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**Melco International Development Limited**

**新 濠 國 際 發 展 有 限 公 司**

*(Incorporated in Hong Kong with limited liability)*

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

(Stock Code: 200)

**MAJOR TRANSACTION  
ESTABLISHMENT OF A JOINT VENTURE GROUP FOR  
PURSUANCE OF GAMING AND HOSPITALITY BUSINESSES**

**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)*

**SUMMARY**

The Directors are pleased to announce that, on 23 December 2004, Melco and its wholly-owned subsidiary, Melco PBL Holdings, have entered into the Subscription Agreement with PBL and PBL Asia, a wholly-owned subsidiary of PBL, which has the effect of superseding the Heads of Agreement. The Subscription Agreement has incorporated and the Proposed Shareholders Deed, when executed, will incorporate substantially the same terms as contained in the Heads of Agreement relating to the establishment of the JV Group and seek to expand and specify those terms in greater details.

The Directors consider that the terms of the Subscription Agreement are entered into after arm's length negotiation between the parties thereto and the terms of the Definitive Agreements and all transactions contemplated thereby are fair and reasonable and in the interests of the Group and of the Shareholders as a whole.

As mentioned in the announcement of Melco dated 13 December 2004, the relevant circular to be dispatched to the Shareholders on or before 31 December 2004 will contain, amongst other information, further information on the Definitive Agreements (in substitution for the Heads of Agreement) in respect of the proposed establishment of the JV Group and a notice of the EGM containing, inter alia, the relevant resolution(s) regarding the Definitive Agreements and all transactions contemplated thereby.

Reference is made to the announcements of Melco respectively dated 23 November 2004 and 7 December 2004 (collectively the "Announcement") regarding, (i) information of the Heads of Agreement dated 11 November 2004 entered into between Melco and PBL in connection with the establishment of the JV Group that intends to become a premier gaming and entertainment group for pursuance and development of the gaming, entertainment and hospitality businesses in Asia Pacific region and the Greater China Region including, but not limited to, Macau, Thailand, Japan, Singapore, Philippines, Vietnam and Indonesia (but excluding Australia and New Zealand); and (ii) information of the Second Agreement dated 11 November 2004 entered into between Melco and STDM in connection with the further acquisition of 20% equity interests in Great Wonders, which has applied for the concession of the Land, by Melco from STDM. Terms used herein, unless otherwise defined, have the same meanings as in the Announcement.

As mentioned in the Announcement, after execution of the Heads of Agreement, each of Melco and PBL shall enter into good faith negotiations on the terms of the Definitive Agreements in accordance with the terms laid down in the Heads of Agreement. Also pursuant to the Heads of Agreement, Melco has incorporated JVCo under the laws of Cayman Islands on 17 December 2004 bearing the name of Melco PBL Holdings with a view that Melco PBL Holdings will ultimately become the principal holding company within the JV Group. As at the date of this announcement and subject to the completion of the Subscription Agreement, Melco PBL Holdings is and shall remain as a wholly-owned subsidiary of Melco.

The Directors are pleased to announce that, on 23 December 2004, Melco and Melco PBL Holdings, have entered into the Subscription Agreement with PBL and PBL Asia, a wholly-owned subsidiary of PBL, which has the effect of superseding the Heads of Agreement. The Subscription Agreement has incorporated and the Proposed Shareholders Deed, when executed, will incorporate substantially the same terms as contained in the Heads of Agreement relating to the establishment of the JV Group and seek to expand and specify those terms in greater details, which include but not limited to (i) the amount of capital contribution to be made by PBL Asia in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM; (ii) the payment schedule of the relevant capital contribution from PBL Asia to the JV Group; (iii) the substitution of the issuance of a letter of intent from the relevant authority in Macau to grant the concession of the Land to STDM and/ or Great Wonders for the actual grant of the concession of the Land to Great Wonders as a condition precedent for the completion of the Subscription Agreement; and (iv) the respective rights and obligations of the shareholders of the JV Group. According to the Subscription Agreement, the terms of the Definitive Agreements embody the entire agreement between the relevant parties with regard to the establishment of the JV Group.

