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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: 00200)*

**ANNOUNCEMENT IN RELATION TO  
TERMINATION OF SERVICE ARRANGEMENTS  
FOR SLOT HALLS OPERATED BY  
SOCIEDADE DE JOGOS DE MACAU, S.A.**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

Reference is made to the Company's announcement and circular respectively dated 11th April 2005 and 29th April 2005 regarding, inter alia, the continuing connected transaction of provision of services by Mocha Management, a member of Melco PBL Group Companies, for slot halls operated by SJM and the recent announcement of the Company dated 9th March 2006 regarding the major and connected transaction of acquisition of Subconcession for pursuance of gaming business in Macau.

On 15th March 2006, in contemplation of the potential grant of the Subconcession to PBL Macau and the continuation of the slot halls business under the Subconcession of PBL Macau, the Company, Mocha Slot, Mocha Management and SJM have entered into a legally binding Termination Agreement pursuant to which:

- (a) as stipulated in each of the SJM Service Agreements, both Mocha Management and SJM may by mutual termination notice of at least six months terminate the SJM Service Agreements. Subject to the grant of the waiver of such six month notice by the Macau Government, both Mocha Management and SJM agree to amicably terminate the SJM Service Agreements in respect of all six existing slot halls (respectively located in Macau at (i) Hotel Royal, (ii) Kingsway Commercial Centre, (iii) San Kin Yip Building, (iv) Hotel Taipa Square, (v) Hotel Sintra and (vi) Hotel Taipa) on any date upon which PBL Macau has obtained the Subconcession provided that if requested by Mocha Management and for so long as the Company has not actually become a shareholder of PBL Macau and the Macau Government has not raised any objection to the continuation of the SJM Service Agreements after the grant date of the Subconcession, SJM shall defer the effective termination date of the SJM Service Agreements to a later date upon which the business model of the "Mocha Slot Club" under the Subconcession of PBL Macau is confirmed and approved by the Macau Government, whether by way of similar service agreements between Mocha Management and PBL Macau, direct operation by PBL Macau or other arrangements approved by the Macau Government (if the business model has not been confirmed and approved by the Macau Government on the same date of the grant of the Subconcession);
- (b) in case the Macau Government refuses to grant the waiver of the six month termination notice, then Mocha Management and SJM will terminate the SJM Service Agreements at the expiration of 6 months from the date of the Termination Agreement or on the date upon which PBL Macau has obtained the Subconcession, whichever is later, provided that if requested by Mocha Management and subject to the conditions as stated in paragraph (a) above, the effective termination date may be deferred by SJM to a later date as mentioned in paragraph (a);

- (c) as it is a requirement of the Macau Government that the gaming concessionaire/sub-concessionaire should hold an interest in the premises (either as owner or sitting tenant/ sub-tenant) at which it operates gaming business, Mocha Slot, which is the tenant renting the premises of the slot halls respectively located at Hotel Royal, Kingsway Commercial Centre and Hotel Taipa from the respective landlords, which are all Independent Third Parties (save and except for the landlord of Kingsway Commercial Centre, which is Melco Investment Holdings Limited, a wholly-owned subsidiary of the Company), has sub-leased the said premises to SJM with rentals thereof continued to be borne by Mocha Management as part of its obligations under the SJM Service Agreements. Hence, it is agreed that SJM (as sub-tenant) will amicably terminate the said sub-leases with Mocha Slot (as tenant under the relevant head-leases) upon the effective termination date of SJM Service Agreements with a view to allowing Mocha Slot (as tenant under the relevant head-leases) to enter into similar sub-leases with PBL Macau (as sub-tenant);
- (d) subject to the obtaining of the relevant landlords' consents (which consents shall be obtained by Mocha Management at its costs) and the execution of the formal written assignments, SJM will assign its rights and obligations under the respective tenancy agreements in respect of the two slot halls respectively located at Hotel Taipa and Hotel Sintra and an unopened slot hall at another hotel in Macau to PBL Macau (as tenant) upon the effective termination date of the SJM Service Agreements; and
- (e) since SJM is currently operating a casino at San Kin Yip Building and pursuant to the requirement of the Macau Government that there shall not be two or more different gaming concessionaires/sub-concessionaires operating casino businesses within the same building, Mocha Slot, which is the tenant renting the premises of the slot hall located at San Kin Yip Building from the relevant landlord, which is an Independent Third Party, shall early terminate and surrender the lease of the said premises and SJM has agreed to indemnify all claims, demands, liabilities, expenses, damages or losses that the Company, Mocha Slot and Mocha Management may incur as a result of any claims made by the relevant landlord for such early termination of the lease.

