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Stock code: 200



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(Incorporated in Hong Kong with limited liability)

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**JOINT ANNOUNCEMENT
PROPOSED GROUP REORGANIZATION**

**ASSETS ACQUISITION
INVOLVING ISSUE OF CONSIDERATION SHARES
& CONVERTIBLE NOTES
MAJOR AND CONNECTED TRANSACTION**

**ASSETS DISPOSAL
DISCLOSEABLE AND
CONNECTED TRANSACTION**

SUMMARY

On 19 March 2004, the respective boards of directors of Melco and VC put forward a conditional Group Reorganization which, in summary, involves the following:

1. Mocha Acquisition Agreements

Melco has entered into the Mocha Acquisition Agreements separately with each of Better Joy, Chang Wang and Chang Tan and pursuant to which Melco has conditionally agreed to buy, and each of Better Joy, Chang Wang and Chang Tan separately has conditionally agreed to sell, the relevant Sale Shares for an aggregate consideration of HK\$353 million, which will be satisfied by the issue and allotment of 124,701,087 Melco Shares, 13,429,348 Melco Shares and 15,347,826 Melco Shares by Melco to Better Joy, Chang Wang and Chang Tan, respectively.

On 11 March 2004, a confirmation has been received from the Executive that the Concert Group will not be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code to acquire all the Melco Shares (other than those owned and to be acquired by certain members of the Concert Group) upon issue and allotment of the Consideration Shares (being 124,701,087 Melco Shares) to Better Joy upon completion of the Mocha Acquisition Agreements.

As part of the Better Joy Sale Shares Agreement, Melco has conditionally agreed to acquire the Better Joy Shareholder's Loan from Better Joy, and in consideration therefor, Melco will issue and Better Joy will subscribe the Convertible Notes with an aggregate principal amount of HK\$45 million.

Completion of the Mocha Acquisition Agreements is subject to the satisfaction of certain conditions, a summary of which is set out in this announcement.

2. iAsia Group Disposal Agreement

Melco and VC have entered into the iAsia Group Disposal Agreement, pursuant to which VC has conditionally agreed to sell and Melco has conditionally agreed to purchase the entire issued share capital of iAsia for a consideration of approximately HK\$27.9 million which will be settled in cash and will be financed by internal financial resources of Melco.

IMPLICATION OF THE LISTING RULES

The Mocha Acquisition Agreements and the iAsia Group Disposal Agreement are not inter-conditional, but are subject to the satisfaction of certain conditions, a summary of which is set out below in this announcement. The Mocha Acquisition Agreements together constitute a major transaction of Melco. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of Melco, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of Melco's issued shares) and, accordingly, the Better Joy Sale Shares Agreement constitutes a connected transaction of Melco.

In addition, after the completion of the Mocha Acquisition Agreements, Mocha will become a subsidiary of Melco, and Mocha's Equipment Leases with SJM (being a connected person of Melco) will constitute continuing connected transactions of Melco.

Since VC is a non-wholly owned subsidiary of Melco, therefore, the iAsia Group Disposal Agreement is a connected transaction of Melco. It is expected that Elixir (a non-wholly owned subsidiary of iAsia) will continue to provide information technology services to SJM after the completion of the iAsia Group Disposal Agreement. Such provision of services will also constitute continuing connected transactions of Melco.

The Mocha Acquisition Agreements, the issue of the Consideration Shares and the Convertible Notes and the iAsia Group Disposal Agreement, being the proposed Group Reorganization of Melco and VC, and the Continuing Connected Transactions are subject to, among other things, the approval by the Melco Independent Shareholders at the Melco EGM.

The iAsia Group Disposal Agreement constitutes a discloseable transaction of VC. Furthermore, as Melco is the controlling shareholder of VC, the iAsia Group Disposal Agreement also constitutes a connected transaction of VC under Chapter 20 of the GEM Listing Rules. Accordingly, the iAsia Group Disposal Agreement is subject to, among other things, the approval by the VC Independent Shareholders at the VC EGM.

Each of Melco and VC will issue a circular to its shareholders within 21 days from the date of publication of this announcement, containing (as the case may be), among other things, (i) further information on the relevant transactions comprised in the Group Reorganization; (ii) the recommendation from their respective independent board committees; (iii) the advice from an independent financial adviser to their respective independent board committees; and (iv) notice of the Melco EGM or the VC EGM.

SUSPENSION AND RESUMPTION OF TRADING

At the request of Melco and VC, tradings in the shares of Melco and VC on the Stock Exchange were suspended with effect from 9:30 a.m. on 19 March 2004 pending the release of this announcement. Applications have been made by Melco and VC to the Stock Exchange for the resumption of trading in the shares of Melco and VC, respectively with effect from 9:30 a.m. on 24 March 2004.

