SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2018**

2. SEC Identification Number **58648** 3. BIR Tax Identification No. **000-410-840-000**

4. Exact name of issuer as specified in its charter
Melco Resorts and Entertainment (Philippines) Corporation

5. Province, Country or other jurisdiction of incorporation or organization
Philippines

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of principal office
Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City
Postal Code **1701**

8. Issuer's telephone number, including area code
(02) 691-8899

9. Former name, former address, and former fiscal year, if changed since last report.
N/A

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Issued As of December 31, 2018	Treasury Shares As of December 31, 2018	Outstanding Common Stock As of December 31, 2018
Common	**5,687,270,800**	**NIL**	**5,687,270,800**

11. Are any or all of these securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange Common

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [**X**] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2018 are as follows:

    (a) Total number of shares held by non-affiliates as of December 31, 2018 is 117,031,067 shares.

    (b) Closing price of the Company's shares on the Exchange as of December 31, 2018 is ₱7.25.

    (c) Aggregate market price of (a) as of December 31, 2018 is ₱848,475,235.75.

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS.

14. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the SEC.

Yes [ ] No [ ]

Not applicable.

DOCUMENTS INCORPORATED BY REFERENCE

15. No documents were incorporated by reference to any report in this SEC Form 17-A.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended December 31, 2018

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

1.1 Business Development and Corporate History

Melco Resorts and Entertainment (Philippines) Corporation, formerly Melco Crown (Philippines) Resorts Corporation, (the "**Company**" or "**MRP**") was incorporated and registered as Interphil Laboratories, Inc. with the Philippine Securities and Exchange Commission ("**SEC**") on November 6, 1974. The name of Interphil Laboratories, Inc. was changed to Manchester International Holdings Unlimited Corporation on July 10, 2008, and approved by the SEC on November 21, 2008.

On February 19, 2013, the shareholders of MRP approved the declassification of the ₱900 million authorized capital stock of MRP, consisting of 60% Class A shares and 40% Class B shares to a single class of common stock, the denial of pre-emptive rights, and the increase in MRP's authorized capital stock from ₱900 million divided into 900 million shares to ₱5.9 billion divided into 5.9 billion shares with a par value of ₱1.00 per share.

On March 5, 2013, the SEC approved the declassification of the capital stock of MRP to a single class of common stock and the denial of pre-emptive rights. On April 8, 2013, the SEC also approved the increase in authorized share capital stock of MRP.

On March 5, 2013, the SEC approved the amendments to the articles of incorporation of the Company for the change of its corporate name from Manchester International Holdings Unlimited Corporation to Melco Crown (Philippines) Resorts Corporation and its registered office address from Canlubang Industrial Estate, Bo. Pittland, Cabuyao, Laguna to 10th Floor, Liberty Center, 104 H.V. dela Costa St., Salcedo Village, Makati City, which were approved by the shareholders of MRP on February 19, 2013.

On March 20, 2013, MRP entered into a subscription and share sale agreement (the "**Subscription and Share Sale Agreement**") with MCO (Philippines) Investments Limited, formerly MCE (Philippines) Investments Limited, ("**MCO Investments**") under which MCO Investments subscribed for 2,846,595,000 common shares of MRP with a par value of ₱1.00 per share at a total consideration of ₱2,846,595,000.00 (the "**Share Subscription Transaction**"). The Share Subscription Transaction, which was subject to the SEC's approval for the increase in MRP's authorized capital stock as mentioned above, was completed on April 8, 2013.

On April 24, 2013, MRP and MCO Investments completed a placing and subscription transaction (the "**Placing and Subscription Transaction**"), under which MCO Investments offered and sold in a private placement to various institutional investors 981,183,700 common shares of MRP with a par value of ₱1.00 per share, at the offer price of ₱14.00 per share (the "**Offer**") with an over-allotment option (the "**Over-allotment Option**") of up to 117,075,000 common shares of MRP with a par value of ₱1.00 per share, at the offer price of ₱14.00 per share granted to a stabilizing agent (the "**Stabilizing Agent**"). On May 23, 2013, the Stabilizing Agent exercised the Over-allotment Option and subscribed to 36,024,600 common shares of MRP. MCO Investments then used the proceeds from the Offer and Over-allotment Option to subscribe to an equivalent number of common shares of MRP at the subscription price of ₱14.00 per share.

On June 24, 2014, MRP and MCO Investments completed another placing and subscription transaction (the "**2014 Placing and Subscription Transaction**"), whereby MCO Investments sold 485,177,000 shares of MRP with a par value of ₱1.00 per share, at an offer price of ₱11.30 per share (the "**2014 Offer**"), in a private placement to various institutional investors. MCO Investments then used the proceeds from the 2014 Offer to subscribe to an equivalent number of shares of MRP at a subscription price of ₱11.30 per share.

On November 23, 2015, MCO Investments subscribed to an additional 693,500,000 common shares of MRP, with a par value of ₱1.00 per share, at a subscription price of ₱3.90 per share, or a total subscription price of ₱2,704,650,000.00.

As of December 31, 2015, and immediately before the Shares Repurchase Transaction as described below, the ultimate holding company of MRP was Melco Resorts & Entertainment Limited ("**Melco**"), formerly Melco Crown Entertainment Limited, a company incorporated in the Cayman Islands with its American Depositary Shares traded on the NASDAQ Global Select Market in the United States of America. Melco, in turn, is majority held, through wholly-owned subsidiaries, by Melco International Development Limited ("**Melco International**"), a Hong Kong-listed company, and Crown Resorts Limited ("**Crown**"), an Australian-listed corporation.

In May 2016, due to the completion of a shares repurchase transaction by Melco from a subsidiary of Crown followed by the cancellation of such shares and with certain changes in the composition of the board of directors of Melco (the "**Shares Repurchase Transaction**"), Melco became one of the Company's intermediate holding companies and the Company's ultimate holding company is Melco International.

On February 1, 2017 and April 7, 2017, the Board of Directors and stockholders of the Company, respectively, approved the change of the Company's name to Melco Resorts and Entertainment (Philippines) Corporation. On May 19, 2017, the SEC approved the change in the corporate name of the Company.

On February 16, 2017, Melco International completed further acquisition of shares of Melco from Crown ("**Melco Acquisition**") and as a result, Melco International became the sole majority shareholder of Melco and the Company's ultimate holding company for all purposes.

As of December 31, 2018 and 2017, the Company's ultimate holding company is Melco International and Melco became one of the Company's intermediate holding companies due to the Shares Repurchase Transaction as mentioned above.

On October 31, 2018, MCO Investments conducted a voluntary tender offer (the "**Tender Offer**") for up to One Billion Five Hundred Sixty Nine Million Seven Hundred Eighty Six Thousand Seven Hundred Sixty Eight (1,569,786,768) outstanding common shares of the Company held by the public, at a price of ₱7.25 per share, for the purpose of increasing and consolidating its interests in MRP.

The Tender Offer ended on November 29, 2018 and the total tendered shares, amounting to 1,338,477,668 common shares of MRP, were crossed over the facilities of the Philippine Stock Exchange ("**PSE**" or the "**Exchange**") on December 10, 2018. An additional 107,475,300 shares were acquired by MCO Investments on or after December 6, 2018. As a result, MCO Investments became the owner, directly and indirectly through MPHIL Corporation, formerly MCE (Philippines) Investments No.2 Corporation, ("**MPHIL**"), of a total of 5,570,233,532 common shares of MRP.

As of December 31, 2018, Melco, through its subsidiaries, MCO Investments and MPHIL, held an indirect ownership in MRP of 97.94%.

The Company is principally engaged in acquiring investments and securities and was further authorized to provide financing to its group companies, as approved by the SEC on July 25, 2013. The primary purpose of its subsidiary, Melco Resorts Leisure (PHP) Corporation, formerly MCE Leisure (Philippines) Corporation, ("**Melco Resorts Leisure**"), is to develop and operate tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components and to engage in casino gaming activities.

Bankruptcy, Receivership or Similar Proceedings

None for any of the companies above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (Not Ordinary)

None for any of the companies above.

Basis of Preparation of Financial and Non-financial Information

On March 20, 2013, pursuant to the terms of the Subscription and Share Sale Agreement, MRP entered into a deed of assignment with MCO Investments under which MRP acquired all equity interests of MCO Investments in MPHIL Holdings No. 1 Corporation, formerly MCE Holdings (Philippines) Corporation, ("**MPHIL Holdings No. 1**"), consisting of 147,894,500 issued and outstanding common shares with a par value of ₱1.00 per share as of March 20, 2013, at a consideration of ₱7,198,590,000.00 (the "**Asset Acquisition Transaction**"). MPHIL Holdings No. 1 holds 100% direct ownership interests in MPHIL Holdings No. 2 Corporation, formerly MCE Holdings No. 2 (Philippines) Corporation, ("**MPHIL Holdings No. 2**"), which in turn holds 100% direct ownership interests in Melco Resorts Leisure (MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as the "**MPHIL Holdings Group**"). As a result of the Asset Acquisition Transaction, MPHIL Holdings Group became wholly-owned subsidiaries of MRP. The Company and its subsidiaries are collectively referred to as the "**Group**".

Because MRP did not meet the definition of a business, the MPHIL Holdings Group was deemed to be the accounting acquirer for accounting purposes. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by Philippines Financial Reporting Standards ("**PFRS**"). In a reverse acquisition, the legal parent, MRP is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary, MPHIL Holdings Group is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of MRP have been prepared as a continuation of the financial statements of the MPHIL Holdings Group. The MPHIL Holdings Group has accounted for the acquisition of MRP on December 19, 2012, which was the date when Melco, through MCO Investments and MPHIL, acquired control of MRP.

1.2 Business of the Company and the Group

The Group is a developer, owner and operator of casino gaming and entertainment resort facilities in the Philippines and currently operates City of Dreams Manila ("**City of Dreams Manila**"), an integrated hotel, gaming, retail and entertainment complex within Bagong Nayong Pilipino-Entertainment City Manila.

Melco Resorts Leisure, a wholly-owned indirect subsidiary of the Company is one of the co-licensees which developed City of Dreams Manila, along with SM Investments Corporation ("**SMIC**"), Belle Corporation ("**Belle**") and PremiumLeisure Amusement, Inc. ("**PLAI**") (SMIC, Belle and PLAI collectively, the "**Philippine Parties**"). The Group, through Melco Resorts Leisure, is responsible for the management and operation of City of Dreams Manila and its fit-out, including furniture, fixtures and equipment (including gaming equipment), as well as working capital expenses, non-real property improvements and personal property. Belle was responsible for provision of the land and building structures of City of Dreams Manila, including maintenance of the land where City of Dreams Manila is located. Melco Resorts Leisure is required to pay rent for the land and building structures to Belle pursuant to the Lease Agreement (as defined below). Melco Resorts Leisure currently operates the casino business of City of Dreams Manila in accordance with the terms of the Regular License (as defined below) and the operating agreement dated March 13, 2013 executed between the Philippine Parties and the MPHIL Holdings Group ("**Operating Agreement**"). Under the Operating Agreement, PLAI has the right to receive monthly payments from Melco Resorts Leisure, based on the performance of gaming operations of City of Dreams Manila, and Melco Resorts Leisure has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

City of Dreams Manila is an integrated casino resort located on an approximately 6.2-hectare site at the gateway of Entertainment City in the Manila Bay area, which is close to Metro Manila's international airport, central business districts and the Mall of Asia, one of the world's largest shopping malls. City of Dreams Manila is a world-class facility comprising one of the Philippines' leading integrated casino resort and gaming complexes which offers a premium gaming experience with differentiated non-gaming facilities and entertainment offerings. The property had its soft opening in December 2014 and its grand opening in February 2015.

The Philippine Amusement and Gaming Corporation ("**PAGCOR**") approved the operation by City of Dreams Manila of up to a maximum of approximately 380 gaming tables, 2,300 slot machines and 1,200 electronic gaming tables. City of Dreams Manila has six hotel towers with approximately 950 rooms in aggregate, including VIP and five-star luxury rooms and high-end boutique hotel rooms, a wide selection of restaurants and food & beverage outlets, a 4,612.44 square meters family entertainment center in collaboration with Dreamworks Animation ("**Dreamworks**"), a live performance stage, virtual reality zones and a multi-level car park.

City of Dreams Manila includes an approximately 260 room Nüwa Hotel Manila, formerly Crown Towers hotel, ("**Nüwa Manila**"), Hyatt City of Dreams Manila, which was recently rebranded as Hyatt Regency, City of Dreams Manila, a 365 room hotel managed by Hyatt International Corporation ("**Hyatt Regency**") and Asia's first Nobu Hotel Manila ("**Nobu Manila**") with 321 rooms. Nüwa Manila is designed to cater to the premium end of the market in Manila. Hyatt Regency is a modern and international full service hotel and leverages Hyatt's international experience and knowledge of the operation of full service hotels throughout the world. Nobu Manila offers a fusion of laid-back luxury, high-energy nightlife and exclusive guestroom and spa services.

City of Dreams Manila features different entertainment venues: DreamPlay, a family entertainment center which features a children's concierge and supervision service and activities catering to children aged four and above; Centerplay, a live performance central lounge within the casino; and the two facilities introduced in November: the VR Zone and K-Golf.

City of Dreams Manila also features a wide selection of regional and international food and beverage offerings including five key themed restaurants. Cuisine types have been carefully selected, with a focus on diversity and quality to ensure that customers are able to enjoy a comprehensive selection of the finest dining options. City of Dreams Manila also features The Shops at the Boulevard, where retail shops are interspersed within the food and beverage areas to provide customers with a broad range of shopping opportunities.

On December 9, 2014, PAGCOR issued a Notice to Commence Casino Operations to City of Dreams Manila effective December 14, 2014. On April 29, 2015, PAGCOR issued the regular casino gaming license ("**Regular License**") for City of Dreams Manila in favor of the MPHIL Holdings Group and the Philippine Parties (collectively, the MPHIL Holdings Group and the Philippine Parties, the "**Licensees**"), after the Licensees satisfied the investment commitment of US$1 billion required by PAGCOR.

Customers

The Group's main business, through the Company's indirect subsidiary Melco Resorts Leisure, is the development and operation of City of Dreams Manila, an integrated hotel, gaming, retail and entertainment complex in Entertainment City.

Customers for Gaming Operations

The Group focuses on the following customers for its gaming operations.

VIP

VIP customer(s) play on a rolling chip program, and who play almost exclusively in dedicated VIP rooms or designated casino or gaming areas.

Gaming Promoters

They are individuals or corporate entities who, for the purpose of promoting rolling chip gaming activity, arrange customer transportation and accommodation, provide credit in their sole discretion if authorized by a gaming operator, and arrange food and beverage ("**F&B**") services and entertainment, to VIP customers in exchange for commissions or other compensation from a gaming operator.

Premium Direct Customers

They are VIP customers who play on a rolling chip program and visit a casino as a result of direct marketing efforts by the Group rather than being sourced through gaming promoters.

Mass Market

Mass market customers play table games and slot machines on public mass gaming floors for cash stakes that are typically lower than those in the VIP segment. Mass Market players are further classified as general Mass Market and Premium Mass.

General Mass Market

They are customers who play in cash and whose wagers are typically lower than Premium Mass customers.

Premium Mass

They are customers who play table games with relatively higher minimum bets than general Mass Market customers but relatively lower bets than VIP customers.

Customers for Non-Gaming Operations

Hotels

City of Dreams Manila's master plan features varying levels of accommodation with Nüwa Manila, Nobu Manila and Hyatt Regency, providing guests with an aggregate of approximately 950 rooms.

- *Nüwa Manila*: City of Dreams Manila's premium-focused hotel includes rooms and suites that are designed to provide a luxurious experience for premium customers to the property;
- *Hyatt Regency*: City of Dreams Manila's 5-star hotel includes rooms and suites featuring a fitness center and salon facilities combining luxury and well-being, where guests have direct and easy access to entertainment areas on the lobby level and the podium floor; and
- *Nobu Manila*: City of Dreams Manila's high-end boutique hotel includes rooms and suites with five-star-like facilities.

Thematic Attractions and Entertainment

City of Dreams Manila offers exciting entertainment venues, supported by diverse F&B facilities designed to be socializing hubs where guests can relax and be entertained. The entertainment offerings, designed to cater to all key demographic groups, include Centerplay, DreamPlay and the two facilities introduced in November: the VR Zone and K-Golf. The VR Zone is housed at The Garage, a food park with carefully curated selection of food and beverage trucks and trailers set in a comfortable, air-conditioned space located at the upper ground floor. K-Golf is an indoor golf simulator with state of the art technology that brings some of the most popular golf courses around the world in 3D graphics. Both are located at the Upper Ground level. Until they closed in October 2018 to give way to their conversion in 2019 as a luxurious gaming space, Chaos was a dynamic night club that offered entertainment by live bands and world-class DJs and Pangaea was an ultra-gaming lounge that offered world-class gaming and an exclusive bar. Both are encapsulated within the Fortune Egg, a domelike structure accented with creative external lighting, which is a centerpiece attraction of the property.

- Centerplay

Centerplay is City of Dreams Manila's casino performance lounge at the ground level, which features an elevated circular stage viewable from varied angles. The casino performance lounge is intended to attract customers and increase customer retention on the City of Dreams Manila's main gaming floor, offering patrons a place to relax and enjoy live performances of various entertainment genres.

- DreamPlay

DreamPlay is a DreamWorks animation inspired interactive play space. This family entertainment center possesses two distinctly designed areas for particular age groups:

Area 1: Child Play Concierge Service

This area includes attractions and a play structure primarily targeting children aged four to nine. This area is designed to offer structured activities for children, including "hands-on" workshops, interactive attractions and other creative or educational presentations. Children visiting the play area are supervised by staff trained in child care and safety.

Area 2: All Family Attractions

This area focuses on attractions targeting children aged six and older and their parents. Child supervision is available by staff trained in child care and safety.

- VR Zone at The Garage

The VR Zone at The Garage features a new generation entertainment facility that offers an exhilarating and startling experience with top-of-class Virtual Reality technology in a family-center milieu that also features a food park. Bandai Namco Amusement from Japan, one of the world's leading video digital entertainment development companies, provides the virtual reality experience at the VR Zone.

The exciting activities at the VR Zone include the famed Mario Kart Arcade GP VR, Hospital Escape Terror and Ski Rodeo. More activities will soon be added.

Food & Beverage and Retail

The F&B outlets in City of Dreams Manila are intended primarily to support and enhance the gaming experience of the customers. MRP believes that F&B is a very important amenity for local and other international patrons, which serves to attract and retain gaming customers. A number of different F&B outlets are located inside the gaming areas on the ground floor as well as on level 2 and in the three hotels. A number of bars are located throughout the gaming and retail areas. Retail shops are located near the F&B areas to provide customers with a broad range of shopping opportunities. The main F&B outlets include a Chinese restaurant, an international buffet restaurant, an Asian-themed restaurant, a contemporary European restaurant and a retail boulevard with a wide range of shopping options.

Competition

In the Philippine gaming market, the Group is competing with hotels and resorts owned by both Philippine nationals and foreigners. PAGCOR, an entity owned and controlled by the government of Philippines, also operates gaming facilities across the Philippines. The Group's operations in the Philippines also face competition from gaming operators in other more established gaming centers across the region, particularly those of Macau and Singapore, and other major gaming markets located around the world, including Australia and Las Vegas, as the Group targets similar pools of customers and tourists. A number of such other operators have a longer track record of gaming operations, and such other markets have more established reputations as gaming markets.

PAGCOR issued a provisional license ("**Provisional License**") to the Licensees on December 12, 2008. Furthermore, additional provisional gaming licenses have been issued to three other companies in the Philippines for the development and operation of integrated casino resorts in Entertainment

City, namely, Travellers International Hotel Group, Inc., Bloomberry Resorts Corporation and Tiger Resorts Leisure and Entertainment Inc. Bloomberry Resorts Corporation's Solaire Manila ("**Solaire**") has been in operation since March 2013. Tiger Resorts Leisure and Entertainment Inc.'s Okada Manila had its soft opening on December 21, 2016. Among the four casino operators within Entertainment City, Melco Resorts Leisure, on behalf of the Licensees, was the first to apply for the Regular License on January 30, 2015, after meeting the required investment commitment of PAGCOR, and obtained the Regular License on April 29, 2015. On July 12, 2018, PAGCOR issued another provisional license to Landing Resorts Philippines Development Corporation to develop and operate a casino within a government-owned estate called, the "Nayon Pilipino", which is located beside the Entertainment City.

PAGCOR has also licensed private casino operators in special economic zones, including four in Clark Ecozone, one in Poro Point, La Union, one in Binangonan, Rizal and one in Newport City CyberTourism Zone, Pasay City.

The license granted by PAGCOR to the Licensees is non-exclusive, and PAGCOR has given no assurances to the Licensees that it will not issue additional gaming licenses, or that it will limit the number of licenses it issues.

Some of the Company's gaming competitors have cooperated with international gaming companies, as evidenced by the cooperation between Alliance Global Group, Inc. and Genting Hong Kong Limited, as well as the initial partnership between Bloomberry Resorts Corporation and Global Gaming Asset Management. Although these companies and their business partners may have substantial experience and/or resources in constructing and operating resorts and gaming establishments and may be supported by conglomerates with access to more capital than the Company, the Company believes that the City of Dreams Manila will be able to compete effectively with these entrants by offering a differentiated product that will appeal to the preferences of all segments of the Philippine gaming market, which is expected to grow significantly over the next few years.

The Company believes that it will be in a competitive position as a result of City of Dreams Manila's product offering and service quality, including a diverse variety of gaming and non-gaming attractions and a superior overall entertainment experience targeted to appeal to both Mass Market and VIP customers. The Company also believes that it will have the ability to leverage the extensive gaming and integrated resort experience of its affiliates and shareholders, in particular Melco's gaming experience in Macau, which the Company believes will assist it in its efforts to establish City of Dreams Manila as a new key player in the regional gaming industry.

Suppliers

Melco Resorts Leisure relies on a large base of suppliers, consultants and contractors for the provision of services and the performance of works in connection with the day-to-day operations and maintenance of City of Dreams Manila.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements

A trade mark licensing agreement was entered into between MCO (IP) Holdings Limited, formerly MCE (IP) Holdings Limited, (as licensor), an indirect subsidiary of Melco, and MRP (as licensee) ("**TMA 1**") and a further trade mark licensing agreement was entered into between MRP (as licensor) and Melco Resorts Leisure (as licensee) ("**TMA 2**"), both on October 9, 2013.

Under the terms of TMA 1, MRP is granted an exclusive, non-transferable license to use the trade marks "**The Tasting Room by Galliot**", "**Fortune Egg**", "**City of Dreams Manila**", "**Melco Crown Philippines**", "**City Club Logo**", "**Jade Dragon Logo**", "**The Shops at the Boulevard**", "**City Café**", "**Golden Pavilion Logo**", "**Lan Logo**", "**Signature Club**" and any other trademarks which MCO (IP) Holdings Limited agrees from time to time ("**Trade Marks**"). TMA 1 was effective from October 9, 2013 and shall continue and remain in full force and effect until it is terminated in accordance with the termination provisions therein.

Under the terms of TMA 2, Melco Resorts Leisure is granted an exclusive, non-transferable license to use the Trade Marks. TMA 2 was effective from October 9, 2013 and shall continue and remain in full force and effect for the period of the Regular License unless terminated earlier in accordance with the termination provisions therein.

On November 21, 2017, the arrangement was modified by the parties and as a result, a new Trade Mark Licensing Agreement ("**2017 TMA**") was signed, with MCO (IP) Holdings Limited and Melco Resorts Leisure as parties. Under the terms of the 2017 TMA, an exclusive, non-transferable license to use the Trade Marks, as defined above, was directly granted by MCO (IP) Holdings Limited to Melco Resorts Leisure.

Also, as a result of the Melco Acquisition, Crown Towers was rebranded to Nüwa Hotel on January 18, 2018.

DreamPlay by DreamWorks

A licensing agreement was entered into with DreamWorks on November 28, 2013 ("**LA 1**"). Under LA 1, various trademarks and other intellectual property ("**IP**") rights owned by DreamWorks were licensed to Melco Resorts Leisure for use to develop, market and operate DreamPlay, a family entertainment center at City of Dreams Manila.

Nobu Manila

A hotel license and cooperation agreement was entered into between Nobu Hospitality LLC (as licensor) and Melco Resorts Leisure (as licensee) ("**LA 2**") and a Nobu hotel restaurant license agreement was entered into by the same parties ("**LA 3**"), both on June 3, 2013.

Under the terms of LA 2, Melco Resorts Leisure was granted a limited, exclusive, non-transferable license to use and employ certain marks, trademarks, trade names, service marks and commercial symbols ("**Nobu Marks**") in connection with its development, operation, ownership, management and promotion of the Nobu Hotel, which the licensee now operates under the name "**The Nobu Hotel Manila**". LA 2 was effective from June 3, 2013 and shall have a ten (10) year term with two successive five (5) year renewal periods each being subject to both party's written mutual agreement.

Under the terms of LA 3, Melco Resorts Leisure was granted the sole and exclusive right and license to use the Nobu Marks, the name "**NOBU**", or any other trademarks/trade names licensed under LA 3 in connection with the development, ownership, operation, marketing, promotion, and management of the Nobu restaurant. LA 3 was effective from June 3, 2013 and shall have a ten (10) year term with two successive five (5) year renewal periods each being subject to both party's written mutual agreement.

Hyatt Regency

A trademarks licensing agreement was entered into between Hyatt (as licensor) and Melco Resorts Leisure (as licensee) on November 24, 2013 ("**TMA 3**"), under which various trademarks owned by Hyatt were licensed to Melco Resorts Leisure for it to market and operate a hotel at City of Dreams Manila in accordance with a hotel management agreement entered into by the same parties on the same date ("**HMA**").

Under the terms of the TMA 3, Melco Resorts Leisure was granted a non-exclusive and non-transferable license to use certain trademarks owned by Hyatt. The TMA 3 took effect from the opening date of the hotel managed by the Hyatt group and will end on the expiration date of, or upon it is terminated in accordance with, the HMA.

Towards the end of 2018, a new license agreement was forged between Melco Resorts Leisure and Hyatt that would rebrand the hotel to Hyatt Regency, City of Dreams Manila in December 2018.

Bandai-Namco

A franchise agreement was entered into between Bandai Namco Amusement Inc. (as licensor) and Melco Resorts Leisure (as licensee) on September 14, 2018 ("**FA 1**"), under which Melco Resorts Leisure was granted a franchise to operate an entertainment facility in the Philippines, and allowed the use of proprietary marks for the operation and promotion of the entertainment facility, as well as the lease of several virtual reality game machines.

Under the terms of the FA 1, Melco Resorts Leisure must pay a royalty fee based on gross sales revenue from the entertainment facility. FA 1 became effective on September 3, 2018 and shall continue three (3) years thereafter.

Government Licenses and Registrations

Provisional/Regular License

The MPHIL Holdings Group and the Philippine Parties are co-licensees of the Provisional License issued by PAGCOR for the development of an integrated casino, hotel, retail and entertainment complex within the Entertainment City. As one of the Licensees, Melco Resorts Leisure has been named as the special purpose entity to operate the casino business and act as the sole and exclusive representative of the Licensees for purposes of the Provisional License. The Provisional License is one of four licenses granted to various parties to develop integrated tourism resorts and establish and operate casinos in Entertainment City. PAGCOR is the Philippine regulatory body with jurisdiction over all gaming activities in the Philippines except for lottery, sweepstakes, jueteng, horse racing, and gaming inside the Cagayan Export Zone. City of Dreams Manila's gaming areas operate under the Provisional License granted by PAGCOR, which imposes certain requirements with which the licensees must comply. The Provisional License is also subject to suspension or termination upon the occurrence of certain events.

The regular casino license is granted by PAGCOR to holders of the Provisional License who, among others, have reached a total investment commitment of US$ 1 billion. Having met this requirement, Melco Resorts Leisure, on behalf of the Licensees, has applied to PAGCOR for the issuance of such regular casino license on January 30, 2015. PAGCOR issued the Regular License dated April 29, 2015 in replacement of the Provisional License to the Licensees for the operation of City of Dreams Manila. The Regular License has the same terms and conditions as the Provisional License and is valid until July 11, 2033.

PEZA Registration

The application of Melco Resorts Leisure for registration with the Philippine Economic Zone Authority ("**PEZA**") as a Tourism Economic Zone Enterprise for the construction, development and operation of a hotel and entertainment complex at the Entertainment City has been granted by the PEZA Board of Directors in a resolution dated March 7, 2013. The certificate of registration was issued by PEZA on August 23, 2013.

Research and Development

The Company, as an investment holding company, as well as the Group does not have research and development activities.

Awards and Achievements

City of Dreams Manila Awards

In 2015, City of Dreams Manila won the prestigious Casino/Integrated Resort of the Year during the 8th International Gaming Awards. This award is given to land based casino/integrated resort operators topping the criteria for offering the very best in terms of facilities, customer service, games offered, atmosphere, style and design of building. Emphasis is placed on the overall feel, atmosphere and real attention to detail of a casino/integrated resort that sets it aside from its competitors, including the quality of service of its staff members that makes the casino/integrated resorts the outstanding choice for customers. City of Dreams Manila was also given the Award of Distinction from the local government of Parañaque City as a model Parañaque establishment in 2016 and received Meralco's "Corporate Commercial Luminary Award" in recognition of the resort's contribution to nation-building through the creation of jobs and promotion of Philippine tourism in 2017. Likewise in 2017, City of Dreams Manila was included in the townandcountry.com's article on the "23 Fanciest Casinos in the World" and was awarded the Exemplary World-Class Integrated Resort Award by Mega magazine, a local lifestyle publication.

MRP Awards

MRP, the parent company of City of Dreams Manila's owner and developer, was recognized by Bloomberg.com in May of 2017 as the "Best Performing Casino Stock in the World". In 2018, the integrated resort was awarded as one of the "Most Outstanding Business Corporation Tax Payers" in Paranaque City.

Hospitality Awards

In the first year of operations of City of Dreams Manila, three of our restaurants, namely, The Tasting Room, Crystal Dragon and Nobu Restaurant, were listed in the Top 20 Best Restaurants in the Philippine Tatler's Best Restaurants Guide 2016, an annual guide published by the Philippine Tatler, a prestigious lifestyle magazine – besting other 150 restaurants in the book where also Red Ginger and The Café are featured. The selection of the best restaurants are based on setting, food, wine, and service, and the Top 20 were voted by the Best Restaurants Guide editorial committee after deliberations drawing from reviewers' ratings and readers' choices. Crystal Dragon and Nobu Restaurant were also included in the 2017 and 2018 editions of the Best Restaurants Guide, with Crystal Dragon being named for three consecutive years as one of the country's Top 20 Best Restaurants.

Nobu Restaurant and Crystal Dragon were recognized as two of Metro Manila's Best Restaurants in Town and Country Philippines' Fabulous Dine Around list among 42 restaurants in 2017 and among 61 restaurants in 2018. The Tasting Room, which reopened in mid-2018, was also included in the same list in 2018. Nobu Manila was also commended in 2017 as "One of the 7 Premier Restaurants Putting Manila in the World's Gastronomic Map" in the online edition of Conde Nast Traveler.

The three hotels in City of Dreams Manila were also awarded by TripAdvisor, a global travel and review website, in the 2016 Top 25 Luxury Hotels in the Philippines Travelers' Choice Awards. The hallmarks of Travelers' Choice winners are service, quality, and customer satisfaction. In addition, the recently rebranded Hyatt Regency was recognized as among the Top Five Best Hotels in Manila in the Readers' Choice Awards 2016 by the regional travel magazine DestinAsian. Nobu Manila, which is Nobu Hospitality's first hotel in Asia, was likewise cited in ForbesTravelGuide.com blog as one of the "Five Celebrity-Owned Hotels that Make You Feel Like the Star", being one of Robert de Niro and Chef Nobu Matsuhisa's properties which debuted as Nobu Hospitality's first hotel in Asia. In 2016, the three hotels were named in Top 10 Hotels by looloo.com, a social networking application on hotel and restaurant reviews. Also in 2016, Nüwa Manila, formerly known as Crown Towers Manila, received the International Hotel and Property Award for Best Lobby/Public Area/Lounge in the Global category, and Best Hotel over 200 Rooms in Asia Pacific, by Design Et Al, a prestigious international design magazine in Italy.

Nüwa Manila was awarded the Five-Stars, and Nuwa Spa, Nobu Hotel and Hyatt Regency were cited with Four Stars, by the 2018 Forbes Travel Guide, considered as the annual "Oscars" of the global hotel industry that recognizes the world's best hotels and resorts and deemed the ultimate honor in the hospitality industry. Nuwa Manila was also recognized in Forbes Travel Guide's first annual Verified List of 2018 as One of the World's Most Luxurious Hotels.

