco Hotels subject to, or following, the approval of the Land grant and the project by Shareholders of Melco (by way of a poll) at the EGM. Further details in respect of the terms of the offer to grant a long term lease in respect of the Land, and Melco Hotels' in principle acceptance, are set out below under the heading "The Development Project".

### **Acquisition of Interests in the Joint Venture**

The Directors are also pleased to announce that, on 11th May 2005, Melco Entertainment agreed to acquire the interest of Great Respect in the Joint Venture referred to above which was established to apply to the Macau Government for the grant of one or more parcels of land in Cotai, Macau and which resulted in the offer of development rights in respect of the Land.

The Joint Venture is constituted by a legally binding Joint Venture MOA made between Melco Leisure and Great Respect on 28th October 2004. The Joint Venture MOA contemplated that Great Respect would use its best efforts, through its business relationships and connections in Macau, to apply to the Macau Government for the grant of development rights in respect of one or more parcels of land in Cotai, Macau. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho. Dr. Ho has had strong links with Macau and its business community over several decades. Dr. Ho and Great Respect have been able to employ Dr. Ho's strong and enduring links with Macau and its business community for the benefit of Melco, to secure the opportunity for the Melco group to obtain a long term lease in respect of the Land, which is an opportunity which would not otherwise have been open to Melco. Under the Joint Venture MOA, for expedience Melco Leisure would make available one of its Macau subsidiaries (which was ultimately Melco Hotels) to the Joint Venture, as the Macanese vehicle to make the application to the Macau Government to be granted the long term lease in respect of the Land.

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

In accordance with the Shareholders Agreement, all gaming ventures in Macau are required to be carried out by Melco and PBL through their joint venture company, Melco Entertainment. Accordingly, pursuant to that Shareholders Agreement and a Declaration Agreement dated 9th March 2005 between Melco Leisure and Melco Entertainment, Melco Leisure is holding its 50.8% interest in the Joint Venture on behalf of Melco Entertainment and has agreed to transfer its 50.8% interest in the Joint Venture, and its interest in Melco Hotels, to Melco Entertainment in consideration of the mutual benefits to be derived by Melco and PBL under the Shareholders' Agreement and the reciprocal covenants of each of them under the Shareholders Agreement.

Melco Entertainment has now also agreed to acquire the 49.2% interest of Great Respect in the Joint Venture, thereby giving Melco Entertainment a 100% interest in the right to apply to the Macau Government for a long term lease of the Land and to subsequently develop the Land as an integrated entertainment resort.

#### *Acquisition Agreements*

Melco Entertainment has entered into the following agreements:

1. The First Agreement, dated 11th May 2005, with Great Respect and Melco, pursuant to which:
  - (a) Melco Entertainment has agreed to purchase and take an assignment of the 49.2% interest in the Joint Venture held by Great Respect under the Joint Venture MOA, for a consideration of HK\$1,175 million; and
  - (b) Great Respect has undertaken to immediately subscribe the entire amount of the consideration to be received by it on completion of the First Agreement for Convertible Loan Notes to be issued by Melco.
2. The Second Agreement, dated 11th May 2005, with Melco Leisure, pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement.

#### *Convertible Loan Notes*

The Convertible Loan Notes will be issued in the aggregate principal amount of HK\$1,175 million, will not bear interest and will be convertible into Shares at an initial conversion price of HK\$19.93 per Share, subject to customary adjustments to accommodate, among other things sub-divisions and consolidations of the Shares of Melco. The conversion price has been calculated as the average closing price of a Share for the 5 (five) trading days up to and including the Last Trading Date. The Convertible Loan Notes are not transferable and are not permitted to be converted into Shares prior to the date of grant by the Macau Government to Melco Hotels of the long term lease in respect of the Land, for the construction and development of an integrated entertainment resort. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued on conversion of the Convertible Loan Notes. The exercise in full of the Convertible Loan Notes would result in the issue of an aggregate of a maximum of 58,956,347 new Shares, representing approximately 12.01% of the issued share capital of Melco on the date of this announcement and 10.72% of the enlarged issued share capital on that date, assuming full conversion of the Convertible Loan Notes.

If a legally binding long term lease in respect of the Land for the construction and development of an integrated entertainment resort is not formally granted to Melco Hotels by 31st December 2006, then Great Respect is required to transfer the Convertible Loan Notes back to Melco, for cancellation, and Melco is required to pay the proceeds received by it from Great Respect on subscription of the Convertible Loan Notes to Melco Entertainment, by way of refund in full of the purchase price for the acquisition of Great Respect's interest in the Joint Venture.

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

#### **Implications under the Listing Rules**

The First Agreement constitutes a very substantial acquisition for Melco under Chapter 14 of the Listing Rules, on the basis that the total assets which are the subject of the transaction (calculated as Great Respect's 49.2% interest in the Joint Venture on the basis of the open market value of the Land derived from the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer) delivered to Melco in May, 2005 as referred to below) exceeds 100% of the total assets of Melco. The First Agreement is conditional on approval by Independent Shareholders (by way of poll) at the EGM. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho, who is a director, shareholder and connected person of Melco. Accordingly, the First Agreement also constitutes a connected transaction of Melco under the Listing Rules. Dr. Stanley Ho, Mr. Lawrence Ho and their respective associates, including Madam Lucina Laam King Ying, Better Joy and Lasting Legend will abstain from voting on the relevant resolution regarding the First Agreement and the transactions contemplated by it. In aggregate, these persons hold shares representing approximately 52.76% of the issued share capital of Melco as at the date of this announcement.

The Second Agreement constitutes a very substantial disposal for Melco under Chapter 14 of the Listing Rules, on the basis that the preliminary open market valuation of the Land, as determined in the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer), exceeds 75% of the total assets of Melco. Since the 50.2% interest in the Land is being acquired by Melco Entertainment, the Second Agreement also constitutes a very substantial acquisition for Melco under Chapter 14 of the Listing Rules, on the basis that the preliminary open market valuation of the Land, as determined in the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer), exceeds 100% of the total assets of Melco. The Second Agreement is also a connected transaction of Melco under the Listing Rules as an agreement between Melco's wholly-owned subsidiary (Melco Leisure) and its non-wholly owned subsidiary (Melco Entertainment). Accordingly, the Second Agreement is also conditional on approval by Independent Shareholders (by way of poll) at the EGM. In the case of the Second Agreement, the Directors are not aware of any Shareholders at the date of this announcement who would be precluded by the Listing Rules from voting on the resolution to approve the Second Agreement and the transactions contemplated by it.

An independent board committee of Melco comprising its independent non-executive directors will be appointed to advise the Independent Shareholders in relation to the First Agreement, the Second Agreement and the transactions contemplated by each of them. An independent financial adviser will be appointed to advise the independent board committee.

The legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land as an integrated entertainment resort, will, in aggregate, constitute a very substantial acquisition for Melco under Chapter 14 of the Listing Rules, on the basis that the aggregate of the amount of the Land premium required to be paid to secure the grant of a long term lease in respect of the Land and the costs of development and construction of an integrated entertainment resort will exceed 100% of the total assets of Melco. The aggregate of the amount of the Land premium and estimated development costs of the integrated entertainment resort having the features described in this announcement are expected to be in the region of approximately HK\$8,000 million.

#### **Circular**

A circular containing further details of:

- (a) the Agreements and the transactions contemplated by them;
- (b) the in principle acceptance by Melco Hotels of the Macau Government's offer to grant a long term lease in respect of the Land; and
- (c) the proposed development of the Land, involving the construction of an integrated entertainment resort having the features referred to above;

together with the information required under the Listing Rules in relation to each of the foregoing, and convening the EGM, will be despatched to Shareholders within 21 days from the date of publication of this announcement.

### **Possible Fund Raising and Whitewash Waiver Application**

In order to raise the funds required to finance the construction and development of the proposed integrated entertainment resort, as described in this announcement, Melco is considering a possible Placing of shares. If it proceeds, the Placing would be completed shortly after the date of this announcement and prior to completion of the First Agreement and the issue of the Convertible Loan Notes. If it proceeds, the Placing would result in the aggregate shareholding of the Concert Party being diluted to less than 50% of the voting rights of Melco. Following that dilution, an exercise of the Conversion Rights under the Convertible Loan Notes which results in the Concert Party's shareholding increasing by more than 2% from the lowest percentage shareholding of the Concert Party within the 12 month period immediately preceding the date of exercise of those conversion rights would ordinarily require Great Respect or the Concert Party to make an unconditional cash offer to acquire all of the Shares of Melco other than those owned by the Concert Party, at the applicable conversion price.

