

# Report of the Directors

The directors present their report and the audited accounts of the Company and of the Group for the year ended 31st December 2004.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group's business is broadly divided into four divisions, namely (i) leisure, gaming and entertainment division; (ii) investment banking and financial services division; (iii) technology division; and (iv) property and other investments division. The activities of the principal subsidiaries are set out in note 2 to the accounts.

An analysis of the Group's performance for the year by business and geographical segment is set out in Note 2 to the accounts.

## RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31st December 2004 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 41 to 101.

An interim dividend of HK one cent per ordinary share (2003: Nil) was paid to shareholders on 20th October 2004 and the Directors recommend a final dividend of HK one cent per ordinary share (2003: Nil) payable to shareholders whose names are on the register of members on 18th May 2005. The total dividend payout for the year ended 31st December 2004 amounted to HK two cents per ordinary share.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets and liabilities of the Group for the last five financial years, as extracted from the published audited accounts and reclassified as appropriate, is set out below. This summary does not form part of the audited accounts.

### Results

	Year ended 31st December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>408,076</u>	<u>165,263</u>	<u>82,838</u>	<u>99,409</u>	<u>109,175</u>
Net Profit/(loss) from ordinary activities attributable to shareholders	<u>65,157</u>	<u>(26,334)</u>	<u>(35,596)</u>	<u>(18,635)</u>	<u>(6,568)</u>

### Assets, liabilities and minority interests

	31st December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	<u>1,584,827</u>	674,518	418,769	410,960	445,655
Total liabilities	<u>(283,734)</u>	(150,844)	(18,387)	(10,099)	(15,702)
Minority interests	<u>(75,616)</u>	(62,952)	(24,257)	(26,392)	(28,983)
Net assets	<u>1,225,477</u>	<u>460,722</u>	<u>376,125</u>	<u>374,469</u>	<u>400,970</u>

## **DONATIONS**

Charitable and other donations made by the Group during the year ended 31st December 2004 amounted to HK\$0.6 million.

## **INVESTMENT PROPERTIES AND OTHER FIXED ASSETS**

Details of movements in the investment properties, and other fixed assets of the Company and of the Group during the year are set out in note 14 to the accounts.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 respectively to the accounts.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The turnover attributable to the five largest customers of the Group accounted for less than 34% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for 60% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 35% of the Group's total purchases for the year.

To the best knowledge of the directors, none of the directors of the Company, their associates, or any shareholders who own more than 5% of the Group's issued share capital had any beneficial interest at any time during the year in the Group's five largest suppliers.

## **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the accounts and in the consolidated statement of changes in equity.

## **DISTRIBUTABLE RESERVES**

The Company's capital reserve in the amount of HK\$354,009,192 as at 31st December 2004 may be distributed upon the fulfillment of certain conditions, which are considered by the Company to have been fulfilled. In addition, the Company's share premium account, in the amount of HK\$567,980,593 as at 31st December 2004 (2003 – HK\$49,677,823) may be distributed in the form of fully paid bonus shares. Save as disclosed aforesaid, as at 31st December 2004, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

# Report of the Directors

## **DIRECTORS**

The directors of the Company during the year were:

### **Executive directors:**

Dr. Stanley Ho (*Chairman*)  
Mr. Lawrence Ho (*Group Managing Director*)  
Mr. Frank Tsui

### **Non-executive directors:**

Mr. Ho Cheuk Yuet  
Mr. Ng Ching Wo (redesignated as non-executive director on 10th September 2004)

### **Independent non-executive directors:**

Sir Roger Lobo  
Mr. Robert Kwan  
Dr. Lo Ka Shui (appointed on 10th September 2004)

In accordance with Articles 94 and 103(A) of the Company's Articles of Association, Mr. Lawrence Ho, Mr. Frank Tsui, Mr. Ng Ching Wo and Dr. Lo Ka Shui will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## **DIRECTORS' SERVICE CONTRACTS**

Each of Mr. Lawrence Ho and Mr. Frank Tsui has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, commencing on 1st January 2005 which may be terminated by either party by written notice of not less than three months.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading "Share Option Scheme" below and in note 26 to the accounts, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SHARE OPTION SCHEME**

Details of the Company's share option scheme are set out in note 26 to the accounts.