Employee Awards

In 2017, two personnel of City of Dreams Manila received Asia's Rooms Hotelier of the Year and Asia's Unsung Hero of the Year awards at the BMW Hotelier Awards held in Macau, where City of Dreams Manila's candidates bested more than 500 nominees from 70 different brands across 14 countries in the Asian region. The BMW Hotelier Awards is a prestigious regional award presented as a testament to professional excellence and exceptional service.

In 2018, the Hotel Sales and Marketing Association of the Philippines (HSMA) recognized Hyatt Regency's Director of Sales and Marketing with the Outstanding Sales and Marketing Leader at the 2018 Virtus Awards.

Environmental Laws

Development projects that are classified by law as Environmentally Critical Projects ("**ECP**") within statutorily defined Environmentally Critical Areas ("**ECAs**") are required to obtain an Environmental Compliance Certificate ("**ECC**") prior to commencement.

The Environmental Management Bureau of the Department of Environment and Natural Resources ("**DENR-EMB**") issued an ECC to Belle for City of Dreams Manila. Under the terms of its PEZA registration, Melco Resorts Leisure is required, prior to the start of commercial operations of City of Dreams Manila, to either: (a) apply for an ECC with the DENR-EMB and submit an approved copy of the ECC to PEZA within 15 days from its issuance, or (b) submit the ECC issued to Belle, as the same may be amended to reflect any changes made to City of Dreams Manila, for the review and approval by PEZA. Accordingly, Belle applied for an Amended ECC to reflect the changes made to City of Dreams Manila. The DENR-EMB issued the Amended ECC to Belle on July 31, 2014.

Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence.

Significant transactions with related parties for the year ended December 31, 2018 are included in Note 16 to the consolidated financial statements.

Compensation of Key Management Personnel were as follows:[1]

	Year Ended December 31, 2018	Year Ended December 31, 2017
Basic salaries, allowances and benefits in kind	₱67,611	₱99,255
Performance bonuses	33,937	90,416
Retirement costs - defined contribution plans	125	3,929
Share-based compensation expenses	8,204	20,841
	₱109,877	₱214,441

[1] In thousands of Philippine peso.

Employees As of December 31, 2018, the Group had a total of 5,638 employees composed of officers, key management personnel, managerial and rank and file employees.

Discussion of Risks

Management has identified major business and financial risks affecting the Group as follows:

Business Risks

Inadequate transportation infrastructure may hinder increases in visitation to the Philippines

City of Dreams Manila is located within Entertainment City, Manila, an area in the City of Manila which is currently under development. Other than Solaire and Okada Manila, there are currently no other integrated tourism resorts which have begun operations in Entertainment City, Manila. It is unlikely that Manila's existing transportation infrastructure is capable of handling the increased number of tourist arrivals that may be necessary to support visitor traffic to large scale integrated resorts within Entertainment City, such as City of Dreams Manila. Although the newly constructed NAIA Expressway helped alleviate the traffic congestion within the area surrounding Entertainment City and the Philippine government continues to examine viable alternatives to ease traffic congestion in Manila, there is no guarantee that these measures will succeed, or that they will sufficiently eliminate the traffic problems or other deficiencies in Manila's transportation infrastructure. Traffic congestion and other problems in Manila's transportation infrastructure could adversely affect the tourism industry in the Philippines and reduce the number of potential visitors to City of Dreams Manila, which could, in turn, adversely affect the Group's business and prospects, financial condition and results of its operations.

Conducting business in the Philippines is subject to certain regional and global political and economic risks that may significantly affect visitation to City of Dreams Manila and have a material adverse effect on the Group's results of operations

City of Dreams Manila is subject to certain economic, political and social risks within the Philippines. The Philippines has in the past experienced severe political and social instability, including acts of political violence. Any future political or social instability in the Philippines could adversely affect the business operations and financial conditions of City of Dreams Manila.

Changes in policies of the government or changes in laws and regulations, or in the interpretation or enforcement of these laws and regulations, such as anti-smoking policies or legislation, may negatively impact consumption patterns of visitors to City of Dreams Manila and could adversely affect our business operations and financial conditions.

In addition, demand for, and the prices of, gaming and entertainment products are directly influenced by economic conditions in the Philippines, including growth levels, interest rates, inflation, levels of business activity and consumption, and the amount of remittances received from overseas Filipino workers. Any deterioration in economic and political conditions in the Philippines or elsewhere in Asia could materially and adversely affect the Group's business, as well as the prospects, financial condition and results of our operations.

The Group's business will also depend substantially on revenues from foreign visitors and may be disrupted by events that reduce foreigners' willingness to travel to or create substantial disruption in Metro Manila and raise substantial concerns about visitors' personal safety, such as power outages, civil disturbances and terrorist attacks, among others. For example, in June 2017, 38 people at the Resorts World Manila entertainment complex in Pasay, Metro Manila, Philippines were killed when a gunman caused a stampede and set fire to casino tables and slot machine chairs. The Philippines has also experienced a significant number of major catastrophes over the years, including typhoons, volcanic eruptions and earthquakes. We cannot predict the extent to which the Group's business and tourism in Metro Manila in general will be affected by any of the above occurrences or fears that such occurrences will take place. We cannot guarantee that any disruption to the Group's operations will not be protracted, that City of Dreams Manila will not suffer any damages, and that any such damage will be completely covered by insurance or at all. Any of these occurrences may disrupt the Group's operations.

We face intense competition in the Philippines and elsewhere in Asia and may not be able to compete successfully

The hotel, resort and gaming industries are highly competitive. The competitors of the Group's business include many of the largest gaming, hospitality, leisure and resort companies in the world. Some of these current and future competitors are larger than we are and may have more diversified resources, better brand recognition and greater access to capital to support their developments and operations.

In the Philippine gaming market, the Group competes with hotels and resorts owned by both Philippine nationals and foreigners. PAGCOR also operates gaming facilities across the Philippines. The Group's operations face competition from gaming operators in other more established gaming centers across the region, particularly those of Macau and Singapore, and other major gaming markets located around the world, including Australia and Las Vegas, as we target similar pools of customers and tourists. A number of such other operators have a longer track record of gaming operations and such other markets have more established reputations as gaming markets. The Group's operations may not be successful in its efforts to attract foreign customers and independent gaming promoters to City of Dreams Manila, and to promote Manila as a gaming destination.

The Group also competes to some extent with casinos located in other countries, such as Malaysia, South Korea, Vietnam, Cambodia, New Zealand and elsewhere in the world, including Atlantic City in the United States. In addition, in December 2016, a law which conceptually enables the development of integrated resorts in Japan took effect. Certain other countries, such as Taiwan and Thailand may also, in the future, legalize casino gaming and may not be subject to as stringent regulation as the Philippine market. The Group also competes with cruise ships operating out of Hong Kong and other areas of Asia that offer gaming. The proliferation of gaming venues in Southeast Asia could also significantly and adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

The Group's regional competitors also include casino resorts that Melco International may develop elsewhere in Asia Pacific outside Macau and the Philippines. Melco International may develop different interests and strategies for projects in Asia which conflict with the interests for the Group's business, or otherwise compete with the Group for Asian gaming and leisure customers.

The Group's controlling shareholder has a substantial influence over the Company, and its interests in the Company's business may be different than the latter's minority shareholders

As of December 31, 2018, Melco's beneficial shareholding in Melco Resorts and Entertainment (Philippines) Corporation is approximately 97.94%. There are risks associated with the possibility that Melco may: (i) have economic or business interests or goals that are inconsistent with the Group's interests or goals; (ii) have operations and projects elsewhere in Asia or other countries that compete with the Group's business in the Philippines and for available resources and management attention; (iii) take actions contrary to the Group's policies or objectives; or (iv) have financial difficulties. In addition, there is no assurance that the interests of Melco will not conflict with the interests of the Company's minority shareholders or that the laws and regulations relating to foreign investment in Melco's governing jurisdictions will not be altered in such a manner as to result in a material adverse effect on the Group's business and operating results.

Melco may pursue additional casino projects in Asia or elsewhere, which, along with its current operations, may compete with the Group's projects in the Philippines, which could have material adverse consequences to the Company and the interests of its minority shareholders

Melco may take action to construct and operate new gaming projects located in other countries in the Asian region or elsewhere, which, along with its current operations, may compete with the Group's projects in the Philippines and could have adverse consequences to the Company and the interests of its minority shareholders. The Group could face competition from these other gaming projects as well as competition from regional competitors. The Group expects to continue to receive significant support from Melco in terms of its industry experience, operating skills, international experience and high standards. Should Melco decide to focus more attention on casino gaming projects located in other areas of Asia or elsewhere that may be expanding or commencing their gaming industries, or should economic conditions or other factors result in a significant decrease in gaming revenues and number of patrons in the Philippines, Melco may make strategic decisions to focus on their other projects rather than on the Group, which could adversely affect the Group's growth.

Casinos and integrated gaming resorts are becoming increasingly popular in Asia, giving rise to more opportunities for industry participants and increasing regional competition. There is no guarantee that Melco will make strategic and other decisions which will not adversely affect the Group's business.

The government could grant additional rights to conduct gaming in the future, which could significantly increase competition and cause us to lose or be unable to gain market share

PAGCOR has issued the Regular License to the Licensees and one other company and additional provisional gaming licenses to two other companies in the Philippines for the development and operation of integrated casino resorts. PAGCOR has recently also granted a provisional license to a fifth player. PAGCOR has also licensed private casino operators in special economic zones, including four in the Clark Ecozone, one in Poro Point, La Union, one in Binangonan, Rizal and one in the Newport City CyberTourism Zone, Pasay City. The Regular License granted by PAGCOR to the Licensees is non-exclusive, and PAGCOR has given no assurances to the Licensees that it will not issue additional gaming licenses, or that it will limit the number of licenses it issues. Any additional gaming licenses issued by PAGCOR could increase competition in the Philippine gaming industry, which could diminish the value of the Licensees' Regular License. This could materially and adversely affect the Group's business, financial condition and results of operations.

The success of the Group's business depends on our ability to attract and retain an adequate number of qualified personnel. A limited labor supply and increased competition could cause labor costs to increase

The pool of experienced gaming and other skilled and unskilled personnel in the Philippines is limited. Our demand remains high for new personnel occupying sensitive positions that require qualifications sufficient to meet gaming regulations and other requirements or skills and knowledge that would need substantial training and experience. Competitive demand for qualified gaming and other personnel is expected to be intensified by the increased number of properties that recently opened in close proximity to our property. The limited supply and increased competition in the labor market could cause our labor costs to increase.

There is no assurance that the Group will be able to attract and retain a sufficient number of qualified individuals to operate its property, or that costs to recruit and retain such personnel will not increase significantly. The inability to attract and retain qualified employees and operational management personnel could have a material adverse effect on the Group's business.

Moreover, the Regular License requires that at least 95.0% of City of Dreams Manila's total employees be locally hired. Our inability to recruit a sufficient number of employees to meet this provision or to do so in a cost-effective manner may cause us to lower our hiring standards, which may have an adverse impact on City of Dreams Manila's service levels, reputation and business.

Furthermore, casino resort employers may also contest the hiring of their former employees by us. There can be no assurance that any such claim will not be successful or other similar claims will not be brought against us or any of our affiliates in the future. In the event any such claim is found to be valid, the Group could suffer losses and face difficulties in recruiting from competing operators. If found to have basis by courts, these allegations could also result in possible civil liabilities on us or our relevant officers if such officers are shown to have deliberately and willfully condoned a patently unlawful act.

The Group's insurance coverage may not be adequate to cover all losses that we may suffer from our operations. In addition, our insurance costs may increase and we may not be able to obtain the same insurance coverage in the future

The Group maintains various types of insurance policies for our business and operations, including mainly property damage, business interruption and general liability insurance policies and a surety bond required by PAGCOR, which secures the prompt payment by Melco Resorts Leisure of the monthly licensee fees due to PAGCOR. These insurance policies provide coverage that is subject to policy terms, conditions and limits. There is no assurance that we will be able to renew such insurance coverage on equivalent premium costs, terms, conditions and limits upon their expiration. The cost of coverage may in the future become so high that we may be unable to obtain the insurance policies we deem necessary for the Group's operations on commercially practicable terms, or at all, or we may need to reduce our policy limits or agree to certain exclusions from our coverage.

We cannot assure you that any such insurance policies we obtained or may obtain will be adequate to protect us from material losses. Certain acts and events could expose the Group to significant uninsured losses. In addition to the damages caused directly by a casualty loss such as fire or natural disasters, we may suffer a disruption of our business as a result of these events or be subject to claims by third parties who may be injured or harmed. While we intend to continue carrying business interruption insurance and general liability insurance, such insurance may not be available on commercially reasonable terms, or at all, and, in any event, may not be adequate to cover all losses that may result from such events.

There is limited available insurance in the Philippines and our insurers in the Philippines may need to secure reinsurance in order to provide adequate cover for City of Dreams Manila. The Regular License granted by PAGCOR and certain other material agreements require a certain level of insurance to be maintained, unless otherwise authorized by counterparties. Failure to maintain adequate coverage could be an event of default under the Group's credit agreements or the Regular License and may have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

The winnings of patrons of City of Dreams Manila could exceed its casino winnings at particular times during the Group's operations

Our revenues are mainly derived from the difference between our casino winnings and the winnings of our casino patrons. Since there is an inherent element of chance in the gaming industry, we do not have full control over our winnings or the winnings of our casino patrons. If the winnings of our patrons exceed our casino winnings, we may record a loss from our gaming operations, and the Group's business, financial condition and results of operations could be materially and adversely affected.

Win rates for our casino operations depend on a variety of factors, some beyond our control, which, at particular times, adversely impact the Group's results of operations

In addition to the element of chance, theoretical win rates are also affected by other factors, including player skills and experience, the mix of games played, the financial resources of players, the spread of table limits, the volume and mix of bets placed by our players and the amount of time players spend on gambling — thus our actual win rates may differ greatly over short time periods, such as from quarter to quarter, and could cause the Group's quarterly results to be volatile. Each of these factors, alone or in combination, has the potential to negatively impact the Group's win rates, and the Group's business, financial condition and results of operations could be materially and adversely affected.

Our gaming business is subject to the risk of cheating and counterfeiting

All gaming activities at our table games are conducted exclusively with gaming chips which, like real currency, are subject to the risk of alteration and counterfeiting. We incorporate a variety of security and anti-counterfeit features to detect altered or counterfeit gaming chips. Despite such security features, unauthorized parties may try to copy our gaming chips and introduce, use and cash in altered or counterfeit gaming chips in our gaming areas. Any negative publicity arising from such incidents could also tarnish our reputation and may result in a decline in our business, financial condition and results of operation.

Gaming customers may attempt or commit fraud or cheat in order to increase their winnings, possibly in collusion with the casino's staff. Internal acts of cheating could also be conducted by staff through collusion with dealers, surveillance staff, floor managers or other gaming area staff. Our existing surveillance and security systems, designed to detect cheating at our casino operations, may not be able to detect all such cheating in time or at all, particularly if patrons collude with our employees. In addition, our gaming promoters or other persons could, without our knowledge, enter into betting arrangements directly with our casino patrons on the outcomes of our games of chance, thus depriving us of revenues.

Our operations are reviewed to detect and prevent cheating. Each game has a theoretical win rate and statistics are examined with these in mind. Cheating may give rise to negative publicity and such action may materially affect the Group's business, financial condition, operations and cash flows.

Terrorism, violent criminal acts and the uncertainty of war, and other factors affecting discretionary consumer spending and leisure travel may reduce visitation to the Philippines and harm our operating results

The strength and profitability of the Group's business will depend on consumer demand for integrated resorts and leisure travel in general. Recent terrorist and violent criminal activities in Europe, the United States, Southeast Asia and elsewhere, military conflicts in the Middle East and natural disasters such as typhoons, tsunamis and earthquakes, among other things, have negatively affected travel and leisure expenditures. For example, in June 2017, 38 people at the Resorts World Manila entertainment complex in Pasay, Metro Manila, Philippines were killed when a gunman caused a stampede and set fire to casino tables and slot machine chairs. Terrorism and other criminal acts of violence could have a negative impact on international travel and leisure expenditures, including lodging, gaming and tourism. We cannot predict the extent to which such acts may affect us, directly or indirectly, in the future.

In addition, other factors affecting discretionary consumer spending, including amounts of disposable consumer income, fears of recession, lack of consumer confidence in the economy, change in consumer preferences, high energy, fuel and other commodity costs and increased cost of travel may negatively impact our business. An extended period of reduced discretionary spending and/or disruptions or declines in airline travel could materially adversely affect our business, results of operations and financial condition.

Health and safety or food safety incidents at our property may lead to reputational damage and financial exposures

We provide goods and services to a significant number of customers on a daily basis at our property. In particular, with attractions, entertainment and food and beverage offerings in City of Dreams Manila, there are risks of health and safety incidents or adverse food safety events. While we have a number of measures and controls in place aimed at managing such risks, we cannot guarantee that our insurance is adequate to cover all losses, which may subject us to incur additional costs and damages, and negatively impact our financial performance. Such incidents may also lead to reduced customer flow and reputational damage to our properties.

We extend credit to a portion of our customers, and we may not be able to collect gaming receivables from our credit customers

We conduct, and expect to continue to conduct, our gaming activities at our casinos on a credit basis as well as on a cash basis. Consistent with customary practice in the gaming market, we grant credit to our gaming promoters and certain of our premium direct players. Gaming promoters bear the responsibility for issuing credit and subsequently collecting the credit they granted. We extend credit, often on an unsecured basis, to certain gaming promoters and VIP patrons whose level of play and financial resources warrant such an extension in our opinion. High-end patrons typically are extended more credit than patrons who wager lower amounts. Any slowdown in the economy could adversely impact our VIP patrons, which could in turn increase the risk that these clients may default on credit extended to them.

We may not be able to collect all of our gaming receivables from our credit customers. We expect that we will be able to enforce our gaming receivables only in a limited number of jurisdictions, including the Philippines. Some of our gaming customers are visitors from other jurisdictions and we may not have access to a forum in which we will be able to collect all of our gaming receivables. Further, we may be unable to locate assets in other jurisdictions against which recovery of gaming debts can be sought. The collectability of receivables from our credit customers, and, in particular, our international credit customers, could be negatively affected by future business or economic trends or by significant events in the jurisdictions in which these customers reside, or in which their assets are located. We may also, in certain cases, have to determine whether aggressive enforcement actions against a customer will unduly alienate the customer and cause the customer to cease playing at our casino. We could suffer a material adverse impact on the Group's operating results if receivables from our credit customers are deemed uncollectible.

The Group's business may be impacted by any contraction in the availability of credit

The Group's business and financing plans may be dependent upon the completion of future financings. Any severe contraction of liquidity in the global credit markets may make it difficult and costly to obtain new lines of credit or to refinance existing debt, and may place broad limitations on the availability of credit from credit sources as well as lengthen the recovery cycle of extended credit. Any deterioration in the credit environment may cause us to have difficulty in obtaining additional financing on acceptable terms, or at all, which could adversely affect our ability to complete current and future projects. Tightening of liquidity conditions in credit markets may also constrain revenue generation and growth and could have a material adverse effect on the Group's business, financial condition and results of operations.

Rolling chip patrons and VIP gaming customers may cause significant volatility in the Group's revenues and cash flows

City of Dreams Manila attracts foreign gaming visitors, particularly VIP players who typically place large individual wagers. The loss or a reduction in the play of the most significant of these rolling chip patrons or VIP gaming customers could have an adverse effect on our business. In addition, revenues and cash flows derived from high-end gaming of this type are typically more volatile than those from other forms of gaming primarily due to high bets and the resulting high winnings and losses. As a result, the Group's business and results of operations and cash flows from operations may be more volatile from quarter to quarter than that of our competitors and may require higher levels of cage cash in reserve to manage this volatility.

We are impacted by the reputation and integrity of the parties with whom we engage in business activities and we cannot assure that these parties will always maintain high standards or suitability throughout the term of our association with them. Failure to maintain such high standards or suitability may cause us and our shareholders to suffer harm to our own and our shareholders' reputation, as well as impair relationships with, and possibly result in sanctions from, gaming regulators

The reputation and integrity of the parties with whom we engage in business activities are important to our own reputation and our ability to continue to operate in compliance with the permits and licenses required for our businesses. These parties include, but are not limited to, those who are engaged in gaming-related activities, such as gaming promoters, developers and hotel, restaurant operators with whom we have or may enter into services or other types of agreements. We also conduct our internal due diligence and evaluation process prior to engaging such parties. Notwithstanding such due diligence, we cannot assure that the parties with whom we are associated will always maintain the high standards that we require or that such parties will maintain their suitability throughout the term of our association with them. If any of these third parties violate gaming laws while on our premises, the government may, in its discretion, take enforcement action against these third parties and may find us jointly liable for such third party violations. Also, if a party associated with us falls below the regulator's suitability standard or if their probity is in doubt, this may be negatively perceived when assessed by the gaming regulators. As a result, we and our shareholders may suffer reputational harm, as well as impaired relationships with, and possibly sanctions or other measures or actions from, the relevant gaming regulators with authority over our operations.

We cannot assure that the anti-money laundering policies that we have implemented, and compliance with applicable anti-money laundering laws, will be effective to prevent our casino operations from being exploited for money laundering purposes

We deal with significant amounts of cash during our regular casino operations. As our operations are subject to various reporting and anti-money laundering regulations, we have implemented anti-money laundering policies to address those requirements. Philippine laws on anti-money laundering have recently been amended to include casinos as covered institutions. The Anti-Money Laundering Council and PAGCOR have recently released regulations and guidelines on compliance. Melco Resorts Leisure is currently aligning its own anti-money laundering policies to these new rules and regulations. We cannot assure you that our contractors, agents or employees will continually adhere to any such current or future policies or any such current or future policies will be effective in preventing our casino operations from being exploited for money laundering purposes, including from jurisdictions outside of the Philippines.

There can be no assurance that, despite the anti-money laundering measures we have adopted and undertaken, we would not be subject to any accusation or investigation related to any possible money laundering activities. In addition, we expect to be required by regulatory authorities to attend meetings and interviews from time to time to discuss our operations as they relate to anti-money laundering laws and regulations during which regulatory authorities may make inquiries and take other actions at their discretion. Any incident of money laundering, accusation of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, our gaming promoters, our customers or others with whom we are associated could have a material adverse impact on the Group's reputation, business, cash flow, financial condition, prospects and results of operations. Any serious incident of or repeated violation of laws related to money laundering or any regulatory investigation into money laundering activities may cause a revocation or suspension of the Regular License.

Our information technology and other systems are subject to cyber security risk, including misappropriation of customer information or other breaches of information security, as well as regulatory and other risks

We rely on information technology and other systems (including those maintained by third-parties with whom we contract to provide data services) to maintain and transmit large volumes of customer information, credit card settlements, credit card funds transmissions, mailing lists and reservations information and other personally identifiable information. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The systems and processes we have implemented to protect customers, employees and company information are subject to the ever-changing risk of compromised security. These risks include cyber and physical security breaches, system failure, computer viruses, and negligent or intentional misuse by customers, company employees or employees of third-party vendors. The steps we take to deter and mitigate these risks may not be successful and our insurance coverage for protecting against cybersecurity risks may not be sufficient. Our third-party information system service providers face risks relating to cybersecurity similar to ours, and we do not directly control any of such service providers' information security operations. A significant theft, loss or fraudulent use of customer or company data maintained by us or by a third-party service provider could have an adverse effect on our reputation, cause a material disruption to our operations and management team, and result in remediation expenses, regulatory penalties and litigation by customers and other parties whose information was subject to such attacks, all of which could have a material adverse effect on our business, prospects, results of operations and cash flows.

Our collection and use of personal data are governed by privacy laws and regulations and this area of law is an area that changes often and varies significantly by jurisdiction. Compliance with applicable privacy regulations may increase our operating costs and/or adversely impact our ability to market our products, properties and services to our customers and guests. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third parties engaged by us) or a breach of security on systems storing our data may result in damage of reputation and/or subject us to fines, payment of damages, lawsuits, criminal liability or restrictions on our use or transfer of data.

Certain policies and campaigns implemented by the Chinese government may lead to a decline in the number of patrons visiting our property and the spending by such patrons, which may materially and adversely affect our business, financial condition and results of operations

The number of patrons visiting City of Dreams Manila, and the spending by such patrons, may be affected by changes in policies and campaigns of the Chinese government. In recent years, initiatives and campaigns undertaken by the Chinese government have resulted in an overall dampening effect on the behavior of Chinese consumers and a decrease in their spending, particularly in luxury good sales and other discretionary spending. In addition, the number of potential patrons visiting City of Dreams Manila may be affected by the Chinese government's focus on deterring marketing of gaming to Chinese mainland residents by foreign casinos.

Any campaigns or initiatives which impact Chinese consumer willingness to spend may have a material effect on the Group's gaming market and materially and adversely affect the Group's business, financial condition and results of operations.

Risks Relating to the Development of Entertainment City and Operation of City of Dreams Manila

City of Dreams Manila commenced operations in December 2014 and had its grand opening in February 2015. There is limited historical information available about its operations upon which investors can make an evaluation of City of Dreams Manila's business and prospects. In addition, Entertainment City, where City of Dreams Manila is located, is currently still in a preliminary stage of development in which only two integrated casino projects are in full operation, one of which is City of Dreams Manila.

Risks Relating to Leases

Melco Resorts Leisure entered into a lease agreement on October 25, 2012, which became effective on March 13, 2013 (the "**Lease Agreement**"), pursuant to which it leases from Belle the land and buildings occupied by City of Dreams Manila, which, in turn, leases part of the land from the Philippine government's social security system (the "**Social Security System**"). Numerous potential issues or causes for disputes may arise from a tenancy relationship, such as with respect to the provision of utilities on the premises, rental lease payments or any adjustments thereto, and the maintenance and normal repair of the buildings, any of which could result in an arbitrable dispute between Belle and Melco Resorts Leisure. There can be no assurance that any such dispute would be resolved or settled amicably or expediently or that Melco Resorts Leisure will not encounter any material issues with respect to its tenancy relationship with Belle. Furthermore, during the pendency of any dispute, Belle, as lessor, could discontinue essential services necessary for the operation of City of Dreams Manila, or seek relief to oust Melco Resorts Leisure from possession of the leased premises. Any prolonged or substantial dispute between Belle and Melco Resorts Leisure, or any dispute arising under the lease agreement between Belle and the Social Security System, could have a material adverse effect on the operations of City of Dreams Manila, which would in turn adversely affect the Group's business, financial condition and results of operations. In addition, any negative publicity arising from disputes with, or non-compliance by, Belle with the Lease Agreement would have a material adverse effect on the Group's business and prospects, financial condition and results of operations.

Furthermore, the Lease Agreement may be terminated under certain circumstances, including Melco Resorts Leisure's non-payment of rent, or if either party fails to substantially perform any material covenants under the Lease Agreement and fails to remedy such non-performance in a timely manner, which would cause a material adverse effect on the Group's business and prospects, financial condition, results of operations and cash flows.

If the termination of certain agreements which Belle previously entered into with another casino operator and other third parties is not effective, such operator and third parties may seek to enforce these agreements against Belle or Melco Resorts Leisure as a co-licensee of Belle, which could adversely impact City of Dreams Manila and the Group

Prior to Melco Resorts Leisure being designated as the sole operator under the Provisional License, Belle, for itself and on behalf of the other Philippine Parties, previously entered into contracts with another operator and certain third-party contractors, for the fit-out and other design work related to City of Dreams Manila in its previous form. The Philippine Parties subsequently elected to terminate such contracts and the operator with whom Belle previously contracted, on behalf of itself and such third party contractors, signed a waiver releasing the Philippine Parties from all obligations thereunder. Although Belle agreed to indemnify the MPHIL Holdings Group from any loss suffered in connection with the termination of such contracts, there can be no assurance that Belle will honor such agreement. Any issues which may arise from such contracts and their counterparties, or any attempt by another operator or any other third-party contractor to enforce provisions under such contracts could interfere with the Group and the Company's operations or cause reputational damage, which would in turn materially adversely affect the Company's business, financial condition and results of operations.

Compliance with the terms of the Regular License, Melco Resorts Leisure's ability to operate City of Dreams Manila, and the success of City of Dreams Manila as a whole are dependent on the actions of the other Licensees over which Melco Resorts Leisure has no control

Although Melco Resorts Leisure is the sole operator of City of Dreams Manila, the ability of the MPHIL Holdings Group to operate City of Dreams Manila, as well as the fulfillment of the terms of the Regular License granted by PAGCOR in relation to City of Dreams Manila, depends to a certain degree on the actions of the Philippine Parties. For example, the Philippine Parties, as well as the MPHIL Holdings Group, are responsible for meeting a certain debt to equity ratio as specified in the Regular License. The failure of any of the Philippine Parties to comply with these conditions would constitute a breach of the Regular License. As the Philippine Parties are separate corporate entities over which Melco Resorts Leisure has no control, there can be no assurance that the Philippine Parties will remain in compliance with the terms of the Regular License or their obligations and responsibilities under the Cooperation Agreement dated October 25, 2012 between the MPHIL Holdings Group, SMIC and certain of its subsidiaries (collectively, the "**SM Group**"), Belle and PLAI which became effective on March 13, 2013 (the "**Cooperation Agreement**"). In the event of any non-compliance, there can be no assurance that the Regular License will not be suspended or revoked. In addition, if any of the Philippine Parties fails to comply with any of the conditions to the Regular License, Melco Resorts Leisure may be forced to take action against the Philippine Parties under the Cooperation Agreement or to enter into negotiations with PAGCOR for amendments to the Regular License. There can be no assurance that any attempt to amend the Regular License would be successful. Any of the foregoing could materially and adversely affect the Group's business, financial condition and results of operations.

Furthermore, under the Cooperation Agreement, the Philippine Parties are required to contribute the land and building structures for City of Dreams Manila. There can be no assurance that the title to the land and building structures for City of Dreams Manila will not be challenged by third parties or the Philippine Government in the future. Any such event, each of which is beyond the Group's control, may curtail the ability of Melco Resorts Leisure to operate City of Dreams Manila in an efficient manner or at all and have a material adverse effect on the Group's business, financial condition and results of operations.

Melco Resorts Leisure's right to operate City of Dreams Manila is subject to certain limitations under the Operating Agreement

Melco Resorts Leisure's right to operate City of Dreams Manila is subject to certain limitations under the Operating Agreement dated March 13, 2013 executed between the Philippine Parties and the MPHIL Holdings Group. For example, Melco Resorts Leisure is prohibited from entering into any contract for City of Dreams Manila outside the ordinary course of the operation and management of City of Dreams Manila with an aggregate contract value exceeding US$3.0 million (such contract value to be increased by 5.0% each year on each anniversary date of the Operating Agreement) without the consent of the Philippine Parties. In addition, Melco Resorts Leisure is required to remit specified percentages of the mass market and VIP gaming EBITDA or net revenues derived from City of Dreams Manila to PLAI.

If Melco Resorts Leisure is unable to comply with any provisions of the Operating Agreement, the other parties to the Operating Agreement may bring lawsuits and seek to suspend or replace Melco Resorts Leisure as the sole operator of City of Dreams Manila, or terminate the Operating Agreement. Moreover, the Philippine Parties may terminate the Operating Agreement if Melco Resorts Leisure materially breaches the Operating Agreement. Termination of the Operating Agreement, whether resulting from Melco Resorts Leisure's or the Philippine Parties' non-compliance with the Operating Agreement, would cause a material adverse effect on the Group's business and prospects, financial condition, results of operations and cash flows.

Melco Resorts Leisure may be forced to suspend VIP gaming operations at City of Dreams Manila under certain circumstances

Under the Operating Agreement, Melco Resorts Leisure must periodically calculate, on a 24-month basis, the respective amounts of VIP gaming earnings before interest, tax, depreciation and amortization derived from City of Dreams Manila (the "**PLAI VIP EBITDA**") and VIP gaming net win derived from City of Dreams Manila pursuant to the Operating Agreement (the "**PLAI VIP Net Win**") and report such amounts to the Philippine Parties (the "**Payment to Philippine Parties**"). If the PLAI VIP EBITDA is less than the PLAI VIP Net Win, the other Licensees must meet within ten business days to discuss and review City of Dreams Manila's financial performance and agree on any changes to be made to the business operations of City of Dreams Manila and/or to the payment terms under the Operating Agreement. If such an agreement cannot be reached within 90 business days, Melco Resorts Leisure must suspend VIP gaming operations at City of Dreams Manila.