However, if the Placing proceeds, an application will be made by Great Respect to the SFC for the Whitewash Waiver, in respect of the Shares falling to be issued on exercise in full of the conversion rights under the Convertible Loan Notes. If granted, the Whitewash Waiver would be subject to the approval of the Independent Shareholders and such approval would be sought at the EGM pursuant to a vote conducted by poll.

### **Press Reports**

The Directors have noted a number of reports in the press in relation to the transactions described in this announcement, which have appeared since the suspension of dealings in Melco's Shares on 11th May, 2005. To the extent that the contents of those press reports are inconsistent with the terms of the transactions described in this announcement, the press reports are inaccurate. In particular, the statement that Melco would jointly invest with SJM in the development project is not correct. In relation to speculation in those press reports as to the amount to be raised pursuant to the possible Placing, the number of Shares which may be issued and the possible Placing price, the statements in those press reports are simply speculation. At this time, no agreement has been reached in relation to the terms of a possible Placing. The amount to be raised pursuant to the possible Placing, the number of Shares to be issued and the Placing price would only be determined after the publication of this announcement, as the result of a placing exercise which would only commence following the publication of this announcement.

Statements in the press that the Land cost would exceed HK\$1,000 million and that Melco has been negotiating with banks to arrange a syndicated loan are each correct. References to Credit Suisse First Boston as exclusive investment bank appointed in connected with the Placing are not correct, although Credit Suisse First Boston is a possible candidate for appointment.

The clarification of the contents of certain of the reports in the press with the Stock Exchange remain outstanding at the date of this announcement.

### **Suspension of Trading**

At the request of Melco, the Shares were suspended from trading on the Stock Exchange at 9:30 a.m. on 11th May 2005. The Shares will remain suspended following the publication of this announcement, pending the publication of a further announcement regarding the possible Placing.

## **THE DEVELOPMENT PROJECT**

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

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

- car parking facilities and other supporting infrastructure

The Macau Government offered the right to be granted development rights in respect of the Land to Melco Hotels in a letter dated 21st April 2005, which sets out detailed specifications of the permitted uses and developable gross floor area of the site and the applicable land premium payable to take up the grant. The offer letter from the Macau Government is in respect of a development of 403,692 sq. metres, comprising a five-star hotel of 53,659 sq. metres, a three-star hotel of 250,833 sq. metres, aggregate car parking of 61,370 sq. metres and outdoor space of 37,830 sq. metres. The terms of the proposed grant were accepted in principle by Melco Hotels on 10th May 2005.

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

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

The Land consists of two individual parcels. The grant of development rights in respect of "Parcel A", a parcel of land of 73,528 sq. meters which is registered as Lot No. 23053 in the Property Registration Bureau, would be conditional on the return of the land parcel to the Macau Government by the existing holder of development rights in respect of it, Elite Sociedade De Desenvolvimento Educational, S.A.. Elite Sociedade De Desenvolvimento Educational, S.A. is an independent third party not connected with Melco and its subsidiaries or any of its substantial shareholders, directors or chief executive and their respective associates. The Directors do not have any further detailed information in respect of Elite Sociedade De Desenvolvimento Educational, S.A., but understand it is affiliated with a senior educational establishment in Macau. Melco has obtained written confirmation from Elite Sociedade De Desenvolvimento Educational, S.A. that it is negotiating with the Macau Government for an exchange of the Land and that it will endeavour to complete those negotiations as soon as possible with the intention that "Parcel A" is surrendered to the Macau Government (and hence granted to Melco Hotels) before May 2006. The grant of rights in respect of "Parcel B", a parcel of land of 39,797 sq. meters which, according to the documents provided to Melco Hotels by the Macau Government in respect of the Land, is unregistered, would not be subject to such a condition.

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

The premium payable on the grant of a long term lease for the construction and development on the Land of an integrated entertainment resort having the features described above will need to be agreed with the Macau Government in the context of the process which is expected to ultimately result in the formal grant of a long term lease in respect of the Land. The amount of the land premium originally proposed by the Macau Government in its 21st April 2005 letter (calculated pursuant to applicable regulations in Macau) is MOP 509,124,823 (equivalent to approximately HK\$494,295,945), although this amount may be adjusted if the Macau Government accedes to Melco Hotels' request to increase the developable gross floor area at the site from approximately 400,000 sq. meters to approximately 450,000 sq. meters. In addition, as is customary for this type of project, it is anticipated that Melco Hotels will also be required to provide guarantee money to the Macau Government by way of a cash deposit or bank guarantee acceptable to the Macau Government. It is anticipated that the amount of the guarantee money required to be provided by Melco Hotels will be in the region of MOP 2,300,000 (equivalent to approximately HK\$2,233,010).

The legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land will only be entered into subject to, or following, the approval of the project by the Shareholders of Melco (by way of poll) at the EGM. Further details in respect of the legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer mentioned above will be set out in the circular to be dispatched to Shareholders.

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

#### **POSSIBLE FUTURE CONNECTED TRANSACTIONS**

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

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

The total estimated investment amount for development of the "Park Hyatt" luxury hotel is approximately HK\$1,448 million and the land premium payable by Great Wonders in connection with the grant of the said land in Tapia, Macau by the Macau Government is currently estimated to be approximately HK\$223 million.

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

#### **ACQUISITION OF INTERESTS IN THE JOINT VENTURE – VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION FOR MELCO**

A group structure chart appears below. Melco Entertainment is a company incorporated in the Cayman Islands which is directly owned as to 80% by Melco PBL Holdings and as to the balance of 20% by Melco Leisure. Melco Leisure is a wholly owned subsidiary of Melco, while Melco PBL Holdings is a 50/50 joint venture between Melco and PBL. Accordingly, Melco has a 60% direct and indirect attributable interest in Melco Entertainment.

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

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

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

### **The Acquisition Agreements**

Melco Entertainment has entered into the following two agreements:

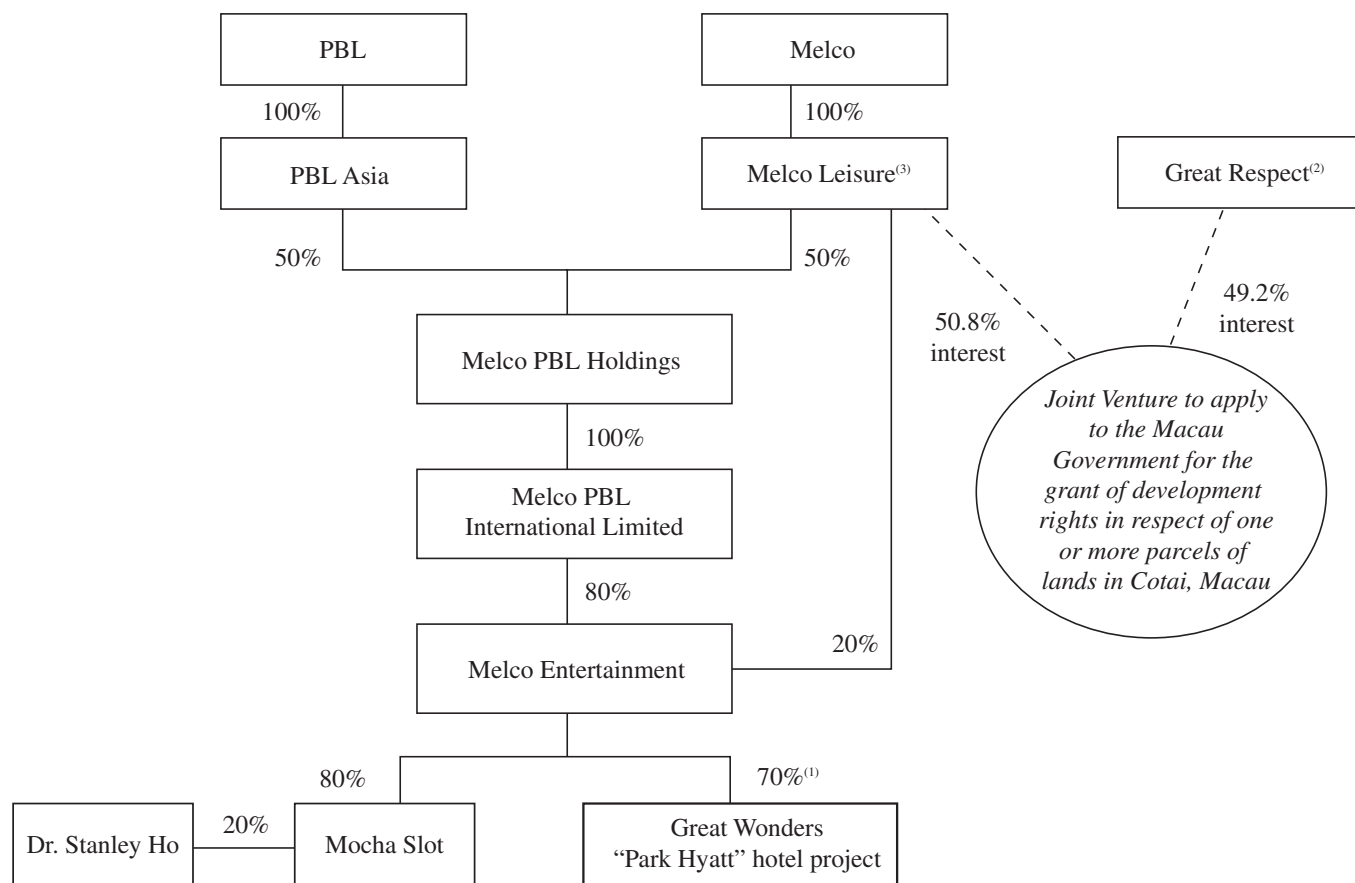
1. The First Agreement, dated 11th May 2005, with Great Respect and Melco, pursuant to which:
  - (a) Melco Entertainment has agreed to purchase and take an assignment of the 49.2% interest in the Joint Venture held by Great Respect under the Joint Venture MOA, for a cash consideration of HK\$1,175 million; and
  - (b) Great Respect has undertaken to immediately subscribe the entire amount of the consideration to be received by it on completion of the First Agreement for Convertible Loan Notes to be issued by Melco.
2. The Second Agreement, dated 11th May 2005, with Melco Leisure and Melco, pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement and in consideration of the mutual benefits to be derived by, and reciprocal covenants of Melco and PBL under the Shareholders Agreement.