In relation to the termination of the SJM Service Agreements, neither the Company nor Mocha Management is required to pay any monetary compensation to SJM or vice versa.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

### **Background**

Reference is made to the Company's announcement and circular (the "Circular") respectively dated 11th April 2005 and 29th April 2005 regarding, inter alia, the continuing connected transaction of provision of services by Mocha Management, a member of Melco PBL Group Companies, for slot halls operated by SJM and the recent announcement of the Company dated 9th March 2006 regarding the major and connected transaction of acquisition of Subconcession for pursuance of gaming business in Macau (the "Announcement"). Terms used in this announcement shall have the same meaning as those defined in the Announcement unless the context requires otherwise.

As at the date of the Circular, Mocha Management has entered into four service agreements (which in all respects are the same save and except for the location of the relevant slot halls) with SJM respectively dated 21st March 2005 (in respect of the three slot halls located at Hotel Royal, Kingsway Commercial Centre and San Kin Yip Building) and 22nd March 2005 (in respect of the slot hall located at Hotel Taipa Square) for provision of certain services (as mentioned below and with more details contained in the Circular) in relation to the operation of the said four slot halls of SJM in Macau for an initial period of five years from the date of the relevant SJM Service Agreements. Subsequently in the second half of 2005, Mocha Management has entered into two additional service agreements respectively dated 6th September 2005 (in respect of the slot hall located at Hotel Taipa) and 1st December 2005 (in respect of the slot hall located at Hotel Sintra) with identical terms of the previously executed agreements

with SJM for provision of the same services to the said two additional slot halls. Under each of the prevailing SJM Service Agreements entered into between Mocha Management and SJM, Mocha Management is required to provide the electronic gaming machines and other equipments to SJM for operation of the respective slot halls and other auxiliary management services and to bear the rentals of the relevant premises and in return, Mocha Management will receive from SJM a monthly service fee representing 31% of the aggregate gross revenue of all the electronic gaming machines installed in such slot halls. Pursuant to the terms of each of the SJM Service Agreements, all SJM Service Agreements may be terminated by either Mocha Management or SJM unilaterally giving not less than one year prior notice to the other; or by six months prior notice if the termination is mutually agreed by both parties; or by either party giving immediate notice to the other who is in default of the terms of the SJM Service Agreements. Details of the terms of such SJM Service Agreements between Mocha Management and SJM are disclosed in the Company's announcement dated 11th April 2005 and in the Circular. As at the date of this announcement, the existing six slot halls of SJM to which Mocha Management are providing the aforesaid services are all located in Macau respectively at (i) Hotel Royal, (ii) Kingsway Commercial Centre, (iii) San Kin Yip Building, (iv) Hotel Taipa Square, (v) Hotel Sintra and (vi) Hotel Taipa.

As disclosed in the Announcement, the Company would discuss with SJM for mutual termination of the SJM Service Agreements in respect of the existing slot halls operated by SJM under the brandname of "Mocha Slot Club" in Macau in contemplation of the potential grant of the Subconcession to PBL Macau and the continuation of the slot halls business under the Subconcession of PBL.

### **Termination Agreement**

In order to facilitate Melco PBL Group Companies to maintain seamless operation of the slot halls at the premises where the existing slot halls of SJM are situated (save and except for the slot hall located at San Kin Yip Building) after PBL Macau has obtained the Subconcession, the Company, Mocha Slot, Mocha Management and SJM have entered into a legally binding Termination Agreement on 15th March 2006 for the purposes of terminating the SJM Service Agreements and settling the underlying tenancy/sub-tenancy agreements entered into between SJM (as tenant or as the case may be, sub-tenant) and the respective landlords (or, as the case may be, tenants under the head leases) of the premises where the existing slot halls of SJM and an unopened new slot hall are situated. In relation to the termination of the SJM Service Agreements, neither the Company nor Mocha Management is required to pay any monetary compensation to SJM or vice versa.