Any suspension of VIP gaming operations at City of Dreams Manila would materially adversely impact gaming revenues from City of Dreams Manila. Moreover, suspension of VIP gaming operations could effectively lead Melco Resorts Leisure to limit or suspend certain non-gaming operations focusing on VIP players, such as the VIP hotel and VIP lounge, which would further reduce revenues from City of Dreams Manila. Any suspension of VIP gaming operations, even for a brief period of time, could also damage the reputation and reduce the attractiveness of City of Dreams Manila as a premium gaming destination, particularly among premium direct players and other VIP players, as well as gaming promoters, which could have a material adverse effect on Melco Resorts Leisure's or the Group's business, financial condition and results of operations.

Increased competition may affect City of Dreams Manila's business and results of operations

The three other holders of PAGCOR licenses in Entertainment City continue to develop their businesses, and PAGCOR has recently granted a provisional license to a fifth player. Any significant increase in gaming facilities would intensify competition. The operation of City of Dreams Manila would in turn need to increase its competitiveness in order to keep pace with any increased competitiveness of the gaming market.

The Group may not be able to implement an effective business strategy to keep pace with the developing competition in the Philippine gaming market. Any failure by the Group to improve its competitiveness within the Philippine gaming market or take advantage of the opportunities presented by a developing market may have a material adverse effect on its business and results of operations.

In addition, if the Group is unable to successfully manage the potential difficulties associated with developing its operations or expanding City of Dreams Manila, it may not be able to maintain operating efficiencies as City of Dreams Manila expands. If the Group is not able to continue to capture scale efficiencies, successfully manage personnel and hiring, improve its systems, maintain its cost discipline strategies and enhance its product offerings through any future construction phases of City of Dreams Manila, this would cause a material adverse effect on the Group's business and prospects, financial condition, results of operations and cash flows.

City of Dreams Manila's ability to generate revenues depends to a substantial degree on the development of Manila and the Philippines as a tourist and gaming destination

The integrated casino resort and gaming industry in the Philippines is in the early stage of development and has a limited track record. It is difficult to evaluate the attractiveness of each of Entertainment City, Manila and the Philippines, in general, as viable gaming destinations to domestic and international visitors. City of Dreams Manila's ability to generate revenue depends, to a substantial degree, on the continued development of the Philippines as a tourist and gaming destination, which, in turn, depends on several factors beyond the control of the Group, including the government's ability to successfully promote the Philippines as an attractive tourist destination, general promotion of the Philippines by the Department of Tourism and key tourism companies, the development of transportation and tourism infrastructure, consumer preferences and other factors in the Philippines and the region. Should the Philippines fail to continue to develop as a tourist destination or should Entertainment City or Manila fail to become a widely recognized regional gaming destination, City of Dreams Manila may fail to attract a sufficient number of visitors, which would cause a material adverse effect on the Group's business and prospects, financial condition, results of operations and cash flows.

Melco Resorts Leisure's strategy to attract premium mass market customers to City of Dreams Manila may not be effective

A part of Melco Resorts Leisure's strategy for City of Dreams Manila is to capture a share of the premium mass gaming market in the region. Compared to general mass market patrons, whose typical wagers are relatively low, premium mass market patrons usually have higher minimum bets. Despite its targeted marketing efforts, there can be no assurance that these premium mass market customers will be incentivized to play in City of Dreams Manila rather than in comparable properties in Macau or elsewhere in the region, as these players may be unfamiliar with the Philippines or refuse to change their normal gaming destination. If Melco Resorts Leisure is unable to expand in the premium mass market as it intends, this would adversely affect its business and results of operations.

The Group may be unable to maintain effective internal controls

The Group's internal control systems in City of Dreams Manila are intended to effectively monitor and ensure efficient operations across all departments and phases of operations. The internal controls, comprised of monitoring systems, information technology and security systems, will only be able to provide reasonable, not absolute, assurance that the objectives of such systems are met. The Group may be adversely affected by the failure of any or all of its internal control systems and cannot guarantee that it will be able to adapt its internal control systems to the new forms of gaming or new practices that continually and rapidly emerge in the gaming industry. A failure in internal control systems, including any that affect City of Dreams Manila's ability to accurately report its casino revenues, may also lead PAGCOR to adversely modify or revoke the Regular License. Any of these failures could materially and adversely impact the Group's business, financial condition and results of operations.

Changes in public acceptance of gaming in the Philippines may adversely affect City of Dreams Manila

Public acceptance of gaming changes periodically in various gaming locations in the world and represents an inherent risk to the gaming industry. In addition, the Catholic Church, community groups, non-governmental organizations and individual government officials have, on occasion, taken strong and explicit stands against gaming. PAGCOR has, in the past, been subject to lawsuits by individuals trying to halt the construction of casinos in their communities. Church leaders have on occasion called for the abolition of PAGCOR. There can be no guarantee that negative sentiments will not be expressed in the future against City of Dreams Manila or integrated casino resorts in general, which may reduce the number of visitors to City of Dreams Manila and materially and adversely affect the Group's business, financial condition and results of operations.

*Melco Resorts Leisure may be unable to successfully register City of Dreams Manila as a tourism enterprise zone with the Philippine Tourism Infrastructure and Enterprise Zone Authority, an agency of the Philippine Department of Tourism ("**TIEZA**")*

While Melco Resorts Leisure intends to apply for a designation as a tourism enterprise with TIEZA, there can be no assurance that TIEZA will approve the designation of Melco Resorts Leisure as a tourism enterprise. If Melco Resorts Leisure is unable to register as a tourism enterprise with TIEZA, it will not be entitled to certain fiscal incentives provided to some of Melco Resorts Leisure's competitors that are registered as tourism enterprises under TIEZA. For example, Melco Resorts Leisure's liability for VAT on its sales largely depends on whether it may avail itself of tax incentives under TIEZA. If tax incentives under TIEZA are not available to Melco Resorts Leisure, it will be liable for VAT, which may result in a material adverse effect on the Group's business and prospects, financial condition, results of operations and cash flows.

In addition, if Melco Resorts Leisure is able to register as a tourism enterprise with TIEZA, it will then be required to withdraw its current registration as a tourism economic zone enterprise with PEZA. The process of shifting from a Tourism Economic Zone Enterprise under PEZA to a tourism enterprise under TIEZA is uncertain. There is also uncertainty with respect to the fiscal incentives that may be provided to a registered tourism enterprise under TIEZA. Any of the foregoing results could have a material adverse effect on the Group's and/or our business, financial condition and results of operations.

However, several Bills were previously passed and are currently pending in Congress with a view towards rationalizing fiscal incentives, if any, currently granted to certain enterprises and activities, including tourism enterprises. It is uncertain whether these Bills will be passed into law, or what the effect will be on the incentives currently granted to qualified tourism enterprises under the Tourism Act of 2009.

Risks relating to the requirements imposed by PAGCOR

City of Dreams Manila's gaming areas may only legally operate under the Regular License granted by PAGCOR, which imposes certain requirements on the Licensees. Compliance with the terms of the Regular License depends to a certain degree on the actions of the Philippine Parties. The Philippine Parties are composed of separate corporate entities over which the MPHIL Holdings Group has no control.

The Regular License is also subject to suspension or termination upon the occurrence of certain events. The requirements imposed by the Regular License include, among others:

- payment of monthly license fees to PAGCOR;
- maintenance of a debt-to-equity ratio (based on calculation as agreed with PAGCOR) for each of the Licensees of no greater than 70:30;
- at least 95.0% of the total employees of City of Dreams Manila must be Philippine citizens;
- 2.0% of certain casino revenues must be remitted to a foundation devoted to the restoration of cultural heritage and 5.0% of certain non-gaming revenues to PAGCOR; and
- operation of only the authorized casino games approved by PAGCOR.

Moreover, certain provisions and requirements of the Regular License are open to different interpretations and have not been interpreted by the courts or made subject to more detailed interpretative rules. There is no guarantee that the MPHIL Holdings Group's proposed mode of compliance with these or other requirements of the Regular License will be free from administrative or judicial scrutiny in the future. Any difference in interpretation between PAGCOR and the Group with respect to the Regular License could result in sanctions against the MPHIL Holdings Group, including fines or other penalties, such as suspension or termination of the Regular License.

There can be no assurance that the Licensees will be able to continuously comply with all of the Regular License's requirements, or that the Regular License will not be modified to contain more onerous terms or amended in such a manner that would cause the Licensees to lose interest in the operation of City of Dreams Manila. If the Regular License is materially altered or revoked for any reason, including the failure by any of the Licensees to comply with its terms, the Group may be required to cease City of Dreams Manila's gaming operations, which would have a material adverse effect on the Group's business, financial condition and results of operations. In addition, a failure in the internal control systems of Melco Resorts Leisure may cause PAGCOR to adversely modify or revoke the Regular License. Finally, the Regular License will terminate in 2033, coinciding with the term under Presidential Decree No. 1869 (the "**PAGCOR Charter**"), and there is no guarantee that the PAGCOR Charter or the Regular License will be renewed.

As PAGCOR is also a gaming operator, there can be no assurance that PAGCOR will not withhold certain approvals from the MPHIL Holdings Group in order to favor its own gaming operations. PAGCOR may also modify or impose additional conditions on its licensees or impose restrictions or limitations on Melco Resorts Leisure's casino operations that would interfere with Melco Resorts Leisure's ability to provide VIP services, which could adversely affect the Group's business, financial condition and results of operations.

City of Dreams Manila may be required to obtain an additional legislative franchise, in addition to its Regular License

On August 2, 2017, House Bill No. 6111 was passed which proposed the creation of the Philippine Amusements and Gaming Authority or PAGA, which will replace PAGCOR as the regulatory agency of gaming activities in the Philippines. Also under House Bill No. 6111, the Licensees will be required to obtain from the Congress a legislative franchise to operate gambling casinos, gaming clubs and other similar gambling enterprises within one year from the date of the proposed law's effectiveness. Non-compliance will result in the Licensee's operations considered as illegal. On October 2, 2017, House Bill No. 6514 was passed whose provisions are essentially similar to House Bill No. 6111, particularly on the need for Licensees to obtain from Congress a legislative franchise within one year from the date of the proposed law's effectiveness.

It is not yet known if House Bills 6111 and 6514, in their current form, will be approved by the Senate or signed into law by the President. In the event that House Bills 6111 and 6514 are signed into law, City of Dreams Manila may be required to obtain an additional legislative franchise in addition to its Regular License and there can be no assurance that such a franchise, which generally requires legislative approval after public hearings, will be granted. In addition, the Regular License may be subject to amendment or repeal by Congress. In the event City of Dreams Manila is not granted any required franchise, or the Regular License is materially amended or repealed, the operation of City of Dreams Manila may cease, which would have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to changes or developments in gaming laws or other regulations

City of Dreams Manila's gaming operations is highly regulated and subject to regulations from both the national and local government. Current laws applicable to City of Dreams Manila and its operations could change or become more stringent resulting in additional regulations imposed upon City of Dreams Manila.

For instance, the local government may further impose smoking restrictions on all business establishments within its jurisdiction, in addition to current smoking regulations in place and those imposed by the national government. Presently, smoking areas in City of Dreams Manila have been limited to the casino floor and a few designated smoking vicinities within the property. The local government may further impose additional restrictions on said designated smoking areas such as requiring them to be fully enclosed. Compliance with such new rules could pose as a challenge which could negatively impact the Group's financial performance.

The Licensees may be subject to corporate income and value added tax

The Licensees may be subject to corporate income tax at the rate of 30.0% in addition to the license fees paid to PAGCOR "in lieu of all taxes" pursuant to the Regular License. In March 2011, the Supreme Court issued an order implicitly revoking PAGCOR's exemption from corporate income tax under the PAGCOR Charter and removing PAGCOR from the list of government-owned and controlled corporations that are exempt from paying corporate income tax. Subsequently, in April 2013, the Bureau of Internal Revenue ("**BIR**") issued a Revenue Memorandum Circular indicating that PAGCOR and its licensees and contractees are subject to corporate income tax on their gambling, casino, gaming club and other similar recreation or amusement and gaming pool operations. To mitigate the effects of the 2011 decision of the Supreme Court, PAGCOR, in May 2014, issued a regulation allowing the Licensees and the other casino operators to reallocate ten percent (10%) of the monthly Licensee Fees to be remitted to PAGCOR. This 10% will be used to pay any corporate income tax that may be levied against the Licensees and the other casino operators at the end of the fiscal year, and any remaining amount after paying such tax would be remitted to PAGCOR.

In February 2015, the Supreme Court issued another decision stating that PAGCOR's income from its gaming operations can only be subject to a five percent (5%) franchise tax, and not corporate income tax. In addition, the Supreme Court in its February 2015 decision ruled that despite amendments to the National Internal Revenue Code, the PAGCOR Charter remains in effect, and thus, income from gaming operations shall not be subject to corporate income tax.

In August 2016, the Supreme Court accepted the petition filed by Bloomberry Resorts and Hotels, Inc., one of the four PAGCOR licensees and operator of Solaire, against the BIR to cease and desist from imposing corporate income tax on income derived from gaming operations. The BIR filed a motion for reconsideration of the August 2016 decision which the Supreme Court denied in November 2016. Any requirement of the Philippine Licensees to pay corporate income tax would have a material adverse effect on our business, financial condition and results of operations.

On December 19, 2017, Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act ("**TRAIN**") was signed into law and took effect on January 1, 2018. The TRAIN changed existing tax laws and included several provisions that will generally affect businesses on a prospective basis. Any future amendment on the TRAIN, such as changes on the application of Value Added and Corporate Income Taxes, as they apply to PAGCOR or the casinos, may have significant impact on the Group's business.

The Licensees may further be subject to other forms of taxes that may be implemented by the Philippine government in the future.

MRP is exposed to risks in relation to MRP's previous business activities and industry

Prior to the acquisition of the Company by Melco, MRP's primary business was the manufacture and processing of pharmaceutical products. The pharmaceuticals industry is highly regulated in the Philippines and abroad. There can be no assurance that MRP will not be involved in or subject to, claims, allegations or suits with respect to, its previous activities in the pharmaceutical industry, for which MRP may not be insured fully or at all. Although MRP has indemnities as to certain liabilities or claims or other protections put in place, any adverse claim or liability imputed to MRP with respect to its previous business activities could have a material adverse effect on its business and prospects, financial condition, results of operations and cash flow.

Risks relating to union activities

In January 2019, the employees of the Table Games Division of City of Dreams Manila elected to organize and become part of a labor union that will act as their collective bargaining agent with Melco Resorts Leisure, the operating company of City of Dreams Manila. On February 13, 2019, Kilusan ng Manggagawang Makabayan (KMM-Katipunan) Melco Resorts Leisure (PHP) Corporation – Table Games Division – Chapter was certified by the Department of Labor to represent the rank-and-file employees of the Table Games Division of City of Dreams Manila as the former's collective bargaining agent. Any demand or activities of such collective bargaining agent, or any additional collective bargaining agents that may be certified by the Department of Labor in the future, could have a material adverse effect on the business and operations of City of Dreams Manila or the Group's financial condition and results of operations.

Risks relating to possible delisting from the Exchange

Following the conclusion of the Tender Offer by MCO Investments in December 2018, the public ownership level of MRP decreased from 25.79% to 2.10%, which is below the minimum public ownership requirement of the Exchange. Consequently, the trading of the shares of MRP was suspended by the PSE on December 10, 2018 in accordance with its rules. Should the Company fail to bring its public ownership level back to the required threshold of the PSE within a period of six months from the time of its suspension, MRP may be automatically delisted from the PSE. Such delisting could affect the tradability of MRP shares. While transactions involving MRP shares are presently subject to higher taxes in view of the trading suspension and are considered as transactions conducted off the Exchange, any delisting of MRP from the Exchange would permanently deprive MRP of the privilege to use the trading platform of the PSE and the lower tax rate applicable to transactions conducted on the Exchange.

Risks relating to the country in general

All of the Group's businesses and assets are in the Philippines and its performance will depend to a substantial degree on the performance of the Philippine economy. The Group's gaming business is also vulnerable to global and regional economic downturns and may cause the Group difficulty raising sufficient capital to expand its operations in the future.

PRESENT INVESTMENTS AND ACTIVITIES

From March 20, 2013, upon completion of the reverse acquisition of MPHIL Holdings Group, and as of the date of this report, the following are the investments of the Company:

MPHIL Holdings No. 1 Corporation

MPHIL Holdings No. 1 was incorporated and registered with the SEC on August 13, 2012 as an investment holding company. It is 100% owned by the Company. It beneficially owns all of the shares in MPHIL Holdings No. 2.

MPHIL Holdings No. 2 Corporation

MPHIL Holdings No. 2 was incorporated and registered with the SEC on August 22, 2012 as an investment holding company. It is 100% indirectly owned by the Company. It beneficially owns all of the shares in Melco Resorts Leisure.

Melco Resorts Leisure (PHP) Corporation

Melco Resorts Leisure was incorporated and registered with the SEC on August 30, 2012 to develop and operate tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components, which were further expanded to include casino gaming activities. It is 100% indirectly owned by the Company.

SUBSEQUENT EVENTS

There have been no events subsequent to year end which require adjustments of our disclosure in the consolidated financial statements or notes thereto.

Item 2. Properties[2]

As of December 31, 2018, on a consolidated basis, the property and equipment of the Group amounted to ₱20,359,266 as compared to ₱23,130,988 as of December 31, 2017.

Currently, the Group does not own any real property. However, City of Dreams Manila is situated on a 6.2-hectare land situated in Asean Avenue in Parañaque City, in which the land and the buildings used are leased by Melco Resorts Leisure from Belle under the terms of a contract of lease entered into on October 25, 2012 which became effective on March 13, 2013.

Part of the land leased by Belle to Melco Resorts Leisure is leased by Belle from the Social Security System under a lease agreement between Belle and the Social Security System.

Under the Lease Agreement, the land and certain of the buildings were leased with effect from March 13, 2013. Thereafter, the remain

ing buildings were leased to Melco Resorts Leisure as those parts of the building shells were constructed. The lease continues until termination of the Operating Agreement entered into between the Company's subsidiaries and Belle (for itself and on behalf of SMIC and PLAI) on March 13, 2013 (unless terminated earlier in accordance with its terms).

Rent is payable on a monthly basis, and the rental amounts are based on a fixed schedule of rates subject to annual escalation and any subsequent changes in the terms of the Lease Agreement. After a certain period, the annual rent payable will be re-rated based on the Consumer Price Index for the relevant period of the Lease Agreement.

Item 3. Legal Proceedings Affecting the Registrant or its Affiliates

We are currently a party to certain legal proceedings which relate to matters arising out of the ordinary course of our business. Based on the current status of such proceedings and the information currently available, our management does not believe that the outcome of such proceedings will have a material adverse effect on our business, financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

In the annual stockholders meeting held on June 13, 2018, the shareholders of the Company approved the following resolutions:

(a) approval of the minutes of the annual stockholders' meeting held on June 20, 2017 and the special stockholders' meeting held on and September 26, 2017;

(b) approval of the Audited Financial Statements of the Corporation for the year ended December 31, 2017;

(c) election of the members of the Board of Directors;

(d) appointment of external auditor; and

(e) ratification of actions taken by the Board of Directors and officers since the last annual stockholders' meeting held on June 26, 2017.

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[2] In thousands of Philippine peso.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market Price of and Dividends on Issuer's Common Equity and Related Shareholder Matters

Market Information. All of the Company's issued shares are listed and traded on the PSE. The following table indicates the high and low trading prices of the Company's shares in the PSE for the fiscal year 2017, 2018 and the first quarter of 2019.

		HIGH	LOW
2019			
	First Quarter*	0	0
2018			
	First Quarter	9.27	7.20
	Second Quarter	8.19	5.09
	Third Quarter	7.70	5.02
	Fourth Quarter	7.29	6.50
2017			
	First Quarter	6.85	3.75
	Second Quarter	10.26	6.03
	Third Quarter	9.50	7.20
	Fourth Quarter	7.97	5.85

*Trading of MRP shares was suspended on December 10, 2018.

Shareholders. The Company has a single class of common shares. As of December 31, 2018:

(a) the percentage ownership of stockholders of record of the total outstanding shares of the Company was 00.42% Filipino and 99.58% Foreign;

(b) the number of shares outstanding of the Company is 5,687,270,800; and

(c) the number of shareholders of the Company is 407.

The following are the Company's top 20 shareholders as of December 31, 2018:

	NAME	NO. OF SHARES HELD	% TO TOTAL OUTSTANDING SHARES
1	PCD Nominee Corporation (Non-Filipino)*	5,663,532,188	99.58%
2	PCD Nominee Corporation (Filipino)	19,676,393	00.35%
3	Victor Sy	187,500	00.00%
4	Lumen Tiaoqui	150,000	00.00%
5	Josephine T. Willer	118,750	00.00%
6	Alexander S. Araneta	116,250	00.00%
7	Jose Marcel Enriquez Panlilio	112,500	00.00%
8	Bernard Ong and/or Conchita Ong	100,000	00.00%
9	Elenita B. Alikpala	82,500	00.00%
10	Rafael Uyguanco	75,000	00.00%
11	Rosa T. Cabrera	75,000	00.00%
12	Ramon Cojuangco, Jr.	71,250	00.00%
13	Mario C. Tan	67,500	00.00%
14	Judy Tan Reynolds	62,500	00.00%
15	Mario A. Alix	57,937	00.00%

16	Rose Anne Cu Unjieng	50,625	00.00%
17	Quirino J. Munoz	50,000	00.00%
18	Patrick Paul Tan	50,000	00.00%
19	Eduardo Hedy Sonido	50,000	00.00%
20	Carmelita De Leon Chan	50,000	00.00%
	TOTAL	**5,684,735,893**	**99.96%**

* Includes the 5,396,393,164 shares of MCO (Philippines) Investments Limited and 173,837,068 shares of MPHIL Corporation lodged with the Philippine Depository and Trust Corporation.

Dividends Per Share. No dividend was declared for the year ended December 31, 2018.

Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction.

Pursuant to the Subscription and Share Sale Agreement, on March 20, 2013, the Company issued and MCO Investments subscribed to 2,846,595,000 common shares at the subscription price per share equivalent to the par value of ₱1.00 per share out of the increase in authorized capital stock of the Company from ₱900 million divided into 900 million shares to ₱5.9 billion divided into 5.9 billion shares, which increase in capital stock was approved by the SEC on April 8, 2013. The subscription of shares pursuant to an increase in capital stock is an exempt transaction under section 10.1 (i) of the Securities Regulation Code ("**SRC**").

Furthermore, pursuant to the Placing and Subscription Transaction, on April 24, 2013, a total of 981,183,700 shares of stock were offered and sold by MCO Investments by way of a private placement to various institutional investors, including the grant of the Over-allotment Option of up to 117,075,000 shares to the Stabilizing Agent. MCO Investments then used the proceeds of the placing transaction to subscribe to an equivalent number of 981,183,700 shares in the Company. The Stabilizing Agent exercised the Over-allotment Option on May 23, 2013 and subscribed to 36,024,600 common shares of MRP. MCO Investments then used the proceeds from the Over-allotment Option to subscribe to an equivalent number of 36,024,600 shares of the Company. The offer and the subscription of new shares as a result of the Placing and Subscription Transaction is an exempt transaction under section 10.1 (k) and (l) of the SRC.

On February 19, 2013, MRP's shareholders approved the Share Incentive Plan ("**SIP**" or the "**Plan**") to grant shares and options to qualified employees, directors, officers and other qualified persons at an exercise price and vesting periods to be determined by the Compensation Committee of the Board of Directors. On April 12, 2013, the SEC resolved that the issuance of the 131,578,947 common shares under the Plan was exempt from registration requirements under section 10.2 of the SRC.

On June 21, 2013, MRP's shareholders approved the amendment of the SIP made in order to comply with the relevant provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKLR**") since Melco, an affiliate of the Company, is listed on The Stock Exchange of Hong Kong Limited. The amendments include, but not limited to, additional provisions for compliance with HKLR requirements (i) when awards are granted to "connected persons" (as such term is defined under HKLR); and (ii) on restriction on timing of grant of awards. On June 24, 2013, additional 44,214,138 common shares were granted exemption from registration by the SEC under section 10.2 of the SRC. On May 18, 2015, the shareholders of MRP approved the further amendment of the SIP to remove HKLR compliance provisions as a result of the delisting of Melco from The Stock Exchange of Hong Kong Limited ("**HKSE**"), which was submitted to the SEC for approval. Prior to the said SEC approval, the SIP was again amended to reincorporate the HKLR compliance provisions following the consolidation of MRP into the group of Melco International as its subsidiary for accounting and listing rules purposes. The amendments were approved by MRP's shareholders on December 5, 2016 and by the SEC on March 14, 2017.

On June 28, 2013, 181,239,503 underlying shares related to shares and options under the SIP were granted, and MRP has filed a request for exemption for the issuance of the additional 5,446,418 common shares. On August 12, 2013, additional 5,446,418 common shares were granted exemption from registration by the SEC under section 10.2 of the SRC.

On April 22, 2014, the Board of Directors of MRP approved the issuance of an additional 13,585,772 shares to eligible employees, directors, officers and other qualified persons under the Company's SIP. On May 30, 2014, the SEC resolved that the issuance of the 13,585,772 common shares under the Plan was exempt from registration requirements under section 10.2 of the SRC.

On June 24, 2014, MRP and MCO Investments completed the 2014 Placing and Subscription Transaction, where a total of 485,177,000 shares of MRP were offered and sold by MCO Investments by way of a private placement to various institutional investors. MCO Investments then used the proceeds of the placing transaction to subscribe to an equivalent number of 485,177,000 shares in MRP. The offer and the subscription of new shares as a result of the 2014 Placing and Subscription Transaction is an exempt transaction under sections 10.1 (k) and (l) of the SRC.

On August 25, 2015, the Board approved the issuance of an additional 45,000,000 shares to eligible employees, consultants and directors of the Company, its parent and subsidiaries under the Company's SIP. The SEC approved the issuance of such additional shares on September 29, 2015.

In view of the potential delisting of MRP, it is expected that no further equity awards will be granted under the SIP. In addition, MRP intends to retire all outstanding awards under the SIP, including the unvested MRP restricted shares and both the unvested and vested but unexercised MRP share options by the payment of cash to the relevant grantees.

On November 19, 2015, the Board of Directors of the Company approved the subscription by MCO Investments, and MCO Investments subscribed, to an additional 693,500,000 common shares of MRP, with a par value of ₱1.00 per share, at a subscription price of ₱3.90 per share, or a total subscription price of ₱2,704,650,000. The issuance of the additional shares as a result of the subscription is an exempt transaction under section 10.1 (k) of the SRC.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis relate to the consolidated financial information and operating results of the Group and should be read in conjunction with the accompanying consolidated financial statements and related notes of the Group as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016.

Overview and Plan of Operation

The Company, through its subsidiaries, is engaged in the development and operation of an integrated hotel, gaming, retail and entertainment complex within the Entertainment City. The Company's subsidiaries, MPHIL Holdings No. 1, MPHIL Holdings No. 2, and Melco Resorts Leisure, together with SMIC, Belle and PLAI, are the holders of the Regular License issued by PAGCOR for the development of City of Dreams Manila. The Company is an indirect subsidiary of Melco, a leading developer of integrated gaming resorts in Macau and other parts of Asia, and its subsidiary, Melco Resorts Leisure, is responsible for the furniture, fixtures and equipment (including gaming equipment), working capital expenses, non-real property improvements and personal property, as well as the management and operation of City of Dreams Manila. Belle, part of the SM Group and one of the largest conglomerates in the Philippines with interests in retail, real estate development and banking, among others, is responsible for construction of the principal structures and fixtures of City of Dreams Manila.

City of Dreams Manila opened its doors to the public in December 2014 and marked the formal entry of Melco into the fast-growing and dynamic tourism industry in the Philippines. City of Dreams Manila had its grand opening on February 2, 2015. The new integrated casino resort at Entertainment City, Manila Bay, Manila, is solely operated and managed by Melco Resorts Leisure. The dynamic and innovative resort complex, located on an approximately 6.2 hectare site at the gateway to Entertainment City, includes entertainment, hotel, retail and dining and lifestyle experiences with aggregated gaming space, including VIP and mass market gaming facilities with up to approximately 380 gaming tables, 2,300 slot machines and 1,200 electronic gaming tables. In 2018, City of Dreams Manila had an average of 300 gaming tables, 1,708 slot machines and 221 electronic gaming tables in operation. The integrated resort features distinctive entertainment venues, namely Manila's first branded Family Entertainment Center, a live performance central lounge inside the casino and virtual reality zones. Until they closed in October 2018 to give way to their conversion in 2019 as a luxurious gaming space, the integrated resort also featured two night clubs situated at the Fortune Egg, an architecturally-unique dome-like structure, which is accented with creative exterior lighting design. It is expected to become an iconic landmark of the Manila Bay area.

City of Dreams Manila delivers a distinct entertainment and hospitality experience to the Philippines and will ultimately play a key role in strengthening the depth and diversity of Manila's leisure, business and tourism offering, enhancing its growing position as one of Asia's premier leisure destinations. It has been developed to specifically meet the needs of the large, rapidly growing and increasingly diverse audience of leisure and entertainment seekers both in the Philippines and those visiting Manila from across the Asia region and around the world.

Activities of MPHIL Holdings Group

On July 5, 2012, Melco, through its indirect subsidiary, entered into a memorandum of agreement (the "**MOA**") with the SM Group, Belle and PLAI for the development of City of Dreams Manila. Further to the MOA, on October 25, 2012, the MPHIL Holdings Group entered into the Cooperation Agreement and other related arrangements with the SM Group, Belle and PLAI. Melco Resorts Leisure also entered into the Lease Agreement on October 25, 2012 with Belle for the lease of the land and buildings for City of Dreams Manila.

On March 13, 2013, the Cooperation Agreement and the Lease Agreement became effective upon the completion of the closing arrangement conditions, with minor changes to the original terms (except for certain provisions of the Cooperation Agreement which were effective on signing). In addition, the MPHIL Holdings Group and the Philippine Parties entered into the Operating Agreement on March 13, 2013, pursuant to which Melco Resorts Leisure has been granted the exclusive right to manage, operate and control City of Dreams Manila.

On December 19, 2013, Melco Resorts Leisure priced its ₱15 billion aggregate principal amount of Senior Notes at par, with a maturity date of January 24, 2019. The issuance of the Senior Notes was completed on January 24, 2014. The net proceeds from the issuance of Senior Notes were used for funding the City of Dreams Manila project, refinancing of debt and general corporate purposes.

PAGCOR issued the Regular License dated April 29, 2015 in replacement of the Provisional License to the Licensees for the operation of City of Dreams Manila. The Regular License has the same terms and conditions as the Provisional License and is valid until July 11, 2033.

On October 9, 2017, Melco Resorts Leisure partially redeemed the Senior Notes in an aggregate principal amount of ₱7.5 billion, together with deemed interest. On August 31, 2018, Melco Resorts Leisure made another partial redemption of the Senior Notes in an aggregate principal amount of ₱5.5 billion. On December 28, 2018, Melco Resorts Leisure completed the redemption of the remaining outstanding balance of the Senior Notes in the aggregate principal amount of ₱2 billion.

On October 31, 2018, MCO Investments conducted a voluntary Tender Offer for up to One Billion Five Hundred Sixty Nine Million Seven Hundred Eighty Six Thousand Seven Hundred Sixty Eight (1,569,786,768) outstanding common shares of the Company held by the public, at a price of ₱7.25 per share, for the purpose of increasing and consolidating its interests in MRP.

The Tender Offer ended on November 29, 2018 and the total tendered shares, amounting to 1,338,477,668 common shares of MRP, were crossed over the facilities of the PSE on December 10, 2018. An additional 107,475,300 shares were acquired by MCO Investments on or after December 6, 2018.