The Convertible Loan Notes will be issued in the principal amount of HK\$1,175 million, will not bear interest and will be convertible into Shares at an initial conversion price of HK\$19.93 per Share, subject to customary adjustments. The conversion price has been calculated as the average closing price of the Share for the five (5) trading days up to and including the Last Trading Date. The Convertible Loan Notes are not transferable without the consent of Melco and are not permitted to be converted into Shares prior to the date of grant by the Macau Government to Melco Hotels of the long term lease in respect of the Land for the construction and development of an integrated entertainment resort. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued on conversion of the Convertible Loan Notes. The exercise in full of the Convertible Loan Notes would result in the issue of an aggregate of a maximum of 58,956,347 new Shares, representing approximately 12.01% of the issued share capital of Melco on the date of this announcement and 10.72% of the enlarged issued share capital on that date assuming full conversion of the Convertible Loan Notes.

If the legally binding long term lease in respect of the Land is not formally granted to Melco Hotels by 31st December 2006, then Great Respect is required to transfer the Convertible Loan Notes to Melco for cancellation, and Melco is required to pay the proceeds received by it from Great Respect on subscription of the Convertible Loan Notes to Melco Entertainment, by way of refund in full of the purchase price for the acquisition of Great Respect's interest in the Joint Venture.

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

*Before Completion*

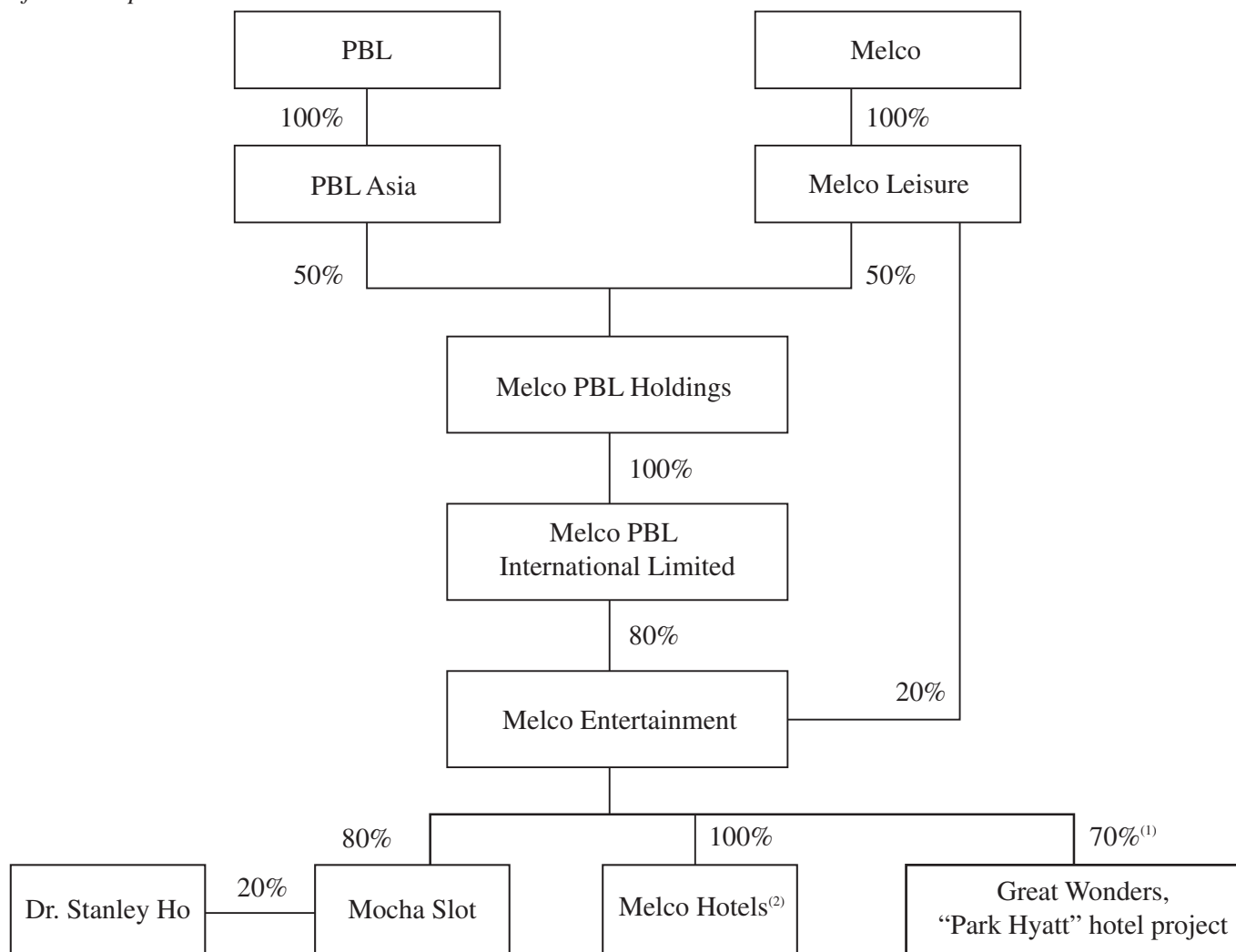


*Notes:*

- (1) Melco Entertainment currently holds 70% of Great Wonders, but has agreed to acquire the remaining 30% from STD M pursuant to the arrangements described in Melco’s announcement dated 22nd March 2005.
- (2) Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho.
- (3) Melco Hotels is a wholly-owned subsidiary of Melco Leisure.



After Completion



Notes:

- (1) Melco Entertainment currently holds 70% of Great Wonders, but has agreed to acquire the remaining 30% from STDM pursuant to the arrangements described in Melco's announcement dated 22nd March 2005.
- (2) Holds the right to apply to the Macau Government to be granted a long term lease in respect of the Land, for the construction and development of a hotel complex, derived from the Joint Venture.