## **THE DEFINITIVE AGREEMENTS REGARDING ESTABLISHMENT OF THE JV GROUP**

### **The Subscription Agreement**

Date : 23 December 2004

Parties : Melco (as guarantor)  
Melco PBL Holdings (as issuer)  
PBL, an Independent Third Party (as guarantor)  
PBL Asia, an Independent Third Party (as subscriber for shares of Melco PBL Holdings)

The principal terms of the Subscription Agreement agreed by Melco, Melco PBL Holdings, PBL and PBL Asia include the following:

Principal terms : (i) Melco PBL Holdings is currently 100% indirectly owned by Melco. It is contemplated that under Melco PBL Holdings, certain subsidiaries will be incorporated, including but not limited to JV1;

(ii) It is contemplated that JV1 will be established as a wholly-owned subsidiary of Melco PBL Holdings. Melco will take the necessary steps to transfer to and procure JV1 to acquire, 80% equity interests in Melco Entertainment, a wholly owned subsidiary of Melco to be formed for the purpose of holding (i) 80% equity interests in Mocha Slot and (ii) either 50% (assuming the Second Agreement is not completed) or 70% (assuming the Second Agreement is completed) equity interests in Great Wonders pursuant to the Land Acquisition Agreements. It is anticipated that Melco will retain the control of the composition of the board of directors of Melco Entertainment and hence it is expected that Melco Entertainment and its subsidiaries shall remain the indirect subsidiaries of Melco after establishment of the JV Group;

(iii) Upon completion of the Subscription Agreement (which is subject to the fulfillment of the conditions precedent mentioned in the paragraph headed "Conditions precedent of the Subscription Agreement" below), PBL Asia will subscribe such number of new shares representing 50% equity interests in Melco PBL Holdings for a total consideration of US\$163 million (equivalent to approximately HK\$1.27 billion) in case the Independent Shareholders approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM (which such amount remains the same as contained in the Heads of Agreement) or a total consideration of US\$105 million (equivalent to approximately HK\$817 million) in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM. The different amounts of capital contribution

to be made by the PBL Asia reflect the strategic importance valued by PBL and PBL Asia in the acquisition of additional 20% equity interests in Great Wonders by Melco pursuant to the Second Agreement as with the additional 20% equity interests, Melco PBL Holdings will obtain a controlling interest of 56% in Great Wonders upon establishment of the JV Group while without the successful acquisition of 20% equity interests of Great Wonders by Melco, Melco PBL Holdings will only have an equity interest of 40% in Great Wonders. Save for the lesser amount of capital contribution of US\$105 million to be made by PBL Asia in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement, the original amount of capital contribution of US\$163 million to be made by PBL Asia to the JV Group (assuming the Second Agreement is completed) remains the same as contained in the Heads of Agreement;

- (iv) Following the proposed subscription of such number of new shares representing 50% equity interests in Melco PBL Holdings by PBL Asia, the equity interests in Melco PBL Holdings will be owned as to 50% by Melco, via Melco Leisure and 50% by PBL, via PBL Asia and upon such time, Melco PBL Holdings will cease to be a wholly-owned subsidiary of Melco and become a jointly controlled company in the consolidated accounts of Melco;
- (v) It is contemplated that apart from managing and operating the businesses of Melco Entertainment, namely the Gaming Business and the Hospitality Business jointly with Melco, JV1 shall become the principal investment vehicle for all future expansion and acquisition activities, if any, in the gaming, entertainment and hospitality industries in the Asia Pacific region (excluding Australia and New Zealand) and the Greater China Region;
- (vi) After establishment of the JV Group, if the relevant authority in Macau does not grant the concession of the Land to Great Wonders by the deadline of 1 September 2005 (or such other date as may be agreed between Melco and PBL Asia), then PBL Asia may by written notice to require Melco to (a) reimburse PBL Asia, within 10 business days of such deadline, 60% of any sum utilized from the capital contribution made by PBL Asia in the Gaming Business and Hospitality Business; and either (b) purchase, within 10 business days of the date of the relevant notice given by PBL Asia, all the equity interests held by PBL Asia in Melco PBL Holdings at a consideration equivalent to the total capital contribution originally made by PBL Asia less the total sum utilized from the said capital contribution in the Gaming Business and Hospitality Business or (c) procure Melco PBL Holdings, within 10 business days of the date of the relevant notice given by PBL Asia (or such later date as may be agreed by PBL Asia), to return an amount equivalent to the total capital contribution originally made by PBL Asia less the total sum utilized from the said capital contribution in the Gaming Business and Hospitality Business to PBL Asia, whether by way of share buy-back, capital reduction or other suitable method of return of capital in consideration for PBL Asia agreeing all its shares in Melco PBL Holdings to be bought back or cancelled by Melco PBL Holdings; and
- (vii) As guarantors to the Subscription Agreement, Melco and PBL respectively guarantees the due performance of the obligations of their respective subsidiaries, namely, Melco PBL Holdings and PBL Asia, under the Subscription Agreement.