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 26 to the accounts, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the accounts, no director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st December 2004, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

### (i) Interests in Shares of the Company ("Shares")

Name of Director	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Dr. Stanley Ho	Corporate	3,649,228 (Note 2)	–	0.79%
	Personal	11,374,639	–	2.46%
Mr. Lawrence Ho	Corporate	182,455,599 (Note 3)	19,565,216 (Note 4)	43.61%
	Personal	1,816,306	–	0.39%
Mr. Frank Tsui	Personal	1,800,000	–	0.39%
Mr. Ho Cheuk Yuet	Personal	1,816,306	–	0.39%
Dr. Lo Ka Shui	Personal	1,000,000	–	0.22%

# Report of the Directors

## Notes:

1. As at 31st December 2004, the total number of issued shares of the Company were 463,244,054 Shares.
2. Dr. Stanley Ho is taken to be interested in 3,649,228 shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.79% of the issued share capital of the Company.
3. Mr. Lawrence Ho is taken to be interested in 57,754,512 shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 12.47% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 124,701,087 shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy Overseas Ltd. ("Better Joy") which in turn holds approximately 26.92% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 April 2004. As at 31st December 2004, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy under Securities and Futures Ordinance, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of the Company.

# Report of the Directors

## (ii) Interests in equity derivative of the Company

Name of Category of participant	At 1st January 2004	Number of share options Grant during the year	Exercise during the year <sup>(1)</sup>	At 31st December 2004	Date of grant of share options <sup>(2)</sup>	Exercise price of share options <sup>(3)</sup>	Exercise period of share options
<b>Directors</b>							
Mr. Lawrence Ho	-	900,000	-	900,000	19th February 2004	HK\$2.405	19th February 2005 to 7th March 2012
	-	900,000	-	900,000	19th February 2004	HK\$2.405	19th February 2006 to 7th March 2012
	<u>-</u>	<u>1,800,000</u>	<u>-</u>	<u>1,800,000</u>			
Mr. Frank Tsui	1,816,306	-	(1,800,000)	16,306	8th March 2002	HK\$1.00	8th September 2002 to 7th March 2012
	-	900,000	-	900,000	19th February 2004	HK\$2.405	19th February 2005 to 7th March 2012
	-	900,000	-	900,000	19th February 2004	HK\$2.405	19th February 2006 to 7th March 2012
	<u>1,816,306</u>	<u>1,800,000</u>	<u>(1,800,000)</u>	<u>1,816,306</u>			
Mr. Ho Cheuk Yuet	1,816,306	-	(1,816,306)	-	8th March 2002	HK\$1.00	8th September 2002 to 7th March 2012
Mr. Peter So <sup>(4)</sup>	1,816,306	-	(1,816,306)	-	8th March 2002	HK\$1.00	8th September 2002 to 7th March 2012
Total	<u>5,448,918</u>	<u>3,600,000</u>	<u>(5,432,612)</u>	<u>3,616,306</u>			

### Notes:

- (1) No share option has been lapsed or cancelled during the year.
- (2) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (3) The exercise price of the share options, which were granted before 24th September 2003, was adjusted after the completion of rights issue on 24th September 2003.
- (4) Mr. Peter So resigned as a Non-executive Director of the Company on 1st April 2004.

# Report of the Directors

## (iii) Interests in Shares of Value Convergence

Name of Director	Nature of interest	Number of issued shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Dr. Stanley Ho	Corporate	7,384,651 (Note 1)	3.10%
Mr. Lawrence Ho	Corporate	4,232,627 (Note 2)	1.78%

### Notes:

1. Dr. Stanley Ho is taken to be interested in 7,384,651 shares of Value Convergence as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of Value Convergence.
2. Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of Value Convergence.

## (iv) Interest in equity derivatives of Value Convergence

Name of Director	Nature of interest	Number of underlying shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Dr. Stanley Ho	Personal	735,000 (Note 1)	0.31%
Mr. Lawrence Ho	Personal	1,226,057 (Note 2)	0.51%

### Notes:

1. The personal interest of Dr. Stanley Ho represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK\$3.60 per Value Convergence's share.
2. The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the physically settled options as follows:
  - (a) 735,000 physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK\$3.60 per Value Convergence's share; and
  - (b) 491,057 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.