*The First Agreement*

Date	:	11th May 2005
Parties	:	Great Respect, as assignor Melco Entertainment, as assignee Melco, as issuer of the Convertible Loan Notes
Interest to be acquired	:	49.2% interest in the Joint Venture held by Great Respect
Consideration	:	HK\$1,175 million
Terms of Payment	:	The consideration of HK\$1,175 million is payable in cash on completion. However, Great Respect has agreed to immediately apply the entire amount of the consideration received by it on completion of the First Agreement to subscribe for the Convertible Loan Notes
Other Terms	:	If the legally binding long term lease in respect of the Land for the construction and development of an integrated entertainment resort is not formally granted by the Macau Government on or before 31st December 2006, Great Respect is required to surrender the entire amount of the Convertible Loan Notes to Melco for cancellation, and Melco is required to pay the proceeds received by it from Great Respect on subscription of the Convertible Loan Notes to Melco Entertainment, by way of refund in full of the purchase price for the acquisition of Great Respect's interest in the Joint Venture

### *The Second Agreement*

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

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

### *The Convertible Loan Notes*

Principal Amount	:	HK\$1,175 million, equal to the consideration payable to Great Respect on the acquisition of its 49.2% interest in the Joint Venture. Melco will receive the entire principal amount of the Convertible Loan Notes in the amount of HK\$1,175 million on the subscription for the Convertible Loan Notes by Great Respect.
Status	:	General, unsecured obligations of Melco ranking equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of Melco
Maturity	:	Five years from the date of issue
Interest	:	The Convertible Loan Notes do not bear interest
Conversion	:	The principal amount of the Convertible Loan Notes is convertible into Shares, at an initial conversion price of HK\$19.93 per Share, subject to customary adjustments to accommodate, among other things, subdivisions and consolidations of the Shares of Melco, in accordance with the terms of the Convertible Loan Notes. The conversion price is equal to the average closing price of the Shares on the five trading days immediately preceding the Last Trading Date. If the conversion rights in respect of the Convertible Loan Notes were exercised in full at the initial conversion price, a maximum of 58,956,347 Shares would fall to be issued on exercise of the Convertible Loan Notes, representing approximately 12.01% of the issued share capital of Melco as at the date of this announcement and approximately 10.72% of the enlarged share capital assuming conversion of the Convertible Loan Notes in full.
Transfer	:	The Convertible Loan Notes are not transferable
Moratorium on Conversion	:	The Convertible Loan Notes are not permitted to be converted prior to the date on which the long term lease in respect of the Land, for the construction and development of an integrated entertainment resort, is granted to Melco Hotels by the Macau Government
Redemption	:	The Convertible Loan Notes (if not already redeemed or converted) will be automatically redeemed by Melco at maturity (being the fifth anniversary of their date of issue). The Convertible Loan Notes may be redeemed, at the option of the holder of the Convertible Loan Notes, on the occurrence of certain specified events of default of Melco. In either case, the Convertible Loan Notes shall be redeemed at an amount equal to 100% of the principal amount of the Convertible Loan Notes being redeemed.

### **Conditions Precedent**

#### *The First Agreement*

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

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

- (b) listing permission to deal in the Shares falling to be issued on conversion of the Convertible Loan Notes having been granted by the Stock Exchange and not having been revoked;
- (c) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for entering into the First Agreement and the consummation of the transactions contemplated thereby having been obtained and not having been revoked; and
- (d) Great Respect delivering to Melco Entertainment an opinion addressed to it by a firm of lawyers qualified to advise on Hong Kong law, in an agreed form. The legal opinion is required to confirm, among other things, the enforceability of the Joint Venture MOA and the Joint Venture under Hong Kong law and such other matters as Great Respect and Melco Entertainment may agree.

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

#### *The Second Agreement*

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

- (a) The Second Agreement and the transactions contemplated thereby having been approved by resolution of the Independent Shareholders in general meeting taken on a poll and Melco having obtained all other approvals and consents which are necessary or desirable for the completion of the transactions contemplated by the Second Agreement;
- (b) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for entering into the Second Agreement and the consummation of the transactions contemplated thereby having been obtained and not having been revoked; and
- (c) Melco Leisure having delivered to Melco Entertainment an opinion addressed to Melco Entertainment by a firm of lawyers qualified to advise on Macau law, in an agreed form. The legal opinion is required to confirm, among other things, the due establishment incorporation and existence of Melco Hotels under the laws of Macau.

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

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

#### **Completion**

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

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

The Directors anticipate that, subject to the requisite Independent Shareholders' approvals having been obtained at the EGM, the First Agreement (and the issue of the Convertible Loan Notes on completion of the First Agreement) and the Second Agreement will be completed three business days after the date of the EGM, which is expected to be convened to be held in late June 2005.

## **Miscellaneous**

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

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

There will be no change to the composition of the board of Directors of Melco or Melco Entertainment as a result of the acquisition of the interests in the Joint Venture and the completion of the Agreements. It is anticipated that the composition of the board of directors of Melco Hotels will be changed in order to bring it into line with the proportional representation of persons respectively designated by Melco and PBL for appointment to the board of Melco Entertainment, which consists of five directors appointed by Melco and four appointed by PBL.

## **REASONS FOR AND BENEFITS OF THE TRANSACTIONS DESCRIBED IN THIS ANNOUNCEMENT**

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

## **INFORMATION ON MELCO ENTERTAINMENT AND MELCO PBL HOLDINGS**

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

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

PBL is an Australian company and has its securities listed on the Australian Stock Exchange. It is one of Australia's largest diversified media and entertainment companies, the core business of which includes television production and broadcasting, magazine publishing and distribution, gaming and entertainment. Through its wholly owned subsidiary, Crown Limited, PBL operates one of the largest entertainment complexes in Australia including the Crown Casino, which is the largest casino in the Southern hemisphere, and two luxury hotels, namely the Crown Towers and the Crown Promenade Hotel, in Melbourne, Australia. Except for its interest in Melco PBL Holdings and its subsidiaries and its related rights to appoint directors to the board of Melco PBL Holdings and its subsidiaries, PBL is not otherwise a connected person of Melco or any of its subsidiaries, its substantial shareholders, chief executive or Directors.

The operation and management of Melco PBL Holdings and Melco Entertainment are governed by the provisions of a Shareholders Agreement dated 8th March 2005 between, among others, Melco and PBL. Pursuant to the provisions of that Shareholders Agreement:

- (a) Melco PBL Holdings is the principal investment vehicle for all future expansion and acquisition activities of both the Melco Group and the PBL Group in the gaming, entertainment and hospitality industries in the Asia Pacific region (excluding Australia and New Zealand) and the Greater China region.
- (b) All gaming venture opportunities of the Melco Group or the PBL Group in the Asia Pacific region other than Greater China, Australia and New Zealand, are required to be carried out through, a joint venture company to be established and owned as to 80% by Melco PBL Holdings and as to 20% by PBL, thus giving PBL a direct and indirect attributable interest in that joint venture company of 60% and Melco a direct and indirect attributable interest in that joint venture company of 40%.

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

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

Accordingly, following the Shareholders Agreement having been entered into, the Declaration Agreement was entered into on 9th March 2005. Under the Declaration Agreement, Melco Leisure declared that all its rights and benefits under the Joint Venture MOA and its 50.8% interest in the Joint Venture were held for the benefit of Melco Entertainment and would be transferred to Melco Entertainment at its request, to the intent that Melco Leisure's 50.8% interest in any land acquired by the Joint Venture would be transferred to and developed by Melco Entertainment (instead of Melco Leisure) in conjunction with Great Respect.

#### **INFORMATION ON THE JOINT VENTURE**

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

- An acknowledgement that Great Respect, through its business relationships and connections, may be able to secure land in Cotai, Macau and that the parties wish to apply for any land which could be secured and, if obtained, to jointly develop the land.
- Great Respect is required to use its best efforts and with due diligence, through its business relationships and connections, to proceed to apply to the Macau Government for the grant of development rights in relation to one or more parcels of land in Cotai, Macau. For expedience, Melco Leisure would make available one of its Macau subsidiaries as the Macanese vehicle to make the application.
- Great Respect is responsible for all costs and expenses incurred in relation to the application, provided that the land premium payable on the grant of any land successfully secured as a result of Great Respect's efforts would be borne by Melco Leisure and Great Respect in accordance with the percentages specified below.
- The Joint Venture MOA provides that if the Macau Government were to agree to grant land in Cotai to the Joint Venture, or the vehicle provided by Melco Leisure to make the application, Melco Leisure would have an interest of 50.8% in the land and Great Respect would have an interest of 49.2%.
- Similarly, the Joint Venture MOA also provides that, upon a land application being approved, the parties would form a joint venture to develop the land on a 50.8% (Melco Leisure): 49.2% (Great Respect) basis.
- Great Respect is required to liaise with SJM for the operation of a casino at the developed property.
- The Joint Venture MOA contemplates that the parties would negotiate and enter into more detailed joint venture documentation prior to the formal grant of development rights in relation to any land secured by Great Respect for the benefit of the Joint Venture.