Key Performance Indicators (KPIs)

We use the following KPIs to evaluate our casino operations, including table games and gaming machines:

a. Adjusted EBITDA: Earnings before interest, taxes, depreciation, amortization, payments to the Philippine Parties under the Cooperation Agreement, land rent to Belle, net gain on disposals of property and equipment to Belle, pre-opening costs, share-based compensation, corporate expenses, property charges and other and other non-operating income and expenses.

b. Revenue Growth: Measures the percentage change in revenue over a period of time. It is regularly monitored on a per product and per client basis.

c. Net Income: Measures the profitability of the Group.

d. Basic Earnings (Loss) Per Share: Measures how much a stockholder earns in the Net Profit (Loss) of the Group. Basic Earnings (Loss) per share is calculated by dividing Net Profit (Loss) by the weighted number of common shares issued and outstanding during a particular period of time.

e. Diluted Earnings (Loss) Per Share: is calculated in the same manner as per Basic Earnings (Loss) Per Share, adjusted for the dilutive effect of any potential common shares.

f. Rolling Chip Volume: the amount of non-negotiable chips wagered and lost by the rolling chip market segment.

g. Rolling Chip Win Rate: rolling chip table games win (calculated before discounts, commissions, non-discretionary incentives (including our point-loyalty programs) and allocating casino revenues related to goods and services provided to gaming patrons on a complimentary basis) as a percentage of rolling chip volume.

h. Mass Market Table Games Drop: the amount of table games drop in the mass market table games segment.

i. Mass Market Table Games Hold Percentage: mass market table games win as a percentage of mass market table games drop.

j. Table Games Win: the amount of wagers won net of wagers lost on gaming tables that is retained and recorded as casino revenues.

k. Gaming Machine Handle: the total amount wagered in gaming machines.

l. Gaming Machine Win Rate: gaming machine win (before non-discretionary incentives (including our point-loyalty programs) and allocating casino revenues related to goods and services provided to gaming patrons on a complimentary basis) expressed as a percentage of gaming machine handle.

m. Average Daily Rate: calculated by dividing total room revenues including complimentary rooms (less service charges, if any) by total rooms occupied, including complimentary rooms, i.e., average price of occupied rooms per day.

n. Occupancy Rate: the average percentage of available hotel rooms occupied, including complimentary rooms, during a period.

o. Revenue Per Available Room or REVPAR: calculated by dividing total room revenues including complimentary rooms (less service charges, if any) by total rooms available, thereby representing a combination of hotel average daily room rates and occupancy.

Operating Results for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

(in thousands of Philippine peso, except per share and % change data)

	For the year ended December 31, 2018	For the year ended December 31, 2017	VERTICAL ANALYSIS % to Revenues 2018	VERTICAL ANALYSIS % to Revenues 2017	HORIZONTAL ANALYSIS Change from Prior Year	
Net operating revenues						
Casino [1]	26,241,009	30,463,494	81%	93%	(4,222,485)	-14%
Rooms [1]	2,815,366	1,071,832	9%	3%	1,743,534	163%
Food and beverage [1]	2,759,900	688,773	9%	2%	2,071,127	301%
Entertainment, retail and other [1]	609,473	531,118	2%	2%	78,355	15%
Total net operating revenues	32,425,748	32,755,217	100%	100%	(329,469)	-1%
Operating costs and expenses						
Gaming tax and license fees	(9,222,131)	(8,053,459)	-28%	-25%	(1,168,672)	15%
Inventories consumed	(978,549)	(944,129)	-3%	-3%	(34,420)	4%
Employee benefit expenses	(4,135,820)	(3,637,272)	-13%	-11%	(498,548)	14%
Depreciation and amortization	(4,015,503)	(4,285,650)	-12%	-13%	270,147	-6%
Other expenses [1]	(5,931,992)	(10,031,247)	-18%	-31%	4,099,255	-41%
Payments to the Philippine Parties	(3,211,857)	(2,609,353)	-10%	-8%	(602,504)	23%
Total operating costs and expenses	(27,495,852)	(29,561,110)	-85%	-90%	2,065,258	-7%
Operating profit	4,929,896	3,194,107	15%	10%	1,735,789	54%
Non-operating income (expenses)						
Interest income	53,233	43,955	0%	0%	9,278	21%
Interest expenses, net of capitalized interest	(2,413,092)	(2,883,021)	-7%	-9%	469,929	-16%
Other finance fees	(17,968)	(42,384)	0%	0%	24,416	-58%
Foreign exchange gains, net	183,211	128,190	1%	0%	55,021	43%
Loss on extinguishment of debt	(12,144)	(48,641)	0%	0%	36,497	-75%
Total non-operating expenses, net	(2,206,760)	(2,801,901)	-7%	-9%	595,141	-21%
Profit before income tax	2,723,136	392,206	8%	1%	2,330,930	594%
Income tax expense	(61,136)	(38,283)	0%	0%	(22,853)	60%
Net profit	2,662,000	353,923	8%	1%	2,308,077	652%
Other comprehensive income (loss)	21,751	(6,852)	0%	0%	28,603	-417%
Total comprehensive income	2,683,751	347,071	8%	1%	2,336,680	673%
Basic Earnings Per Share	₱0.47	₱0.06			₱0.41	683%
Diluted Earnings Per Share	₱0.47	₱0.06			₱0.41	683%

Note (1): The Group adopted Philippine Financial Reporting Standards ("PFRS") 15, Revenue from Contracts with Customers ("New Revenue Standard") using the modified retrospective method from January 1, 2018. Results for the periods beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with the previous basis. The most significant impact of this adoption is as follows:

- Complimentary goods and services have been recorded as a reduction of casino revenues compared to the prior period presentation where promotional allowances were recorded as reductions of non-gaming revenues.

- All commissions paid to gaming promoters are recorded as a reduction of casino revenues as compared to the prior period presentation where the estimated incentives returned to customers were recorded as reductions of casino revenues, with the balances of commission expenses reflected as casino expenses.

Refer to Note 3 to the audited consolidated financial statements for details of the adoption of the New Revenue Standard.

Net profit for the year ended December 31, 2018 was ₱2,662.0 million, an increase of ₱2,308.1 million or 652%, compared to a net profit of ₱353.9 million for the year ended December 31, 2017, which is primarily related to improved operating results during the current year as well as lower interest expense, net of capitalized interest.

Revenues

Total net operating revenues were ₱32,425.7 million for the year ended December 31, 2018, representing a decrease of ₱329.5 million from ₱32,755.2 million for the year ended December 31, 2017. The decrease in total net operating revenues was primarily driven by the adoption of the New Revenue Standard which resulted in higher commissions paid to gaming promoters being deducted from casino revenues.

Net operating revenues for the year ended December 31, 2018 prepared under the previous basis of accounting are ₱37,135.6 million, representing an increase of ₱4,380.4 million from ₱32,755.2 million for the year ended December 31, 2017.

Total net operating revenues for the year ended December 31, 2018 were comprised of ₱26,241.0 million of casino revenues, representing 81% of total net operating revenues, and ₱6,184.7 million of non-casino revenues. Total net operating revenues for the year ended December 31, 2017 were comprised of ₱30,463.5 million of casino revenues, representing 93% of total net operating revenues, and ₱2,291.7 million of non-casino revenues.

Casino - Casino revenues for the year ended December 31, 2018 were ₱26,241.0 million, a decrease of ₱4,222.5 million, or 14%, from ₱30,463.5 million for the year ended December 31, 2017. The decrease was primarily due to (i) ₱9,437.9 million of additional deductions against casino revenues including commissions paid to gaming promoters and complimentary goods and services resulting from the adoption of the New Revenue Standard; partially offset by (ii) higher casino revenues of ₱5,215.4 million as a result of improved business volumes.

Rolling chip volume for the year ended December 31, 2018 was ₱586.2 billion, as compared to ₱580.5 billion for the year ended December 31, 2017. Rolling chip win rate was 3.21%, and reflected an increase from 3.1% for the year ended December 31, 2017.

In the mass market table games segment, mass market table games drop was ₱41.6 billion for the year ended December 31, 2018 which represented an increase of ₱6.9 billion from ₱34.7 billion for the year ended December 31, 2017. The mass market table games hold percentage was 31.7% for the year ended December 31, 2018 versus 29.6% for the year ended December 31, 2017.

Gaming machine handle for the year ended December 31, 2018 was ₱187.4 billion, compared with ₱153.3 billion for the year ended December 31, 2017. The gaming machine win rate was 5.5% for the year ended December 31, 2018 versus 5.8% for the year ended December 31, 2017.

The average number of table games and average number of gaming machines for the year ended December 31, 2018 were 300 and 1,929, respectively, as compared to 283 and 1,786, respectively, for the year ended December 31, 2017. Average net win per table game per day and average net win per gaming machine per day for the year ended December 31, 2018 were ₱292,390 and ₱14,667, respectively, as compared to ₱274,016 and ₱13,643, respectively, for the year ended December 31, 2017.

Rooms - Room revenues came from Nüwa Manila, Nobu Manila and Hyatt Regency and amounted to ₱2,815.4 million for the year ended December 31, 2018 representing an increase of ₱1,743.5 million, or 163%, from ₱1,071.8 million for the year ended December 31, 2017, primarily due to improved occupancies as compared to the year ended December 31, 2017 as well as the adoption of the New Revenue Standard that resulted in designated complimentary goods and services being deducted from casino revenues in the current year as compared to being deducted from room revenues in the prior year. City of Dreams Manila's average daily rate, occupancy rate and REVPAR for the year ended December 31, 2018 were ₱8,390, 98.1% and ₱8,232, respectively, as compared to ₱7,961, 96.4% and ₱7,672, respectively, for the year ended December 31, 2017.

Food, beverage and others - Other non-casino revenues for the year ended December 31, 2018 included food and beverage revenues of ₱2,759.9 million and entertainment, retail and other revenues of ₱609.5 million. Other non-casino revenues for the year ended December 31, 2017 included food and beverage revenues of ₱688.8 million and entertainment, retail and other revenues of ₱531.1 million. The increase was primarily attributable to higher food and beverage sales as well as the adoption of the New Revenue Standard that resulted in designated complimentary goods and services being deducted from casino revenues in the current year as compared to being deducted from food, beverage and other revenues in the prior year.

Operating costs and expenses

Total operating costs and expenses were ₱27,495.9 million for the year ended December 31, 2018, representing a decrease of ₱2,065.3 million from ₱29,561.1 million for the year ended December 31, 2017. The decrease in operating costs was primarily due to a decrease in commissions paid to gaming promoters as such amount has been deducted directly from casino revenues as a result of the adoption of the New Revenue Standard.

Total operating costs and expenses for the year ended December 31, 2018 prepared under the previous basis of accounting are ₱32,205.7 million, representing an increase of ₱2,644.6 million, from ₱29,561.1 million for the year ended December 31, 2017.

Gaming tax and license fees for the year ended December 31, 2018 amounted to ₱9,222.1 million, representing an increase of ₱1,168.7 million, or 15%, from ₱8,053.5 million for the year ended December 31, 2017. The increase is in line with the increased gross gaming revenues.

Inventories consumed for the year ended December 31, 2018 and 2017 amounted to ₱978.5 million and ₱944.1 million, respectively, with no material fluctuation noted for the year.

Employee benefit expenses for the year ended December 31, 2018 amounted to ₱4,135.8 million, as compared to ₱3,637.3 million for the year ended December 31, 2017. The increase was primarily due to labor remuneration adjustments resulting from increased business volumes and general wage inflation.

Depreciation and amortization for the year ended December 31, 2018 and 2017 amounted to ₱4,015.5 million and ₱4,285.7 million, respectively. The decrease was primarily due to certain assets having been fully depreciated during the year.

Other expenses for the year ended December 31, 2018 amounted to ₱5,932.0 million as compared to ₱10,031.2 million for the year ended December 31, 2017. The decrease was primarily attributable to (i) ₱4,448.1 million lower other gaming operations expenses primarily due to commissions paid to gaming promoters being deducted directly from casino revenues in the current year as a result of the adoption of the New Revenue Standard as discussed above; (ii) ₱174.0 million lower net loss on disposals of property and equipment; partially offset by (iii) ₱177.3 million higher advertising, marketing, promotional and entertainment expenses; (iv) ₱163.4 million higher management fee expenses; and (v) ₱109.8 million higher trademark license fees. Refer to Note 15 to the audited consolidated financial statements for details.

Payments to the Philippine Parties represented the agreed-upon payments to PLAI calculated in accordance with the Operating Agreement and related supplementary agreements. The increase was primarily due to higher sharing of gaming results to the Philippine Parties based on the agreed calculation terms during the year.

Non-operating expenses, net

Interest income was ₱53.2 million for the year ended December 31, 2018 as compared to ₱44.0 million for the year ended December 31, 2017. The increase was due to more deposits being placed with the bank during the year ended December 31, 2018 compared to the same period in 2017.

Interest expenses (net of capitalized interest) were mainly represented by interest expenses on the Senior Notes and obligations under a finance lease in relation to the Lease Agreement, amounting to ₱2,413.1 million for the year ended December 31, 2018 as compared to ₱2,883.0 million for the year ended December 31, 2017. The decrease was primarily due to lower interest expenses on the Senior Notes after the redemptions thereof in October 2017, August 2018 and December 2018 respectively.

Other finance fees amounted to ₱18.0 million and ₱42.4 million for the year ended December 31, 2018 and 2017, respectively, representing the gross receipt taxes in relation to interest payments on the Senior Notes. Lower finance fees recorded for the current year were solely due to the redemptions of Senior Notes in October 2017, August 2018 and December 2018 respectively referred to above.

The net foreign exchange gain of ₱183.2 million and ₱128.2 million for the year ended December 31, 2018 and 2017, respectively, mainly arose from the translation of foreign currency denominated bank balances and payables at the year-end closing rate as a result of the Philippine peso's depreciation against H.K. dollar and the U.S. dollar during the year ended December 31, 2018.

Loss on extinguishment of debt amounted to ₱12.1 million for the year ended December 31, 2018, representing the write-off of unamortized deferred financing costs in relation to redemptions of the Senior Notes in an amount of ₱5.5 billion in August 2018 and ₱2 billion in December 2018, respectively. Loss on extinguishment of debt amounted to ₱48.6 million for the year ended December 31, 2017, representing the write-off of unamortized deferred financing costs in relation to partial redemption of the Senior Notes in an amount of ₱7.5 billion in October 2017.

Income tax expense

The income tax expense for the year ended December 31, 2018 and 2017 primarily represents the deferred tax charge arising from net unrealized foreign exchange gains.

Net profit

As a result of the foregoing, the Group had a net profit of ₱2,662.0 million for the year ended December 31, 2018, as compared to a net profit of ₱353.9 million for the year ended December 31, 2017.

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, payments to the Philippine Parties, land rent to Belle, pre-opening costs, share-based compensation, corporate expenses, property charges and other and other non-operating income and expenses. Adjusted EBITDAs were ₱14,187.7 million and ₱11,854.0 million for the year ended December 31, 2018 and 2017, respectively.

Our management uses Adjusted EBITDA to measure the operating performance of City of Dreams Manila, and to compare the operating performance of our property with those of our competitors. Adjusted EBITDA is also presented as a supplemental disclosure because management believes it is widely used to measure performance and as a basis for valuation of gaming companies. Our management also uses Adjusted EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Gaming companies have historically reported similar measures as a supplement to financial measures in accordance with generally accepted accounting principles. However, Adjusted EBITDA should not be considered in isolation, construed as an alternative to profit or operating profit, treated as an indicator of our PFRS operating performance, other operating operations or cash flow data, or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this annual report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors. While our management believes these figures may provide useful additional information to investors when considered in conjunction with our financial statements and other information in this annual report, less reliance should be placed on Adjusted EBITDA as a measure in assessing our overall financial performance.

Trends, Events or Uncertainties Affecting Recurring Revenues and Profits

The Group is exposed to a number of trends, events and uncertainties, which can affect its recurring revenues and profits. These include levels of general economic activity, political stability, market competition, possibilities of any natural disasters , terrorists or other armed or arson attacks, legal and license terms compliance, tax rates, as well as certain cost items, such as operating costs, labor, fuel and power. The Group collects revenues and pay expenses in various currencies and the appreciation and depreciation of other major currencies against the Philippine peso may have a negative impact on the Group's reported levels of revenues and profits.

Financial Condition and Balance Sheet

The consolidated balance sheet of the Group as of December 31, 2018, with variances against December 31, 2017, is discussed as set out below.

(in thousands of Philippine peso, except % change data)

	December 31,	December 31,	VERTICAL ANALYSIS % to Total Assets		HORIZONTAL ANALYSIS Change	
ASSETS	**2018**	**2017**	**2018**	**2017**		
Current assets						
Cash and cash equivalents	6,808,712	6,332,581	21%	18%	476,131	8%
Restricted cash	867,591	549,765	3%	2%	317,826	58%
Accounts receivable, net	1,476,364	1,328,372	4%	4%	147,992	11%
Inventories	310,132	327,620	1%	1%	(17,488)	-5%
Prepayments and other current assets	413,542	385,331	1%	1%	28,211	7%
Amounts due from related parties	139,564	163,670	0%	0%	(24,106)	-15%
Income tax recoverable	38	-	0%	0%	38	N/A
Total current assets	10,015,943	9,087,339	30%	26%	928,604	10%
Non-current assets						
Property and equipment, net	20,359,266	23,130,988	61%	67%	(2,771,722)	-12%
Contract acquisition costs, net	759,687	811,779	2%	2%	(52,092)	-6%
Other intangible assets, net	-	2,446	0%	0%	(2,446)	-100%
Other non-current assets	2,021,866	1,395,847	6%	4%	626,019	45%
Total non-current assets	23,140,819	25,341,060	70%	74%	(2,200,241)	-9%
Total assets	**33,156,762**	**34,428,399**	100%	100%	(1,271,637)	-4%
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable	151,145	136,758	0%	0%	14,387	11%
Accrued expenses, other payables and other current liabilities	8,985,142	5,908,468	27%	17%	3,076,674	52%
Current portion of obligations under a finance lease	1,824,898	1,661,799	6%	5%	163,099	10%
Amounts due to related parties	186,880	100,291	1%	0%	86,589	86%
Income tax payable	-	179	0%	0%	(179)	-100%
Total current liabilities	11,148,065	7,807,495	34%	23%	3,340,570	43%
Non-current liabilities						
Non-current portion of obligations under a finance lease	13,358,923	13,271,953	40%	39%	86,970	1%
Long-term debt, net	-	7,459,634	0%	22%	(7,459,634)	-100%
Retirement liabilities	74,065	69,199	0%	0%	4,866	7%
Other non-current liabilities	296,133	284,867	1%	1%	11,266	4%
Deferred tax liability, net	180,786	119,433	1%	0%	61,353	51%
Total non-current liabilities	13,909,907	21,205,086	42%	62%	(7,295,179)	-34%
Equity						
Capital stock	5,687,271	5,666,764	17%	16%	20,507	0%
Additional paid-in capital	22,259,788	22,108,082	67%	64%	151,706	1%
Share-based compensation reserve	228,972	401,964	1%	1%	(172,992)	-43%
Equity reserve	(3,613,990)	(3,613,990)	-11%	-10%	-	0%
Accumulated deficit	(16,463,251)	(19,147,002)	-50%	-56%	2,683,751	-14%
Total equity	8,098,790	5,415,818	24%	16%	2,682,972	50%
Total liabilities and equity	**33,156,762**	**34,428,399**	100%	100%	(1,271,637)	-4%

Current assets

Cash and cash equivalents increased by ₱476.1 million, which is primarily the net result of operating cash inflows, net of payments made for capital expenditures and interest payments as well as repayments on long-term debt. Refer below to "Liquidity and Capital Sources" for cash flow analysis for the year ended December 31, 2018.

Restricted cash represents an escrow account that is restricted for government required foundation fees payable in accordance with the terms of the Regular License. The increase primarily represented the contributions to the foundation for the current year.

Accounts receivable, net, primarily attributable to casino, hotels and other receivables, increased by ₱148.0 million, primarily from an increase in casino receivables of ₱180.4 million, partially offset by an increase in allowances for doubtful debts of ₱20.5 million and a decrease in hotel receivables of ₱12.8 million. Refer to Note 7 to the audited consolidated financial statements for the details of accounts receivable as of December 31, 2018.

Inventories of ₱310.1 million mainly consisted of gaming inventories, retail merchandise, food and beverage items and certain operating supplies. The decrease was primarily due to consumption of gaming inventories, promotional inventories as well as food and beverage inventories held during the current year.

Prepayments and other current assets increased by ₱28.2 million, primarily due to increases in (i) other prepaid operating expense and receivables of ₱47.1 million; (ii) prepaid facilities expenses and supplies expenses of ₱30.7 million; (iii) credit withholding tax of ₱26.7 million; (iv) deposits for acquisitions of inventory of ₱18.0 million; (v) interest receivable of ₱10.0 million; partially offset by decreases in (vi) receivable from the Philippine Parties of ₱85.0 million; (vii) receivable from junket operator of ₱10.1 million and (viii) refundable deposits of ₱9.2 million.

Amounts due from related parties decreased by ₱24.1 million, mainly due to management fee expenses recharged by an intermediate holding company during the year, partially offset with the payments made during the year.

Non-current assets

Property and equipment, net, decreased by ₱2,771.7 million, mainly due to depreciation of ₱3,961.0 million on operating equipment during the period, partially offset by additions to property and equipment of ₱1,201.6 million.

Contract acquisition costs, net, decreased by ₱52.1 million, solely due to amortization charges for the year ended December 31, 2018.

Other intangible assets, net, decreased by ₱2.4 million during the year as a result of full amortization on the straight-line basis over the useful life of the license.

Other non-current assets increased by ₱626.0 million, primarily due to increases in deposits for acquisitions of property and equipment, of ₱522.0 million; security and rental deposits of ₱46.3 million as well as prepaid rent of ₱31.5 million.

Current liabilities

Accounts payable of ₱151.1 million represented payables to suppliers for products and services such as playing cards and marketing. The increase in the balance was due to the purchases made during the year.

Accrued expenses, other payables and other current liabilities increased by ₱3,076.7 million, mainly related to increases in (i) outstanding gaming chips and tokens of ₱2,098.5 million; (ii) accruals for gaming tax and license fees of ₱503.4 million as a result of increased gross gaming revenues; (iii) advance customer deposits and ticket sales of ₱260.1 million as well as (iv) payments to the Philippine Parties of ₱99.1 million; partially offset by the decrease in (v) interest expenses payable of ₱85.4 million as a result of the full redemption of Senior Notes in December 2018. Refer to Note 12 to the audited consolidated financial statements for details.

Current portion of obligations under a finance lease represented building lease payments due within one year. The increase during the year was due to finance lease charges of ₱1,945.7 million recognized during the year, partially offset by lease payments made of ₱1,782.6 million during the year.

Amounts due to related parties increased by ₱86.6 million primarily as a result of acquisition of goods and services, management fee and trademark license fee expenses recharged by affiliated companies during the year, partially offset by settlement made during the year. Refer to Note 16 to the audited consolidated financial statements for details of related party transactions for the year ended December 31, 2018.

Non-current liabilities

The non-current portion of obligations under a finance lease increase of ₱87.0 million represented finance lease charges during the year.

Long-term debt, net, represents the Senior Notes which will mature in January 2019 and were priced at par of 100% in the principal amount of ₱7.5 billion (net of unamortized deferred financing costs), was fully redeemed during the year as discussed above.

Retirement liabilities increased by ₱4.9 million primarily due to such service costs recognized during the year.

Other non-current liabilities represented deferred rent liabilities, retail tenant deposits and other liabilities which are due beyond one year. No material fluctuations were noted during the year.

Deferred tax liability, net, mainly represented the deferred tax charges on net unrealized foreign exchange gains.

Equity

Capital stock and additional paid-in capital increased by ₱20.5 million and ₱151.7 million, respectively, as of December 31, 2018 as compared to December 31, 2017, which was solely due to 20,506,393 restricted shares having been vested during the year ended December 31, 2018.

The share-based compensation reserve decreased by ₱173.0 million mainly due to transfer of ₱172.2 million to capital stock/additional paid-in capital as a result of the 20,506,393 restricted shares vested as mentioned above and reversal of ₱0.8 million share-based payments expenses during the year.

The equity reserve consisted of the net difference between the cost for MRP to acquire MPHIL Holdings Group and the legal capital of the latter at the date of reverse acquisition, plus the retained earnings of MRP as of December 19, 2012, the date when MRP was acquired by Melco. The amount remains unchanged as of December 31, 2018 as compared to December 31, 2017.

The deficit decreased by ₱2,683.8 million to ₱16,463.3 million as of December 31, 2018, from ₱19,147.0 million as of December 31, 2017, which was primarily due to the net profit of ₱2,662.0 million recognized during the year ended December 31, 2018.

Liquidity and Capital Sources

The table below shows the Group's audited consolidated cash flows for the year ended December 31, 2018 and 2017.

In thousands of Philippine peso, except % change data	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	% Change
Net cash provided by operating activities	12,015,523	7,210,381	67%
Net cash used in investing activities	(2,012,491)	(996,344)	102%
Net cash used in financing activities	(9,756,752)	(10,326,776)	-6%
Effect of foreign exchange on cash and cash equivalents	229,851	93,906	145%
Net increase (decrease) in cash and cash equivalents	476,131	(4,018,833)	-112%
Cash and cash equivalents at beginning of year	6,332,581	10,351,414	-39%
Cash and cash equivalents at end of year	6,808,712	6,332,581	8%

Cash and cash equivalents increased by 8% as of December 31, 2018 compared to December 31, 2017 mainly due to the net effect of the following:

- For the year ended December 31, 2018, the Group recorded cash flow from operating activities of ₱12,015.5 million primarily attributable to the operating performance at City of Dreams Manila as discussed in the aforesaid sections.

- Net cash used in investing activities amounted to ₱2,012.5 million for the year ended December 31, 2018, which primarily includes: (i) deposits for acquisitions of property and equipment of ₱869.8 million; (ii) capital expenditure payments of ₱742.6 million; (iii) an increase in restricted cash of ₱317.8 million for the foundation fees payable and (iv) payments for other non-current assets of ₱83.1 million.

- Net cash used in financing activities for the year ended December 31, 2018 primarily represented (i) repayments of obligations under a finance lease of ₱1,782.6 million; (ii) interest and other finance fee payments for the Senior Notes of ₱474.1 million and (iii) principal payments on long-term debt of ₱7.5 billion.

The table below shows the Group's capital sources as of December 31, 2018 and December 31, 2017.

In thousands of Philippine peso, except % change data	As of December 31, 2018	As of December 31, 2017	% Change
Long-term debt, net	-	7,459,634	**-100%**
Equity	8,098,790	5,415,818	**50%**
	8,098,790	12,875,452	**-37%**

Total long-term debt, net, and equity decreased by 37% to ₱8,098.8 million as of December 31, 2018, from ₱12,875.5 million as of December 31, 2017. The decrease was mainly due to the full redemption of the Senior Notes in an amount of ₱7.5 billion during the year, partially offset by the net profit of ₱2,662.0 million during the year ended December 31, 2018.

Risks Related to Financial Instruments

The Group has financial assets and financial liabilities such as cash and cash equivalents, restricted cash, accounts receivable, security deposits, other deposits and receivables, amounts due from/to related parties, accounts payable, accrued expenses, other payables and other current liabilities, obligations under a finance lease, long-term debt and other non-current liabilities, which arise directly from its operations.

The main risks arising from the Group's financial instruments as of and for the year ended December 31, 2018 are interest rate risk, credit risk, liquidity risk and foreign exchange risk. Management reviews and approves policies for managing each of these risks.

Other Financing and Liquidity Matters

We may obtain financing in the form of, among other things, equity or debt, including additional bank loans or high yield, mezzanine or other debt, or rely on our operating cash flows to fund the operations of City of Dreams Manila. We are a growing company with significant financial needs. We expect to have additional capital expenditures in the future as we continue to develop City of Dreams Manila.

We have relied and intend in the future to rely on our operating cash flows and different forms of financing to meet our funding needs, as the case may be.

The timing of any future debt and/or equity financing activities will be dependent on our funding needs, the availability of funds on terms acceptable to us, and prevailing market conditions. We may carry out activities from time to time to strengthen our financial position and ability to better fund our business expansion. Such activities may include monetizing assets, issuance of stock, sale and lease-back transactions or other similar activities.

Any other future developments may be subject to further financing and a number of other factors many of which are beyond our control.

As of December 31, 2018, we had a shareholder loan facility of US$340.0 million and a bank credit facility of ₱2,350.0 million remains available for future drawdowns, subject to certain conditions precedent.

As of December 31, 2018, we had capital commitments contracted for, but not provided, mainly for the acquisitions of property and equipment for City of Dreams Manila totaling ₱786.4 million.

There were no material off-balance sheet transactions, arrangements, obligations or other relationships of the Group with unconsolidated entities or other persons that the Group is aware of during the reporting period.

Operating Results for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Net profit for the year ended December 31, 2017 was ₱353.9 million, an increase of ₱1,935.2 million, or 122%, from the net loss of ₱1,581.3 million for the year ended December 31, 2016, which is primarily related to improved operating result during the current year, partially offset by an extinguishment loss from the partial repayment of debt during 2017.

(in thousands of Philippine peso, except per share and % change data)

	For the year ended December 31, 2017	For the year ended December 31, 2016	VERTICAL ANALYSIS % to Revenues 2017	2016	HORIZONTAL ANALYSIS Change from Prior Year	
Net operating revenues						
Casino	30,463,494	21,298,942	93%	91%	9,164,552	43%
Rooms	1,071,832	981,554	3%	4%	90,278	9%
Food and beverage	688,773	707,255	2%	3%	(18,482)	-3%
Entertainment, retail and other	531,118	431,038	2%	2%	100,080	23%
Total net operating revenues	32,755,217	23,418,789	100%	100%	9,336,428	40%
Operating costs and expenses						
Gaming tax and license fees	(8,053,459)	(5,408,428)	-25%	-23%	(2,645,031)	49%
Inventories consumed	(944,129)	(819,730)	-3%	-4%	(124,399)	15%
Employee benefit expenses	(3,637,272)	(3,449,766)	-11%	-15%	(187,506)	5%
Depreciation and amortization	(4,285,650)	(4,388,885)	-13%	-19%	103,235	-2%
Other expenses	(10,031,247)	(6,457,016)	-31%	-28%	(3,574,231)	55%
Payments to the Philippine Parties	(2,609,353)	(1,642,175)	-8%	-7%	(967,178)	59%
Total operating costs and expenses	(29,561,110)	(22,166,000)	-90%	-95%	(7,395,110)	33%
Operating profit	3,194,107	1,252,789	10%	5%	1,941,318	155%
Non-operating income (expenses)						
Interest income	43,955	20,300	0%	0%	23,655	117%
Interest expenses, net of capitalized interest	(2,883,021)	(2,940,000)	-9%	-13%	56,979	-2%
Other finance fees	(42,384)	(47,832)	0%	0%	5,448	-11%
Foreign exchange gains, net	128,190	215,840	0%	1%	(87,650)	-41%
Loss on extinguishment of debt	(48,641)	-	0%	0%	(48,641)	N/A
Total non-operating expenses, net	(2,801,901)	(2,751,692)	-9%	-12%	(50,209)	2%
Profit (loss) before income tax	392,206	(1,498,903)	1%	-6%	1,891,109	-126%
Income tax expense	(38,283)	(82,396)	0%	0%	44,113	-54%
Net profit (loss)	353,923	(1,581,299)	1%	-7%	1,935,222	-122%
Other comprehensive loss	(6,852)	(3,210)	0%	0%	(3,642)	113%
Total comprehensive income (loss)	347,071	(1,584,509)	1%	-7%	1,931,580	-122%
Basic earnings (loss) per share	₱0.06	(₱0.28)			₱0.34	-121%
Diluted earnings (loss) per share	₱0.06	(₱0.28)			₱0.34	-121%

Revenues

Total net operating revenues were ₱32,755.2 million for the year ended December 31, 2017, representing an increase of ₱9,336.4 million, from ₱23,418.8 million for the year ended December 31, 2016. The increase in total net operating revenues was primarily driven by the improved casino revenues as discussed below.

Total net operating revenues for the year ended December 31, 2017 was comprised of ₱30,463.5 million of casino revenues, representing 93% of total net operating revenues, and ₱2,291.7 million of non-casino revenues. Total net operating revenues for the year ended December 31, 2016 was comprised of ₱21,298.9 million of casino revenues, representing 91% of total net operating revenues, and ₱2,119.9 million of non-casino revenues.

Casino - Casino revenues for the year ended December 31, 2017 were ₱30,463.5 million, an increase of ₱9,164.6 million, or 43%, from ₱21,298.9 million for the year ended December 31, 2016.

Rolling chip volume for the year ended December 31, 2017 was ₱580.5 billion, as compared to ₱326.5 billion for the year ended December 31, 2016. Rolling chip win rate (calculated before discounts and commissions) was 3.1%, as compared to 3.4% for the year ended December 31, 2016.

In the mass market table games segment, mass market table games drop was ₱34.7 billion for the year ended December 31, 2017 which represented an increase of ₱8.4 billion, or 32%, from ₱26.3 billion for the year ended December 31, 2016. The mass market table games hold percentage was 29.6% for the year ended December 31, 2017, as compared to 28.0% for the year ended December 31, 2016.

Gaming machine handle for the year ended December 31, 2017 was ₱153.3 billion, compared with ₱106.8 billion for the year ended December 31, 2016. The gaming machine win rates were 5.8% and 5.9% for the year ended December 31, 2017 and 2016 respectively.

The average number of table games and average number of gaming machines for the year ended December 31, 2017 were 283 and 1,786 as compared to 270 and 1,656, respectively, for the year ended December 31, 2016. Average net win per table games per day and average net win per gaming machine per day for the year ended December 31, 2017 were ₱274,016 and ₱13,643 as compared to ₱188,028 and ₱10,360, respectively, for the year ended December 31, 2016.