# Report of the Directors

Save as disclosed above, as at 31st December 2004, none of the Directors or chief executives of the Company or their respective Associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December 2004, so far as if known to the Directors of the Company, the following persons (other than a director or chief executive of the Company) had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Number of issued Shares interested	Number of underlying Shares interested	Approximate percentage of the total number of issued Shares (Note 1)
Better Joy	Corporate	124,701,087 (Note 2)	19,565,216 (Notes 2 & 4)	31.14%
Lasting Legend Ltd.	Corporate	57,754,512 (Note 2)	–	12.47%
Mr. Lawrence Ho	Corporate	182,455,599 (Note 3)	19,565,216 (Note 4)	43.61%
	Personal	1,816,306	–	0.39%
Shun Tak Shipping Company, Limited	Corporate	39,083,147	–	8.44%
JPMorgan Chase & Co.	Corporate	24,630,000	–	5.32%



# Report of the Directors

## Notes:

1. As at the 31st December 2004, the total number of issued shares of the Company are 463,244,054 Shares.
2. The Shares (and underlying Shares) held by Better Joy and Lasting Legend Ltd. also represent the corporate interest of Mr. Lawrence Ho in the Company.
3. Mr. Lawrence Ho is taken to be interested in 57,754,512 shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 12.47% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 124,701,087 shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy which in turn holds approximately 26.92% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 23rd March 2004 and 23rd April 2004. As at 31st December 2004, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy, under the Securities and Futures Ordinance, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of the Company.

Save as disclosed above, as at 31st December 2004, so far as is known to the Directors, there is no other person who has an interest or a short position in the shares and underlying shares (including interests in options, if any) of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the Securities and Futures Ordinance.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

Dr. Stanley Ho and Madam Lucina Laam King Ying, have direct or indirect beneficial interests in Shun Tak Holdings Limited, its subsidiaries and associates (the "Shun Tak Group") as shareholders. In addition, Dr. Stanley Ho has beneficial interests in Sociedade de Turismo e Diversoes de Macau, its subsidiaries and associates (the "STDM Group") as shareholders. Further, Dr. Stanley Ho is a director of the Shun Tak Group and the STDM Group.

# Report of the Directors

During the year and up to the date of this report, the businesses of property investment and hospitality (which includes restaurant operations) carried out by the Shun Tak Group and the STDM Group were considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Dr. Stanley Ho is actively involved in the management of the Shun Tak Group.

Dr. Stanley Ho is also actively involved in the management of the STDM Group which operates principally outside Hong Kong.

As the board of directors of the Company is independent of the boards of the Shun Tak Group and the STDM Group, the Group is therefore capable of carrying on such businesses independently of, and at an arm's length from the businesses of these companies.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the accounts.

## CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

1. On 19th March 2004, the Company and Value Convergence Holdings Limited ("VCH"), a 67.57% indirectly owned subsidiary of the Company, put forward a conditional group reorganization ("Group Reorganization") which involved the following:–
  - a) Mocha Acquisition Agreements

The Company had entered into the Mocha Acquisition Agreements separately with each of Better Joy, Chang Wang and Chang Tan and pursuant to which the Company had conditionally agreed to buy, and each of Better Joy, Chang Wang and Chang Tan separately had conditionally agreed to sell, the relevant shares they held in the capital of Mocha Slot Group Limited ("Mocha") for an aggregate consideration of HK\$353 million, which had been satisfied by the issue and allotment of 124,701,087, 13,429,348 and 15,347,826 shares of the Company by the Company to Better Joy, Chang Wang and Chang Tan, respectively. As part of the Better Joy Sale Shares Agreement, the Company had conditionally agreed to acquire the Better Joy Shareholders' Loan (principal amount of HK\$45 million unsecured on-demand shareholders' loan granted by Better Joy to Mocha and bearing interest at a rate of 4% per annum from the date of grant) from Better Joy, and in consideration therefor, the Company issued and Better Joy subscribed the convertible notes with an aggregate principal amount of HK\$45 million. The Mocha Acquisition Agreements together constituted a major transaction of the Company. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of the Company, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of the issued shares of the Company) and, accordingly, the Better Joy Sale Shares Agreement constituted a connected transaction of the Company. Completion of the Mocha Acquisition Agreements took place on 9th June 2004.

# Report of the Directors

## b) iAsia Group Disposal Agreement

The Company and VCH had entered into the iAsia Group Disposal Agreement, pursuant to which VCH had agreed to sell and the Company had agreed to purchase the entire issued share capital of iAsia Technology Limited, a company wholly-owned by VCH and the immediate holding company of, inter alia, Eixir Group Limited, for a consideration of HK\$27.9 million. Since VCH is a non wholly-owned subsidiary of the Company, the iAsia Group Disposal Agreement constituted a connected transaction of the Company under the Listing Rules. Completion of the iAsia Group Disposal Agreement took place on 31st May 2004.