## **INFORMATION ON THE MELCO GROUP**

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

- Leisure and entertainment
- Investment banking and financial services
- Technology
- Property investment

Great Wonders, an existing member of the Melco Entertainment group, is in the case of applying a grant of a parcel of land with an area of approximately 5,230 sq. metres located at Biaxa da Taipa, Macau for developing a luxury hotel with a casino and electronic gaming machine lounge. It is contemplated that upon completion of the hotel, the casino will be operated by SJM and the electronic gaming machine lounge will (subject to the approval of the Macau Government authorities) be managed by Mocha Slot, a subsidiary of Melco Entertainment. Details of this investment are set out in Melco's announcements dated 23rd November 2004 and its shareholder circular dated 5th January 2005.

## **FINANCIAL INFORMATION**

Melco Hotels was incorporated as a special purpose vehicle, and the Joint Venture was established, in each case, with the sole business purpose of applying to the Macau Government for the development rights in respect of one or more parcels of land in Cotai, Macau and subsequently developing any land acquired. Except for having been offered the right to apply to the Macau Government for the development rights in respect of the Land and except for Melco Hotels having made an application to the Macau Government for the grant of development rights, each of the Joint Venture and Melco Hotels have not and do not carry on any business, have made no sales, have no turnover or other material assets. Moreover, since no development rights have yet been granted in respect of the Land, the 49.2% interest of Great Respect in the Joint Venture does not have a net asset value or income stream attributable to it. The unaudited management accounts of Melco Hotels as at 30th April 2005 show a net asset value of MOP 25,000 (equivalent to approximately HK\$24,224) as at the date of those management accounts and turnover of zero since the date of Melco Hotels' incorporation on 20th July 2004. As at the date of this announcement, the net asset value of the Joint Venture is zero.

## **FINANCIAL IMPLICATIONS OF THE TRANSACTIONS**

Completion of the First Agreement and the Second Agreement will not give rise to a gain or loss for Melco.

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

A long term lease in respect of the Land for the construction and development of an integrated entertainment resort having the features described above, once granted, has been valued in the preliminary report of Savills (Hong Kong) Limited, an independent valuer, at approximately HK\$4,506 million on an open market basis and on the basis of generally accepted valuation methodologies. The purchase price of HK\$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been arrived at after arm's length negotiations among the parties (including the representatives of PBL on Melco Entertainment's board) including by reference to that preliminary valuation report. The purchase price of HK\$1,175 million for Great Respect's 49.2% interest in the Joint Venture represents a significant discount to 49.2% of the open market value of the Land, as determined in the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer). Shareholders are advised to note that the valuation report prepared by Savills (Hong Kong) Limited referred to in this paragraph is a preliminary report and is referred to in this announcement only in order to satisfy the disclosure requirements of the Listing Rules. Details of the final valuation report will be set out in the circular to be sent to Shareholders in full compliance with Rule 11 of the Takeovers Code. The purchase price of HK\$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been unanimously approved by the board of directors of Melco Entertainment, including the directors appointed by PBL.

The Joint Venture has not been formally granted the long term lease in respect of the Land, or entered into any legally binding agreement to be granted such a long term lease in respect of the Land. Accordingly, as set out above, the net asset value of the Joint Venture is currently zero. It is expected that, in the ordinary course of events (and subject to the requisite Shareholders' approvals having been obtained), the long term lease of the Land will be granted to Melco Hotels in accordance with the offer from the Macau Government, as accepted in principle by Melco Hotels. Accordingly, the purchase price of HK\$1,175 million for Great Respect's 49.2% interest in the Joint Venture has been arrived at after arms length negotiations among the parties. The purchase price of HK\$1,175 million for Great Respect's 49.2% interest in the Joint Venture represents a significant discount to 49.2% of the open market value of the Land, as determined in the preliminary report of Savills (Hong Kong) Limited the independent valuer as referred to above.

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

- the Convertible Loan Notes are non-interest bearing and are not repayable for five years;
- the Convertible Loan Notes are not transferable;
- the Convertible Loan Notes cannot be converted prior to the date on which Melco Hotels is granted the long term lease in respect of the Land (being both of "Parcel A" and "Parcel B" referred to above);
- if, for any reason, a long term lease in respect of the Land is not granted to Melco Hotels by 31st December, 2006, Great Respect is required to surrender the Convertible Loan Notes to Melco for cancellation. As a result, Great Respect will have received no consideration for the transfer to Melco Hotels of its 49.2% interest in the Joint Venture;
- following a cancellation of the Convertible Loan Notes as aforesaid (which extinguishes all of Melco's liabilities in respect of the Convertible Loan Notes), Melco is required to pay to Melco Entertainment the amount received by Melco from Great Respect on the subscription of the Convertible Loan Notes (being the purchase price paid by Melco Entertainment to Great Respect for its 49.2% interest in the Joint Venture), effectively by way of repayment of the purchase price to Melco Entertainment on behalf of Great Respect.

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

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

#### **FINANCING FOR THE TRANSACTIONS DESCRIBED IN THIS ANNOUNCEMENT**

The consideration of HK\$1,175 million for the acquisition of the 49.2% interest of Great Respect in the Joint Venture will be financed from existing internal resources of Melco Entertainment.

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

The Directors anticipate that the total costs of the Land and the construction and development of the integrated entertainment resort described in this announcement will be in the region of HK\$7,963 million, consisting of approximately HK\$1,684 million of land costs and land premium and approximately HK\$6,279 million of construction costs. Of the aggregate estimated costs of the development of approximately HK\$7,963 million, it is anticipated that an amount of approximately HK\$5,176 million will be financed by way of project financing, to be undertaken by Melco Entertainment, and an amount of approximately HK\$2,787 million will be financed by way of equity. Of the amount of approximately HK\$2,787 million to be provided by way of equity, Melco Entertainment will, following completion of the First Agreement and the payment of the cash consideration of HK\$1,175 million payable by Melco Entertainment to Great Respect on completion of the First Agreement, have internal resources available for the project in an amount of approximately HK\$102.6 million. The remaining amount of the funds required for the project, estimated to be in the region of approximately HK\$2,684.4 million, will be funded by additional contributions of equity in, or advances of shareholder loans to, Melco Entertainment. Details of a possible Placing are referred to below and will be announced in a subsequent announcement, to be made following the completion of the Placing exercise.

## EFFECT ON SHAREHOLDINGS OF MELCO

The existing issued share capital of Melco comprises 491,019,270 Shares. A concert party comprising Mr. Lawrence Ho, Lasting Legend, Better Joy, Dr. Stanley Ho, Madam Laam King Ying and Shun Tak Shipping Co. Ltd. hold, in aggregate, 259,066,422 shares representing approximately 52.76% of the shares in issue. The balance of 231,952,848 shares, representing approximately 47.24% of Melco, are held by the public.

Dr. Stanley Ho is the father of Mr. Lawrence Ho and Madam Laam King Ying is the mother of Mr. Lawrence Ho. Shun Tak Shipping Co. Ltd. is a company controlled by Dr. Stanley Ho. Lasting Legend and Better Joy are both companies controlled by Mr. Lawrence Ho. As such, Dr. Stanley Ho, Madam Laam King Ying, Shun Tak, Lasting Legend, Better Joy and Mr. Lawrence Ho are parties acting in concert for the purposes of the Takeovers Code.

In addition, STDM holds a HK\$100 million 5 year convertible bond and a HK\$56 million 5 year convertible bond which are convertible into 25,000,000 and 6,829,268 new Shares, respectively, at the conversion price of HK\$4.00 per Share and HK\$8.20 per Share, respectively. Dr. Stanley Ho is a director and shareholder of STDM, which is deemed under the Takeovers Code to be acting in concert with the Concert Party.

As referred to in Melco's announcement dated 22nd March 2005, Melco has entered into an agreement with STDM for the purpose of acquiring the remaining 30% interest in Great Wonders. The consideration for the acquisition includes the issue of 11,111,111 new Shares at an issue price of HK\$18.00 per Share to STDM. Those Shares represent approximately 2.26% of the existing issued Shares of Melco and approximately 2.21% of the enlarged issued Share capital of Melco immediately following their allotment and issue. The acquisition of the remaining 30% of Great Wonders from STDM is a connected transaction for Melco under the Listing Rules and is, therefore, subject to approval by resolution of the independent shareholders, which will be proposed at an extraordinary general meeting of Melco to be convened and held in June 2005. Subject to that approval having been obtained, those Shares will be issued to STDM on the later of the date of completion of the acquisition of the remaining 30% interest in Great Wonders or the date of the grant by the Macau Government of a long term lease in respect of the land in Baixa, Taipa to be held by Great Wonders.