PROPOSED GROUP REORGANIZATION

The respective boards of directors of Melco and VC put forward a proposed conditional group reorganization pursuant to which various agreements entered into between relevant parties, a summary of the details of which are set out below:

A. THE MELCO GROUP

A.1 Summary of the principal terms of the Mocha Acquisition Agreements

	Better Joy Sale Shares Agreement	Chang Wang Sale Shares Agreement	Chang Tan Sale Shares Agreement
Date	19 March 2004	19 March 2004	19 March 2004
Purchaser	Melco	Melco	Melco
Vendor	Better Joy	Chang Wang	Chang Tan
Assets to be acquired	65 Mocha Shares, representing 65% of the issued share capital of Mocha	7 Mocha Shares, representing 7% of the issued share capital of Mocha	8 Mocha Shares, representing 8% of the issued share capital of Mocha
Consideration for the acquisition of the relevant Mocha Shares	Approximately HK\$286.81 million	Approximately HK\$30.89 million	HK\$35.30 million
Consideration Shares to be issued and allotted at an issue price of HK\$2.30 per Melco Share	124,701,087 Melco Shares	13,429,348 Melco Shares	15,347,826 Melco Shares
Consideration Shares as a percentage of the total issued Melco Shares as enlarged by the issue of the Consideration Shares	33.05%	3.56%	4.07%
Assignment of shareholder's loan made to Mocha	Better Joy Shareholder's Loan	Nil	Nil
Issue of Convertible Notes to acquire Better Joy Shareholder's loan	HK\$45 million	Nil	Nil

Consideration

The aggregate consideration of HK\$353 million payable for the acquisition of the Better Joy Sale Shares, Chang Wang Sale Shares and Chang Tan Sale Shares and the issue of the Convertible Notes (aggregating HK\$45 million in principal amount) to acquire the Better Joy Shareholder's Loan, were arrived at after arm's length negotiations between the relevant parties and is by reference to the valuation of about HK\$594 million (the "Valuation") performed by American Appraisal China Limited, an independent business valuer on the Mocha Group as at 29 February 2004. Such aggregate consideration represents a discount of approximately 15.95% to the Valuation. The HK\$353 million purchase consideration will be satisfied by the issue of Consideration Shares by Melco to Better Joy, Chang Wang and Chang Tan as set out in the above table.

Information of the Mocha Group

The Mocha Group was established in March 2003 and has been in operation since September 2003. It is principally engaged in the business of leasing gaming machines and providing of ancillary management services to the lessees of its gaming machines in Macau. In September 2003, Mocha commenced leasing gaming machines to SJM in Macau and it currently leases 65 gaming machines under the Equipment Leases to SJM (the number of gaming machines leased to SJM is expected to increase to about 500 in May 2004). Pursuant to the Equipment Leases, Mocha will, in addition to a fixed monthly rent, receive percentage rent for the gaming machines leased, and related management services provided, to SJM at an agreed percentage of net win from each machine leased and operated.

SJM has obtained the necessary approvals from the Government of Macau in respect of the Equipment Leases and so far as Melco is aware, such approvals are still valid and subsisting. Apart from such approvals, Mocha's business of leasing gaming machines and providing ancillary management services to SJM is not subject to any regulatory or licensing requirement in Macau. As the Mocha Group's business is all carried on in Macau, it is not subject to the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong) and, hence, will not constitute unlawful activities under the laws of Hong Kong. Melco is not aware of any specific risks in relation to the operation of Mocha's business as aforesaid.

As a condition to the Mocha Acquisition Completion, Better Joy, Chang Wang and Chang Tan are required to deliver to Melco a legal opinion issued by a qualified Macau legal counsel confirming, inter alia, that each of the Equipment Leases is legal, valid and enforceable against the parties thereto and will not be adversely affected by the Mocha Acquisition Completion. Therefore, Melco will not be obliged to complete the Mocha Acquisition Completion if the Equipment Leases or any of them do not comply with the applicable laws and regulations in Macau.

Melco will use its best endeavors to ensure that, throughout the holding of its investment in Mocha, the operation of Mocha will comply with the applicable laws in Macau. Shareholders of Melco are reminded that, in accordance with the Stock Exchange's guidelines on gambling business, that if the operation of Mocha does not comply with applicable laws in Macau, the Stock Exchange may, depending on the circumstances of the case, direct Melco to take remedial action, and/or may suspend dealings in, or may cancel the listing of, Melco's shares under Rule 6.01 of the Main Board Listing Rules. As the Melco Group's business consists of financial services, information technology and other leisure and entertainment business, if Melco cannot take the requisite remedial action in the circumstance aforementioned, it is Melco's intention to maintain active trading and listing status of Melco Shares by divesting its investment in the Mocha Group.

Based on the unaudited consolidated financial information of the Mocha Group, the unaudited consolidated net asset value of the Mocha Group as at 31 December 2003 was approximately HK\$2.26 million and the unaudited consolidated net profit before tax and after tax was approximately HK\$2.30 million for the period from 20 March 2003 to 31 December 2003.

As at the date hereof, Mocha has outstanding shareholder's loans aggregating approximately HK\$69 million in principal amount due to Better Joy and Chang Wang. Such shareholder's loans are repayable on demand and bear interest at the rate of 4% per annum from the date of grant.