Rooms - Room revenues arising from Nüwa Manila, Nobu Manila and Hyatt Regency amounted to ₱1,071.8 million for the year ended December 31, 2017 and represented an increase of ₱90.3 million, or 9%, from ₱981.6 million for the year ended December 31, 2016, primarily due to improved occupancy rates as compared to the year ended December 31, 2016. City of Dreams Manila's average daily rate, occupancy rate and REVPAR for the year ended December 31, 2017 were ₱7,961, 96.4% and ₱7,672 as compared to ₱7,597, 91.1% and ₱6,923, respectively, for the year ended December 31, 2016.

Food, beverage and others - Other non-casino revenues for the year ended December 31, 2017 included food and beverage revenues of ₱688.8 million and entertainment, retail and other revenues of ₱531.1 million. Other non-casino revenues for the year ended December 31, 2016 included food and beverage revenues of ₱707.3 million and entertainment, retail and other revenues of ₱431.0 million. The increase was primarily attributable from more limousine hire rental income and more ticket sales from DreamPlay during the year.

Operating costs and expenses

Total operating costs and expenses were ₱29,561.1 million for the year ended December 31, 2017, representing an increase of ₱7,395.1 million, from ₱22,166.0 million for the year ended December 31, 2016. The increase in operating costs was generally in-line with increased net operating revenues in the current year.

Gaming tax and license fees for the year ended December 31, 2017 amounted to ₱8,053.5 million, representing an increase of ₱2,645.0 million, or 49%, from ₱5,408.4 million for the year ended December 31, 2016. The increase was in-line with the increased casino revenue.

Inventories consumed for the year ended December 31, 2017 and 2016 amounted to ₱944.1 million and ₱819.7 million, respectively. The increase was attributable to the use of more playing cards and dice together with food and beverage items consumed during the year.

Employee benefit expenses for the year ended December 31, 2017 amounted to ₱3,637.3 million, as compared to ₱3,449.8 million for the year ended December 31, 2016. The increase was primarily due to higher labor demands from increased business volumes and general wage inflation.

Depreciation and amortization for the year ended December 31, 2017 and 2016 amounted to ₱4,285.7 million and ₱4,388.9 million, respectively. No material fluctuations were noted for the year.

Other expenses for the year ended December 31, 2017 amounted to ₱10,031.2 million, as compared to ₱6,457.0 million for the year ended December 31, 2016. The increase was primarily attributable to (i) ₱1,910.2 million of higher other gaming operations expenses; (ii) ₱602.7 million of higher trademark license fees; (iii) ₱288.1 million higher management fee expenses; (iv) ₱226.9 million of higher facilities and supplies expenses and (v) ₱185.6 million net loss on disposals of property and equipment in 2017 as compared to ₱377.2 million net gain on disposals of property and equipment in 2016. Refer to Note 15 to the audited consolidated financial statements for details.

Payments to the Philippine Parties represented the agreed upon payments to PLAI calculated in accordance with the Operating Agreement and related supplementary agreements. The increase was in-line with the improved casino revenues during the year.

Non-operating expenses, net

Interest income of ₱44.0 million for the year ended December 31, 2017, as compared to ₱20.3 million for the year ended December 31, 2016. The increase was due to more long-term deposits being placed at banks during the year ended December 31, 2017 compared to the same period in 2016.

Interest expenses (net of capitalized interest), represented by interest expenses on Senior Notes and obligations under a finance lease in relation to the Lease Agreement, amounted to ₱2,883.0 million for the year ended December 31, 2017 as compared to ₱2,940.0 million for the year ended December 31, 2016. The decrease was primarily due to lower interest expenses on Senior Notes upon partial redemption in October 2017, partially offset by a higher effective interest on obligations under a finance lease during the year.

Other finance fees amounted to ₱42.4 million and ₱47.8 million for the year ended December 31, 2017 and 2016, respectively, representing the gross receipt taxes in relation to the interest payments on the Senior Notes. Lower finance fees recorded for the current year solely due to the partial redemption on Senior Notes in October 2017.

The net foreign exchange gains of ₱128.2 million and ₱215.8 million for the year ended December 31, 2017 and 2016, respectively, mainly arose from the translation of foreign currency denominated bank balances and payables at the year-end closing rate as a result of the Philippine peso's depreciation against the H.K. dollar and the U.S. dollar during the year ended December 31, 2017 and 2016.

Loss on extinguishment of debt amounted to ₱48.6 million for the year ended December 31, 2017, representing the write-off of unamortized deferred financing costs in relation to partial redemption of the Senior Notes in an amount of ₱7.5 billion. There was no loss on extinguishment of debt for the year ended December 31, 2016.

Income tax expense

The income tax expense for the year ended December 31, 2017 and 2016 primarily represents the deferred tax liability arising from net unrealized foreign exchange gains.

Net profit (loss)

As a result of the foregoing, the Group had a net profit of ₱353.9 million for the year ended December 31, 2017, as compared to a net loss of ₱1,581.3 million for the year ended December 31, 2016.

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, payments to the Philippine Parties, land rent to Belle, net gain on disposals of property and equipment to Belle, share-based compensation expenses, corporate expenses, property charges and other and other non-operating income and expenses. Adjusted EBITDAs were ₱11,854.0 million and ₱7,561.3 million for the year ended December 31, 2017 and 2016, respectively.

Our management uses Adjusted EBITDA to measure the operating performance of City of Dreams Manila, and to compare the operating performance of our property with those of competitors. Adjusted EBITDA is also presented as a supplemental disclosure because management believes it is widely used to measure performance and as a basis for valuation of gaming companies. Our management also uses Adjusted EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Gaming companies have historically reported similar measures as a supplement to financial measures in accordance with generally accepted accounting principles. However, Adjusted EBITDA should not be considered in isolation, construed as an alternative to profit or operating profit, treated as an indicator of our Philippine Financial Reporting Standards operating performance, other operations or cash flow data, or interpreted as an alternative to cash flow as a measure of liquidity. Adjusted EBITDA presented in this annual report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors. While our management believes these figures may provide useful additional information to investors when considered in conjunction with our financial statements and other information in this annual report, less reliance should be placed on Adjusted EBITDA as a measure in assessing our overall financial performance.

Trends, Events or Uncertainties Affecting Recurring Revenues and Profits

The Group is exposed to a number of trends, events and uncertainties, which can affect its recurring revenues and profits. These include levels of general economic activity, political stability, market competition, possibilities of any natural disasters, terrorists or other armed and arson attacks, legal and license terms compliance, tax rates, as well as certain cost items, such as operating costs, labor, fuel and power. The Group collects revenues and pay expenses in various currencies and the appreciation and depreciation of other major currencies against the Philippine peso may have a negative impact on the Group's reported levels of revenues and profits.

Financial Condition and Balance Sheet

(in thousands of Philippine peso, except % change data)

	December 31,	December 31,	VERTICAL ANALYSIS % to Total Assets		HORIZONTAL ANALYSIS Change from Prior Year	
ASSETS	**2017**	**2016**	**2017**	**2016**		
Current assets						
Cash and cash equivalents	6,332,581	10,351,414	18%	25%	(4,018,833)	-39%
Restricted cash	549,765	240,025	2%	1%	309,740	129%
Accounts receivable, net	1,328,372	1,391,213	4%	3%	(62,841)	-5%
Inventories	327,620	230,411	1%	1%	97,209	42%
Prepayments and other current assets	385,331	322,692	1%	1%	62,639	19%
Amounts due from related parties	163,670	148,971	0%	0%	14,699	10%
Total current assets	9,087,339	12,684,726	26%	30%	(3,597,387)	-28%
Non-current assets						
Property and equipment, net	23,130,988	26,866,578	67%	64%	(3,735,590)	-14%
Contract acquisition costs, net	811,779	863,872	2%	2%	(52,093)	-6%
Other intangible assets, net	2,446	5,436	0%	0%	(2,990)	-55%
Other non-current assets	1,395,847	1,270,048	4%	3%	125,799	10%
Total non-current assets	25,341,060	29,005,934	74%	70%	(3,664,874)	-13%
Total assets	**34,428,399**	**41,690,660**	100%	100%	(7,262,261)	-17%
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable	136,758	139,270	0%	0%	(2,512)	-2%
Accrued expenses, other payables and other current liabilities	5,908,468	5,414,657	17%	13%	493,811	9%
Current portion of obligations under a finance lease	1,661,799	1,524,893	5%	4%	136,906	9%
Amounts due to related parties	100,291	1,282,040	0%	3%	(1,181,749)	-92%
Income tax payable	179	160	0%	0%	19	12%
Total current liabilities	7,807,495	8,361,020	23%	20%	(553,525)	-7%
Non-current liabilities						
Non-current portion of obligations under a finance lease	13,271,953	13,061,462	39%	31%	210,491	2%
Long-term debt, net	7,459,634	14,848,500	22%	36%	(7,388,866)	-50%
Retirement liabilities	69,199	41,644	0%	0%	27,555	66%
Other non-current liabilities	284,867	262,743	1%	1%	22,124	8%
Deferred tax liability, net	119,433	81,188	0%	0%	38,245	47%
Total non-current liabilities	21,205,086	28,295,537	62%	68%	(7,090,451)	-25%
Equity						
Capital stock	5,666,764	5,662,897	16%	14%	3,867	0%
Additional paid-in capital	22,108,082	22,076,822	64%	53%	31,260	0%
Share-based compensation reserve	401,964	416,835	1%	1%	(14,871)	-4%
Equity reserve	(3,613,990)	(3,613,990)	-10%	-9%	-	0%
Accumulated deficit	(19,147,002)	(19,508,461)	-56%	-47%	361,459	-2%
Total equity	5,415,818	5,034,103	16%	12%	381,715	8%
Total liabilities and equity	**34,428,399**	**41,690,660**	100%	100%	(7,262,261)	-17%

Current assets

Cash and cash equivalents decreased by ₱4,018.8 million, which is primarily the net result of operating cash inflows, payments made for capital expenditures and repayments on long-term debt. Refer below to "Liquidity and Capital Sources" for cash flow analysis for the year ended December 31, 2017.

Restricted cash represents an escrow account that is restricted for foundation fees payable in accordance with the terms of the Regular License. The increase represented the contribution to foundation for the current year.

Accounts receivable, net, primarily attributable to casino, hotel and other receivables, decreased by ₱62.8 million, primarily from settlement of several junkets, partially offset by increased casino receivables, result from the increased VIP gaming revenues. Refer to Note 7 to the audited consolidated financial statements for the details of the accounts receivable as of December 31, 2017.

Inventories of ₱327.6 million mainly consisted of gaming inventories, retail merchandise, food and beverage items and certain operating supplies. The increase during the year represented the promotional inventories purchased for the year.

Prepayments and other current assets increased by ₱62.6 million, primarily due to increases in (i) receivables from the Philippine Parties of ₱85.0 million; (ii) creditable withholding tax of ₱28.1 million; (iii) prepaid facilities expenses of ₱16.6 million and (iv) deposits for acquisitions of inventory ₱7.6 million. These increases were partially offset by a decrease in insurance claims receivable of ₱67.3 million.

Amount due from related parties increased by ₱14.7 million, mainly due to the management fee income charged during the year.

Non-current assets

Property and equipment, net, decreased by ₱3,735.6 million mainly due to depreciation of ₱4,230.6 million during the year, partially offset by additions to property and equipment of ₱709.7 million.

Contract acquisition costs, net, decreased by ₱52.1 million solely due to amortization charges for the year ended December 31, 2017.

Other intangible assets, net, decreased by ₱3.0 million during the year as a result of amortization on the straight-line basis over the useful life of the license.

Other non-current assets increased by ₱125.8 million primarily due to (i) further recognition of net input VAT of ₱83.0 million during the year ended December 31, 2017 and (ii) increase in others, mainly attributable to deposits for acquisitions of property and equipment, of ₱42.8 million.

Current liabilities

Accounts payable of ₱136.8 million represented payables to suppliers for products and services such as playing cards and marketing. No material fluctuations were noted for the year.

Accrued expenses, other payables and other current liabilities increased by ₱493.8 million, mainly related to increases in (i) outstanding gaming chips and tokens of ₱351.9 million, which was in-line with the increased VIP business volume in 2017; (ii) accruals for gaming tax and license fees of ₱324.3 million as a result of increased casino revenues; (iii) accruals for acquisition of property and equipment of ₱120.4 million, partially offset by the decrease in (iv) interest expenses payable of ₱241.7 million as a result of interest payments made during the year and lower interest expenses payable as a result of the partial redemption of Senior Notes in October 2017. Refer to Note 12 to the audited consolidated financial statements for details.

Current portion of obligations under a finance lease represented building lease payments due within one year. The increase was due to finance lease charges of ₱1,781.7 million recognized during the year, partially offset by lease payments made of ₱1,644.8 million during the year.

Amounts due to related parties decreased by ₱1,181.7 million primarily as a result of settlement of balances outstanding during the year, partially offset by management fees and trademark license fees recharged from affiliate companies during the year. Refer to Note 16 to the audited consolidated financial statements for details of related party transactions for the year ended December 31, 2017.

Non-current liabilities

The non-current portion of obligations under a finance lease increase of ₱210.5 million solely represented finance lease charges during the year.

Long-term debt, net, of ₱7,459.6 million represents the Senior Notes which will mature in 2019 and were priced at par of 100% of the principal amount of ₱7.5 billion (net of ₱40.4 million in unamortized deferred financing costs). The decrease was due to a partial redemption of the Senior Notes in an amount of ₱7.5 billion during the year.

Retirement liabilities increased by ₱27.6 million primarily due to such service costs recognized during the year.

Other non-current liabilities represented deferred rent liabilities, retail tenant deposits and other payables which are due beyond one year. The increase was primarily due to effective rent recognized during the year.

Deferred tax liability, net, mainly represented the deferred tax charges on net unrealized foreign exchange gains.

Equity

Capital stock and additional paid-in capital increased by ₱3.9 million and ₱31.3 million, respectively, as of December 31, 2017 as compared to December 31, 2016, which was mainly due to 3,867,129 restricted shares/share options having been vested/exercised during the year ended December 31, 2017.

The share-based compensation reserve decreased by ₱14.9 million due to transfer of ₱26.5 million to capital stock/additional paid-in capital as a result of the 3,867,129 restricted shares/share options vested/exercised as mentioned above and the transfer of ₱14.4 million to the accumulated deficit as a result of the expiry of certain share options during the year, partially offset by the recognition of share-based payments of ₱26.0 million during the year ended December 31, 2017.

The equity reserve consisted of the net difference between the cost of MRP to acquire MPHIL Holdings Group and the legal capital of the latter (i.e., common stock and additional paid-in capital) at the date of reverse acquisition, plus the retained earnings of MRP as of December 19, 2012, the date when MRP was acquired by Melco. The amount remained unchanged as of December 31, 2017 as compared to December 31, 2016.

The accumulated deficit decreased by ₱361.5 million to ₱19,147.0 million as of December 31, 2017, from ₱19,508.5 million as of December 31, 2016, primarily due to the net profit of ₱353.9 million recognized during the year ended December 31, 2017 and the transfer of ₱14.4 million from the share-based compensation reserve as mentioned above.

Liquidity and Capital Sources

The table below shows the Group's audited consolidated cash flows for the year ended December 31, 2017 and 2016.

In thousands of Philippine peso, except % change data	**For the Year Ended December 31, 2017**	**For the Year Ended December 31, 2016**	**% Change**
Net cash provided by operating activities	7,210,381	6,451,799	**12%**
Net cash used in investing activities	(996,344)	(1,233,785)	**-19%**
Net cash used in financing activities	(10,326,776)	(2,621,257)	**294%**
Effect of foreign exchange on cash and cash equivalents	93,906	294,428	**-68%**
Net (decrease) increase in cash and cash equivalents	(4,018,833)	2,891,185	**-239%**
Cash and cash equivalents at beginning of year	10,351,414	7,460,229	**39%**
Cash and cash equivalents at end of year	6,332,581	10,351,414	**-39%**

Cash and cash equivalents decreased by 39% as of December 31, 2017 compared to December 31, 2016 mainly due to the net effect of the following:

- For the year ended December 31, 2017, the Group recorded cash flow from operating activities of ₱7,210.4 million primarily attributable to the operating performance at City of Dreams Manila as discussed in the aforesaid sections.

- Net cash used in investing activities amounted to ₱996.3 million for the year ended December 31, 2017, which primarily includes: (i) capital expenditure payments of ₱611.2 million; (ii) an increase in restricted cash of ₱309.7 million for the foundation fees payable; and (iii) advance payments and deposits for acquisitions of property and equipment of ₱81.4 million.

- Net cash used in financing activities for the year ended December 31, 2017 primarily represented (i) partial redemption of Senior Notes of ₱7.5 billion; (ii) interest and other finance fee payments for the Senior Notes of ₱1,190.6 million and repayments of obligations under a finance lease of ₱1,644.8 million.

The table below shows the Group's capital sources as of December 31, 2017 and 2016.

In thousands of Philippine peso, except % change data	**As of December 31, 2017**	**As of December 31, 2016**	**% Change**
Long-term debt, net	7,459,634	14,848,500	**-50%**
Equity	5,415,818	5,034,103	**8%**
	12,875,452	19,882,603	**-35%**

Total long-term debt, net, and equity decreased by 35% to ₱12,875.5 million as of December 31, 2017, from ₱19,882.6 million as of December 31, 2016. The decrease was mainly due to a partial redemption of the Senior Notes in an amount of ₱7.5 billion during the year, partially offset by the net profit of ₱353.9 million during the year ended December 31, 2017.

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Information of Independent Accountant and Other Related Matters

1. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

To the best knowledge of the undersigned officers, there are no disagreements on any matter of accounting principles or practices, financial statement disclosure or accounting scope or procedure with the Company's external auditor.

2. External Audit Fees and Services

For the year ended December 31, 2018, the fees for audit work and other services performed by SGV & Co. for the Company and its subsidiaries were as follows:

	2018
In thousands of Philippine peso	
External audit fees and services	₱7,571
Other non-audit service fees	852
Tax fees	6,945
Out-of-pocket expenses	1,112

a) External audit fees were incurred for the professional services rendered for the audit of the Company and its subsidiaries' annual financial statements and reporting to the auditor of Melco.

b) Other non-audit service fees included fees incurred for professional services rendered for various agreed-upon procedures work and reviews of quarterly condensed consolidated financial statements.

c) Tax fees included fees incurred for professional services rendered for tax accounting, tax compliance audit, and other advisory work.

d) Out-of-pocket expenses were incurred for incidental costs incurred in relation to the services rendered.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The following are the directors and executive officers of the Company as of December 31, 2018:

Name And Position	Age	Citizenship	Period Served As a Director/Officer
Clarence Yuk Man Chung Chairman of the Board/President	56	Chinese	Since December 19, 2012
Geoffrey S. Davis Director	50	American	Elected on September 26, 2017 but took effect on January 31, 2018
Alec Yiu Wa Tsui Independent Director	69	British	Since December 19, 2012
John William C. Crawford Independent Director	76	Canadian	Since February 1, 2017
Frances Marie T. Yuyucheng Director	51	Filipino	Since May 18, 2015
Johann M. Albano Director	42	Filipino	Since April 11, 2014
Jose Maria B. Poe III Independent Director	54	Filipino	Elected on September 26, 2017 but took effect on January 31, 2018
Maria Marcelina O. Cruzana Director	60	Filipino	Since March 13, 2014
Liberty A. Sambua Director	34	Filipino	Since March 13, 2014
Kevin Richard Benning Chief Operating Officer	36	American	Since February 1, 2018
Donald Nori Tateishi Treasurer	48	American	Since May 16, 2016
Marissa T. Academia Corporate Information Officer* Compliance Officer**	52	Filipino	*Since January 22, 2014 **Since March 13, 2014
Marie Grace A. Santos Corporate Secretary*/Alternate Corporate Information Officer**	37	Filipino	*Since December 4, 2017 **Since January 22, 2014

On January 31, 2018, Mr. Geoffry Philip Andres resigned as the Property President/Chief Operating Officer of the Company. He was replaced by Mr. Kevin Richard Benning, previously the Vice-President for Gaming Operations, who took over as Chief Operating Officer effective February 1, 2018.

DIRECTORS AND OFFICERS

The names of the Directors and Executive Officers of the Company, both incumbent and as of December 31, 2018, and their respective current positions held, periods of service and business experience during the past five years are as follows:

Clarence Yuk Man Chung - *President / Chairman of the Board / Director*

Mr. Chung was appointed as Chairman and President of the Company on December 19, 2012. Mr. Chung was appointed as Director of Melco in November 2006 and has been an Executive Director of Melco International since May 2006. Mr. Chung has more than twenty five years of experience in the finance industry in various capacities as a chief financial officer, an investment banker and a mergers and acquisitions specialist. Mr. Chung obtained a master degree in business administration from the Kellogg School of Management at Northwestern University and The Hong Kong University of Science and

Technology, and a bachelor degree in business administration from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Geoffrey S. Davis – *Director*

Mr. Davis is the Executive Vice President and Chief Financial Officer of Melco since April 2011. He is also the Chief Financial Officer of Melco International since December 2017. Prior to that, he served as Melco's Deputy Chief Financial Officer from August 2010 to March 2011 and Senior Vice President, Corporate Finance from 2007. Mr. Davis was a research analyst for Citigroup Investment Research, where he covered the U.S. gaming industry from 2001 to 2007. From 1996 to 2000, he was the Vice President of Corporate Communications for Park Place Entertainment, the largest gaming company in the world at the time. Park Place was spun off from Hilton Hotels Corporation and was subsequently renamed Caesars Entertainment. Mr. Davis has been a Chartered Financial Analyst charter holder since 2000 and obtained a Bachelor of Arts degree from Brown University in 1991.

Alec Yiu Wa Tsui – *Independent Director*

Mr. Tsui was appointed as an independent director of the Company on December 19, 2012, and as an independent non-executive director of Melco on December 18, 2006. He is the chairman of the Company's Nominating and Corporate Governance Committee and Compensation Committee, and a member of the Company's Audit and Risk Committee. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission Hong Kong from 1989 to 1993, joined HKSE in 1994 as an executive director of the finance and operations services division and was its chief executive from February 1997 to July 2000. He was also the chief operating officer of Hong Kong Exchanges and Clearing Limited from March to August 2000. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was a consultant of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui was an independent non-executive director of each of China BlueChemical Limited from April 2006 to June 2012, China Chengtong Development Group Limited from March 2003 to November 2013 and China Oilfield Services Limited from June 2009 to June 2015, all of which are companies listed on the HKSE. Mr. Tsui has been the chairman of WAG Worldsec Management Consultancy Limited since 2006 and a director of Industrial and Commercial Bank of China (Asia) Limited since August 2000. He is also an independent non-executive director of a number of companies listed on the HKSE, NASDAQ, the Shanghai Stock Exchange and the PSE, including COSCO International Holdings Limited since 2004, China Power International Development Limited from 2004 to 2006, Pacific Online Limited since 2007, ATA Inc. since 2008, Summit Ascent Holdings Limited from March 2011 to 2018, Kangda International Environmental Company Limited from 2013 until 2019, DTXS Silk Road Investment Holdings Company Limited since December 2015, and Hua Medicine since August 2018.

Mr. Tsui graduated from the University of Tennessee with a bachelor's degree in industrial engineering in 1975 and a master of engineering degree in 1976. He completed a program for senior managers in government at the John F. Kennedy School of Government at Harvard University in 1993. He is the chairman of the Company's Nominating and Corporate Governance Committee and Compensation Committee.

John William C. Crawford – *Independent Director*

Mr. Crawford was appointed as an independent director of the Company on February 1, 2017 and as an independent non-executive director of Melco on January 12, 2017. He is currently the chairman of the Company's Audit and Risk Committee and member of the Compensation Committee and Nominating and Corporate Governance Committee. Mr. Crawford has been the managing director of Crawford Consultants Limited and International Quality Education Limited since 1997 and 2002, respectively. Previously, Mr. Crawford was a founding partner of Ernst & Young, Hong Kong, where he acted as engagement or review partner for many public companies and banks during his 25 years in public accounting and was the chairman of the audit division and the vice chairman of the Hong Kong office of the firm prior to retiring in 1997. Mr. Crawford has extensive knowledge of accounting issues from his experience as a managing audit partner of a major international accounting firm and also has extensive operational knowledge as a result of his consulting experience. Mr. Crawford has served as an independent non-executive director and chairman of the audit committee of Regal Portfolio Management Limited of Regal REIT since November 2006 and as an independent non-executive director of Entertainment Gaming Asia Inc. since November 2007 and up to his resignation on July 3, 2017. In November 2011, Mr. Crawford was appointed as a member of the conflicts committee of Melco's subsidiary Studio City International Holdings Limited and resigned from this position on January 10, 2017. Mr. Crawford previously served as an independent non-executive director and chairman of the audit committee of other companies publicly listed in Hong Kong, the most recent of which was E-Kong Group Limited until June 8, 2015.

Mr. Crawford has been deeply involved in the education sector in Asia, including setting up international schools and providing consulting services. He was a member and a governor for many years of the Canadian International School of Hong Kong and remains active in overseeing and consulting for other similar pre-university schools. Additionally, Mr. Crawford is involved in various charitable and/or community activities and was a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, Mr. Crawford was appointed a Justice of the Peace in Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, a member and honorary president of the Macau Society of Certified Practising Accountants and a member of the Canadian Institute of Chartered Accountants.

Frances Marie T. Yuyucheng – *Director*

On May 18, 2015, Ms. Yuyucheng was appointed as a director of the Company. Ms. Yuyucheng joined Romulo Mabanta Buenaventura Sayoc & de los Angeles in 1996 and is currently an Of Counsel. She graduated from the Ateneo de Manila University School of Law with a degree in Juris Doctor and was admitted to the Philippine Bar in 1995. She acts as the corporate secretary of various companies.

Johann M. Albano – *Director*

On April 11, 2014, Mr. Albano was appointed as Director of the Company, bringing with him years of experience in business development. Mr. Albano is also the Vice President of Dole Asia Company from 2009 to present. He graduated from the Ateneo de Manila University with a Bachelor's Degree in Economics and holds a Master's Degree in Business Administration from J.L. Kellogg School of Management and HKUST Business School.

Jose Maria B. Poe III – *Independent Director*

On January 31, 2018, Mr. Poe was appointed as an independent director of the Company. Mr. Poe is the Chairman and Chief Executive Officer of J. Poe & Sons Inc., BCC Global Solutions and the CAT Security Group. He is also Chairman and Chief Executive Officer of Building Care Realty Corp., J. Poe Realty Inc., BCC Security Technologies Inc., BCC Diagnostics & Medical Services Inc., and the Security Academy of the Philippines Inc. He is a director of Sodexo On-Site Services Philippines Inc., and a member of the Board of Trustees of Kabayanihan Foundation. He was formerly the president of the Kellogg Northwestern Alumni Club of the Philippines.

Mr. Poe has 27 years experience in the facilities management industry. He obtained his Masters of Business Administration degree from Kellogg School of Management in Northwestern University, Evanston IL. He graduated with a degree in Business Administration & Accountancy Magna Cum Laude from the University of the Philippines.

Maria Marcelina O. Cruzana – *Director*

Ms. Cruzana was appointed as a director of the Company on March 13, 2014. Ms. Cruzana is a Licensed Certified Public Accountant with a total of twenty five years of professional experience. She held various positions in finance and accounting functions as Finance Controller, Finance Manager as well as Finance and Administration Manager. She graduated *Cum Laude* from Polytechnic University of the Philippines ("**PUP**") with a bachelor's degree in Science in Accountancy and holds a Master's Degree (Business Administration) from PUP Graduate School.

Liberty A. Sambua – *Director*

Ms. Sambua was appointed as a director of the Company on March 13, 2014 to February 1, 2017, and then re-elected on June 26, 2017. She has multiple years of auditing, accounting and finance working experience in an audit/accounting firm and a private company. She also has been with Chevron Philippines, Inc. as a Credit Analyst. Ms. Sambua is a Licensed Certified Public Accountant and holds a bachelor's degree in Science in Accountancy from PUP.

Kevin Richard Benning – *Chief Operating Officer*

Mr. Benning was appointed as the Chief Operating Officer of the Company effective February 1, 2018. Prior to that, he served as the Vice President for Gaming Operations of the Company's subsidiary, Melco Resorts Leisure, from March 31, 2016 to February 1, 2018. Mr. Benning has years of experience working in the gaming industry. From April 2015 to March 2016, he was the Vice President of Casino Marketing of Resorts World Sentosa, Singapore. He was formerly the Executive Director of Marketing Operations of Sands China Limited, Macau from April 2011 to April 2015. He graduated from the Arizona State University, USA with a Bachelor of Arts degree in Business.

Donald Nori Tateishi – *Treasurer*

On May 16, 2016, Mr. Tateishi was appointed as the Treasurer of the Company. Mr. Tateishi was most recently connected with Station Casinos as Vice President of Finance. He started with Station Casinos in 2009 and served in various property and corporate finance roles. Previously, he held chief financial officer roles for several gaming technology companies. He began his career in gaming at Harrah's Entertainment in 2002 in various roles including Director of Finance – Planning & Analysis for the company's Northern Nevada region. Mr. Tateishi received his undergraduate degree in Business Economics from the University of California – Riverside, and received his Masters in Business Administration from the Fuqua School of Business at Duke University.

Marissa T. Academia – *Corporate Information Officer / Compliance Officer*

On January 22, 2014, Ms. Academia was appointed as the Corporate Information Officer of the Company. She was subsequently appointed as the Corporate Secretary and Compliance Officer on March 13, 2014. Ms. Academia is the Vice-President for Legal Affairs of the Company. She brings with her more than twenty years of experience in corporate practice. Prior to joining the Company, she was the Chief Legal Counsel for Thunderbird Resorts, Inc. from 2009 to 2013, and was a Partner in Herrera Teehankee Cabrera Law Offices where she practiced law from 1994 to 2009. She obtained her Juris Doctor of Law degree from the Ateneo Law School and was admitted to the Philippine Bar in 1994.

Marie Grace A. Santos – *Corporate Secretary / Alternate Corporate Information Officer*

On December 5, 2017, Ms. Santos was appointed as the Company's Corporate Secretary. She was previously appointed as the Alternate Corporate Information Officer of the Company on January 22, 2014. Prior to joining the Company, Ms. Santos was the Assistant Vice-President of the Investigation and Enforcement Department of the Capital Markets Integrity Corporation, the spun-off regulatory arm of the PSE. Previously, she also held the position of Corporate Governance and Strategy Management Officer of the PSE and was also head of the Prosecution and Enforcement Department of the PSE's former Market Regulation Division. She obtained her Juris Doctor degree from the Ateneo Law School and was admitted to the Philippine Bar in 2007.

The Directors of the Company are elected at the Annual Stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors at its first meeting following the annual stockholders' meeting, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified.

The Company believes that all descriptions provided by its Directors and Officers are correct and complete.

Significant Employees

There are no persons who act as an Executive Officers expected by the Company to not make significant contributions to the business.

Family Relationship

There are no family relationships up to the fourth civil degree, either by consanguinity or affinity, among Directors, Executive Officers or persons nominated or chosen by the registrant to become Directors or Executive Officers.

Involvement of Directors and Officers in Certain Legal Proceedings

During the past five years and until December 31, 2018, the members of the Board of Directors and the Executive Officers:

a) have not filed any bankruptcy petitions or have not had bankruptcy petitions filed against them;

b) have not been convicted by final judgment or have any pending criminal cases;

c) have not been subject to any order, judgment or decree, or any court of competent jurisdiction (in a civil action), not subsequently reversed or vacated limiting its involvement in any type of business, securities, commodities or banking activities; and

d) have not been found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law.

Item 10. Executive Compensation[3]

The aggregate compensation paid or accrued during the last two fiscal years to the Company's (a) President and four highest compensated officers, and (b) other Officers and Directors or key management personnel (as a group unnamed) are as follows:

<u>Name and Position of (a) above for the year 2018</u>

1.	Mr. Clarence Yuk Man Chung	(President / Chairman of the Board)
2.	Mr. Kevin Benning	(Senior Vice President /Chief Operating Officer)
3.	Ms. Marissa Academia	(Vice President, Legal Affairs/Compliance Officer)
4.	Mr. Roger Lwin	(Vice President, Gaming Operations)
5.	Mr. Michael Ziemer	(Vice President, Hotels and F&B)

Summary of Compensation Table

	(Estimated) Year Ending December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
(a) President and four highest compensated officers and/or key management personnel:			
Basic salaries, allowances and benefits in kind	₱71,256	₱56,969	₱81,219
Performance bonuses	24,469	30,930	84,187
Retirement costs – defined contribution plans	89	80	3,867

[3] In thousands of Philippine peso.