The table below shows the shareholding of Melco:

- as at the date of this announcement
- on issue of the consideration shares to be issued to STDM on completion of the acquisition of the remaining 30% of Great Wonders, as referred to above
- assuming conversion of the Convertible Loan Notes to be issued on completion of the First Agreement
- assuming full conversion of the HK\$100 million 5 year convertible bonds and the HK\$56 million 5 year convertible bonds held by STDM

	Issued Shares at the date of this announcement		Upon issue of the 11,111,111 Shares agreed to be issued to STDM (as referred to in the announcement of Melco dated 22 March 2005)		Upon Conversion of the Convertible Loan Notes in full		Upon exercise in full of the convertible bonds held by STDM (as referred to in) the announcement of Melco dated 22 March 2005)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Better Joy (Note b)	144,266,303	29.381	144,266,303	28.731	144,266,303	25.712	144,266,303	24.332
Mr. Lawrence Ho (Note c)	60,470,818	12.315	60,470,818	12.043	60,470,818	10.777	60,470,818	10.199
Shun Tak Shipping Co. Ltd. (Note d)	39,083,147	7.960	39,083,147	7.783	39,083,147	6.966	39,083,147	6.592
Dr. Stanley Ho (Note e)	15,023,867	3.060	15,023,867	2.992	15,023,867	2.678	15,023,867	2.534
Madam Lucina Laam King Ying	222,287	0.045	222,287	0.044	222,287	0.040	222,287	0.037
Great Respect (Note f)	-	-	-	-	58,956,347	10.508	58,956,347	9.943
STDM	-	-	11,111,111	2.213	11,111,111	1.980	42,940,379	7.242
Aggregate interest of the Concert Party	259,066,422	52.761	270,177,533	53.806	329,133,880	58.660	360,963,148	60.879
Others (Public)	231,952,848	47.239	231,952,848	46.194	231,952,848	41.340	231,952,848	39.121



*Notes:*

- a. Each column assumes the steps referred to in all previous columns have been completed.
- b. Better Joy is owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho.
- c. Interest of Mr. Lawrence Ho includes his personal interest and the interest held through Lasting Legend, a company controlled and wholly owned by him.
- d. Interest of Shun Tak Shipping Co. Ltd. includes the interests held by it and its wholly owned subsidiaries.
- e. Interest of Dr. Stanley Ho includes his personal interests and interests held through three companies controlled and wholly owned by him, namely, Sharikat Investments Limited, Dareset Limited and Lanceford Limited.
- f. Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho. Discretionary beneficiaries of the trust include Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying.

**FUND RAISING EXERCISES CARRIED OUT BY MELCO IN THE PAST TWELVE MONTHS**

Save for the following fund raising exercises, Melco has not undertaken any fund raising exercise in the past twelve months:

- (i) as part of the Group reorganization as disclosed in two announcements and a circular of Melco respectively dated 23rd March 2004, 1st April 2004 and 23rd April 2004, Melco acquired 80% equity interests in Mocha Slot on 9th June 2004 for a total consideration of HK\$398 million which was settled by way of issue of a total of 153,478,261 Shares at the then issue price of HK\$2.3 per Share and HK\$45 million for a shareholder's loan of the same face value previously granted by Better Joy to Mocha Slot which was settled by way of issue of two convertible notes by Melco to Better Joy in the aggregate sum of HK\$45 million with a conversion right to convert the same into 19,565,216 Shares at a conversion price of HK\$2.3 per Share. On 11th April 2005, Better Joy exercised the said conversion right in full, resulting in a total of 19,565,216 Shares issued to Better Joy;
- (ii) as disclosed in the announcement and circular of Melco respectively dated 13th September 2004 and 11th October 2004, Melco has entered into an agreement with STDM pursuant to which Melco has agreed to acquire 50% equity interests in Great Wonders from STDM for a consideration of HK\$100 million, which would be settled by way of issue of the First Convertible Bond (as defined in the announcement of Melco dated 13th September 2004) to STDM with the principal amount of HK\$100 million with a conversion right to convert the same into 25,000,000 Shares at a conversion price of HK\$4.0 per Share. After obtaining the independent shareholders' approval (by way of poll) of the agreement, the First Convertible Bond and the issue and allotment of Shares upon conversion of the First Convertible Bond at the extraordinary general meeting of Melco held on 2nd November 2004, Melco issued the First Convertible Bond to STDM on 9th November 2004;
- (iii) as disclosed in the announcement and circular of Melco respectively dated 23rd November 2004 and 5th January 2005, Melco has entered into an agreement with STDM pursuant to which Melco has agreed to acquire additional 20% equity interests in Great Wonders from STDM for a consideration of HK\$56 million, which would be settled by way of issue of the Second Convertible Bond (as defined in the announcement of Melco dated 23rd November 2004) to STDM with the principal amount of HK\$56 million with a conversion right to convert the same into 6,829,268 Shares at a conversion price of HK\$8.2 per Share. After obtaining the independent shareholders' approval (by way of poll) of the agreement, the Second Convertible Bond and the issue and allotment of Shares upon conversion of the Second Convertible Bond at the extraordinary general meeting of Melco held on 20th January 2005, Melco issued the Second Convertible Bond to STDM on 8th February 2005; and
- (iv) as disclosed in the announcement of Melco dated 15th October 2004, Melco has carried out a top-up placing of 75,900,000 Shares at a placing price of HK\$5.2 per Share on 15th October 2004. The net proceeds generated from the top-up placing were approximately HK\$377 million, out of which approximately HK\$94 million was earmarked for the expansion of the business of Mocha Slot, as to approximately HK\$207 million for the development of the "Park Hyatt" luxury hotel project and as to the remaining approximately HK\$75 million as working capital for the Group. As at the date of this announcement, Melco has utilized a total sum of approximately HK\$29.3 million mainly for acquisition of hardware and systems for the business of Mocha Slot and a total sum of approximately HK\$56.4 million in connection with the "Park Hyatt" luxury hotel project. It is the present intention of Melco to utilize the net proceeds of the top-up placing according to the intended application thereof as disclosed in the announcement dated 15th October 2004. To the extent that the net proceeds from the top-up placing are not immediately required for the above purposes, Melco has placed such funds in short-term deposits with banks and/or financial institutions.

## **IMPLICATIONS UNDER THE TAKEOVERS CODE, POSSIBLE PLACING AND POSSIBLE WHITEWASH WAIVER**

The Concert Party currently holds Shares representing approximately 52.76% of the total voting rights of Melco. Great Respect is deemed under the Takeovers Code to be a member of the Concert Party.

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

As referred to above, Melco and its controlling shareholders are currently considering a possible Placing, in order to raise part of the funding required for the development of the project described in this announcement. The Placing, if it were to proceed, would be completed prior to completion of the First Agreement and the issue of the Convertible Loan Notes. If the Placing proceeds, the shareholding of the Concert Party in Melco will be diluted to less than 50% of the total voting rights of Melco. Accordingly, if, following the Placing and the issue of the Convertible Loan Notes on completion of the First Agreement, the conversion rights conferred by the Convertible Loan Notes were subsequently exercised in circumstances where the exercise of the conversion rights resulted in an increase of the Concert Party's shareholding in Melco by more than 2% from the lowest percentage holding of the Concert Party in the 12 month period immediately preceding the date of that exercise, the Concert Party would ordinarily be obliged, as a result of that exercise of conversion rights, to make an unconditional cash offer to acquire all of the Shares of Melco other than those already owned by the Concert Party.

Based on Melco's issued share capital as at the date of this announcement, if the conversion rights conferred by the Convertible Loan Notes were exercised in full as at the date of this announcement, the Concert Party's shareholding in Melco would increase by approximately 5.064%, from approximately 52.761% to approximately 57.825%. Following the Placing, the Concert Party's shareholding will be diluted to less than 50% of Melco's issued share capital. The extent of the dilution, and therefore, the percentage increase in the Concert Party's shareholding as a result of the exercise of the conversion rights conferred by the Convertible Loan Notes in full, would depend on the number of Shares placed pursuant to the Placing. However, conversion of the Convertible Loan Notes in full would result in the Concert Party's shareholding increasing by more than the 2% increase from the lowest percentage shareholding in the immediately preceding 12 month period, which is permitted by the "creeper" provisions of Rule 26 of the Takeovers Code without requiring a general offer to be made to all Shareholders. Therefore, in the absence of the Whitewash Waiver, conversion of the Convertible Loan Notes in full in these circumstances would require a general offer to be made for all the Shares other than those owned by the Concert Party.