Under the iAsia Group Disposal Agreement, VCH had 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 ("Guarantee"), failing which VCH shall compensate the shortfall on a dollar for dollar basis. Since the iAsia Group had achieved a net profit of more than HK\$4 million for the year ended 31st December 2004 (the independent non-executive directors of the Company have confirmed that the iAsia Group has fulfilled its obligation under the Guarantee), no compensation was required to be paid by VCH to the Company under the Guarantee.

Details of the Group Reorganization had been disclosed in the announcements and circular of the Company dated 23rd March 2004 and 23rd April 2004 respectively.

2. Mocha had conditionally entered into the Equipment Leases (dated 24th July 2003 and 3rd March 2004, as the case may be) with Sociedade de Jogos de Macau, S.A. ("SJM"), being a subsidiary of Sociedade de Turismo e Diversoes de Macau, S.A.R.L. ("STDM"), for a period of ten years from the date of the commencement of operation of the relevant gaming machines at the three different sites under the respective Equipment Leases in Macau, or ending on the expiry of SJM's gambling license or the expiry of the tenancy agreement of the relevant gaming lounge, whichever is the earliest (the "Equipment Leases"). As it was expected that the transactions contemplated under the Equipment Leases would extend over a period of time and would take place on a continuing basis, the Equipment Leases constituted continuing connected transactions for the Company under the Listing Rules. The amount receivable by the Mocha from SJM under each Equipment Lease is not fixed, as it comprises a fixed monthly rental and a percentage rent based on a pre-agreed percentage of the net win from each machine leased thereunder. It was not practicable to ascertain the net win from each machine. Accordingly, for the purpose of complying with the relevant requirements of the Listing Rules in this regard, the directors of the Company have estimated (based on the projected annual revenue of the Mocha Group underlying the appraisal of the fair market value of business enterprises of Mocha as set out in the appraisal report on Mocha as at 29th February 2004 prepared by American Appraisal China Limited) that the estimated revenue receivable by the Mocha Group from SJM under the Equipment Leases will not exceed HK\$92 million, HK\$153 million and HK\$161 million for each of the three financial years ending 31st December 2006 respectively ("Annual Caps"). Details of such continuing connected transactions had been disclosed in the announcement and the circular of the Company dated 1st April 2004, 13th April 2004 and 23rd April 2004 respectively. The Annual Cap of HK\$92 million set for the year 2004 was approved by the independent shareholders of the Company at its annual general meeting held on 20th May 2004.

# Report of the Directors

This continuing connected transaction has been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the continuing connected transaction has been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (d) had not exceeded the relevant Annual Cap referred to above.

The auditors of the Company have also confirmed that the continuing connected transaction (a) had received the approval from the Company's board of directors; (b) was in accordance with the pricing policies of the Group for transaction with SJM; (c) had been entered into in accordance with the relevant agreements governing such transaction; and (d) had not exceeded the relevant Annual Cap.

3. On 6th October 2003, Elixir Group Limited ("Elixir") (a 77.5% indirectly owned subsidiary of the Company after completion of the Group Reorganization and a wholly-owned subsidiary with effect from 16th December 2004) had conditionally entered into a service arrangement with SJM for the provision of system integration services and related maintenance services (the "Service Arrangement") for the respective aggregate amounts of approximately US\$6.5 million (HK\$50.7 million) and US\$0.61 million (HK\$4.75 million), which were measured up to the financial year ending 31st December 2005. After the completion of the iAsia Group Disposal Agreement, Elixir continued to be a non wholly-owned subsidiary of the Company and would continue to provide information technology services to SJM under the Service Arrangement. The Service Arrangement remains valid. SJM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, SJM and STDM respectively. Accordingly, the Service Arrangement and all transactions contemplated thereunder constituted connected transaction for the Company. The provision of the relevant system integration services to SJM by Elixir had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 19th November 2003. Details of the Service Arrangement were set out in the Company's circular dated 31st October 2003.
4. On 30th July 2004, Elixir entered into another service arrangement, on a conditional basis, with SJM for the provision of certain information technology related services to SJM (the "Second Service Arrangement"). Pursuant to the Second Service Arrangement, Elixir had agreed to provide to SJM such services comprising system integration services for an aggregate value of about US\$3.95 million (HK\$30.73 million) and maintenance services for the aggregate value of about US\$0.206 million (HK\$1.60 million). SJM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, SJM and STDM respectively. Accordingly, the Second Service Arrangement and all transactions contemplated thereunder constituted connected transaction for the Company. The Second Service Arrangement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an

# Report of the Directors

extraordinary general meeting of the Company held on 15th September 2004. Details of this connected transaction had been disclosed in the announcement and circular of the Company dated 30th July 2004 and 27th August 2004 respectively.