Share-based compensation expenses	4,805	6,927	20,235
	₱100,619	₱94,906	₱189,508

	(Estimated) Year Ending December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
(b) All other Officers, key management personnel and Directors as a group unnamed:			
Basic salaries, allowances and benefits in kind	₱18,958	₱10,642	₱18,036
Performance bonuses	4,628	3,007	6,229
Retirement costs – defined contribution plans	67	45	62
Share-based compensation expenses	3,314	1,277	606
	₱26,967	₱14,971	₱24,933

The Company cannot accurately estimate the aggregate remuneration to be paid to its key management personnel and senior executives as a group for the year ending December 31, 2019. At this point of time, the Company anticipates that the estimated aggregate compensation for the President, the four highest compensated Officers and/or key management personnel for fiscal year 2019 will be based on market rates for the hospitality, leisure, gaming and entertainment industries.

Compensation of Directors

The Company did not pay any compensation to the Directors for the years ended December 31, 2018 and 2017. The remuneration of the Directors of the Company were borne by Melco.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no general compensatory plan or scheme with respect to any of the Company's Executive Officers that will result from the resignation, retirement or termination of such Executive Officer or from a change of control in the Company.

Warrants and Options Outstanding

The Company did not have any outstanding warrants as of December 31, 2018 and 2017. Refer to Note 27 to the consolidated financial statements for the details of the SIP.

On September 30, 2016, the SEC approved the Company's option exchange program which allows eligible grantees under the SIP an opportunity to exchange certain outstanding underwater share options for new restricted shares. The share options subject of the exchange program were those granted in 2013 and 2014 which have not yet vested or have vested but not yet exercised.

The details of outstanding MRP Restricted Shares and MRP Share Options of the Company as at December 31, 2018 are as follows:

Date of grant/award	Exercise Price	Market Price as of date of grant/award
June 28, 2013	8.30	8.30
February 17, 2014	8.30	13.48
February 28, 2014	8.30	13.00
March 27, 2014	8.30	12.76
March 28, 2014	8.30	12.96
May 30, 2014	13.256	13.00
September 29, 2015	3.99	3.99
November 16, 2015	3.46	3.46
September 30, 2016	N/A	3.91
March 15, 2017	5.66	5.66
August 1, 2017	8.98	8.98
March 29, 2018	7.80	7.80

Prior to the 2015 grants, the exercise price for the stock options is the higher of (i) the closing price on the Grant Date or (ii) the average closing price for the five business days immediately preceding the Grant Date. For 2015 grants, the exercise price for the stock options is the closing price on the Grant Date. The Grant Date represents the dates of grant and approval by the SEC for the issuance of shares under the SIP.

	As of December 31, 2018		As of December 31, 2017	
Recipients	Total number of outstanding MRP Restricted Shares	Total number of outstanding MRP Share Options	Total number of outstanding MRP Restricted Shares	Total number of outstanding MRP Share Options
President	4,578,655	0	5,939,848	0
Chief Operating Officer	751,696	1,505,628	182,774	364,818
Treasurer	2,074,788	2,332,122	1,857,259	1,895,930
Compliance Officer	1,163,579	388,263	2,024,725	170,872
Corporate Secretary	130,061	0	260,121	0
All other Officers, key management personnel and Directors as a group unnamed	5,904,712	0	4,450,938	0
Others	14,841,169	12,462,664	34,286,018	12,288,745
Total	**29,444,660**	**16,688,677**	**49,001,683**	**14,720,365**

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Recorded and Beneficial Owners

As of December 31, 2018, the shareholders who beneficially own in excess of 5% of the Company's common stock are as set out below:

Title of Class	Name and Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent to Outstanding Shares
Common	MCO (Philippines) Investments Limited Jayla Place, Wickams Cay I, Road Town, Tortola, British Virgin Islands Stockholder of Record	MCO (Philippines) Investments Limited	British Virgin Islands ("**BVI**")	5,396,393,164*	94.89%
Common	PCD Nominee Corporation (Non-Filipino)	Various Stockholders	Various	5,663,532,188 **	99.58%
Common	PCD Nominee Corporation (Filipino)	Various Stockholders	Various	19,676,393	00.35%
Common	MPHIL Corporation Asean Avenue corner Roxas Boulevard, Brgy. Tambo, Parañaque City, 1701 Stockholder of Record	MCO (Philippines) Investments Limited Parent Company of MPHIL Corporation	BVI	173,837,068*	3.06%

*These shares are lodged with the Philippine Depository and Trust Corporation.

**These shares include the 5,396,393,164 shares of MCO (Philippines) Investments Limited and 173,837,068 shares of MPHIL Corporation lodged with the Philippine Depository and Trust Corporation.

Security Ownership of Management

Details of securities owned and held by Directors and Executive Officers of the Company as of December 31, 2018 are as set out below:

A. Directors

Title	Name of Director	Citizenship	Amount and Nature of Record/Beneficial Ownership[4]	Percent to Total Outstanding Shares
Common	Clarence Yuk Man Chung	Chinese	Direct: 0 Indirect: 100	NIL
Common	Geoffrey S. Davis	American	Direct: 100 Indirect: 0	NIL
Common	Alec Yiu Wa Tsui	British	Direct: 100 Indirect: 0	NIL
Common	John William C. Crawford	Canadian	Direct: 5,000 Indirect: 0	NIL
Common	Frances Marie T. Yuyucheng	Filipino	Direct: 0 Indirect: 100	NIL

[4] (1) Clarence Yuk Man Chung indirectly holds 100 shares in trust and for the benefit of MCO (Philippines) Investments Limited. (2) Frances Marie T. Yuyucheng, Maria Marcelina O. Cruzana and Johann M. Albano indirectly hold 100,100 and 3,000 shares each, respectively, in trust and for the benefit of MPHIL Corporation. (3) Geoffrey S. Davis, Jose Maria B. Poe III, John William C. Crawford and Alec Yiu Wa Tsui are the registered and beneficial owners of the shares held by them.

Common	Johann M. Albano	Filipino	Direct: 0 Indirect: 3,000	NIL
Common	Jose Maria B. Poe III	Filipino	Direct: 1,000 Indirect: 0	NIL
Common	Maria Marcelina O. Cruzana	Filipino	Direct: 0 Indirect: 100	NIL
Common	Liberty A. Sambua	Filipino	Direct: 1 Indirect: 0	NIL

B. Executive Officers

Title	Name of Executive Officer	Citizenship	Amount and Nature of Record/Beneficial Ownership[5]	Percent to Total Outstanding Shares
Common	Clarence Yuk Man Chung	Chinese	Direct: 0 Indirect: 100	NIL
-	Kevin Richard Benning	American	Direct: 0 Indirect: 0	NIL
-	Donald Nori Tateishi	American	Direct: 0 Indirect: 0	NIL
-	Marissa T. Academia	Filipino	Direct: 0 Indirect: 0	NIL
-	Marie Grace A. Santos	Filipino	Direct: 0 Indirect: 0	NIL

C. Voting Trusts of 5% or More

There are no voting trusts or similar arrangement covering the shares of stock of the Company.

D. Changes in Control

There were no arrangements which have resulted in a change in control of the Company in the last fiscal year.

Item 12. Certain Relationships and Related Transactions

Related transactions were described in page 14 of this report under the heading "Related Party Transactions".

PART IV - EXHIBITS AND SCHEDULES

Item 13. Corporate Governance

In accordance with SEC Memorandum Circular No. 20 dated December 8, 2016, the Annual Corporate Governance Report of the Company shall no longer be required to be attached to the Form 17-A.

Reports on SEC Form 17-C

January 8, 2018	Submitted the report on the Number of Shareholders of the Company Owning one (1) Board Lot each as of December 31, 2017.
January 15, 2018	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.
February 1, 2018	Submitted the report on the Resignation of Mr. Geoffry Philip Andres and Appointment of Mr. Kevin Richard Benning.

[5]Clarence Yuk Man Chung indirectly holds 100 shares in trust and for the benefit of MCO (Philippines) Investments Limited.

February 5, 2018	Submitted the report on the Number of Shareholders of the Company Owning one (1) Board Lot each as of January 31, 2018.
February 6, 2018	Submitted the following: a. SEC Form 17-C on the SEC Approvals of Amended Articles of Incorporation and Amended By-Laws; b. Further Amendments to the Amended Articles of Incorporation (June 26, 2017); c. Further Amendments to the Amended Articles of Incorporation (August 10, 2017); d. Further Amendments to the Amended By-Laws (June 26, 2017); e. Further Amendments to the Amended By-Laws (August 10, 2017); f. Further Amendments to the Amended By-Laws (September 26, 2017); and g. Letter to the Exchange and the SEC Form 23-A of Kevin Richard Benning.
February 7, 2018	Submitted the 2018 General Information Sheet.
February 9, 2018	Submitted SEC Form 17-C on the Financial Results of Melco Resorts & Entertainment Limited for its 4th Quarter and Full Year ended December 31, 2017.
February 12, 2018	Submitted the Clarification of News Article in philSTAR.net on February 12, 2018 entitled "Ho wants to expand City of Dreams".
February 21, 2018	Submitted SEC Form 17-C on the receipt by Nüwa at City of Dreams Manila of 2018 Forbes Five-Star Award
March 5, 2018	Submitted the report on the Number of Shareholders of the Company Owning one (1) Board Lot each as of February 28, 2018.
March 22, 2018	Submitted the following: a. SEC Form 17-C on the Results of Regular Board Meeting; and b. Notice of Annual Stockholders' Meeting.
April 2, 2018	Submitted SEC Form 17-C on the Financial Results of Melco International Development Limited and Melco Resorts & Entertainment Limited for the year ended December 31, 2017.
April 4, 2018	Submitted the following: a. SEC Form 17-C on the SEC Approval of Further Amendments to the Amended By-Laws; and b. Report on the number of Shareholders of the Company Owning one (1) Board Lot each as of March 31, 2018.
April 13, 2018	Submitted SEC Form 17-A (2017 Annual Report).
April 17, 2018	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.
April 17, 2018	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.
April 23, 2018	Submitted the Certification of the following Independent Directors: a. Alec Y.W. Tsui; b. John William C. Crawford; and c. Jose Maria B. Poe III.

May 4, 2018	Submitted SEC Form 17-C on the Financial Results of Melco Resorts & Entertainment Limited for the 1st Quarter ended March 31 2018.
May 7, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of April 30, 2018.
May 8, 2018	Submitted the following: a. Quarterly Report for period ended March 31, 2018; and b. Definitive Information Statement.
May 18, 2018	Submitted SEC Form 17-C on the Potential Shareholding of Premium Leisure Corp. in MRP.
May 30, 2018	Submitted the following: a. SEC Form 17-C on the Appointment of the Chief Audit Executive, Chief Risk Officer and Investor Relations Officer; and b. Revised Manual on Corporate Governance; and
May 31, 2018	Submitted the Integrated Annual Corporate Governance Report.
June 6, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of May 31, 2018.
June 13, 2018	Submitted the following: a. Results of the Organizational Meeting of Board of Directors; b. Results of Annual Stockholders' Meeting; and c. SEC Form 17-C on the Results of the Regular Board Meeting.
July 4, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of June 30, 2018.
July 12, 2018	Submitted the General Information Sheet.
July 13, 2018	Submitted the following: a. Public Ownership Report; b. List of Top 100 Stockholders Report; and c. SEC Form 17-C on the Resignation and Appointment of New Investor Relations Officers
July 25, 2018	Submitted SEC Form 17-C on the Financial Results of Melco Resorts & Entertainment Limited for the 2nd Quarter ended June 30, 2018.
July 30, 2018	Submitted SEC Form 17-C on the Approval by the Board of Directors of the Philippine Notes Redemption.
July 31, 2018	Submitted the following: a. SEC Form 17-C on the Notice of Intent to Redeem the Philippine Notes; and b. Quarterly Report for the period ended June 30, 2018.
August 3, 2018	Submitted SEC Form 23-B of the following: a. Clarence Yuk Man Chung; b. Alec Y.W. Tsui; and c. John William Crawford.
August 6, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of July 31, 2018.
September 7, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of August 31, 2018.

September 10, 2018	Submitted SEC Form 17-C on the Approval of the Voluntary Delisting.
September 14, 2018	Submitted the following: a. SEC Form 17-C on the Tender Offer Report; and b. Letter on the Petition for Voluntary Delisting.
September 17, 2018	Submitted the following: a. Tender Offer Report; and b. Voluntary Delisting Report.
September 18, 2018	Submitted the following: a. Letter on the Amended Petition for Voluntary Delisting; and b. Amended Voluntary Delisting Report.
September 26, 2018	Submitted the following: a. Clarification of News Article; and b. Amended Clarification of News Article.
October 2, 2018	Submitted the following: a. SEC Form 17-C on the Deferral of Tender Offer; and b. First Amendment to the Tender Offer Report.
October 3, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of September 30, 2018 and the SEC Form 23-B of the following: a. Clarence Yuk Man Chung; b. Geoffrey Stuart Davis; c. Alec Y.W. Tsui; d. Marissa T. Academia; and e. Marie Grace A. Santos.
October 10, 2018	Submitted SEC Form 17-C on the Press Release regarding the Responses to Queries on Voluntary Tender Offer.
October 11, 2018	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.
October 12, 2018	Submitted SEC Form 17-C on the Press Release regarding the opening of The Garage at City of Dreams Manila.
October 19, 2018	Submitted SEC Form 17-C on the following: a. Deferral of the Tender Offer; b. Amended Deferral of the Tender Offer; and c. Withdrawal of the Petition for Voluntary Delisting.
October 23, 2018	Submitted the following: a. Second Amendment to the Tender Offer Report; b. SEC Form 17-C on the Second Amended Tender Offer Report; and c. SEC Form 17-C on the Press Release regarding Tender Offer Report.
October 24, 2018	Submitted SEC Form 17-C on the Reply to PSE's Request for Clarification.
October 31, 2018	Submitted SEC Form 17-C on the Press Release regarding the Public Announcement to the Shareholders about the Tender Offer.
November 7, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of October 31, 2018.

November 9, 2018	Submitted SEC Form 17-C on the Financial Results of Melco Resorts & Entertainment Limited for the 3rd Quarter ended September 30, 2018.
November 15, 2018	Submitted the Quarterly Report for period ended September 30, 2018.
November 28, 2018	Submitted SEC Form 17-C on the Redemption of the Philippine Notes.
December 5, 2018	Submitted the following: a. SEC Form 17-C on the Results of the Tender Offer; and b. SEC Form 17-C on MRP's Public Float after the Tender Offer.
December 6, 2018	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of November 30, 2018.
December 10, 2018	Submitted SEC Form 17-C on the Breach of the Minimum Public Ownership.
December 11, 2018	Submitted the Revised Manual on Corporate Governance and SEC Form 23-B of the following: a. Clarence Yuk Man Chung; b. Geoffrey Stuart Davis; c. Alec Y.W. Tsui; d. John William Crawford; e. Johann M. Albano; f. Maria Marcelina O Cruzana; g. Liberty A. Sambua; h. Marissa T. Academia; i. Marie Grace A. Santos; and j. MCO (Philippines) Investments Limited.
December 14, 2018	Submitted the Third Amendment to the Tender Offer Report.
January 8, 2019	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of December 31, 2018.
January 15, 2019	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.
February 8, 2019	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of January 31, 2019.
February 14, 2019	Submitted the Public Ownership Report as of January 31, 2019.
February 20, 2019	Submitted SEC Form 17-C on the Financial Results of Melco Resorts & Entertainment Limited for the 4th Quarter and Full Year ended December 31, 2018.
February 26, 2019	Submitted SEC Form 17-C on the Press Release regarding the 2019 Forbes Five-Star Award Received by Nüwa Manila at City of Dreams Manila.
March 5, 2019	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of February 28, 2019.
March 6, 2019	Submitted SEC Form 17-C on the DOLE Certification of the Exclusive Bargaining Agent.
March 12, 2019	Submitted the Public Ownership Report as of February 28, 2019.

March 22, 2019	Submitted the following: a. SEC Form 17-C on the Results of Regular Board Meeting; and b. Notice of Annual Stockholders' Meeting.
April 1, 2019	Submitted SEC Form 17-C on the Financial Results of Melco International Development Limited and Melco Resorts & Entertainment Limited for the Full Year ended December 31, 2018.
April 4, 2019	Submitted the report on the Number of Shareholders of the Company Owning One (1) Board Lot each as of March 31, 2019.
April 11, 2019	Submitted the following: a. Public Ownership Report; and b. List of Top 100 Stockholders Report.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
Issuer

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned; thereunto duly authorized, in the City of Parañaque on April 1, 2019.

Clarence Yuk Man Chung
President

SUBSCRIBED AND SWORN to before me this 1st day of April 2019 affiant exhibiting to me his Government Issued ID, as follows:

NAME	PASSPORT NO.	EXPIRATION DATE	PLACE OF ISSUE
Clarence Yuk Man Chung	KJ0527144	July 15, 2026	China

Doc. No. 74;
Page No. 16;
Book No. IV;
Series of 2019.

EDWIN VALENTE Z. LABRO, JR.
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. VI-0008802

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned; thereunto duly authorized, in the City of PASAY CITY on APR 1 0 2019, 2019.

Donald Nori Tateishi
Treasurer

SUBSCRIBED AND SWORN to before me this APR 1 0 2019 day of ________ 2019 affiant exhibiting to me his Government Issued ID, as follows:

NAME	PASSPORT NO.	EXPIRATION DATE	PLACE OF ISSUE
Donald Nori Tateishi	518936680	October 1, 2024	USA

Doc. No. 494;
Page No. 108;
Book No. V;
Series of 2019.

ATTY. JOVINO R. ANGEL
NOTARY PUBLIC
UNTIL DEC 31, 2020
PTR NO. 5353793
IBP NO. 053411
ISSUED ON 1/3/2019
ROLL NO. 28761
MCLE COMPLIANCE
NO. V-0024151
10/25/2016

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned; thereunto duly authorized, in the City of Parañaque on APR 08 2019, 2019.

Kevin Richard Benning
Chief Operating Officer

SUBSCRIBED AND SWORN to before me this APR 08 2019 day of __________ 2019 affiant exhibiting to me his Government Issued ID, as follows:

NAME	PASSPORT NO.	EXPIRATION DATE	PLACE OF ISSUE
Kevin Richard Benning	475305719	December 28, 2020	USA

Doc. No. 84;
Page No. 19;
Book No. IV;
Series of 2019.

EDWIN VALENTE Z. LABRO, JR.
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. VI-0008802

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned; thereunto duly authorized, in the City of Parañaque on APR 08 2019, 2019.

Marissa T. Academia
Compliance Officer

SUBSCRIBED AND SWORN to before me this APR 08 2019 day of April 2019 affiant exhibiting to me her Government Issued ID, as follows:

NAME	GOVERNMENT ISSUED ID NO.	EXPIRATION DATE	PLACE OF ISSUE
Marissa T. Academia	P5723284A	January 22, 2028	DFA Manila

Doc. No. 87;
Page No. 19;
Book No. IV;
Series of 2019.

EDWIN VALENTE Z. LABRO, JR.
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. VI-0008802

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned; thereunto duly authorized, in the City of Parañaque on APR 08 2019, 2019.

Marie Grace A. Santos
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 08 2019 day of ________ 2019 affiant exhibiting to me her Government Issued ID, as follows:

NAME	GOVERNMENT ISSUED ID NO.	EXPIRATION DATE	PLACE OF ISSUE
Marie Grace A. Santos	PP No. P4765321A	October 18, 2022	Manila

Doc. No. 88 ;
Page No. 19 ;
Book No. IV ;
Series of 2019.

EDWIN VALENTE Z. LABRO, JR.
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. VI-0008802

SEC Number **58648**

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

* *These schedules, which are required by RSA Rule 68.1, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's financial statements or the notes to financial statements.*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Melco Resorts and Entertainment (Philippines) Corporation and its subsidiaries (collectively referred to as the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018, 2017 and 2016, in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

CLARENCE YUK MAN CHUNG
President & Chairman of the Board

SUBSCRIBED AND SWORN to before me this 1st day of April 2019 at Parañaque City, affiant exhibiting to me his Passport details, as follows:

Name	Passport No.	Expiration Date	Place of Issue
Clarence Yuk Man Chung	KJ0527144	July 15, 2026	China

Doc. No. 73;
Page No. 16;
Book No. IV;
Series of 2019.

EDWIN VALENTE Z. LABRO, JR.
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. VI-0008802

DONALD N. TATEISHI
Treasurer

SUBSCRIBED AND SWORN to before me this APR 10 2019 day of April 2019 at PASAY CITY, affiant exhibiting to me his Passport details, as follows:

Name	Passport No.	Expiration Date	Place of Issue
Donald N. Tateishi	518936680	October 1, 2024	USA

Doc. No. 493;
Page No. 108;
Book No. V;
Series of 2019.

ATTY. JOVINO R. ANGEL
NOTARY PUBLIC
UNTIL DEC. 31, 2020
PTR NO. 639 7931
IBP NO. 05244
ISSUED ON 1/3/2019
ROLL NO. 28761
MCLE COMPLIANCE
NO. V-0024151
10/25/2016

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 5 8 6 4 8

Company Name

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

ASEAN AVENUE COR. ROXAS BOULEVARD, BRGY. TAMBO, PARAÑAQUE CITY 1701

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	MSRD	With Secondary License

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
aissatacademia@cod-manila.com	691-8899	(0917) 861-0631

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
407	May/3rd Monday of each calendar year	December/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Marissa T. Academia	aissatacademia@cod-manila.com	691-8899	(0917) 861-0631

Contact Person's Address

Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

Melco Resorts and Entertainment (Philippines) Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017
and For The Years Ended December 31, 2018, 2017 and 2016

and

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Melco Resorts and Entertainment (Philippines) Corporation
Asean Avenue cor. Roxas Boulevard
Brgy. Tambo, Parañaque City 1701

Opinion

We have audited the consolidated financial statements of Melco Resorts and Entertainment (Philippines) Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adequacy of Allowance for Doubtful Debts

Effective January 1, 2018, the Group has adopted PFRS 9, *Financial Instruments* under the modified retrospective method. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss.

The Group's adoption of the expected credit loss (ECL) model in calculating the allowance for doubtful accounts of its gaming receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The disclosures on the allowance for doubtful debts are included in Notes 4 and 7 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's estimation process for allowance for doubtful debts, which includes understanding of the methodologies and models used by the Group and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money, and the best available forward-looking information. We identified and tested controls surrounding such process.

We (i) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (ii) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place; (iii) tested historical loss rates by inspecting historical recoveries and write-offs; (iv) checked the classification of outstanding exposures to their corresponding aging buckets; and (v) checked forward-looking information based on our understanding of the Group's receivable portfolios and industry practices.

Further, we checked the data used in the ECL models, such as the historical collection analysis and default and recovery data, by examining supporting documents for credits granted to players and their subsequent settlement and performing an analysis of gaming receivables' aging buckets. We obtained confirmation from junkets with receivable balances, checked subsequent collections and performed inquiries on the status of collection.

We recalculated impairment provisions on a sample basis. We checked the transition adjustments and reviewed the disclosures made in the financial statements based on the requirements of PFRS 9.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group has adopted PFRS 15, *Revenue from Contracts with Customers* under the modified retrospective approach. The adoption of PFRS 15 resulted in changes in the Group's revenue process and revenue recognition accounting policy. The adoption of PFRS 15 resulted to the following significant judgments and estimates by management: (i) identification of the contracts for gaming services; (ii) identification of performance obligations; (iii) determination of transaction prices; and (iv) allocation of the transaction prices to the performance obligations.

The Group applied PFRS 15 guidance to a portfolio of contracts with similar characteristics as the entity reasonably expects that the effects on the consolidated financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within that portfolio. Hence, the Group viewed a gaming day as one contract. In determining the performance obligations in the contract, the Group considers as a separate performance obligation for the promotional merchandise provided to patrons as part of the marketing activities, and incentives granted in conjunction with the gaming activity. In determining the transaction prices, the Group considers the effect of commissions paid through gaming promoters. In the allocation of transaction prices, the Group considers the amount at which the entity would sell or purchase the promotional merchandise or incentives separately as the stand-alone selling prices of the performance obligations.

The disclosures on the allowance for the adoption of PFRS 15 are included in Notes 3 and 4 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's revenue recognition process, including the process of implementing the new revenue recognition standard, and identified and tested the key controls surrounding the process. We reviewed the PFRS 15 adoption impact assessment prepared by management, including revenue streams identification and scoping and contract identification.

For the identification of contracts in the application of PFRS 15 guidance, we assessed the practicability of monitoring the play of each patron and the effect of applying PFRS 15 guidance on a portfolio basis considering our understanding of the Group's operations. For the determination of performance obligations in the contracts, we obtained an understanding of the nature of the promotional merchandise provided to patrons as part of the marketing activities and the incentives provided to patrons in conjunction with the gaming activities on a discretionary and non-discretionary basis. For the determination of the transaction prices, we obtained an understanding of the rebates paid through gaming promoters, including the judgment and determination of considerations to which the Group is entitled using all available information, and checked the amounts paid to gaming promoters through inspection of settlement documents. We tested the stand-alone selling prices of the promotional merchandise and incentives against the market prices and checked the allocation of the transaction prices to the different performance obligations.

We reviewed the transition adjustments and evaluated the disclosures made in the financial statements on the adoption of PFRS 15.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusions thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Roel E. Lucas.

SYCIP GORRES VELAYO & CO.

Roel E. Lucas

Roel E. Lucas
Partner
CPA Certificate No. 98200
SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 191-180-015
BIR Accreditation No. 08-001998-95-2016,
January 3, 2017, valid until January 2, 2020
PTR No. 7332567, January 3, 2019, Makati City

March 21, 2019

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	December 31, 2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	5, 24 and 25	**₱6,808,712**	₱6,332,581
Restricted cash	6, 24 and 25	**867,591**	549,765
Accounts receivable, net	7, 24 and 25	**1,476,364**	1,328,372
Inventories		**310,132**	327,620
Prepayments and other current assets		**413,542**	385,331
Amounts due from related parties	16, 24 and 25	**139,564**	163,670
Income tax recoverable		**38**	–
Total Current Assets		**10,015,943**	9,087,339
Non-current Assets			
Property and equipment, net	8	**20,359,266**	23,130,988
Contract acquisition costs, net	9	**759,687**	811,779
Other intangible assets, net	10	**–**	2,446
Other non-current assets	11	**2,021,866**	1,395,847
Total Non-current Assets		**23,140,819**	25,341,060
		₱33,156,762	₱34,428,399
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	24 and 25	**₱151,145**	₱136,758
Accrued expenses, other payables and other current liabilities	12, 24 and 25	**8,985,142**	5,908,468
Current portion of obligations under a finance lease	19, 24 and 25	**1,824,898**	1,661,799
Amounts due to related parties	16, 24 and 25	**186,880**	100,291
Income tax payable		**–**	179
Total Current Liabilities		**11,148,065**	7,807,495
Non-current Liabilities			
Non-current portion of obligations under a finance lease	19, 24 and 25	**13,358,923**	13,271,953
Long-term debt, net	20, 24 and 25	**–**	7,459,634
Retirement liabilities	21	**74,065**	69,199
Other non-current liabilities		**296,133**	284,867
Deferred tax liability, net	18	**180,786**	119,433
Total Non-current Liabilities		**₱13,909,907**	₱21,205,086

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – continued
DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	December 31, 2018	December 31, 2017
Equity			
Capital stock	13	**₱5,687,271**	₱5,666,764
Additional paid-in capital		**22,259,788**	22,108,082
Share-based compensation reserve		**228,972**	401,964
Equity reserve	2 and 13	**(3,613,990)**	(3,613,990)
Accumulated deficit		**(16,463,251)**	(19,147,002)
Total Equity		**8,098,790**	5,415,818
		₱33,156,762	₱34,428,399

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31, 2018	2017	2016
NET OPERATING REVENUES				
Casino		**₱26,241,009**	₱30,463,494	₱21,298,942
Rooms		**2,815,366**	1,071,832	981,554
Food and beverage		**2,759,900**	688,773	707,255
Entertainment, retail and other		**609,473**	531,118	431,038
Total Net Operating Revenues		**32,425,748**	32,755,217	23,418,789
OPERATING COSTS AND EXPENSES				
Gaming tax and license fees		**(9,222,131)**	(8,053,459)	(5,408,428)
Inventories consumed		**(978,549)**	(944,129)	(819,730)
Employee benefit expenses	14	**(4,135,820)**	(3,637,272)	(3,449,766)
Depreciation and amortization		**(4,015,503)**	(4,285,650)	(4,388,885)
Other expenses	15	**(5,931,992)**	(10,031,247)	(6,457,016)
Payments to the Philippine Parties		**(3,211,857)**	(2,609,353)	(1,642,175)
Total Operating Costs and Expenses		**(27,495,852)**	(29,561,110)	(22,166,000)
OPERATING PROFIT		**4,929,896**	3,194,107	1,252,789
NON-OPERATING INCOME (EXPENSES)				
Interest income		**53,233**	43,955	20,300
Interest expenses, net of capitalized interest	19 and 20	**(2,413,092)**	(2,883,021)	(2,940,000)
Other finance fees		**(17,968)**	(42,384)	(47,832)
Foreign exchange gains, net		**183,211**	128,190	215,840
Loss on extinguishment of debt	20	**(12,144)**	(48,641)	–
Total Non-operating Expenses, Net		**(2,206,760)**	(2,801,901)	(2,751,692)
PROFIT (LOSS) BEFORE INCOME TAX		**2,723,136**	392,206	(1,498,903)
INCOME TAX EXPENSE	18	**(61,136)**	(38,283)	(82,396)
NET PROFIT (LOSS)		**2,662,000**	353,923	(1,581,299)
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss in subsequent period				
Remeasurement gain (loss) on defined benefit obligations	21	**21,751**	(6,852)	(3,210)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱2,683,751**	₱347,071	(₱1,584,509)
Basic Earnings (Loss) Per Share	17	**₱0.47**	₱0.06	(₱0.28)
Diluted Earnings (Loss) Per Share	17	**₱0.47**	₱0.06	(₱0.28)

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands of Philippine peso, except share and per share data)

	Notes	Capital Stock (Note 13)	Additional Paid-in Capital	Share-based Compensation Reserve	Equity Reserve (Note 13)	Cumulative Remeasurement Gain (Loss)	Accumulated Deficit	Total
Balance as of January 1, 2018		**₱5,666,764**	**₱22,108,082**	**₱401,964**	**(₱3,613,990)**	**₱–**	**(₱19,147,002)**	**₱5,415,818**
Net profit		–	–	–	–	–	**2,662,000**	**2,662,000**
Other comprehensive income	21	–	–	–	–	**21,751**	–	**21,751**
Total comprehensive income		–	–	–	–	**21,751**	**2,662,000**	**2,683,751**
Issuance of shares for restricted shares vested	13 and 27	**20,507**	**151,706**	**(172,213)**	–	–	–	–
Share-based compensation	27	–	–	**(779)**	–	–	–	**(779)**
Transfer of remeasurement gain on defined benefit obligations		–	–	–	–	**(21,751)**	**21,751**	–
Balance as of December 31, 2018		**₱5,687,271**	**₱22,259,788**	**₱228,972**	**(₱3,613,990)**	**₱–**	**(₱16,463,251)**	**₱8,098,790**
Balance as of January 1, 2017		₱5,662,897	₱22,076,822	₱416,835	(₱3,613,990)	₱–	(₱19,508,461)	₱5,034,103
Net profit		–	–	–	–	–	353,923	353,923
Other comprehensive loss	21	–	–	–	–	(6,852)	–	(6,852)
Total comprehensive income		–	–	–	–	(6,852)	353,923	347,071
Issuance of shares for restricted shares vested	13 and 27	2,827	19,838	(22,665)	–	–	–	–
Exercise of share options	13 and 27	1,040	11,422	(3,826)	–	–	–	8,636
Share-based compensation	27	–	–	26,008	–	–	–	26,008
Transfer of share-based compensation reserve upon expiry of share options		–	–	(14,388)	–	–	14,388	–
Transfer of remeasurement loss on defined benefit obligations		–	–	–	–	6,852	(6,852)	–
Balance as of December 31, 2017		₱5,666,764	₱22,108,082	₱401,964	(₱3,613,990)	₱–	(₱19,147,002)	₱5,415,818

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – continued
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands of Philippine peso, except share and per share data)

	Notes	Capital Stock (Note 13)	Additional Paid-in Capital	Share-based Compensation Reserve	Equity Reserve (Note 13)	Cumulative Remeasurement Gain (Loss)	Accumulated Deficit	Total
Balance as of January 1, 2016		₱5,643,355	₱21,932,963	₱606,279	(₱3,613,990)	₱–	(₱17,960,537)	₱6,608,070
Net loss		–	–	–	–	–	(1,581,299)	(1,581,299)
Other comprehensive loss	21	–	–	–	–	(3,210)	–	(3,210)
Total comprehensive loss		–	–	–	–	(3,210)	(1,581,299)	(1,584,509)
Issuance of shares for restricted shares vested	13 and 27	19,542	143,859	(163,401)	–	–	–	–
Share-based compensation	27	–	–	10,542	–	–	–	10,542
Transfer of share-based compensation reserve upon expiry of share options		–	–	(36,585)	–	–	36,585	–
Transfer of remeasurement loss on defined benefit obligations		–	–	–	–	3,210	(3,210)	–
Balance as of December 31, 2016		₱5,662,897	₱22,076,822	₱416,835	(₱3,613,990)	₱–	(₱19,508,461)	₱5,034,103

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before income tax		**₱2,723,136**	₱392,206	(₱1,498,903)
Adjustments for:				
Unrealized foreign exchange gains, net		**(204,371)**	(192,277)	(229,660)
Interest income		**(53,233)**	(43,955)	(20,300)
Share-based compensation	27	**(779)**	26,008	10,542
Depreciation and amortization		**4,015,503**	4,285,650	4,388,885
Interest expenses, net of capitalized interest		**2,413,092**	2,883,021	2,940,000
Provisions for doubtful debts		**242,953**	95,865	96,937
Provisions for input value-added tax ("VAT")	11	**216,370**	142,051	271,938
Retirement costs – defined benefit obligations	14 and 21	**26,617**	20,703	14,817
Other finance fees		**17,968**	42,384	47,832
Loss on extinguishment of debt	20	**12,144**	48,641	–
Net loss (gain) on disposals of property and equipment	15	**11,610**	185,569	(377,167)
Amortization of prepaid rent		**8,957**	7,284	7,285
Operating profit before working capital changes		**9,429,967**	7,893,150	5,652,206
Changes in assets and liabilities:				
Increase in accounts receivable		**(398,371)**	(34,604)	(207,203)
Increase in other non-current assets		**(248,859)**	(226,864)	(115,417)
Decrease in accounts payable		**(10,145)**	(49,087)	(11,018)
Increase in prepayments and other current assets		**(6,816)**	(50,830)	(68,055)
Increase in accrued expenses, other payables and other current liabilities		**3,062,433**	720,103	473,323
Increase (decrease) in amounts due to related parties		**91,858**	(1,016,467)	595,776
Decrease (increase) in amounts due from related parties		**23,160**	(13,604)	24,204
Increase in other non-current liabilities		**18,306**	45,212	56,723
Decrease (increase) in inventories		**17,488**	(97,209)	38,408
Net cash generated from operations		**11,979,021**	7,169,800	6,438,947
Interest received		**36,502**	40,600	13,189
Income tax paid		–	(19)	(337)
Net cash provided by operating activities		**₱12,015,523**	₱7,210,381	₱6,451,799

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – continued
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands of Philippine peso, except share and per share data)

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits for acquisitions of property and equipment	**(₱869,779)**	(₱81,384)	(₱78,573)
Payments for acquisitions of property and equipment	**(742,599)**	(611,236)	(2,112,996)
Increase in restricted cash	**(317,826)**	(309,740)	(197,500)
Payments for other non-current assets	**(83,056)**	–	–
Proceeds from disposals of property and equipment	**769**	6,016	1,155,284
Placement of bank deposits with original maturities over three months	–	(2,644,743)	–
Withdrawals of bank deposits with original maturities over three months	–	2,644,743	–
Net cash used in investing activities	**(2,012,491)**	(996,344)	(1,233,785)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	**(7,500,000)**	(7,500,000)	–
Repayments of obligations under a finance lease	**(1,782,631)**	(1,644,802)	(1,623,162)
Interest paid	**(450,747)**	(1,132,813)	(937,500)
Other finance fees paid	**(23,374)**	(57,797)	(47,832)
Proceeds from exercise of share options	–	8,636	–
Payments for issuance of capital stock	–	–	(12,763)
Net cash used in financing activities	**(9,756,752)**	(10,326,776)	(2,621,257)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	**229,851**	93,906	294,428
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**476,131**	(4,018,833)	2,891,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,332,581**	10,351,414	7,460,229
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱6,808,712**	₱6,332,581	₱10,351,414

See accompanying Notes to Consolidated Financial Statements.