Conditions

Completion of the Better Joy Sale Shares Agreement is conditional upon the fulfillment of, inter alia, the following conditions on or before the Mocha Acquisition Longstop Date:

- (i) the issued Melco Shares remaining listed and traded on the Main Board at all times from the date of the Better Joy Sale Shares Agreement up to Mocha Acquisition Completion, save for (a) any suspension not exceeding 10 consecutive trading days of the Stock Exchange for whatever cause, or (b) any suspension in connection with the clearance of this announcement or any other announcement(s) or circular in connection with the Better Joy Sale Shares Agreement;
- (ii) no indication being received at or before Mocha Acquisition Completion from the SFC and/or the Stock Exchange to the effect that the listing of the issued Melco Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of the Mocha Acquisition Completion or in connection with any transactions contemplated by the Better Joy Sale Shares Agreement;
- (iii) an ordinary resolution being passed by the Melco Independent Shareholders at the Melco EGM to approve the Better Joy Sale Shares Agreement, the issue of the Convertible Notes (and the Melco Shares issuable thereunder) and the Continuing Connected Transactions;
- (iv) all necessary consents and approvals which are considered by Melco to be necessary for the completion of the Better Joy Sale Shares Agreement having been obtained;
- (v) the granting by the Stock Exchange of the listing of and permission to deal in the Better Joy Consideration Shares and the Melco Shares that may fall to be issued upon any exercise of the conversion rights under the Convertible Notes, and the granting by the Stock Exchange of a waiver (in terms acceptable to Melco) in respect of the Continuing Connected Transaction(s).

The conditions to which the Chang Wang Sale Shares Agreement and the Chang Tan Sale Shares Agreement are subject are (except for the conditions relating to the Convertible Notes and the new Melco Shares issuable thereunder) substantially the same as those listed above.

None of the conditions listed above (other than paragraph (iv)) can be waived by Melco.

Other terms of the Mocha Acquisition Agreements

Each of Better Joy, Chang Wang and Chang Tan has respectively under the Better Joy Sale Shares Agreement, Chang Wang Sale Shares Agreement and Chang Tan Sale Shares Agreement given a non-disposal undertaking in favour of Melco.

In respect of Better Joy, it has undertaken to Melco that it will not during a period of 12 months immediately after the Mocha Acquisition Completion, effect any transfer or disposal of the Better Joy Consideration Shares and during the following 12-month period, not to effect any transfer or disposal so that it will cease to be interested in at least 50% of the Better Joy Consideration Shares (i.e. 62,350,544 Melco Shares).

In respect of Chang Wang and Chang Tan, each of them has undertaken to Melco that none of them shall during a period of 12 months from the Mocha Acquisition Completion, effect any transfer or disposal of the Chang Wang Consideration Shares and Chang Tan Consideration Shares (as the case may be) so that they will cease to be interested in at least 50% of the Chang Wang Consideration Shares (i.e. 6,714,674 Melco Shares) and Chang Tan Consideration Shares (i.e. 7,673,913 Melco Shares), as the case may be.

Subsequent to Mocha Acquisition Completion, Chang Wang will remain as the legal and beneficial owner of 20% of the issued share capital of Mocha. Under the Chang Wang Sales Share Agreement, Chang Wang has granted a right of first refusal to Melco so that effective from the Mocha Acquisition Completion, in the event that Chang Wang wishes to transfer or dispose of any of his said 20% interest in Mocha, Chang Wang shall first offer such shares to Melco. If Melco declines to exercise such first right, Chang Wang may only transfer his interest in Mocha to a transferee which is more than 50% owned by Chang Wang and is not engaged in any business or activities which competes or are likely to compete with the businesses of the Melco Group and the Mocha Group.

Application for listing

Application will be made to the Main Board Listing Committee for the listing of, and permission to deal in, the Consideration Shares, which will be issued upon completion of the Mocha Acquisition Agreements, and the Melco Shares that may fall to be issued upon any exercise of the conversion rights attached to the Convertible Notes.

Expected completion date

It is expected that completion of the Mocha Acquisition Agreements will take place on the third business day from the date (or such other date as the parties may agree in writing) on which the relevant conditions have been satisfied (or waived, as the case may be).

Shareholding structure of Melco

In the event that the Mocha Acquisition Agreements are completed and Better Joy exercises the conversion rights attached to the Convertible Notes in full, the shareholding structure of Melco will be as follows:

	Melco Shares as at the date hereof		Upon issue and allotment of the Consideration Shares		Upon exercise of the conversion rights attached to the 2005 Convertible Note in full		Upon exercise of the conversion rights attached to the 2006 Convertible Note in full	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
Lawrence Ho (note a)	59,570,818	26.61%	59,570,818	15.79%	59,570,818	15.39%	59,570,818	15.01%
Shun Tak Shipping (note b)	39,083,147	17.46%	39,083,147	10.36%	39,083,147	10.10%	39,083,147	9.85%
Dr. Stanley Ho (note c)	15,023,867	6.71%	15,023,867	3.98%	15,023,867	3.88%	15,023,867	3.79%
Madam Laam	222,287	0.10%	222,287	0.06%	222,287	0.06%	222,287	0.06%
Better Joy (note d)	–	0.00%	124,701,087	33.05%	134,483,695	34.74%	144,266,303	36.35%
Chang Wang	–	0.00%	13,429,348	3.56%	13,429,348	3.47%	13,429,348	3.38%
Chang Tan	–	0.00%	15,347,826	4.07%	15,347,826	3.96%	15,347,826	3.87%
Other (Public)	109,950,694	49.12%	109,950,694	29.13%	109,950,694	28.40%	109,950,694	27.69%
Total	223,850,813	100.00%	377,329,074	100.00%	387,111,682	100.00%	396,894,290	100.00%

Notes:

- a. Interest of Lawrence Ho includes his personal interest and interest held through Lasting Legend.
- b. Interest of Shun Tak Shipping includes interest held by itself and its wholly-owned subsidiaries.
- c. Interest of Dr. Stanley Ho includes his personal interest and interest held through his associates.
- d. Better Joy is owned as to 77% by Lawrence Ho and as to 23% by Dr. Stanley Ho.