However, if the Placing proceeds, an application will be made by Great Respect to the SFC for the Whitewash Waiver which, if granted, would be subject to the approval of Independent Shareholders, such approval to be sought at the EGM pursuant to a vote conducted by way of poll. The Whitewash Waiver would be a waiver by the Executive of the obligations of Great Respect and the Concert Party to make a mandatory general offer to acquire the entire issued share capital of Melco not otherwise owned by the Concert Party as a result of the exercise in full of the Convertible Loan Notes, following the Placing having occurred and the shareholding of the Concert Party in Melco having been diluted to less than 50% of the voting rights of Melco.

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

If the Whitewash Waiver is obtained, it is currently anticipated that, when permitted in accordance with their terms, the Convertible Loan Notes would be exercised in full and converted into Shares of Melco. If the Whitewash Waiver is obtained, that exercise would, therefore, not give rise to an obligation to make a mandatory general offer under Rule 26 of the Takeovers Code.

If the Agreements are completed but the Whitewash Waiver is not obtained, it is not currently envisaged that the Convertible Loan Notes would be converted into Shares in circumstances which give rise to an obligation to make a general offer under Rule 26 of the Takeovers Code. However, were this to happen, any general offer required to be made as a result of the exercise of conversion rights under the Convertible Loan Notes would be made in compliance with the requirements of the Takeovers Code.

On 11th April, 2005, Better Joy exercised conversion rights under certain convertible notes issued to it by Melco as consideration for the acquisition of Mocha Slot. This exercise of conversion rights resulted in 19,565,216 Shares being issued to Better Joy by Melco. On 14th April, 2005, Mr. Lawrence Ho exercised options issued to him under Melco's employee share option scheme, to subscribe for a total of 900,000 Shares. Other than as disclosed in this paragraph, no member of the Concert Party has acquired any Shares in the 6 months prior to the date of this announcement and Melco has not repurchased any Shares during that period.

If agreements are entered into in relation to the possible Placing prior to the conclusion of Melco's annual general meeting (convened to be held at 3:30 p.m. on Wednesday, 18th May, 2005), the Shares to be issued pursuant to the "top up" subscription element of the possible Placing would be issued under the general mandate granted by Melco's Shareholders at its extraordinary general meeting held on 20th January, 2005. If the agreements in relation to the possible Placing are entered into after Melco's annual general meeting, then the Shares to be issued pursuant to the "top up" subscription element of the possible Placing would be issued pursuant to the general mandate expected to be granted by Melco's Shareholders at that annual general meeting.

### **IMPLICATIONS UNDER THE LISTING RULES**

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

Great Respect is a company controlled by a discretionary family trust of Dr. Stanley Ho, who is a director, shareholder and connected person of Melco. Accordingly, the First Agreement also constitutes a connected transaction of Melco under the Listing Rules. Dr. Stanley Ho, Mr. Lawrence Ho and their respective associates, including Madam Lucina Laam King Ying, Better Joy, Lasting Legend and (to the extent it holds Shares at the relevant time) STDM, will abstain from voting on the relevant resolution regarding the First Agreement and the transactions contemplated by it. In aggregate, these persons hold Shares representing approximately 52.76% of the issued Share capital of Melco.

The Second Agreement constitutes a very substantial disposal for Melco under Chapter 14 of the Listing Rules, on the basis that the preliminary open market valuation of the Land, as determined in the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer), exceeds 75% of the total assets of Melco. Since the 50.2% interest in the Land is being acquired by Melco Entertainment, the Second Agreement also constitutes a very substantial acquisition for Melco under Chapter 14 of the Listing Rules, on the basis that the preliminary open market valuation of the Land, as determined in the preliminary valuation report of Savills (Hong Kong) Limited (an independent valuer), exceeds 100% of the total assets of Melco. The Second Agreement is also a connected transaction of Melco under the Listing Rules as an agreement between Melco's wholly-owned subsidiary (Melco Leisure) and its non-wholly owned subsidiary (Melco Entertainment). Accordingly, the Second Agreement is also conditional on approval by Independent Shareholders (by way of poll) at the EGM. Completion of the Second Agreement will not give rise to a gain or loss for Melco. In the case of the Second Agreement, the Directors are not aware of any Shareholders at the date of this announcement who would be precluded by the Listing Rules from voting on the resolution to approve the Second Agreement and the transactions contemplated by it.

An independent board committee of Melco comprising its independent non-executive directors (namely, Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui) will be appointed to advise the Independent Shareholders on the Whitewash Waiver and whether or not the terms of the First Agreement (including the issue of the Convertible Loan Notes), the Second Agreement and the transactions contemplated by each of them are fair and reasonable and in the interests of the Independent Shareholders as a whole. An independent financial adviser will be appointed to advise the independent board committee in respect of the Whitewash Waiver and the foregoing matters in respect of the First Agreement and the Second Agreement.

The legally binding commitments of Melco Hotels expected to be entered into in the future as a result of its in principle acceptance of the Macau Government's offer to grant a long term lease in respect of the Land, and in connection with the future development of the Land as an integrated entertainment resort, will, in aggregate, constitute a very substantial acquisition for Melco under Chapter 14 of the Listing Rules, on the basis that the aggregate of the amount of the Land premium required to be paid to secure the grant of a long term lease in respect of the Land and the costs of development and construction of an integrated entertainment resort having the features described in this announcement will exceed 100% of the total assets and total market capitalization of Melco. The total costs of obtaining the development rights in respect of the Land and completing the development of the project described in this announcement are expected to be in the region of HK\$8,000 million.

A circular containing further details of:

- (a) the Agreements and the transactions contemplated by them (including the issue and conversion of the Convertible Loan Notes and the Whitewash Waiver proposal in respect of them);
- (b) the in principle acceptance by Melco Hotels of the Macau Government's offer to grant a long term lease in respect of the Land; and
- (c) the proposed development of the Land, involving the construction of an integrated entertainment resort having the features described in this announcement (the detailed terms and conditions of the grant of the lease will also be included in the circular);

together with the information required by the Listing Rules, and convening the EGM, will be dispatched to Shareholders within 21 days from the date of publication of this announcement. The information required by the Listing Rules to be incorporated in that circular includes the following:

- A description of the principal terms of the Agreements (including the issue and conversion of the Convertible Loan Notes), which are also described above in this announcement
- A description of the terms of the in principle acceptance by Melco Hotels on 10th May 2005 of the Macau Government's offer to grant a long term lease in respect of the Land
- The proposals for the development of the Land as an integrated entertainment resort
- A valuation report in respect of the Land, prepared by Savills (Hong Kong) Limited, an independent valuer
- The recommendation from the independent board committee of Melco in respect of the First Agreement (including the issue of the Convertible Loan Notes), the Second Agreement and the respective transactions contemplated thereby and (if the Placing proceeds) in respect of the Whitewash Waiver
- A letter of advice from the independent financial adviser to the independent board committee of Melco in respect of the First Agreement, the Second Agreement and the respective transactions contemplated thereby and (if the Placing proceeds) in respect of the Whitewash Waiver

If the Placing proceeds, the circular will also contain applicable information required under the Takeovers Code in respect of the Whitewash Waiver.

Completion of the Agreements is not conditional on completion of the Placing or vice versa.

#### **VIEWS OF THE DIRECTORS**

The Directors, other than the members of the independent board committee appointed to consider the transactions contemplated by the First Agreement and the Second Agreement (who reserve their views pending receipt of the letter of advice to be issued by the independent financial adviser), consider that the terms of each of the First Agreement and the Second Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors further consider that the terms on which Melco Hotels has accepted in principle the Macau Government's offer to grant a long term lease in respect of the Land, and the proposal to develop the Land as an integrated entertainment resort having the features described in this announcement, are each fair and reasonable and in the interests of the Shareholders as a whole.

#### **Press Reports**

The Directors have noted a number of reports in the press in relation to the transactions described in this announcement, which have appeared since the suspension of dealings in Melco's shares on 11th May, 2005. To the extent that the contents of those press reports are inconsistent with the terms of the transactions described in this announcement, the press reports are inaccurate. In particular, the statement that Melco would jointly invest with SJM in the development project is not correct. In relation to speculation in those press reports as to the amount to be raised pursuant to the possible Placing, the number of Shares which may be issued and the possible Placing price, the statements in those press reports are simply speculation. At this time, no agreement has been reached in relation to the terms of a possible Placing. The amount to be raised pursuant to the possible Placing, the number of Shares to be issued and the Placing price would only be determined after the publication of this announcement, as the result of a placing exercise which would only commence following the publication of this announcement.