1. **Organization and Business**

(a) Corporate Information

Melco Resorts and Entertainment (Philippines) Corporation (herein referred to as "MRP" or the "Parent Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC"). The shares of stock of the Parent Company were publicly traded on The Philippine Stock Exchange, Inc. (the "PSE") until its trading suspension on December 10, 2018, after the completion of the cross transaction of the Tendered Shares at the PSE as described below. As a result of the transaction, the public float of MRP fell below the 10% minimum public ownership requirement of the Amended PSE Rules on Minimum Public Ownership.

On September 10, 2018, MRP filed an announcement with the PSE regarding (i) the proposed voluntary delisting of MRP from the PSE as approved by the board of directors; and (ii) the intention of MCO (Philippines) Investments Limited ("MCO Investments" or the "Bidder"), the controlling shareholder of MRP, to conduct a voluntary tender offer to acquire up to 1,543,421,147 outstanding common shares of MRP held by the public and other MRP shareholders at the offer price of ₱7.25 per MRP share for the purpose of a voluntary delisting of MRP. On September 14, 2018, MRP filed with the PSE (i) a tender offer report, as amended from time to time, that was filed with the SEC containing further details of the terms of the tender offer to acquire up to 1,569,786,768 outstanding common shares of MRP (the "Tender Offer"); and (ii) a petition for voluntary delisting of MRP from the PSE, as amended from time to time, (the "Voluntary Delisting") that the PSE shall only consider and approve if the Bidder acquires at least 95% of the outstanding common shares of MRP pursuant to the PSE Rules on Delisting. The Tender Offer was originally scheduled to commence on October 3, 2018, was deferred to October 22, 2018 and then further deferred to October 31, 2018. On October 19, 2018, MRP filed an announcement with the PSE in relation to the proposal from MCO Investments to change the purpose for the Tender Offer from voluntary delisting of MRP to increasing the Bidder's shareholding interest in MRP and such change led to the decision to withdraw the petition for Voluntary Delisting by MRP. The Tender Offer period expired on November 29, 2018 and 1,338,477,668 outstanding common shares of MRP were tendered (the "Tendered Shares") and acquired by MCO Investments at the offer price of ₱7.25 per MRP share for a total amount of ₱9,703,963 and crossed at the PSE on December 10, 2018.

The Parent Company together with its subsidiaries (collectively referred to as the "Group") is a developer, owner and operator of casino gaming and entertainment resort facilities in the Philippines. The Group currently operates and manages City of Dreams Manila, a casino, hotel, retail and entertainment integrated resort in the Entertainment City complex in Manila.

The Parent Company's principal place of business is the Philippines and its registered office address is Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

1. **Organization and Business** – continued

(a) Corporate Information – continued

As of December 31, 2018 and 2017, the Parent Company's ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated and listed in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), and Melco Resorts & Entertainment Limited ("Melco"), a company incorporated in the Cayman Islands with its American depositary shares listed on the NASDAQ Global Select Market in the United States of America, is the then ultimate holding company and became one of the Parent Company's intermediate holding companies after the restructuring transactions of Melco in May 2016.

As of December 31, 2018 and 2017, the immediate holding company of the Parent Company is MCO Investments, a company incorporated in the British Virgin Islands.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the board of directors on March 21, 2019.

(b) Subsidiaries of MRP

As of December 31, 2018 and 2017, MRP's wholly-owned subsidiaries included MPHIL Holdings No. 1 Corporation ("MPHIL Holdings No. 1"), MPHIL Holdings No. 2 Corporation ("MPHIL Holdings No. 2") and Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure") (collectively referred to as "MPHIL Holdings Group"). MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure, all of which were incorporated in the Philippines. The primary purpose of both MPHIL Holdings No. 1 and MPHIL Holdings No. 2 is investment holding and the primary purpose of Melco Resorts Leisure is to develop and operate tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components and to engage in casino gaming activities.

(c) Regular License

On April 29, 2015, the Philippine Amusement and Gaming Corporation ("PAGCOR") issued a regular casino gaming license, as amended (the "Regular License") in replacement of a provisional license granted by PAGCOR as of March 13, 2013, to the co-licensees (the "Licensees") namely, MPHIL Holdings Group, SM Investments Corporation ("SMIC"), Belle Corporation ("Belle") and PremiumLeisure and Amusement, Inc. ("PLAI") (SMIC, Belle and PLAI are collectively referred to as the "Philippine Parties") for the establishment and operation of City of Dreams Manila, with Melco Resorts Leisure, a co-licensee, as the "special purpose entity" to operate the casino business and as representative for itself and on behalf of the other co-licensees in dealings with PAGCOR. The Regular License has the same terms and conditions as the provisional license and is valid until July 11, 2033.

2. **Basis of Preparation**

The Group's consolidated financial statements have been prepared in conformity with the Philippine Financial Reporting Standards ("PFRS"). PFRSs include all PFRS, Philippine Accounting Standards ("PAS") and Philippine Interpretations based on equivalent interpretations from International Financial Reporting Interpretations Committee ("IFRIC") as issued by the Financial Reporting Standards Council ("FRSC"). The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Parent Company and its subsidiaries. All values are rounded off to the nearest thousand, unless otherwise indicated.

Although the Group had net current liabilities of ₱1,132,122 as of December 31, 2018 (December 31, 2017: Net current assets of ₱ 1,279,844), the Group has the Shareholder Loan Facility of US$340,000,000 (as disclosed in Note 20(b)) and the Credit Facility of ₱2,350,000 (as disclosed in Note 20(c)) which remain available for drawdown to meet its financial obligations.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

On March 20, 2013, MRP completed the acquisition of a 100% ownership interest in MPHIL Holdings Group with a net assets value of ₱2,609,589 from MCO Investments for a consideration of ₱7,198,590. Because MRP did not meet the definition of a business, MPHIL Holdings Group was deemed to be the accounting acquirer for accounting purposes. The acquisition was accounted for similar to a reverse acquisition following guidance provided by the PFRS. In a reverse acquisition, the legal parent, MRP is identified as the acquiree for accounting purposes based on the substance of the transaction, the legal subsidiary, MPHIL Holdings Group is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of MRP have been prepared as a continuation of the financial statements of MPHIL Holdings Group. MPHIL Holdings Group has accounted for the acquisition of MRP on December 19, 2012 which was the date when Melco, through its indirect subsidiaries including MCO Investments and MPHIL Corporation ("MPHIL"), acquired control of MRP.

Reverse acquisition applies only to the consolidated financial statements of MRP. The Parent Company financial statements continue to represent MRP as a standalone entity as of December 31, 2018 and 2017.

3. **Summary of Significant Accounting Policies**

Changes in Accounting Policies and Disclosures
The Group has adopted the following new and amended PFRSs as of January 1, 2018 and the adoption of these new and amended PFRSs had no material impact on the consolidated financial statements, except for the adoption of PFRS 15, *Revenue from Contracts with Customers* and PFRS 9, *Financial Instruments* as explained below.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts,* applying PFRS 9 with PFRS 4
- PFRS 9
- PFRS 15
- Annual Improvements to PFRSs (2014 – 2016 Cycle) – Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

- **PFRS 15, *Revenue from Contracts with Customers***

  PFRS 15 and its amendments replace PAS 11, *Construction Contracts,* PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers ("New Revenue Standard"). Under the New Revenue Standard, revenues are recognized at amounts that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers. The principles in the New Revenue Standard provide a more structured approach to measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of the New Revenue Standard, the Group has changed the accounting policy with respect to revenue recognition as disclosed below.

  On January 1, 2018, the Group adopted the New Revenue Standard using the modified retrospective method of adoption to those contracts not yet completed as of January 1, 2018. Amounts for the period beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with previous basis. The major changes as a result of the adoption of the New Revenue Standard are as follows:

  - Under the New Revenue Standard, the complimentary goods and services are netted against casino revenues in primarily all cases rather than netted against revenues related to the respective goods or services. The complimentary goods and services are measured based on standalone selling prices. These changes primarily result in a decrease in casino revenues and an increase in the revenues related to the respective goods or services.

(In thousands of Philippine peso, except share and per share data)

3. **Summary of Significant Accounting Policies** – continued

Changes in Accounting Policies and Disclosures – continued

- **PFRS 15, *Revenue from Contracts with Customers*** – continued

  - A portion of commissions paid or payable to gaming promoters, representing the estimated incentives that were returned to customers, was previously reported as reductions in casino revenue, with the balance of commissions expense reflected as casino expense. Under the New Revenue Standard, all commissions paid or payable to gaming promoters are reflected as reductions in casino revenue. This change primarily results in a decrease in casino expense and a corresponding decrease in casino revenue.

  The amounts of affected financial statement line items in the consolidated statements of comprehensive income for the current year before and after the adoption of the New Revenue Standard are as follows:

	Year Ended December 31, 2018		
	Balances under New Revenue Standard (As reported)	Balances under Previous Basis	Effect of Change Higher (Lower)
Net Operating Revenues			
Casino	₱26,241,009	₱34,829,741	(₱8,588,732)
Rooms	2,815,366	1,136,113	1,679,253
Food and beverage	2,759,900	688,378	2,071,522
Entertainment, retail and other	609,473	481,340	128,133
Total Net Operating Revenues	₱32,425,748	₱37,135,572	(₱4,709,824)
Operating Costs and Expenses			
Other expenses	(₱5,931,992)	(₱10,641,816)	₱4,709,824

  There is no impact on the net profit, and basic and diluted earnings per share for the year ended December 31, 2018.

  The adoption of the New Revenue Standard had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows for the year ended December 31, 2018 or on the Group's financial position as of December 31, 2018.

- **PFRS 9, *Financial Instruments***

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement,* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(In thousands of Philippine peso, except share and per share data)

3. **Summary of Significant Accounting Policies** – continued

Changes in Accounting Policies and Disclosures – continued

- **PFRS 9, *Financial Instruments*** – continued

The Group has adopted PFRS 9 from January 1, 2018 and did not restate the comparative information in accordance with the transitional provisions in PFRS 9 and continues to be reported under PAS 39. The impacts from adopting PFRS 9 relate to the classification and measurement and the impairment requirements are summarized as follows:

Classification and Measurement
Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The assessment of the Group's business model was made at the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was based on the facts and circumstances at the initial recognition of the assets.

Cash and cash equivalents, restricted cash, accounts receivable, deposits and receivables (including security deposits) included under prepayments and other current assets and other non-current assets and amounts due from related parties previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortized cost.

The Group has not designated any financial liabilities at fair value through profit or loss. There are no changes in classifications and measurements of the Group's financial liabilities at amortized cost.

Upon the adoption of PFRS 9, the Group had the following required or elected reclassifications on the consolidated balance sheet:

	January 1, 2018	
	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash and cash equivalents	₱6,332,581	₱6,332,581
Restricted cash	549,765	549,765
Accounts receivable, net	1,328,372	1,328,372
Deposits and receivables, net	303,978	303,978
Amounts due from related parties	163,670	163,670
	₱8,678,366	₱8,678,366

3. **Summary of Significant Accounting Policies** – continued

Changes in Accounting Policies and Disclosures – continued

- **PFRS 9, *Financial Instruments*** – continued

Impairment of Financial Assets
PFRS 9 requires an impairment of financial assets based on an expected credit loss model, as opposed to an incurred credit loss model under PAS 39. The expected credit loss model requires an entity to account for expected credit losses ("ECLs") and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition. Upon adoption of PFRS 9, the Group has applied the simplified approach to recognize lifetime ECLs for its accounts receivable. The Group has determined that the adoption of PFRS 9 did not have a significant impact on the provision for impairment on its accounts receivable and hence did not result in an adjustment of the opening accumulated deficits at January 1, 2018.

Standards Issued But Not Yet Effective
Standards issued but not yet effective up to the date of issuance of the consolidated financial statements which are relevant to the Group are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when adopted at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PASs, PFRSs and the Philippine Interpretation to have significant impacts on the Group's financial position or performance.

- **Amendments to PFRS 9, *Prepayment Features with Negative Compensation***

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall adopt these amendments for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- **PFRS 16, *Leases***

PFRS 16, replaces PAS 17, *Leases* and the related interpretations when it became effective. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right of use asset). The right of use asset is subsequently measured at cost less accumulated depreciation and any impairment losses. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right of use asset.

3. **Summary of Significant Accounting Policies** – continued

Standards Issued But Not Yet Effective – continued

- **PFRS 16, *Leases*** – continued

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right of use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. A lessee can choose to adopt the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Group will adopt PFRS 16 from January 1, 2019 using the modified retrospective method without restating comparative information. In addition, the Group plans to apply PFRS 16 to contracts that were previously identified as leases under PAS 17 and to measure the right of use asset at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments, at the date of initial application. Furthermore, the Group intends to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. While the Group is currently assessing the quantitative impact PFRS 16 will have on its consolidated financial statements and related disclosures, the Group expects the most significant changes will be related to the recognition of right of use assets and lease liabilities for operating leases on the Group's consolidated balance sheet, with no material impact to net income or cash flows.

- **Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement***

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
  - determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

3. **Summary of Significant Accounting Policies** – continued

Standards Issued But Not Yet Effective – continued

- **Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*** – continued

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in the consolidated statements of comprehensive income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements for annual periods beginning on or after January 1, 2019, with early adoption permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of associates or joint ventures, or any impairment losses on the net investment recognized as adjustments to the net investment in the associates or joint ventures that arise from applying PAS 28. The amendments should be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- **Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments***

  The interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - whether an entity considers uncertain tax treatments separately
  - the assumptions an entity makes about the examination of tax treatments by taxation authorities
  - how an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates
  - how an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. This interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

3. **Summary of Significant Accounting Policies** – continued

Standards Issued But Not Yet Effective – continued

- **Annual Improvements to PFRSs (2015 – 2017 Cycle)**

    - **Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation***

      The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

      A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

      An entity applies those amendments to business combinations for which the acquisition date is on or after annual periods beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after annual periods beginning on or after January 1, 2019, with early adoption permitted.

    - **Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity***

      The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

      An entity applies those amendments for annual periods beginning on or after January 1, 2019, with early adoption permitted.

    - **Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization***

      The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

      An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual periods beginning on or after January 1, 2019, with early adoption permitted.

3. **Summary of Significant Accounting Policies** – continued

Standards Issued But Not Yet Effective – continued

- **Amendments to PFRS 3, *Definition of a Business***

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual periods beginning on or after January 1, 2020, with early adoption permitted.

- **Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material***

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual periods beginning on or after January 1, 2020, with early adoption permitted.

- **PFRS 17, *Insurance Contracts***

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - a specific adaptation for contracts with direct participation features (the variable fee approach)
  - a simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for annual periods beginning on or after January 1, 2021, with comparative figures required. Early adoption is permitted.

3. **Summary of Significant Accounting Policies** – continued

Standards Issued But Not Yet Effective – continued

- **Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture***

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investor interests in the associate or joint venture. The SEC and FRSC have deferred the effectivity of the amendments.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and cash in banks including short-term deposits with a maturity of three months or less, which are unrestricted as to withdrawal and use.

Restricted Cash
Restricted cash represents cash deposited into bank accounts which are restricted as to withdrawal and use.

Financial Assets (policies under PFRS 9 applicable from January 1, 2018)
Initial Recognition and Measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15 since January 1, 2018.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are SPPI on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. **Summary of Significant Accounting Policies** – continued

Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

- financial assets at amortized cost (debt instruments);
- financial assets at fair value through other comprehensive income (debt instruments);
- financial assets designated at fair value through other comprehensive income (equity instruments); and
- financial assets at fair value through profit or loss.

Financial Assets at Amortized Cost (Debt Instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognized in the consolidated statements of comprehensive income when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents (see Note 5), restricted cash (see Note 6), accounts receivable (see Note 7), deposits and receivables (including security deposits) included under prepayments and other current assets and other non-current assets (see Note 11) and amounts due from related parties (see Note 16).

The Group has no financial assets at fair value through other comprehensive income (debt instruments), financial assets designated at fair value through other comprehensive income (equity instruments) and financial assets at fair value through profit or loss as of December 31, 2018.

Financial Assets (policies under PAS 39 applicable before January 1, 2018)

Initial Recognition and Measurement

Financial assets were classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. When financial assets were recognized initially, they were measured at fair value plus transactions that were attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. The classifications depended on the purpose for which the instruments were acquired or liabilities incurred and whether they were quoted in an active market. Management determined the classifications at initial recognition and, where allowed and appropriate, re-evaluated these classifications at every balance sheet date.

3. **Summary of Significant Accounting Policies** – continued

Financial Assets (policies under PAS 39 applicable before January 1, 2018) – continued
Subsequent Measurement
The subsequent measurement of financial assets depends on their classification as follows:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial investments.

Loans and Receivables
Loans and receivables were non-derivative financial assets with fixed or determinable payments and fixed maturities that were not quoted in an active market. After initial measurement, loans and receivables were subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost was calculated by taking into account any discount or premium on acquisition and included fees and costs that were an integral part of the effective interest. Gains and losses were recognized in the consolidated statements of comprehensive income when the loans and receivables were derecognized or impaired, as well as through the amortization process. Loans and receivables were included in current assets if maturity was within 12 months from the balance sheet date, otherwise, these were classified as non-current assets.

This category included cash and cash equivalents (see Note 5), restricted cash (see Note 6), accounts receivable (see Note 7), deposits and receivables (including security deposits) included under prepayments and other current assets and other non-current assets (see Note 11) and amounts due from related parties (see Note 16). The carrying values and fair values of loans and receivables are disclosed in Note 25.

The Group had no financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets as of December 31, 2017.

Derecognition of Financial Assets (policies under PFRS 9 applicable from January 1, 2018 and PAS 39 applicable before January 1, 2018)
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. **Summary of Significant Accounting Policies** – continued

Derecognition of Financial Assets (policies under PFRS 9 applicable from January 1, 2018 and PAS 39 applicable before January 1, 2018) – continued
Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018)
The Group recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Financial assets at amortized cost are subject to impairment under the general approach for measurement of ECLs except for accounts receivable which apply the simplified approach as detailed below.

General Approach
ECL are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

3. **Summary of Significant Accounting Policies** – continued

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued
The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written-off when there is no reasonable expectation of recovering the contractual cash flows. At each reporting date, the Group defines a financial asset as credit-impaired, when it meets one or more of the following criteria indicating the debtor is in significant financial difficulty:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or past due event;
- the Group, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Where ECL provisions modelled on a collective basis or cater for cases where evidence at the individual instrument level may not be available, the financial instruments are grouped based on shared credit risk characteristics and days past due.

Simplified Approach
For accounts receivable that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed using a provision matrix that is based on the Group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions forecasts and forward-looking information that is available without undue cost or effort. For accounts receivable that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of Financial Assets (applicable before January 1, 2018)
The Group assessed at each balance sheet date whether there was any objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Objective evidence of impairment might include indications that the debtors or a group of debtors was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

3. **Summary of Significant Accounting Policies** – continued

Impairment of Financial Assets (applicable before January 1, 2018) – continued

Financial Assets Carried at Amortized Cost

If there was objective evidence that an impairment loss on loans and receivables carried at amortized cost had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be charged to current operations. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance were written-off at each balance sheet date when there was no realistic prospect of future recovery and all collateral had been realized or had been transferred to the Group. The Group first assessed whether an objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant. If it was determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, the asset was included in a group of financial assets with similar credit risk characteristics and that group of financial assets was collectively assessed for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

If, in a subsequent period, the amount of an impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed. Any subsequent reversal of an impairment loss was recognized in the consolidated statements of comprehensive income to the extent that the carrying value of the asset did not exceed its amortized cost at the reversal date.

Financial Liabilities (policies under PFRS 9 applicable from January 1, 2018)

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and Borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as interest expenses in the consolidated statements of comprehensive income.

3. **Summary of Significant Accounting Policies** – continued

Financial Liabilities (policies under PFRS 9 applicable from January 1, 2018) – continued
Loans and Borrowings and Payables
The Group's loans and borrowings and payables includes accounts payable, accrued expenses, other payables and other current liabilities (see Note 12), obligations under a finance lease (see Note 19), amounts due to related parties (see Note 16), long-term debt (see Note 20) and other non-current liabilities.

The Group has no financial liabilities at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge as of December 31, 2018.

Financial Liabilities (policies under PAS 39 applicable before January 1, 2018)
Initial Recognition and Measurement
Financial liabilities were classified, at initial recognition, as financial liabilities at fair value through profit or loss or other financial liabilities. The classifications depended on the purpose for which the liabilities incurred and whether they were quoted in an active market. Management determined the classifications at initial recognition and, where allowed and appropriate, re-evaluated these classifications at every balance sheet date.

Subsequent Measurement
After initial recognition, interest-bearing loans and borrowings were subsequently measured at amortized cost using the effective interest method. Gains and losses were recognized in the consolidated statements of comprehensive income when the liabilities were derecognized, as well as through the amortization process. Other financial liabilities were included in current liabilities if maturity was within 12 months from the balance sheet date, otherwise, these were classified as non-current liabilities.

Other Financial Liabilities
This category pertained to financial liabilities that were not held for trading or not designated as at fair value through profit or loss upon the inception of the liability. These included liabilities arising from operations and loans and borrowings.

This category included accounts payable, accrued expenses, other payables and other current liabilities (see Note 12), obligations under a finance lease (see Note 19), amounts due to related parties (see Note 16), long-term debt (see Note 20) and other non-current liabilities. The carrying values and fair values of other financial liabilities are disclosed in Note 25.

Derecognition of Financial Liabilities (policies under PFRS 9 applicable from January 1, 2018 and PAS 39 applicable before January 1, 2018)
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

3. **Summary of Significant Accounting Policies** – continued

Determination of Fair Values of Financial Assets and Liabilities (policies under PFRS 9 applicable from January 1, 2018 and PAS 39 applicable before January 1, 2018)
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either i) in the principal market for the asset or liability; or ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Offsetting of Financial Instruments (policies under PFRS 9 applicable from January 1, 2018 and PAS 39 applicable before January 1, 2018)
Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Inventories consist of retail merchandise, food and beverage items and certain operating supplies, which are stated at the lower of cost or net realizable value. Cost is calculated using the first-in, first-out, weighted average and specific identification methods. Write-downs of potentially obsolete or slow-moving inventories are recorded based on management's specific analysis of inventory items.

Property and Equipment
Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Property and equipment are depreciated or amortized on a straight-line basis to write-off their costs over the following estimated useful lives:

Building	25 years or over the term of the lease agreement, whichever is shorter
Leasehold improvements	5 to 10 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	2 to 7 years
Motor vehicles	5 years
Plant and gaming machinery	3 to 5 years

An asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income when the asset is derecognized.

3. **Summary of Significant Accounting Policies** – continued

Property and Equipment – continued
Residual values, useful lives and depreciation and amortization methods of the property and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

Construction in progress represents property and equipment under construction and is stated at cost, less accumulated impairment losses, if any. This includes the direct cost of purchase, construction and capitalized borrowing costs during the period of construction. Construction in progress are not depreciated and are reclassified to the appropriate category of property and equipment when completed and ready for use.

Capitalization of Interest
Interest, including amortization of deferred financing costs, incurred on borrowing of funds used to construct an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. The capitalization of interest ceases once a project is substantially completed or development activity is suspended for more than a brief period.

For the years ended December 31, 2018, 2017 and 2016, total interest expenses incurred amounted to ₱2,413,092, ₱2,885,456 and ₱2,948,823, of which nil, ₱2,435 and ₱8,823 were capitalized, respectively.

Intangible Assets
Contract Acquisition Costs
Certain costs incurred by Melco Resorts Leisure to obtain various agreements in its capacity as the sole and exclusive operator and manager of City of Dreams Manila have been capitalized in contract acquisition costs. The contract acquisition costs are carried at costs less any accumulated amortization and accumulated impairment losses. The contract acquisition costs are amortized over the term of the Operating Agreement (as disclosed in Note 22(b)) and tested for impairment if there is an indication that the asset may be impaired.

Other Intangible Assets
Other intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, other intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. An intangible asset is amortized over the shorter of the contractual terms and its estimated useful life unless its life is determined to be indefinite in which case it is not amortized. The Group's finite-life other intangible assets are tested for impairment if there is an indication that such intangible assets may be impaired.

Gains or losses arising from de-recognitions of intangible assets are measured as the difference between the net disposal proceeds and the carrying amounts of the assets and are recognized in the consolidated statements of comprehensive income when the assets are derecognized.

3. **Summary of Significant Accounting Policies** – continued

Impairment of Non-financial Assets
The carrying values of non-financial assets, including property and equipment, contract acquisition costs and other intangible assets, are reviewed for impairments whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written-down to their recoverable amounts. The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present values using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is an indication that previously recognized impairment losses, if any, may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount which would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of comprehensive income. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Capital Stock
Capital stock is measured at par value for all shares issued. Incremental costs incurred that are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair values of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Equity Reserve
Equity reserve account pertains to the effect of the reverse acquisition when MRP acquired MPHIL Holdings Group from MCO Investments in 2013 as discussed in Note 2 under basis of preparation.

3. **Summary of Significant Accounting Policies** – continued

Accumulated Deficit
The accumulated deficit represents the Group's cumulative net losses. Such deficit may also include the effects of changes in any accounting policies as may be required by standard transitional provisions or amendments to the standards.

Revenue Recognition (applicable from January 1, 2018)
Revenue from Contracts with Customers
On January 1, 2018, the Group adopted PFRS 15, using the modified retrospective method.

The Group's revenues from contracts with customers consist of casino wagers, sales of rooms, food and beverage, entertainment, retail and other goods and services.

(a) Casino Revenues

Gross casino revenues are measured by the aggregate net difference between gaming wins and losses. The Group accounts for its casino wagering transactions on a portfolio basis versus an individual basis as all wagers have similar characteristics. Commissions paid to gaming promoters and cash discounts and other cash incentives earned by customers are recorded as reductions of casino revenues. In addition to the wagers, casino transactions typically include performance obligations related to complimentary goods or services provided to incentivize future gaming or in exchange for incentives or points earned under the Group's non-discretionary incentives programs (including loyalty programs).

For casino transactions that include complimentary goods or services provided by the Group to incentivize future gaming, the Group allocates the standalone selling price of each good or service to the appropriate revenue type based on the good or service provided. Complimentary goods or services that are provided under the Group's control and discretion and supplied by third parties are recorded as operating expenses.

The Group operates different non-discretionary incentives programs which include loyalty programs (the "Loyalty Programs") to encourage repeat business mainly from loyal slot machine customers and table games patrons. Customers earn points primarily based on gaming activity and such points can be redeemed for free play and other free goods and services. For casino transactions that include points earned under the Loyalty Programs, the Group defers a portion of the revenue by recording the estimated standalone selling prices of the earned points that are expected to be redeemed as a liability. Upon redemption of the points for Group-owned goods or services, the standalone selling price of each good or service is allocated to the appropriate revenue type based on the good or service provided. Upon the redemption of the points with third parties, the redemption amount is deducted from the liability and paid directly to the third party.

After allocating amounts to the complimentary goods or services provided and to the points earned under the Loyalty Programs, the residual amount is recorded as casino revenue when the wagers are settled.

3. **Summary of Significant Accounting Policies** – continued

Revenue Recognition (applicable from January 1, 2018) – continued
Revenue from Contracts with Customers – continued

(b) Rooms, Food and Beverage, Entertainment, Retail and Other Revenues

The transaction prices of rooms, food and beverage, entertainment, retail and other goods and services are the net amounts collected from customers for such goods and services and are recorded as revenues when the goods are provided, services are performed or events are held. Service taxes and other applicable taxes collected by the Group are excluded from revenues. Advance deposits on rooms and advance tickets sales are recorded as customer deposits until services are provided to the customers. Revenues from contracts with multiple goods or services provided by the Group are allocated to each good or services based on its relative standalone selling price.

(c) Management Fee Income

Revenue from the provision of management services is recognized when the services are provided and are included in entertainment, retail and other revenues.

(d) Rental Income

Rental income is recognized on a time proportion basis over the lease terms.

Revenue from Other Sources

Interest Income
Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

The major changes from the previous basis, as a result of the adoption of the New Revenue Standard are summarized above under Changes in Accounting Policies and Disclosures in Note 3.