On 11 March 2004, a confirmation has been received from the Executive that the Concert Group will not be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code to acquire all the Melco Shares (other than those owned and to be acquired by certain members of the Concert Group) upon issue and allotment of the Consideration Shares (being 124,701,087 Melco Shares) to Better Joy upon completion of the Mocha Acquisition.

A.2 Summary of the principal terms of, and other information concerning, the Convertible Notes

The principal terms of the 2005 Convertible Note and the 2006 Convertible Note are identical (save and except for their respective maturity dates as specified below) and were determined after arm's length negotiation between the relevant parties.

Principal amount

2005 Convertible Note – HK\$22.50 million

2006 Convertible Note – HK\$22.50 million

Interest

4% per annum payable quarterly in arrear on the outstanding principal amount.

Maturity Date

2005 Convertible Note – 30 June 2005

2006 Convertible Note – 30 June 2006

Redemption right

Melco does not have a right to early redeem the Convertible Notes (whether in whole or in part) save that on their respective maturity dates, any outstanding Convertible Notes will be automatically redeemed by Melco. Upon the occurrence of certain customary events of default, the holder of the Convertible Notes may at its option require Melco to redeem the outstanding principal amount of the Convertible Notes in whole or in part.

Conversion Period

The period starting from the date of issue of the Convertible Notes until (and including) the day immediately before their respective maturity dates.

Conversion Rights

The holder of the Convertible Notes will have the right at any time during the Conversion Period to convert in whole or in part the Convertible Notes into new Melco Shares at the initial Conversion Price (subject to adjustments). The Conversion Shares to be allotted and issued by Melco upon the exercise of the Conversion Rights in respect of the Convertible Notes will rank pari passu in all respects with the Melco Shares in issue as at the date of conversion.

Conversion Price

The Convertible Notes are convertible into Melco Shares at the option of the holder of the Convertible Notes at any time during the Conversion Period at an initial Conversion Price of HK\$2.30 per Melco Share and is subject to adjustments in the event of, among others, consolidation, sub-division or re-classification, capitalization of profits or reserves, capital distribution, rights issue and other dilutive events.

Conversion Shares

Based on the initial conversion price of HK\$2.30 per new Melco Share, 19,565,216 new Melco Shares will fall to be issued upon full exercise of the conversion rights attached to the Convertible Notes, representing approximately 8.74% of the existing issued Melco Shares as at the date hereof, and approximately 5.19% of the issued Melco Shares as enlarged by the issue of the Consideration Shares.

The initial Conversion Price was determined after arm's length negotiation between the relevant parties and represents a discount of approximately 2.13% to the closing price of HK\$2.35 per Melco Share as quoted on the Stock Exchange on 18 March 2004 (being the last trading day on which the Shares were traded prior to the suspension of trading in the Melco Shares on 19 March 2004) and a discount of approximately 1.25% to the average closing price of HK\$2.3292 per Melco Share over the 30 trading days up to and including 18 March 2004.

Final redemption and repayment

On the respective maturity dates, Melco shall pay to the holder of the Convertible Notes at par of the principal amount of the Convertible Notes outstanding and the unpaid interest due other than on the interest payment date.

Voting

The holder of the Convertible Notes shall not be entitled to attend or vote at any meeting of Melco by reason only of its being the holder of the Convertible Notes.

Transferability

The Convertible Notes are transferable except that they are not transferable to connected persons (as defined in the Main Board Listing Rules) of Melco.

Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Melco Shares which may be issued under the Convertible Notes. However, no application will be made for the listing of Convertible Notes on any stock exchange.

B. The VC Group

The iAsia Group Disposal Agreement

Date: 19 March 2004

Parties: Purchaser – Melco

Vendor – VC

Assets: Entire issued share capital of iAsia (being 2 shares of HK\$1.00 each)

Transaction:

Pursuant to the iAsia Group Disposal Agreement, VC has conditionally agreed to sell and Melco has conditionally agreed to purchase the entire issued share capital of iAsia.