5. On 8th September 2004, the Company entered into an agreement with STDM (“First Agreement”), pursuant to which the Company would acquire a 50% equity interest in a joint venture company, which is now known as Great Wonders, Investments, Limited (“Great Wonders”), for a consideration of HK\$100 million. Great Wonders would apply for the concession of the Land located at Baixa da Taipa, Macau to be granted to it to develop a six-star hotel. The Company had agreed to issue a HK\$100 million 5-year Convertible Bond (“Convertible Bond”) to STDM to satisfy the purchase consideration. STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM. As a result, the First Agreement and the issuance of the Convertible Bond constituted discloseable and connected transaction of the Company under the Listing Rules. The First Agreement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 2nd November 2004. Details of this discloseable and connected transaction had been disclosed in the announcement and circular of the Company dated 13th September 2004 and 11th October 2004 respectively. Completion of the First Agreement took place on 9th November 2004.
6. On 11th November 2004, the Company entered into another agreement with STDM (“Second Agreement”), pursuant to which the Company would buy and STDM would sell additional 20% issued share capital of Great Wonders for a consideration of HK\$56 million. Melco would issue a redeemable HK\$56 million 5-year convertible bond (“Second Convertible Bond”) to STDM to satisfy the purchase consideration. STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM. As a result, the Second Agreement, the issuance of the Second Convertible Bond constituted a major and connected transaction of the Company under the Listing Rules. The Second Agreement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 20th January 2005. Details of this major and connected transaction had been disclosed in the announcement and circular of the Company dated 23rd November 2004 and 5th January 2005 respectively. Completion of the Second Agreement took place on 8th February 2005 and the Group’s equity interests in Great Wonders increased from 50% to 70%.
7. On 1st June 2004, Melco Technology Group Limited, a wholly owned subsidiary of the Company, as purchaser, entered into the agreements (the “Previous Agreements”) respectively with each of Mr. Gordon Li and Mr. Leong Van Tat (collectively the “Vendors”) for an acquisition of an aggregate of 10% issued share capital of Elixir thereby increasing the shareholding interests of the Group in Elixir from 77.5% to 87.5%.

On 16th December 2004, Melco Technology Group Limited, further entered into the agreements (the “Subsequent Agreements”) respectively with each of the Vendors for a further acquisition of an aggregate of 12.5% issued share capital of Elixir for a total consideration of HK\$120,730. Completion of the Subsequent Agreements had taken place immediately after the execution of the Subsequent Agreements (the “Previous Agreements” and the Subsequent Agreements are collectively referred to as the “Acquisition Agreements”).

# Report of the Directors

The Vendors, being substantial shareholders of Elixir (each holding 11.25% of the issued share capital of Elixir prior to the completion of the Previous Agreements), are connected persons for the purpose of the Listing Rules. While the Previous Agreements were regarded as a connected transaction exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) of the Listing Rules, the Acquisition Agreements viewed as a whole constituted a connected transaction of the Company under Rule 14A.32 of the Listing Rules and was subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules. Details of this connected transaction had been disclosed in the announcement of the Company dated 16th December 2004. As a result of the completion of the Group Reorganization and the Acquisition Agreements, Elixir has become an indirect wholly-owned subsidiary of the Company.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules (which applied before the amendment of the Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005), throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Confirmation of independence has been received from each of the Independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. During the year, the audit committee comprises two independent non-executive directors of the Company, namely Sir Roger Lobo, Mr. Robert Kwan, and a non-executive director, Mr. Ng Ching Wo.

## **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and will not offer themselves for re-appointment as auditors in the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting to appoint Deloitte Touche Tohmatsu as the Company's auditors at remuneration to be fixed by the Board of Directors.

ON BEHALF OF THE BOARD

**Dr. Stanley Ho**  
*Chairman*

Hong Kong, 7th April 2005