### **Key Terms**

Set out below is a summary of the principal terms of the Termination Agreement dated 15th March 2006:

- (a) as stipulated in each of the SJM Service Agreements, both Mocha Management and SJM may by mutual termination notice of at least six months terminate the SJM Service Agreements. Subject to the grant of the waiver of such six month notice by the Macau Government, both Mocha Management and SJM agree to amicably terminate the SJM Service Agreements in respect of all six existing slot halls on any date upon which PBL Macau has obtained the Subconcession provided that if requested by Mocha Management and for so long as the Company has not actually become a shareholder of PBL Macau and the Macau Government has not raised any objection to the continuation of the SJM Service Agreements after the grant date of the Subconcession, SJM shall defer the effective termination date of the SJM Service Agreements to a later date upon which the business model of the "Mocha Slot Club" under the Subconcession of PBL Macau is confirmed and approved by the Macau Government, whether by way of similar service agreements between Mocha Management and PBL Macau, direct operation by PBL Macau or other arrangements approved by the Macau Government (if the business model has not been confirmed and approved by the Macau Government on the same date of the grant of the Subconcession);

- (b) in case the Macau Government refuses to grant the waiver of the six month termination notice, then Mocha Management and SJM will terminate the SJM Service Agreements at the expiration of 6 months from the date of the Termination Agreement or on the date upon which PBL Macau has obtained the Subconcession, whichever is later, provided that if requested by Mocha Management and subject to the conditions as stated in paragraph (a) above, the effective termination date may be deferred by SJM to a later date as mentioned in paragraph (a);
- (c) as it is a requirement of the Macau Government that the gaming concessionaire/sub-concessionaire should hold an interest in the premises (either as owner or sitting tenant/sub-tenant) at which it operates gaming business, Mocha Slot, which is the tenant renting the premises of the slot halls respectively located at Hotel Royal, Kingsway Commercial Centre and Hotel Taipa from the respective landlords, which are all Independent Third Parties (save and except for the landlord of Kingsway Commercial Centre, which is Melco Investment Holdings Limited, a wholly-owned subsidiary of the Company), has sub-leased the said premises to SJM with rentals thereof continued to be borne by Mocha Management as part of its obligations under the SJM Service Agreements. Hence, it is agreed that SJM (as sub-tenant) will amicably terminate the said sub-leases with Mocha Slot (as tenant under the relevant head-leases) upon the effective termination date of SJM Service Agreements with a view to allowing Mocha Slot (as tenant under the relevant head-leases) to enter into similar sub-leases with PBL Macau (as sub-tenant);
- (d) subject to the obtaining of the relevant landlords' consents (which consents shall be obtained by Mocha Management at its costs) and the execution of the formal written assignments, SJM will assign its rights and obligations under the respective tenancy agreements in respect of the two existing slot halls respectively located at Hotel Taipa and Hotel Sintra and an unopened slot hall at another hotel in Macau, to PBL Macau (as tenant) upon the effective termination date of the SJM Service Agreements; and
- (e) since SJM is currently operating a casino at San Kin Yip Building and pursuant to the requirement of the Macau Government that there shall not be two or more different gaming concessionaires/sub-concessionaires operating casino businesses within the same building, Mocha Slot, which is the tenant renting the premises of the slot hall located at San Kin Yip Building from the relevant landlord, which is an Independent Third Party, shall early terminate and surrender the lease of the said premises and SJM has agreed to indemnify all claims, demands, liabilities, expenses, damages or losses that the Company, Mocha Slot and Mocha Management may incur as a result of any claims made by the relevant landlord for such early termination of the lease.

### **Other Terms**

All parties to the Termination Agreement agree and confirm that unless and until the effective termination date of the SJM Service Agreements:

- (i) the terms of the SJM Service Agreements shall remain valid, effective and binding on both Mocha Management and SJM and each of them shall continue to comply with the terms thereof for maintaining the status quo of the existing slot business operation at the existing six slot halls of SJM; and
- (ii) the relevant leases or sub-leases of the premises on which the existing slot halls of SJM are situated, shall remain valid, effective and binding on the relevant parties and the relevant parties to such leases or sub-leases shall continue to comply with the terms thereof.