Consideration

The consideration payable under the iAsia Group Disposal Agreement is approximately HK\$27.90 million which was arrived at after arm's length negotiation between the parties thereto and is based on the prospective price earning multiples of 6.98 times of the guaranteed net profit after tax of not less than HK\$4 million of the iAsia Group for the year ending 31 December 2004. Such consideration will be settled in cash and will be financed by internal financial resources of Melco. VC will apply such consideration to repay a shareholder's loan owed by one of its subsidiaries to Melco or one of its subsidiaries. VC will realize a gain of approximately HK\$28.36 million from the disposal of the iAsia Group which is calculated by reference to the negative carrying value of approximately HK\$0.46 million as computed from the audited consolidated financial statements of VC for the fifteen months ended 31 December 2003.

iAsia is a wholly owned subsidiary of VC and is engaged in (i) the provision of comprehensive online trading and related system to financial institutions and intermediaries; (ii) supplying computer hardware equipment and intelligent surveillance system; (iii) the provision of enterprise portal solutions, business process workflow re-engineering, information technology consultancy services and ecommerce infrastructure to clients in Macau and the Pearl River Delta Area of the PRC; and (iv) the provision of tailor-made information technology related systems and services to gaming companies and other industries, such as the retail, entertainment and hospitality industries.

Financial information of iAsia Group

The unaudited proforma consolidated financial information of iAsia Group is set out below:

	Twelve months ended 30 September 2002 HK\$	Fifteen months ended 31 December 2003 HK\$
Profit (or loss) before tax	(17,136,749)	18,561,383 (<i>note</i>)
Profit (or loss) attributable to shareholders	(16,981,940)	18,631,574 (<i>note</i>)
Net tangible assets (or capital deficit) as at financial year-end date	(15,088,545)	(457,666)

Note: included inter-company loan payable to VC of HK\$25,791,394 which has been waived by VC. Hence, this loan was recorded as other income by the iAsia Group for such period. In the event that such loan is not waived by VC, the profit (or loss) before tax and profit (or loss) attributable to shareholders for such period would be losses of HK\$7,230,011 and HK\$7,159,820 respectively.

Conditions

The iAsia Group Disposal Agreement is subject to, inter alia, the following conditions being fulfilled on or before the iAsia Group Disposal Long Stop Date:

- i. an ordinary resolution being passed by the Melco Independent Shareholders at the Melco EGM to approve the iAsia Group Disposal Agreement; and
- ii. an ordinary resolution being passed by the VC Independent Shareholders (by way of poll) at the VC EGM to approve the iAsia Group Disposal Agreement.

Profit Guarantee

Under the iAsia Group Disposal Agreement, VC has agreed to guarantee to Melco that the net profit (after tax and minority interest) of the iAsia Group shall not be less than HK\$4 million for the year ending 31 December 2004, failing which VC shall compensate the shortfall on a dollar for dollar basis.

Expected completion date

It is expected that completion of the iAsia Group Disposal Agreement will take place on the third business day after the date on which all the relevant conditions have been fulfilled. None of the conditions listed above can be waived by Melco.

C. CONTINUING CONNECTED TRANSACTIONS

Following the completion of the proposed Group Reorganization, the Mocha Group and the iAsia Group will become subsidiaries of Melco. The principal business of the Mocha Group is the leasing of gaming machines under the Equipment Leases with SJM. Dr. Stanley Ho, who is the chairman and executive director of Melco, has an equity interest in, as well as being a director of, SJM. Accordingly, SJM is a connected person of Melco, and the Equipment Leases will constitute continuing connected transactions of Melco. Each of the Equipment Leases is for a term of 10 years commencing from the date on which the gaming machines are in operation at the places they are installed and operated (“the Effective Date”) or the period from the Effective Date until the expiry date of the leasing term of the relevant place aforementioned.

Moreover, it is expected that Elixir, being a non-wholly owned subsidiary of iAsia, will provide information technology services to SJM. Such provision of services will also constitute continuing connected transactions of the Melco Group.

Melco will comply with the relevant disclosure and other applicable requirements of the Main Board Listing Rules in relation to the above continuing connected transactions (the “Continuing Connected Transactions”). The Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Mocha Group and the Elixir Group. Melco will also make an application to the Stock Exchange for the Continuing Connected Transaction Waiver as soon as practicable.

Further announcement in respect of the Continuing Connected Transaction will be made separately as soon as practicable.

D. REASONS FOR ENTERING INTO THE GROUP REORGANIZATION

Currently, the Melco Group's businesses are divided into three divisions, namely (i) investment banking and financial services division; (ii) technology division; and (iii) leisure and entertainment division.

The VC Group is engaged in securities, futures and option contracts broking mainly on the Stock Exchange in Hong Kong and the provision of other related financial services including margin financing, securities underwriting, placing arrangement, assets management and corporate finance advisory services focusing on the Hong Kong, Macau and the PRC markets. It is also engaged in the provision of comprehensive online trading services and related systems to financial institutions and intermediaries in Asia.

Each of the boards of directors of Melco and VC considers that the terms of the Group Reorganization are fair and reasonable and that they were arrived at after arm's length negotiations and are upon normal commercial terms and in the interests of the respective shareholders of Melco and VC as a whole.

The purpose of the Group Reorganization is to strengthen the assets and earnings quality of the Melco Group and to rationalize the corporate structure and business of the VC Group so as to enable it to focus on its investment banking and financial services business.