#### **Conditions precedent of the Subscription Agreement**

Completion of the Subscription Agreement is conditional on, amongst other things:

- (i) satisfactory completion of the due diligence in terms of business operation, financial and legal status performed by PBL on the Gaming Business and the Hospitality Business;
- (ii) the issuance of a letter by the relevant authority in Macau to STDM and/ or Great Wonders confirming that it intends to grant the concession of the Land to Great Wonders for use of the development of the luxury hotel housing a casino and an electronic gaming machine lounge on the Land on terms reasonably satisfactory to PBL Asia;

- (iii) each of Melco and PBL having obtained all requisite consents and approvals, if required, from the relevant regulatory authorities, including but not limited to the relevant gaming regulatory authorities in Macau and/ or Australia, and approval from the Shareholders in connection with the Definitive Agreements and the transactions contemplated thereby; and
- (iv) the warranties and representations given by Melco under the Subscription Agreement remaining true and accurate in all material respects.

If the conditions precedent set out above are not fulfilled or waived (as the case may be) on or before 30 June 2005 or such later date as may be agreed in writing between the parties to the Subscription Agreement, any party may by written notice to the other parties at any time thereafter to terminate the Subscription Agreement. Completion of the Subscription Agreement is expected to occur two business days after satisfaction (or waiver by the relevant party, as the case may be) of the conditions precedent.

On the date of completion of the Subscription Agreement, PBL Asia will make the relevant capital contribution to Melco PBL Holdings in one lump sum payment and each party to the Subscription Agreement will deliver certain completion documents to the others, including the executed counterparts of the Proposed Shareholders Deed, to implement completion.

### **The Proposed Shareholders Deed**

Upon completion of the Subscription Agreement, Melco (as guarantor), Melco Leisure (as shareholder of Melco PBL Holdings), PBL (as guarantor), PBL Asia (as shareholder of Melco PBL Holdings) and Melco PBL Holdings shall execute the Proposed Shareholders Deed for the purpose of regulating the respective rights and obligations of the shareholders of the JV Group.

The principal terms of the Proposed Shareholders Deed include the following:

- Principal terms : (i) Unless Melco Leisure and PBL Asia unanimously agree otherwise, the board of Melco PBL Holdings shall comprise six directors to be identified, each of Melco Leisure and PBL Asia shall have the right to appoint three directors to the board. Each shareholder of Melco PBL Holdings may remove the director(s) nominated by it. The chairperson of the board to be identified, will be initially appointed by Melco Leisure who will hold office for a period of twelve months. Thereafter, the right to appoint and remove the chairperson shall rotate between PBL Asia and Melco Leisure on a twelve-month rotating basis. The chairperson does not have a casting vote;
- (ii) There shall be an executive board committee, which will consist of four members to be identified, out of which two will be appointed by Melco Leisure and the remaining two will be appointed by PBL Asia. The executive board committee will be charged with the overall responsibilities for formulating business strategies of the JV Group, appointing senior management (if any) of Melco PBL Holdings as well as implementing the relevant business plan and yearly budget of the JV Group;
- (iii) Each of Melco, Melco Leisure, PBL and PBL Asia shall endeavour to achieve a listing of the JV Group on NASDAQ as soon as reasonably practicable and within a desired timeframe of 30 June 2005. However, it is anticipated by the relevant parties that the intention to have the JV Group listed on NASDAQ will be subject to a whole range of contingencies and unknown future events, and whether a listing could be achieved at all, or on NASDAQ, or within the desired timeframe of 30 June 2005, are all presently unclear. As at the date of this announcement, the proposal remains at a very preliminary stage and no listing application has yet been filed. **Shareholders and investors are cautioned that there can be no assurance that the intention of Melco, Melco Leisure, PBL and PBL Asia in this regard will ultimately be realized.**
- (iv) It is contemplated that under JV1, certain subsidiaries including but not limited to JV2 and JV3 will be formed for pursuance of the JV Group's gaming, entertainment and hospitality businesses (other than the Gaming Business and the Hospitality Business of Melco Entertainment) in the Greater China Region and/ or other countries in the Asia Pacific region (excluding Australia and New Zealand and the Greater China Region);