In addition, all parties to the Termination Agreement agree that they will do all things and take all steps as may be necessary or legally required to give effect to the terms of the Termination Agreement and to comply with the instructions or rulings, if any, that may be given by the Macau Government in connection with the termination of the SJM Service Agreements.



## **Effect of the Termination of the SJM Service Agreements**

The Board is of the view that the termination of the SJM Service Agreements will not have any material adverse impact on the slot business of the Melco PBL Group Companies as the existing slot halls (save and except for the one located at San Kin Yip Building) will continue to be operated under the Subconcession of PBL Macau. With the direct operation of the slot halls by the Melco PBL Group Companies, it is contemplated that more revenue will be generated to the Melco PBL Group Companies as under the SJM Service Agreements, the Melco PBL Group Companies will only be entitled to a monthly service fee representing 31% of the aggregate gross revenue of all the electronic gaming machines installed in such slot halls, whereas by operating the slot halls directly under the Subconcession, the Melco PBL Group Companies will be entitled to approximately 60% of the aggregate gross revenue generated by the slot halls (with the remaining 40% as gaming taxes and levies to be paid to the Macau Government).

In addition, the Board is of the view that the early termination and surrender of the lease at San Kin Yip Building will not have any material adverse impact on the slot business of the Melco PBL Group Companies based on the following reasons:

- (i) the close proximity of San Kin Yip Building to other two slot halls located at Kingsway Commercial Centre and Hotel Sintra;
- (ii) the Melco PBL Group Companies have adopted and maintained a sophisticated patron management system which could track the patron's behaviors including their favorable visiting patterns. The Melco PBL Group Companies will use the advertising means to shift these patrons to other existing slot halls according to their favors; and
- (iii) it is contemplated that a new slot hall will be opened at another hotel in Macau immediately upon the grant of the Subconcession.

As at the date hereof, the executive directors of the Company are Mr. Lawrence Ho (Chairman and Chief Executive Officer) and Mr. Frank Tsui; the non-executive director is Mr. Ng Ching Wo; and the independent non-executive directors are Sir Roger Lobo and Dr. Lo Ka Shui.

## **DEFINITION**

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

Board	The board of directors of the Company
Company	Melco International Development Limited, a company incorporated in Hong Kong, the securities of which are listed on the Stock Exchange
Independent Third Party	independent third party not connected with the Company and its subsidiaries, the controlling shareholder, directors, chief executive or substantial shareholders of the Company and its subsidiaries, or an associate (which has the same meaning as ascribed to it in the Listing Rules) of any of them under the Listing Rules
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Melco PBL Group Companies	All the group companies held by Melco PBL Holdings Limited, a 50:50 joint venture company established by the Company and PBL and the members of which include, inter alia, Mocha Slot, Mocha Management and subject to Macau Government's approval, PBL Macau (upon its obtaining of the Subconcession)

Mocha Slot	Mocha Slot Group Limited, a company established under the laws of the British Virgin Islands and a member of Melco PBL Group Companies and a non wholly-owned subsidiary of the Company
Mocha Management	Mocha Slot Management Limited, a company incorporated under the laws of Macau and a wholly-owned subsidiary of Mocha Slot
PBL	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange, and a joint venture partner with the Company in relation to gaming business.
PBL Macau	A limited liability company to be incorporated in Macau by and initially owned by PBL which will be holding the Subconcession upon its grant
Subconcession	The subconcession to be obtained by PBL Macau for operation of games of fortune and chance and other casino games in Macau
SJM	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau
SJM Service Agreements	The existing service agreements entered into between Mocha Management and SJM regarding the provision of services by Mocha Management in relation to the operation of the existing six slot halls of SJM in Macau, details of the SJM Service Agreements are disclosed in the circular of the Company dated 29th April 2005
Stock Exchange	The Stock Exchange of Hong Kong Limited
Termination Agreement	The termination agreement dated 15th March 2006 entered into between the Company, Mocha Slot, Mocha Management and SJM regarding, inter alia, the termination of the SJM Service Agreements

By order of the board of  
**Melco International Development Limited**  
**Ho, Lawrence Yau Lung**  
*Chairman and Chief Executive Officer*

Hong Kong, 23rd March 2006

Please also refer to the published version of this announcement in South China Morning Post - Classified.