E. IMPLICATION OF THE LISTING RULES

The Mocha Acquisition Agreements and the iAsia Group Disposal Agreement are not inter-conditional, but are subject to the satisfaction of certain conditions. The Mocha Acquisition Agreements together constitute a major transaction of Melco. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of Melco, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of Melco's issued shares) and, accordingly, the Better Joy Sale Shares Agreement constitutes a connected transaction of Melco.

In addition, after the completion of the Mocha Acquisition Agreements, Mocha will become a subsidiary of Melco, and Mocha's Equipment Leases with SJM (being a connected person of Melco) will constitute continuing connected transactions of Melco.

Since VC is a non-wholly owned subsidiary of Melco, therefore, the iAsia Group Disposal Agreement is a connected transaction of Melco. It is expected that Elixir (a non-wholly owned subsidiary of iAsia) will continue to provide information technology services to SJM after the completion of the iAsia Group Disposal Agreement. Such provision of services will also constitute continuing connected transactions of Melco.

The Mocha Acquisition Agreements, the issue of the Consideration Shares and the Convertible Notes and the iAsia Group Disposal Agreement, being the proposed Group Reorganization of Melco and VC, and the Continuing Connected Transactions are subject to, among other things, the approval by the Melco Independent Shareholders at the Melco EGM.

The iAsia Group Disposal Agreement constitutes a discloseable transaction of VC. Furthermore, as Melco is the controlling shareholder of VC, the iAsia Group Disposal Agreement also constitutes a connected transaction of VC under Chapter 20 of the GEM Listing Rules and of Melco under Chapter 14 of the Main Board Listing Rules. Accordingly, the iAsia Group Disposal Agreement is subject to, among other things, the approval by the VC Independent Shareholders at the VC EGM.

Each of Melco and VC will issue a circular to its shareholders within 21 days from the date of publication of this announcement, containing (as the case may be), among other things, (i) further information on the relevant transactions comprised in the Group Reorganization; (ii) the recommendation from their respective independent board committees; (iii) the advice from an independent financial adviser to their respective independent board committees; and (iv) notice of the Melco EGM or the VC EGM.

F. MELCO EGM AND VC EGM

Each of Melco and VC will convene the Melco EGM and VC EGM, respectively, at which ordinary resolutions will be proposed to approve the relevant transactions concerning the Group Reorganization as outlined above.

Dr. Stanley Ho (who beneficially owns an approximately 6.71% shareholding interest in Melco) and his associate (Madam Lucina Laam King Ying), Lawrence Ho and Lasting Legend will abstain from voting at the Melco EGM. Bailey (being a management shareholder of VC (and holding approximately 3.10% shareholding interest in VC) and is beneficially owned as to 65% by Dr. Stanley Ho) and Golden Mate Co., Ltd. (a company wholly owned by Mr. Lawrence Ho) will abstain from voting at the VC EGM. The issued Melco Shares are held as to approximately 26.61% by Lasting Legend, approximately 17.46% by Shun Tak Shipping (a company in which Dr. Stanley Ho holds an approximately 27.78% shareholding interest and is a director), approximately 6.71% by Dr. Stanley Ho and 0.1% by Dr. Stanley Ho's associate, Madam Lucina Laam King Ying. Based on the interest of Dr. Stanley Ho in Shun Tak Shipping and Melco, both Shun Tak Shipping and Melco are not the associates of Dr. Stanley Ho under the definitions of the respective Main Board Listing Rules and GEM Listing Rules. Accordingly Shun Tak Shipping is not required to abstain from voting at the Melco EGM. Bailey is a management shareholder of VC (and holding approximately 3.10% shareholding interest in VC) and is beneficially owned as to 65% by Dr. Stanley Ho).

An independent board committee of each of Melco and VC, comprising their respective independent non-executive directors will be appointed to advise the Melco Independent Shareholders and VC Independent Shareholders, respectively as to whether or not the terms of the relevant transactions of the Group Reorganization concerning Melco and VC, respectively are fair and reasonable and in the interests of the shareholders of Melco and VC (as the case may be) as a whole. An independent financial adviser will be appointed to advise each of the Melco independent board committee and the VC independent board committee in respect of the relevant transactions of the Group Reorganization.

G. SUSPENSION AND RESUMPTION OF TRADING

At the request of Melco and VC, tradings in the shares of Melco and VC on the Stock Exchange were suspended with effect from 9:30 a.m. on 19 March 2004 pending the release of this announcement. Applications have been made by Melco and VC to the Stock Exchange for the resumption of trading in the shares of Melco and VC with effect from 9:30 a.m. on 24 March 2004.