- (v) It is proposed that if established, JV2 will be held as to 80% by JV1 and 20% by Melco. It is intended that JV2 shall be the immediate holding company of all gaming, entertainment and hospitality ventures and businesses, including but not limited to operation and/ or management of casino(s) and/ or hotel(s), of the JV Group (other than the businesses of Melco Entertainment, namely the joint operation of the respective Gaming Business and the Hospitality Business by it with Melco) in the Greater China region. Upon incorporation of JV2, Melco and PBL will respectively have an indirect attributable interests in JV2 as to 60% and 40% respectively;
- (vi) It is proposed that if established, JV3 will be held as to 80% by JV1 and 20% by PBL. It is intended that JV3 shall be the immediate holding company of all gaming, entertainment and hospitality ventures and businesses, including but not limited to operation and/ or management of casino(s) and/ or hotel(s), of the JV Group in the Asia Pacific region other than the Greater China region, Australia and New Zealand. Upon incorporation of JV3, Melco and PBL will respectively have an indirect attributable interests in JV3 as to 40% and 60% respectively.
- (vii) As long as Melco Leisure holds a direct separate interest of 20% (in addition to the relevant attributable interests therein held via Melco PBL Holdings) in any JV Group companies, including but not limited to Melco Entertainment and JV2, the board of such JV Group companies shall comprise seven directors to be identified of whom four directors will be nominated by Melco Leisure and three directors will be nominated by PBL Asia;
- (viii) As long as PBL Asia holds a direct separate interest of 20% (in addition to the relevant attributable interests therein held via the Melco PBL Holdings) in any JV Group companies, including but not limited to JV3, the board of such JV Group companies shall comprise seven directors to be identified of whom four directors will be nominated by PBL Asia and three directors will be nominated by Melco Leisure;
- (ix) During the term of the Proposed Shareholders Deed, unless with the prior written consent of the other, each of Melco or PBL will not, other than through the JV Group, whether directly or indirectly, carry on the business of owning, operating or managing a casino; a gaming slots business; or a hotel with a casino in such territories in which the JV Group operates or intends to operate save and except for a passive investment of a limited amount in any public company that engages in such business;
- (x) If a potential business opportunity is rejected by the board of Melco PBL Holdings and subject to certain preventive measures against conflict of interests, any shareholder or its affiliates may, notwithstanding the restrictions mentioned in paragraph (ix) above, separately participates in such potential business opportunity provided that such participating shareholder or its affiliates shall grant a five-year term option to the other shareholder(s) to allow either such other shareholder(s) or Melco PBL Holdings to reconsider the situation and participate again in the relevant business opportunity;
- (xi) In case the relevant gaming authorities in Australia directs PBL and/ or PBL Asia to terminate any Definitive Agreements or otherwise end the joint venture relationship with the Group or any connected persons of the Group, PBL Asia may by written notice request the other shareholder(s) of Melco PBL Holdings to purchase, within a prescribed timeframe, all the shares of Melco PBL Holdings held by PBL Asia under the customary pre-emptive right provisions. As at the date of this announcement, so far as the Directors are aware, PBL and/ or PBL Asia have not received any direction or indication from any gaming authorities in Australia requiring PBL and/ or PBL Asia to terminate any Definitive Agreements or to cease the joint venture relationship with the Group or any connected persons of the Group;

- (xii) Subject to the situation mentioned in paragraph (xi) above and other exceptional circumstances, including deadlock for a continuous period of 90 days without resolution or any events of default by the other shareholder(s), no shareholder is allowed to dispose any shares of Melco PBL Holdings within a period of five years from the date of execution of the Proposed Shareholders Deed unless the disposal or transfer of shares are made to the wholly-owned subsidiary of either the transferring shareholder or Melco or PBL (as the case may be);
- (xiii) Each shareholder of Melco PBL Holdings is entitled to the customary pre-emptive rights and tag-along rights in case of permitted disposal of shares of Melco PBL Holdings by the other shareholder(s) under certain circumstances;
- (xiv) As guarantor to the Proposed Shareholders Deed, Melco will guarantee to PBL Asia the due performance of the obligations of Melco Leisure under the Proposed Shareholders Deed; and
- (xv) As guarantor to the Proposed Shareholders Deed, PBL will guarantee to Melco Leisure the due performance of the obligations of PBL Asia under the Proposed Shareholders Deed.

The Directors consider that the execution of the Subscription Agreement and the finalization of the principal terms of the Proposed Shareholders Deed soon after the Heads of Agreement have the benefit of setting out the respective rights and obligations of the relevant parties in connection with the establishment of the JV Group in a clear and unambiguous manner which in turn facilitate the carrying out of the relevant transactions by the relevant parties more effectively.