Statements in the press that the Land cost would exceed HK\$1,000 million and that Melco has been negotiating with banks to arrange a syndicated loan are each correct. References to Credit Suisse First Boston as exclusive investment bank appointed in connected with the Placing are not correct, although Credit Suisse First Boston is a possible candidate for appointment.

The clarification of the contents of certain of the reports in the press with the Stock Exchange remain outstanding at the date of this announcement.

#### **SUSPENSION AND RESUMPTION OF TRADING**

At the request of Melco, the Shares were suspended from trading on the Stock Exchange at 9:30 a.m. on 11th May 2005. The Shares will remain suspended following the publication of this announcement, pending the publication of a further announcement regarding the possible Placing referred to above.

As at the date of this announcement, the executive directors of Melco are Dr. Stanley Ho, Mr. Lawrence Ho and Mr. Frank Tsui; the non-executive directors are Mr. Ng Ching Wo and Mr. Ho Cheuk Yuet; and the three independent non-executive directors are Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui.

#### **DEFINITIONS**

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

“Agreements”	the First Agreement and the Second Agreement
“associate”	the meaning assigned to that expression in the Listing Rules
“Better Joy”	Better Joy Overseas Limited, a company owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
“Board”	the Board of Directors of Melco
“Concert Party”	the concert party consisting of Dr. Stanley Ho, Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend, Better Joy, STDM and Great Respect
“Convertible Loan Notes”	HK\$1,175 million in principal amount of Convertible Loan Notes due 2010 to be issued by Melco and subscribed by Great Respect under the First Agreement and conferring the right to subscribe for new Shares at an initial conversion price of HK\$19.93 per Share, subject to adjustment in accordance with the terms and conditions of the Convertible Loan Notes
“Declaration Agreement”	the agreement dated 9th March 2005 between Melco Leisure and Melco Entertainment, pursuant to which Melco Leisure declared that all its rights and benefits under the Joint Venture MOA are held by it on behalf of Melco Entertainment and that it would, at the request of Melco Entertainment, and as required by the Shareholders Agreement, transfer its 50.8% interest under the Joint Venture MOA and its interest in Melco Hotels to Melco Entertainment
“EGM”	the extraordinary general meeting of Shareholders proposed to be convened by Melco to consider and, if thought fit, approve: (a) the Agreements and the transactions contemplated by them; (b) the grant of a long term lease in respect of the Land to Melco Hotels; (c) the development of the Land by Melco Hotels and Melco Entertainment, involving the construction of an integrated entertainment resort having the features described in this announcement; and (d) if the Placing proceeds, the Whitewash Waiver;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“First Agreement”	an agreement dated 11th May 2005 between Melco Entertainment, Great Respect and Melco relating to the acquisition by Melco Entertainment of the 49.2% interest of Great Respect in the Joint Venture and the application by Great Respect of the proceeds of that acquisition to subscribe for the Convertible Loan Notes to be issued by Melco
“Great Respect”	Great Respect Limited, a company incorporated in the British Virgin Islands which is controlled by a discretionary family trust of Dr. Stanley Ho
“Great Wonders”	Great Wonders, Investments, Limited, which is currently a 70% owned subsidiary of Melco Entertainment and which would become a wholly owned subsidiary of Melco Entertainment on completion of the proposed acquisition by Melco Entertainment of the remaining 30% interest in Great Wonders held by STDM, announced by Melco on 22nd March 2005

“Independent Shareholders”	(1) in relation to the resolution to be proposed to approve the First Agreement and the transactions contemplated by it as a connected transaction for the purposes of the Listing Rules, means Shareholders of Melco other than Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend, Better Joy and (if it holds Shares at the relevant time) STDM, (2) in relation to the resolution to be proposed to approve the Second Agreement and the transactions contemplated by it as a connected transaction for the purposes of the Listing Rules, means Shareholders of Melco other than any connected person with a material interest in the Second Agreement and the transactions contemplated by it and any person falling within Listing Rules 14A.13(1)(b)(i) to (iv) that has a material interest in the Second Agreement and the transactions contemplated by it and such person’s associates (the Directors are not aware of any Shareholders at the date of this announcement who would be precluded by the Listing Rules from voting on the resolution to approve the Second Agreement and the transactions contemplated by it), or (3) in relation to the resolution to be proposed to approve the Whitewash Waiver, the First Agreement and the transactions contemplated by it for the purposes of the Takeovers Code, means Shareholders of Melco other than (i) Dr. Stanley Ho and his associates, namely Madam Lucina Laam King Ying, Mr. Lawrence Ho, Lasting Legend, Better Joy and (if it holds Shares at the relevant time) STDM and (ii) Shareholders who are interested or involved in the Agreements and the transactions contemplated thereby and the Whitewash Waiver, other than solely in their capacity as Shareholders
“Joint Venture”	the joint venture established by the Joint Venture MOA
“Joint Venture MOA”	the legally binding Memorandum of Agreement dated 28th October 2004 between Melco Leisure and Great Respect having the principal terms described in this announcement;
“Lasting Legend”	Lasting Legend Limited, a company wholly owned by Mr. Lawrence Ho
“Land”	a parcel of land with an area of 113,325 sq. metres located at Taipa, Macau, on the Cotai Strip
“Last Trading Date”	10th May 2005, being the last date on which the Shares were traded on the Stock Exchange prior to the suspension of trading in the Shares made at the request of Melco pending the release of this announcement
“Listing Rules”	the Rules governing the Listing of securities on the Stock Exchange of Hong Kong Limited
“Melco”	Melco International Development Limited, a company established under the laws of Hong Kong and having its securities listed on the Stock Exchange
“Melco Entertainment”	Melco Entertainment Limited, an 80% owned subsidiary of Melco PBL Holdings established under the laws of the Cayman Islands to engage in the business of gaming, entertainment and hospitality in the Greater China Region
“Melco Hotels”	Melco Hotels and Resorts (Macau) Limited, a wholly-owned subsidiary of Melco Leisure established under the laws of Macau, the only material asset of which is the offer received from the Macau Government to grant a long term lease in respect of the Land and the only business of which is to hold and develop the Land if a long term lease is ultimately granted.
“Melco Leisure”	Melco Leisure & Entertainment Group Limited, a wholly-owned subsidiary of Melco established under the laws of the British Virgin Islands to engage in the business of investment holding
“Melco PBL Holdings”	Melco PBL Holdings Limited, a 50/50 joint venture established between Melco and PBL under the laws of the Cayman Islands to engage in the businesses of gaming, entertainment and hospitality in the Asia Pacific and Greater China regions

“Mocha Slot”	Mocha Slot Group Limited, an 80% subsidiary of Melco Entertainment, established under the laws of the British Virgin Islands engaged in the business of leasing gaming machines and provision of ancillary management services to lessees of its gaming machines in Macau
“MOP”	pataca, the lawful currency of Macau
“PBL”	Publishing and Broadcasting Limited, a company established under the laws of Australia and having its securities listed on the Australian Stock Exchange
“Placing”	a possible placing of existing Shares held by one or more members of the Concert Party and a corresponding “top up” subscription for new Shares (as contemplated by Listing Rule 14A.31(3)(d) and Note 6 of the Notes on dispensations from Rule 26.1 of the Takeovers Code), which is being considered by the Directors
“Second Agreement”	an agreement dated 11th May 2005 between Melco Entertainment as transferee and Melco Leisure as transferor, pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement and the Declaration Agreement
“Shareholders Agreement”	the agreement between Melco and PBL dated 8th March 2005 governing the relationship between Melco and PBL as shareholders of Melco PBL Holdings and providing, among other things, for the operation and management of Melco PBL Holding and Melco Entertainment
“Shares”	ordinary shares of HK\$1.00 each in the capital of Melco
“Shareholders”	holders of Shares
“SJM”	Sociedade de Jogos de Macau, S.A., a company established under the laws of Macau and a non wholly owned subsidiary of STDM
“STDM”	Sociedade de Turismo e Diversoes de Macau, S.A.R.L. a company established under the laws of Macau, more than 30% of the shares of which are owned by Dr. Ho and his associates
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	the waiver by the Executive of the obligations of Great Respect and the Concert Party to make a mandatory offer pursuant to the provisions of Rule 26 of the Takeovers Code to acquire the entire issued share capital of Melco not otherwise owned by the Concert Party, arising as a result of any and all future exercises of the conversion rights conferred by the Convertible Loan Notes, such waiver to be subject to such conditions as are customary, including the approval of the Independent Shareholders pursuant to a vote conducted by way of poll having been obtained at the EGM and full compliance with the provisions of the Takeovers Code

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

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

Hong Kong, 13 May 2005

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

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