H. TERMS USED IN THIS ANNOUNCEMENT

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

“2005 Convertible Note”	the 4% convertible loan note constituted by the 2005 Convertible Note Instrument to be issued by Melco to Better Joy in the sum of HK\$22,500,000
“2005 Convertible Note Instrument”	the 2005 Convertible Note instrument to be executed by Melco
“2006 Convertible Note”	the 4% convertible loan note constituted by the 2006 Convertible Note Instrument to be issued by Melco to Better Joy in the sum of HK\$22,500,000
“2006 Convertible Note Instrument”	the 2006 Convertible Note instrument to be executed by Melco
“associate(s)”	has the same meaning as defined in the Main Board Listing Rules and/or the GEM Listing Rules (as the context may requires)
“Bailey”	Bailey Development Limited, a company incorporated in Hong Kong and the issued shares of which are owned as to 65% by Dr. Stanley Ho, 5% by Dr. Lee Jun Sing (an executive director of VC), 20% by Dr. Lee Jun Sing's parents, 5% by Ms. Leong On Kei, Angela (a non-executive director of VC), and the remaining 5% by two independent persons not connected with the directors, chief executive or substantial shareholders of VC or any of their respective associates

“Better Joy”	Better Joy Overseas Limited, a company incorporated in the BVI and is owned as to 77% by Mr. Lawrence Ho and as to 23% by Dr. Stanley Ho
“Better Joy Consideration Shares”	the 124,701,087 Melco Shares to be issued to Better Joy in relation to the Better Joy Sale Shares at an issue price of HK\$2.30 per Melco Share
“Better Joy Sale Shares”	65 Mocha Shares to be sold by Better Joy under the Better Joy Sale Shares Agreement
“Better Joy Sale Shares Agreement”	the conditional sale and purchase agreement entered into between Melco (as purchaser), Better Joy (as vendor) and Lawrence Ho (as warrantor), pursuant to which Better Joy has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Better Joy Sale Shares
“Better Joy Shareholder’s Loan”	principal amount of HK\$45 million unsecured on-demand shareholder’s loan granted by Better Joy to Mocha and bearing interest at a rate of 4% per annum from the date of grant
“BVI”	British Virgin Islands
“Chang Tan”	Mr. Chang Tan, a party independent of and not connected with the directors, chief executive and substantial shareholders of Melco or its subsidiaries
“Chang Tan Consideration Shares”	the 15,347,826 Melco Shares to be issued to Chang Tan under and subject to the Chang Tan Sale Shares Agreement
“Chang Tan Sale Shares”	8 Mocha Shares to be sold by Chang Tan under the Chang Tan Sale Shares Agreement
“Chang Tan Sale Shares Agreement”	the conditional sale and purchase agreement entered into between Melco and Chang Tan, pursuant to which Chang Tan has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Chang Tan Sale Shares
“Chang Wang”	Mr. Chang Wang, a party independent of and not connected with the directors, chief executive and substantial shareholders of Melco or its subsidiaries
“Chang Wang Consideration Shares”	the 13,429,348 Melco Shares to be issued to Chang Wang under and subject to the Chang Wang Sale Shares Agreement
“Chang Wang Sale Shares”	7 Mocha Shares to be sold by Chang Wang under the Chang Wang Sale Shares Agreement
“Chang Wang Sale Shares Agreement”	the conditional sale and purchase agreement entered into between Melco and Chang Wang, pursuant to which Chang Wang has conditionally agreed to sell, and Melco has conditionally agreed to purchase or procure the purchase of, the Chang Wang Sale Shares
“Concert Group”	Mr. Ho Yau Lung, Lawrence (“Lawrence Ho”), Lasting Legend, Dr. Ho, Madam Lucina Laam King Ying (an associate of Dr. Ho), Shun Tak Shipping and their respective relevant associates (as defined in the Takeovers Code)