As stated in the Subscription Agreement, PBL Asia will make a total capital contribution of US\$163 million (equivalent to approximately HK\$1.27 billion) in case the Independent Shareholders approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM, or a total consideration of US\$105 million (equivalent to approximately HK\$817 million) in case the Independent Shareholders do not approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM. The Directors believe the fact that PBL Asia will make different amounts of capital contribution depending on whether or not the Independent Shareholders will approve (by way of poll) the relevant resolution(s) regarding the Second Agreement at the EGM reflects the strategic importance valued by PBL and PBL Asia in the Hospitality Business as the same may be considered as a milestone of PBL group to extend its gaming and hospitality business to the Greater China Region and with the acquisition of additional 20% equity interests in Great Wonders by Melco pursuant to the Second Agreement, Melco PBL Holdings will ultimately be able to obtain a control of 56% equity interests in Great Wonders, which in turn represents a majority interest in the Hospitality Business.

The Directors consider that the terms of the Subscription Agreement are entered into after arm's length negotiation between the parties thereto in accordance with the terms laid down in the Heads of Agreement and the terms of the Definitive Agreements and all transactions contemplated thereby are fair and reasonable and in the interests of the Group and of the Shareholders as a whole. As mentioned in the Announcement, the proposed establishment of the JV Group constitutes a major transaction of Melco under Rule 14.06 of the Listing Rules and hence, the execution of the Definitive Agreements are subject to the requirements of reporting, announcement and the approval of the Shareholders at the EGM as set out in Chapter 14 of the Listing Rules.

Melco will use its best endeavours to ensure that throughout the holding of its investment in the gaming ventures and business through the JV Group, the operation of the JV Group will comply with the applicable laws in the relevant jurisdictions. Shareholders are reminded that, in accordance with the Stock Exchange's guidelines on gambling business, that if the operation of the JV Group does not comply with applicable laws in the relevant jurisdictions, 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, Shares under Rule 6.01 of the Listing Rules. As the Group's business includes 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 Shares by divesting its investment in the JV Group.

## GENERAL

As mentioned in the announcement of Melco dated 13 December 2004, the relevant circular to be dispatched to the Shareholders on or before 31 December 2004 will contain, amongst other information, further information on the Definitive Agreements (in substitution for the Heads of Agreement) in respect of the proposed establishment of the JV Group and a notice of the EGM containing, inter alia, the relevant resolution(s) regarding the Definitive Agreements and all transactions contemplated thereby.

As at the date of this announcement, the Board comprises three Executive Directors, namely, Dr. Stanley Ho (Chairman), Mr. Lawrence Ho (Managing Director) and Mr. Frank Tsui, two Non-executive Directors, namely, Mr. Ho Cheuk Yuet and Mr. Ng Ching Wo and three Independent Non-executive Directors, namely, Sir Roger Lobo, Mr. Robert Kwan and Dr. Lo Ka Shui.

## DEFINITION

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

“Definitive Agreements”	the Subscription Agreement and the Proposed Shareholders Deed
“Melco PBL Holdings” or “JVCo”	Melco PBL Holdings Limited, a company incorporated on 17 December 2004 under the laws of Cayman Islands with the entire issued share capital currently owned by Melco. Pursuant to the Subscription Agreement, it is intended that Melco PBL Holdings will become the principal holding company within the JV Group
“Melco Leisure”	Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of Melco, used for the purpose of holding the relevant equity interests of Melco in the JV Group companies upon establishment of the JV Group
“PBL Asia”	PBL Asia Investments Limited, a wholly-owned subsidiary of PBL, used for the purpose of holding the relevant equity interests of PBL in the JV Group companies upon establishment of the JV Group
“Proposed Shareholders Deed”	the proposed shareholders deed to be entered into amongst Melco, Melco Leisure, PBL, PBL Asia and Melco PBL Holdings on or before the date of completion of the Subscription Agreement for the purpose of regulating the respective rights and obligations of the shareholders of the JV Group
“Subscription Agreement”	the subscription agreement dated 23 December 2004 entered into amongst Melco, Melco PBL Holdings, PBL and PBL Asia in relation to the proposed establishment of the JV Group, which has the effect of superseding the Heads of Agreement

*For the purpose of this announcement, the amount in US\$ is translated into HK\$ at the exchange rate of US\$1.00: HK\$7.78*

By order of the board of  
**Melco International Development Limited**  
**Frank Tsui**  
*Executive Director*

Hong Kong, 23 December 2004

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