“Conditions”	the conditions set out in the Mocha Acquisition Agreements
“connected person”	has the same meaning as defined in the Main Board Listing Rules or the GEM Listing Rules (as the context may require)
“Consideration Shares”	153,478,261 Melco Shares comprising (i) 124,701,087 Melco Shares to be issued to Better Joy, (ii) 13,429,348 Melco Shares to be issued to Chang Wang and (iii) 15,347,826 Melco Shares to be issued to Chang Tan under the Mocha Acquisition Agreements
“Continuing Connected Transactions”	as defined in the section headed “C. Continuing Connected Transactions” in this announcement
“Continuing Connected Transaction Waiver”	a waiver by the Stock Exchange to Melco from strict compliance with the relevant requirements under the Main Board Listing Rules in respect of the performance by the relevant member(s) of the Melco Group of its/their obligations under the Equipment Leases (in the event that the Equipment Leases constitute continuing connected transaction of Melco within the meaning of the Main Board Listing Rules) and the provision of information technology services by Elixir to SJM
“Convertible Notes”	collectively the 2005 Convertible Note and the 2006 Convertible Note
“Dr. Ho” or “Dr. Stanley Ho”	Dr. Ho Hung Sun, Stanley, the chairman and an executive director of Melco and VC
“Elixir”	Elixir Group Limited, a company incorporated in Hong Kong with limited liability which is owned as to about 77.5% by VC and as to about 22.5% by independent third parties who are not connected with the directors, chief executive, substantial shareholders or management shareholders of VC or any of their respective associates
“Equipment Leases”	the leasing of gaming machines by Mocha to SJM pursuant to the lease agreements entered into between them in respect of the gaming machine lounge operated at Hotel Royal, Macau and two new gaming machine lounges to be opened at Kingsway Commercial Centre and San Kin Yip Building, Macau.
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and/or any delegate of the Executive Director
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM (as amended from time to time)
“Group Reorganization”	the proposed conditional group reorganization including the Mocha Acquisition Agreements and the iAsia Group Disposal Agreement and all transactions contemplated therein in relation to assets acquisition and assets disposal of the Melco Group and the VC (as the case may be)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“iAsia”	iAsia Technology Ltd, a company incorporated in Hong Kong and is wholly owned by VC
“iAsia Group”	iAsia and its subsidiaries, namely iAsia Online Systems Limited, iAsia Solutions Limited, iAsia Networks Solutions Limited, Elixir Group Limited, Elixir Group (Macau) Limited
“iAsia Group Disposal Agreement”	the conditional sale and purchase agreement entered into between Melco and VC, pursuant to which VC has agreed to sell, and Melco has agreed to purchase or procure the purchase of the iAsia Sale Shares
“iAisa Group Disposal Longstop Date”	18 June 2004 or such other date as Melco and VC may agree in writing
“iAsia Sale Shares”	the entire issued share capital of iAsia
“Lasting Legend”	Lasting Legend Limited, a company controlled by Mr. Lawrence Ho
“Listing Rules”	The Main Board Listing Rules or the GEM Listing Rules, as the context may require
“Macau”	The Macau Special Administrative Region of the People’s Republic of China
“Main Board”	The stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board (as amended from time to time)
“Melco”	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on Main Board
“Melco EGM”	an extraordinary general meeting of Melco to be convened for the purpose of considering and approving the relevant transactions contemplated under the Group Reorganization and concerning Melco
“Melco Group”	Melco and its subsidiaries (including the VC Group) from time to time
“Melco Independent Board Committee”	an independent committee of the board of directors of Melco to be appointed by the directors of Melco to advise the Melco Independent Shareholders in respect of the Group Reorganization and all relevant transactions contemplated thereunder
“Melco Independent Shareholders”	shareholders of Melco, including Shun Tak Shipping but other than Mr. Lawrence Ho, Lasting Legend and Dr. Stanley Ho and his associates
“Melco Shares”	the ordinary shares of HK\$1.00 each in the share capital of Melco
“Mocha”	Mocha Slot Group Limited, a company incorporated in the BVI and is owned as to 65% by Better Joy, as to 27% by Chang Wang and as to 8% by Chang Tan as at the date of this announcement

“Mocha Acquisition Agreements”	the Better Joy Sale Shares Agreement, the Chang Wang Sale Shares Agreement and the Chang Tan Sale Shares Agreement
“Mocha Acquisition Completion”	completion of the Mocha Acquisition Agreements
“Mocha Acquisition Longstop Date”	18 June 2004 or such other date as Melco and each of Better Joy, Chang Wang and Chang Tan may agree in writing separately
“Mocha Group”	Mocha and its subsidiary from time to time
“Mocha Shares”	the ordinary shares of US\$1.00 each in the capital of Mocha
“Messrs. Chang”	Chang Wang and Chang Tan, being parties independent of and not connected with the directors, chief executive and substantial shareholders of Melco and its subsidiaries
“PRC”	the People’s Republic of China (but, for the purpose of this announcement, excluding Hong Kong and Macau)
“Sale Shares”	the aggregate of the Better Joy Sales Shares, the Chang Wang Sale Shares and the Chang Tan Sale Shares
“Shun Tak Shipping”	Shun Tak Shipping Company Limited, a company incorporated in Hong Kong
“Sale Shares”	an aggregate of 80 Mocha Shares comprising the Better Joy Sale Shares (being 65 Mocha Shares), the Chang Wang Sale Shares (being 7 Mocha Shares) and the Chang Tan Sale Shares (being 8 Mocha Shares), and together representing 80% of the entire issue share capital of Mocha
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau
“SFC”	the Securities and Futures Commission of Hong Kong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transactions”	all the transactions in connection with the Mocha Acquisition Agreements, iAsia Group Disposal Agreement and all transactions contemplated therein in relation to the Group Reorganization
“Vendors”	collectively Better Joy, Mr. Chang Wang and Mr. Chang Tan agreeing to sell the Sale Shares to Melco
“VC”	Value Convergence Holdings Limited, a company incorporated in Hong Kong, the securities of which are listed on the GEM and a 67.57% owned subsidiary of Melco
“VC EGM”	an extraordinary general meeting of VC to be convened for the purpose of considering and approving the relevant transactions contemplated under the Group Reorganization and concerning VC

“VC Group”	VC and its subsidiaries
“VC Independent Board Committee”	an independent committee of the board of directors of VC to be appointed by the directors of VC to advise the VC Independent Shareholders in relation to the Group Reorganization and all relevant transactions contemplated thereunder
“VC Independent Shareholders”	shareholders of VC other than, Melco, Bailey and Golden Mate Co., Ltd.
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	Per cent

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

By order of the board of
Value Convergence Holdings Limited
Lawrence Ho
President and Vice Chairman

Hong Kong, 23 March 2004

The sole director of Better Joy accepts full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this announcement have been arrived after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement misleading.

This announcement, for which the directors of Melco and VC collectively and individually accept full responsibility, includes particulars given in compliance with the Main Board Listing Rules and the GEM Listing Rules for the purpose of giving information with regard to Melco and VC. The directors of Melco and VC, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on VC’s website at www.valueconvergence.com.

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