Revenue Recognition (applicable before January 1, 2018)
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

Revenue is recognized to the extent it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimation on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(In thousands of Philippine peso, except share and per share data)

3. **Summary of Significant Accounting Policies** – continued

Revenue Recognition (applicable before January 1, 2018) – continued

The specific recognition criteria set out below must also be met before revenue is recognized.

Casino Revenues

Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Commissions rebated by gaming promoters to customers related to gaming play are recorded as reductions of gross casino revenues.

Rooms, Food and Beverage, Entertainment, Retail and Other Revenues

Rooms, food and beverage, entertainment, retail and other revenues are recognized when services are performed or the retail goods are sold. Advance deposits mainly on rooms are recorded as customer deposits until services are provided to the customer. Minimum operating fees, adjusted for contractual base fees and operating fee escalations, are included in entertainment, retail and other revenues and are recognized over the terms of the related agreements on a straight-line basis.

Revenues are recognized net of certain sales incentives which are required to be recorded as reductions of revenue. Consequently, the Group's casino revenues are reduced by discounts, commissions and points earned in customer loyalty programs.

The retail values of rooms, food and beverage, entertainment, retail and other services furnished to guests without charge are excluded from total net operating revenues in the accompanying consolidated statements of comprehensive income. The amounts of such promotional allowances excluded from total net operating revenues for the years ended December 31, 2017 and 2016 are as follows:

	Year Ended December 31, 2017	2016
Rooms	₱1,550,857	₱1,405,344
Food and beverage	1,893,010	1,386,418
Entertainment, retail and other	138,189	95,882
	₱3,582,056	₱2,887,644

Management Fee Income

Revenue from the provision of management services is recognized when the services are provided and are included in entertainment, retail and other revenues.

Interest Income

Interest income is recognized on a time proportionate basis that reflects as the effective yield on the asset.

(In thousands of Philippine peso, except share and per share data)

3. **Summary of Significant Accounting Policies** – continued

Point-loyalty Programs (applicable before January 1, 2018)
The Group operates loyalty programs to encourage repeat business mainly from loyal slot machine customers and table games patrons. Members earn points primarily based on gaming activities and such points can be redeemed for free play and other free goods and services. The Group recognizes the award points as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are initially recognized as deferred income at their fair value. Revenue from the award points is recognized when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed.

Contract Liabilities (applicable from January 1, 2018)
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

In providing goods and services to its customers, there may be a timing difference between cash receipts from customers and recognition of revenues, resulting in a contract or contract-related liability.

The Group primarily has three types of liabilities related to contracts with customers: (1) outstanding gaming chips and tokens, which represent the amounts owed in exchange for gaming chips held by a customer; (2) loyalty program liabilities, which represent the deferred allocation of revenues relating to incentive earned from the Loyalty Programs; and (3) advance customer deposits and ticket sales, which represent casino front money deposits that are funds deposited by customers before gaming play occurs and advance payments on goods and services yet to be provided such as advance ticket sales and deposits on rooms and convention space. These liabilities are generally expected to be recognized as revenues within one year of being purchased, earned, or deposited and are recorded as accrued expenses, other payables and other current liabilities in the consolidated balance sheets. Decreases in these balances generally represent decreases in unredeemed incentives relating to the Loyalty Programs and increases in the balances represent additional chips and tokens held by customers and additional deposits made by customers.

The following table summarizes the activities related to contract and contract-related liabilities:

	December 31, 2018	January 1, 2018	**Increase (Decrease)**
Outstanding gaming chips and tokens	**₱4,198,666**	₱2,100,157	**₱2,098,509**
Loyalty program liabilities	**201,137**	213,426	**(12,289)**
Advance customer deposits and ticket sales	**842,994**	582,889	**260,105**
	₱5,242,797	₱2,896,472	**₱2,346,325**

3. **Summary of Significant Accounting Policies** – continued

Expenses Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized in the consolidated statements of comprehensive income in the year these are incurred.

Deferred Financing Costs
Direct and incremental costs incurred in obtaining loans or in connection with the issuance of long-term debt are capitalized and amortized over the terms of the related debt agreements using the effective interest method. The amortization of deferred financing costs of ₱28,222, ₱62,493 and ₱66,148 were recognized and included in interest expenses in the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

Employee Benefit Expenses
Retirement Costs
Employees of the Group are members of a government-managed social security system scheme (the "SSS Scheme") operated by the Philippine government and the Group is required to pay a certain percentage of employee relevant income and meet the minimum mandatory requirements of the SSS Scheme to fund the benefits. The obligation of the Group with respect to the SSS Scheme operated by the Philippine government is to make the required contributions specified therein.

The Group also has defined benefit obligations covering substantially all of its regular employees in the Philippines. Retirement expenses are determined based on the provisions of Republic Act No. 7641, "Retirement Pay law". The retirement benefit is computed as being 50% of basic monthly salary plus one-twelfth of the 13th month pay for every year of service and the cash equivalent of not more than 5 days of service incentive leaves.

Remeasurements, comprising actuarial gains and losses, excluding amounts included in interest on the defined benefit obligations, are recognized immediately in the consolidated balance sheets with a corresponding debit or credit to retained earnings/accumulated deficit through other comprehensive income in the period in which they occur.

Interest is calculated by applying discount rates to the defined benefit obligations. The Group recognizes the changes in defined benefit obligations such as service costs and interest costs as employee benefit expenses in the consolidated statements of comprehensive income.

The Group also either contributes a fixed percentage of the eligible employees' base salaries, a fixed amount or an amount which matches the contributions of the employees up to a certain percentage of base salaries to the defined contribution plans (the "Defined Contribution Fund Scheme") which is operated by Melco and its subsidiaries. The Group's contributions to the Defined Contribution Fund Scheme are vested with employees in accordance with a vesting schedule, achieving full vesting 10 years from the date of employment. The Defined Contribution Fund Scheme was established under trust with the fund assets being held separately from those of the Group by independent trustees.

3. **Summary of Significant Accounting Policies** – continued

Employee Benefit Expenses – continued

Annual Leave and Other Paid Leave

Employee entitlements to annual leave and other paid leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and other paid leave as a result of services rendered by employees for the year.

Bonus Plans

The Group recognizes a liability and an expense for bonuses when contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based Compensation

The Group measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award, while an award of equity instruments issued to consultants in exchange for services are measured at the fair values of services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the equity instruments granted. The costs of services received are recognized over the service period. Compensation is attributed to the periods of associate service and such expense is recognized on an accelerated basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Each portion is treated as a separate grant, as each portion has a different vesting period.

Forfeitures are estimated at the time of grant, and adjusted for actual forfeitures to the extent they differ from the estimate. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share-based compensation reserve will be transferred to retained profits. When the awarded shares are not vested or are forfeited during the vesting period, no share-based compensation expense is recognized.

Further information on the Group's share-based compensation arrangement for the years ended December 31, 2018, 2017 and 2016 for restricted shares and share options granted under its share incentive plan ("Share Incentive Plan") is included in Note 27.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

3. **Summary of Significant Accounting Policies** – continued

Leases – continued

As a Lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased asset to the Group, are capitalized at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding lease obligations, net of finance charges, are included under current and non-current liabilities. Finance charges are recognized as interest expenses in the consolidated statements of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as an operating expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

As a Lessor

When assets are leased/granted out under an agreement for the right of use, the asset is included in the consolidated balance sheets based on the nature of the asset. Lease rental (net of any incentives given to tenants or to retailers) is recognized over the terms of the lease on a straight-line basis. Turnover fees arising under operating leases are recognized as income in the period in which they are earned.

Foreign Currency Transactions

The Group's consolidated financial statements are presented in Philippine peso, the functional currency of the Parent Company and its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange at the balance sheet date. All differences are taken to the consolidated statements of comprehensive income. All exchange rate differences including those arising on the settlement of monetary items at rates different from those at which these were recorded are recognized in the consolidated statements of comprehensive income in the year in which the differences arise.

For income tax reporting purposes, exchange gains or losses are treated as taxable income or deductible expense in the year these are realized.

Income Tax

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted as of the balance sheet date.

3. **Summary of Significant Accounting Policies** – continued

Income Tax – continued

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profits nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax over regular corporate income tax and unused net operating loss carryovers ("NOLCO") to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profits nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

3. **Summary of Significant Accounting Policies** – continued

Income Tax – continued

VAT

Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from the tax authority is included under other non-current assets as of December 31, 2018 and 2017 in the consolidated balance sheets.

Gaming Tax and Other License Fees

The Licensees are required to pay license fees to PAGCOR ranging from 15% to 25% of its gross gaming revenues on a monthly basis, starting from the date the casino commences operations. PAGCOR temporarily allowed the Licensees to reallocate 10% of the license fees for payment of corporate income taxes effective from April 1, 2014 and until August 15, 2016, when the Group was required to revert to the original license fee structure under the Regular License, as a result of the decision of the Supreme Court of the Philippines (the "Supreme Court") in the Bloomberry Case as discussed in Note 18. The said reallocation of 10% of the license fees was required to be used for subsidizing the payment of corporate income taxes and any portion not used for such payment must be paid to PAGCOR as an annual true-up payment (as defined). Such license fees include the 5% franchise tax on actual gross gaming revenues generated by the casino. The Group is also subject to fees based on 5% of certain non-gaming revenue and 2% of casino revenues generated from non-junket operation tables as further discussed in Note 23(c). These expenses are included in the accompanying consolidated statements of comprehensive income.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments. Such operating results are regularly reviewed by the chief operating decision-maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

City of Dreams Manila has operated in one geographical area for the years ended December 31, 2018, 2017 and 2016 where it derives its revenue. Segment information is presented in Note 28.

3. **Summary of Significant Accounting Policies** – continued

Segment Reporting – continued
The Group currently operates in one business segment, namely, the management of its casino and hotel resort, City of Dreams Manila. A single management team reports to the chief operating decision-maker who comprehensively manages the entire business. Accordingly, the Group does not have separate reportable segments.

4. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements.

Functional Currency
Based on the economic substance of underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and its subsidiaries operate and it is the currency that mainly influences the revenues and expenses for management and operation of City of Dreams Manila.

Evaluating Lease Agreement
The determination of whether a lease agreement has to be accounted for as operating or finance lease requires significant judgment. The result of this determination can be significant to the Group's financial position or performance as the classification of the amounts of property and equipment and the lease obligations depend on this assessment.

The Group, at inception of the Lease Agreement, has determined based on an evaluation of the terms and conditions of the arrangements, that the lessor transfers substantially all the risks and benefits incidental to ownership of the building to the Group. The present value of the minimum lease payments is significantly higher than the fair value of the building at the lease inception date. Management considered this factor as key in assessing whether the risks and rewards incidental to ownership of the building had effectively been transferred to the Group. Meanwhile, the lease on the land is considered as an operating lease because Belle retains all the significant risks and rewards of ownership on the land at the end of the lease term and does not provide the Group with a bargain purchase option over the leased asset (see Note 22(c)).

4. **Significant Accounting Judgments, Estimates and Assumptions** – continued

Judgments – continued
Evaluating Lease Agreement – continued

As a Lessee
The Group has entered into various operating lease agreements as a lessee. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of ownership of these properties because the lease agreements do not transfer the ownership over the assets to the Group at the end of the lease term and do not provide the Group with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases.

As a Lessor
The Group has entered into various operating lease agreements as a lessor. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the Group retains all the significant risks and rewards of ownership of these properties because the lease agreements do not transfer to the lessee the ownership over the assets at the end of the lease term and do not provide the lessee with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases.

Reporting Revenue Gross as a Principal or Net as an Agent
The Group follows the accounting standards for reporting revenue gross as a principal versus net as an agent, when accounting for the operations of one of the hotels and concluded that it is the controlling entity and is the principal to this arrangement. For the operations of one of the hotels, the Group is the owner of the hotel property, and the hotel manager operates the hotel under certain management agreements providing management services to the Group, and the Group receives all rewards and takes substantial risks associated with the hotel business, it is the principal and the transactions of the hotel are, therefore, recognized on a gross basis.

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for ECLs of Accounts Receivable (applicable from January 1, 2018)
The Group applies PFRS 9 simplified approach to measure ECLs, using a lifetime expected loss allowance for accounts receivable. The Group determines the allowance based on specific customer information, historical write-off experience, current industry and economic data and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. A provision of ECL for accounts receivable is recorded when the Group believes it is probable the recoverable amount of the receivables will be less than their carrying amounts. Account balances are written-off against the allowance when the Group considers the receivables to be uncollectible. Management believes there are no concentrations of credit risk for which an allowance has not been established. Although management believes the allowance is adequate, it is possible the estimated amount of cash collections with respect to accounts receivable could change.

4. **Significant Accounting Judgments, Estimates and Assumptions** – continued

Estimates and Assumptions – continued

Estimating Allowances for Doubtful Debts (applicable before January 1, 2018)

The allowances for doubtful debts represented the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable balance. The Group evaluated allowances for doubtful debts based on specific review of customer accounts as well as management's experience with collection trends in the casino industry and current economic and business conditions. As customer payment experience evolved, management would continue to refine the estimated allowances for doubtful debts. Accordingly, the associated doubtful debts expense might fluctuate. Because individual customer account balances could be significant, the allowances and the expenses could change significantly between periods, as customer information became known or as changes in a region's economy or legal systems occurred.

The provisions for doubtful debts of accounts receivable for the years ended December 31, 2018, 2017 and 2016 amounted to ₱244,966, ₱95,649 and ₱94,660, respectively. The carrying amount of accounts receivable, net amounted to ₱1,476,364 and ₱1,328,372 as of December 31, 2018 and 2017, respectively (see Note 7).

Classification of Sales Incentives

Revenues are recognized net of certain sales incentives, such as commissions and discounts. Gaming promoters introduce rolling chip customers to City of Dreams Manila. In exchange for their services, the Group compensates gaming promoters by paying them commissions based on either a percentage of the gaming win or loss or rolling chip volume. Before the adoption of the New Revenue Standard, the Group recorded a portion of the commissions paid or payable to the gaming promoters as a reduction of gross casino revenues, which corresponded to the approximate amount of commissions returned to the rolling chip customers by the gaming promoters. The consolidated statement of comprehensive income classification for a portion of the commissions paid or payable to the gaming promoters as a reduction of gross casino revenues depended on management's judgments and estimations of the percentages of commissions returned to the rolling chip customers by the gaming promoters. After the adoption of the New Revenue Standard, all commissions paid to gaming promoters are reflected as reductions in casino revenues.

Estimating Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for operational use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimations of the useful lives of property and equipment are based on collective assessments of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property and equipment would increase the recorded expenses and decrease non-current assets.

There were no changes made to the estimated useful lives of the Group's property and equipment. The carrying values of property and equipment amounted to ₱20,359,266 and ₱23,130,988 as of December 31, 2018 and 2017, respectively (see Note 8).

4. **Significant Accounting Judgments, Estimates and Assumptions** – continued

Estimates and Assumptions – continued

Estimating Fair Value of Share-based Compensation

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation transactions are disclosed in Note 27.

Estimating Retirement Benefits

The Group's obligation and cost for retirement benefits is dependent on the selection of certain assumptions used by the Group's actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rates of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the retirement benefit obligations. The amount of retirement benefit obligations and expenses and an analysis of the movements in the estimated present values and assumptions used are disclosed in Note 21.

Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment, contract acquisition costs, other intangible assets and other non-current assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that such assets are impaired. Any resulting impairment could have a material impact on the financial condition and results of operation of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

Except for provisions for input VAT expected to be non-recoverable amounted to ₱216,370, ₱142,051 and ₱271,938 recognized for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 15), no other impairment losses were recognized for the years ended December 31, 2018, 2017 and 2016. The carrying values of property and equipment amounted to ₱20,359,266 and ₱23,130,988 as of December 31, 2018 and 2017, respectively (see Note 8); the carrying values of contract acquisition costs amounted to ₱759,687 and ₱811,779 as of December 31, 2018 and 2017, respectively (see Note 9); and the carrying values of other intangible assets amounted to nil and ₱2,446 as of December 31, 2018 and 2017, respectively (see Note 10).

(In thousands of Philippine peso, except share and per share data)

4. **Significant Accounting Judgments, Estimates and Assumptions** – continued

Estimates and Assumptions – continued

Recognition of Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets at the end of each reporting period and reduces these to the extent it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits is based on the level and timing of forecasted taxable income of subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

Deferred tax assets on deferred rent under PAS 17 amounting to ₱181,674 and ₱207,291 were recognized as of December 31, 2018 and 2017, respectively, to the extent of the amount of the reversing deductible temporary difference arising from capitalized interest expense.

Certain deferred tax assets were not recognized because management believes future taxable profits may not be available against which the deferred tax assets can be utilized.

Unrecognized deferred tax assets amounted to ₱6,043,164 and ₱6,651,693 as of December 31, 2018 and 2017, respectively (see Note 18).

5. **Cash and Cash Equivalents**

	December 31,	
	2018	2017
Cash on hand	**₱2,271,517**	₱1,750,376
Cash in banks	**4,537,195**	4,582,205
	₱6,808,712	₱6,332,581

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱44,754, ₱37,649 and ₱14,891 for the years ended December 31, 2018, 2017 and 2016, respectively.

6. **Restricted Cash**

Restricted cash as of December 31, 2018 and 2017 represents an escrow account that is restricted for foundation fees payable in accordance with the terms of the Regular License. Interest income earned from restricted cash amounted to ₱1,764, ₱995 and ₱338 for the years ended December 31, 2018, 2017 and 2016, respectively.

(In thousands of Philippine peso, except share and per share data)

7. **Accounts Receivable, Net**

Components of accounts receivable, net are as follows:

	December 31, 2018	2017
Casino	**₱1,554,846**	₱1,374,486
Hotel	**47,355**	60,170
Other	**4,703**	3,716
	1,606,904	1,438,372
Less: Allowances for doubtful debts	**(130,540)**	(110,000)
	₱1,476,364	₱1,328,372

Movement in the allowances for doubtful debts were as follows:

	Note	Year Ended December 31, 2018	2017	2016
Balance at beginning of year		**₱110,000**	₱102,823	₱1,700
Additional provisions		**244,966**	95,649	94,660
Write-offs, net of recoveries		**–**	(354)	–
Reclassified to long-term receivables, net	11	**(230,198)**	(84,475)	–
Revaluations		**5,772**	(3,643)	6,463
Balance at end of year		**₱130,540**	₱110,000	₱102,823

The Group grants unsecured credit lines to gaming promoters based on pre-approved credit limits. The Group typically issues markers to gaming promoters with a credit period of 30 days. There are some gaming promoters for whom credit is granted on a revolving basis based on the Group's monthly credit risk assessment of such gaming promoters. Credit lines granted to all gaming promoters are subject to monthly review and various settlement procedures. For other approved casino customers, the Group typically allows a credit period of 14 days to 28 days on issuance of markers following investigations of creditworthiness. An extended repayment term of typically 90 days may be offered to casino customers with large gaming losses and established credit histories.

The Group currently has a legally enforceable right to offset the commissions payable and front money deposits against the casino receivables where it intends to settle on a net basis. As of December 31, 2018 and 2017, the gross amounts of current casino receivables of ₱3,369,960 and ₱3,161,533 were offset by commissions payable and front money deposits in aggregate amounts of ₱1,815,114 and ₱1,787,047, respectively.

Impairment under PFRS 9 for the Year Ended December 31, 2018

The Group applies a simplified approach in calculating ECLs for its accounts receivable. An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns and adjusted for factors specific to the debtors, general economic conditions forecasts and forward-looking information that is available without undue cost or effort.

(In thousands of Philippine peso, except share and per share data)

7. **Accounts Receivable, Net** – continued

Set out below is the information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

	December 31, 2018		
	Expected Credit Loss Rate	**Gross Carrying Amount**	**Expected Credit Losses**
Current	–	**₱1,377,318**	**₱–**
Past due:			
1 – 30 days	**2.7%**	**24,163**	**661**
31 – 60 days	–	**1,801**	–
61 – 90 days	–	**827**	–
Over 90 days	**64.0%**	**202,795**	**129,879**
	8.1%	**₱1,606,904**	**₱130,540**

Comparative Information under PAS 39 for the Year Ended December 31, 2017
The aging analysis of these accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Past due:	
1 – 30 days	₱26,066
31 – 60 days	158,325
61 – 90 days	61,994
Over 90 days	85,948
	₱332,333

(In thousands of Philippine peso, except share and per share data)

8. Property and Equipment, Net

	December 31, 2018						
	Building under a Finance Lease	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	Total
Costs:							
Balance at beginning of year	**₱11,820,440**	**₱13,888,234**	**₱94,605**	**₱7,078,679**	**₱2,907,210**	**₱–**	**₱35,789,168**
Additions	–	**476,692**	–	**294,850**	**430,080**	–	**1,201,622**
Disposals	–	**(2,181)**	–	**(36,516)**	**(25,058)**	–	**(63,755)**
Transfer	–	**216**	–	**(233)**	**17**	–	–
Balance at end of year	**11,820,440**	**14,362,961**	**94,605**	**7,336,780**	**3,312,249**	–	**36,927,035**
Accumulated depreciation and amortization:							
Balance at beginning of year	**(1,934,736)**	**(4,332,127)**	**(49,545)**	**(4,761,582)**	**(1,580,190)**	–	**(12,658,180)**
Depreciation and amortization	**(636,077)**	**(1,503,229)**	**(17,707)**	**(1,216,348)**	**(587,604)**	–	**(3,960,965)**
Disposals	–	**682**	–	**34,468**	**16,226**	–	**51,376**
Transfer	–	**(19)**	–	**21**	**(2)**	–	–
Balance at end of year	**(2,570,813)**	**(5,834,693)**	**(67,252)**	**(5,943,441)**	**(2,151,570)**	–	**(16,567,769)**
Net book value	**₱9,249,627**	**₱8,528,268**	**₱27,353**	**₱1,393,339**	**₱1,160,679**	**₱–**	**₱20,359,266**

	December 31, 2017						
	Building under a Finance Lease	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	Total
Costs:							
Balance at beginning of year	₱11,820,440	₱13,989,533	₱80,583	₱6,752,930	₱2,723,508	₱94,945	₱35,461,939
Additions	–	103,595	20,148	363,876	200,475	21,606	709,700
Adjustments to project costs	–	(7,280)	–	(15,612)	(246)	–	(23,138)
Disposals	–	(313,727)	(6,126)	(21,719)	(17,761)	–	(359,333)
Transfer	–	116,113	–	(796)	1,234	(116,551)	–
Balance at end of year	11,820,440	13,888,234	94,605	7,078,679	2,907,210	–	35,789,168
Accumulated depreciation and amortization:							
Balance at beginning of year	(1,298,658)	(2,979,989)	(35,856)	(3,280,443)	(1,000,415)	–	(8,595,361)
Depreciation and amortization	(636,078)	(1,485,966)	(18,080)	(1,500,873)	(589,570)	–	(4,230,567)
Disposals	–	133,849	4,391	19,671	9,837	–	167,748
Transfer	–	(21)	–	63	(42)	–	–
Balance at end of year	(1,934,736)	(4,332,127)	(49,545)	(4,761,582)	(1,580,190)	–	(12,658,180)
Net book value	₱9,885,704	₱9,556,107	₱45,060	₱2,317,097	₱1,327,020	₱–	₱23,130,988

Construction in progress represents the design and development cost for fit-out of City of Dreams Manila which included direct incidental costs capitalized (representing traveling expenses, salaries and wages, intercompany management fee expenses incurred, depreciation of equipment and applicable interest costs).

(In thousands of Philippine peso, except share and per share data)

9. **Contract Acquisition Costs, Net**

	December 31, 2018	December 31, 2017
Costs:		
Balance at beginning and at end of year	**₱1,063,561**	₱1,063,561
Accumulated amortization:		
Balance at beginning of year	**(251,782)**	(199,689)
Amortization	**(52,092)**	(52,093)
Balance at end of year	**(303,874)**	(251,782)
Net book value	**₱759,687**	₱811,779

10. **Other Intangible Assets, Net**

	December 31, 2018	December 31, 2017
Costs:		
Balance at beginning and at end of year	**₱8,698**	₱8,698
Accumulated amortization:		
Balance at beginning of year	**(6,252)**	(3,262)
Amortization	**(2,446)**	(2,990)
Balance at end of year	**(8,698)**	(6,252)
Net book value	**₱–**	₱2,446

11. **Other Non-current Assets**

	December 31, 2018	December 31, 2017
Input VAT, net	**₱1,059,572**	₱1,048,663
Deposits for acquisitions of property and equipment	**603,700**	81,696
Security and rental deposits	**160,479**	114,153
Non-current portion of prepaid rents	**137,483**	105,935
Other non-current assets and deposits	**60,632**	45,400
	₱2,021,866	₱1,395,847

(In thousands of Philippine peso, except share and per share data)

11. **Other Non-current Assets** – continued

Input VAT, net represents the VAT expected to be recoverable from the tax authority in the Philippines. For the years ended December 31, 2018, 2017 and 2016, provisions for input VAT expected to be non-recoverable amounting to ₱216,370, ₱142,051 and ₱271,938, respectively, were recognized and included in other expenses in the consolidated statements of comprehensive income (Note 15). As of December 31, 2018 and 2017, provisions for input VAT were ₱2,057,335 and ₱1,840,965, respectively.

Melco Resorts Leisure received from the Bureau of Internal Revenue (the "BIR") a letter of authority ("LOA") for audit of the VAT for 2015 ("2015 VAT") and the VAT for 2017 in June 2016 and April 2018, respectively, and the audit of the VAT for 2016 ("2016 VAT") was included under a LOA received by Melco Resorts Leisure from the BIR in August 2017 for the review of all internal revenue taxes for 2016.

In June 2017 and February 2019, Melco Resorts Leisure received from the BIR a final assessment notice ("FAN") relating to an alleged deficiency of VAT for 2014 ("2014 VAT") and 2015 VAT on gaming revenues, respectively, after the BIR audit. Melco Resorts Leisure believes the legal basis for the FANs on gaming revenues is without merit and has filed protest letters with the BIR in July 2017 and March 2019 requesting the cancellation of the FAN of 2014 VAT and 2015 VAT, respectively, there is no reply from the BIR on the protest letters as of the date of this report.

There is no FAN received from the BIR relating to the 2014 VAT for non-gaming operations of Melco Resorts Leisure. In December 2018, Melco Resorts Leisure received from the BIR a preliminary assessment notice which included a deficiency of the 2015 VAT for non-gaming operations, and Melco Resorts Leisure subsequently settled the deficiency of 2015 VAT related to the non-gaming operations in January 2019.

Long-term receivables, net represent casino receivables from casino customers where settlements are not expected within the next financial year. For the years ended December 31, 2018 and 2017, net amounts of current accounts receivable of ₱230,198 and ₱84,475 and net amounts of allowances for doubtful debts of ₱230,198 and ₱84,475, respectively, were reclassified to non-current. As of December 31, 2018 and 2017, the gross amounts of non-current casino receivables of ₱435,995 and ₱86,094 were offset by commissions payable and front money deposits in an aggregate amounts of ₱121,322 and ₱1,619, respectively. As of December 31, 2018 and 2017, the balance of long-term receivables, net was nil in each of those periods.

Movement in the allowances for doubtful debts for long-term receivables were as follows:

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	**₱84,475**	₱–	₱–
Additional provisions	**230,713**	85,223	–
Revaluations	**(515)**	(748)	–
Balance at end of year	**₱314,673**	₱84,475	₱–

(In thousands of Philippine peso, except share and per share data)

12. Accrued Expenses, Other Payables and Other Current Liabilities

	December 31, 2018	2017
Outstanding gaming chips and tokens	**₱4,198,666**	₱2,100,157
Accruals for:		
Gaming tax and license fees	**1,680,587**	1,177,194
Employee benefit expenses	**667,744**	656,783
Property and equipment	**298,654**	181,894
Payments to the Philippine Parties	**99,105**	–
Taxes and licenses	**42,553**	41,039
Operating and other expenses	**858,200**	898,136
Advance customer deposits and ticket sales	**842,994**	582,889
Withholding taxes payable	**227,222**	140,768
Interest expenses payable	–	85,417
Other payables and liabilities	**69,417**	44,191
	₱8,985,142	₱5,908,468

Accrued expenses, other payables and other current liabilities are due for payment within one year.

13. Equity

	Note	Number of Shares	Capital Stock
Ordinary shares of ₱1 per share			
Authorized:			
As of January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018		**5,900,000,000**	**₱5,900,000**
Issued and fully paid:			
As of January 1, 2017		5,662,897,278	₱5,662,897
Issuance of shares for restricted shares vested	27	2,826,644	2,827
Exercise of share options	27	1,040,485	1,040
As of December 31, 2017 and January 1, 2018		5,666,764,407	5,666,764
Issuance of shares for restricted shares vested	27	**20,506,393**	**20,507**
As of December 31, 2018		**5,687,270,800**	**₱5,687,271**

On June 26, 2017, the board of directors and stockholders of MRP approved an increase in the authorized capital stock of up to ₱11,900,000 divided into 11.9 billion shares with a par value of ₱1 per share from the authorized capital stock of ₱5,900,000 divided into 5.9 billion shares with a par value of ₱1 per share, subject to the SEC's approval.

(In thousands of Philippine peso, except share and per share data)

13. **Equity** – continued

Equity Reserve

The amount of equity reserve consists of the net difference between the cost of MRP to acquire MPHIL Holdings Group and the legal capital of the latter (i.e., common stock and additional paid-in capital) at the date of reverse acquisition plus the retained earnings of MRP as of December 19, 2012, the date when MRP was acquired by Melco through MCO Investments and MPHIL.

The equity reserve is accounted for as follows:

	December 31, 2018	2017
Retained earnings of MRP as of December 19, 2012	**₱732,453**	₱732,453
Consideration to MRP for the acquisition of MPHIL Holdings Group	**(7,198,590)**	(7,198,590)
Legal capital of MPHIL Holdings Group as of March 20, 2013	**2,852,147**	2,852,147
	(₱3,613,990)	(₱3,613,990)

As of December 31, 2018 and 2017, the Parent Company had 407 and 423 stockholders, respectively.

14. **Employee Benefit Expenses**

	Notes	Year Ended December 31, 2018	2017	2016
Basic salaries, allowances, bonuses and other amenities		**₱3,626,940**	₱3,149,680	₱2,990,448
Annual leave and other paid leave		**193,036**	163,680	142,723
Retirement costs – defined contribution plans		**81,687**	67,311	68,580
Retirement costs – defined benefit obligations	21	**26,617**	20,703	14,817
Share-based compensation	27	**(779)**	26,008	10,542
Other employee benefits		**208,319**	209,890	222,656
		₱4,135,820	₱3,637,272	₱3,449,766

(In thousands of Philippine peso, except share and per share data)

15. **Other Expenses**

	Notes	Year Ended December 31, 2018	2017	2016
Facilities and supplies expenses		**₱1,548,891**	₱1,482,897	₱1,256,021
Management fee expenses		**968,057**	804,629	516,483
Other gaming operations expenses		**928,788**	5,376,929	3,466,744
Trademark license fees	16	**784,712**	674,940	72,224
Advertising, marketing, promotional and entertainment expenses		**614,812**	437,532	359,495
Provisions for input VAT	11	**216,370**	142,051	271,938
Rental expenses	23(b)	**202,553**	220,837	266,136
Office and administrative expenses		**200,490**	169,649	167,408
Taxes and licenses		**41,071**	52,755	104,661
Net loss (gain) on disposals of property and equipment		**11,610**	185,569	(377,167)
Insurance claim recovery		**–**	–	(100,000)
Operating and other expenses		**414,638**	483,459	453,073
		₱5,931,992	₱10,031,247	₱6,457,016

16. **Related Party Transactions**

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with related parties for the years:

	Amount of Transactions Year Ended December 31, 2018	2017	2016	Outstanding Balance December 31, 2018	2017	Terms	Conditions
Amounts due from related parties							
Amount due from a shareholder							
Amount due from MPHIL	**₱–**	₱–	₱–	**₱6,157**	₱5,716	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amount due from ultimate holding company							
Melco[1]							
Management fee income[2]	**₱–**	₱–	₱11,134	**₱–**	₱–		
Management fee expenses	**–**	–	1,706	**–**	–		

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

16. **Related Party Transactions** – continued

	Amount of Transactions Year Ended December 31,			Outstanding Balance December 31,			
	2018	2017	2016	**2018**	2017	**Terms**	**Conditions**
Amounts due from related parties – continued							
Amount due from an intermediate holding company							
Melco[1]							
Management fee income[2]	**₱3,763**	₱9,915	₱5,237	**₱–**	₱–		
Management fee expenses	**255,253**	148,397	39,533	**–**	–		
Amount due from Melco	**–**	–	–	**132,377**	156,887	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amount due from immediate holding company							
Amount due from MCO Investments	**₱–**	₱–	₱–	**₱995**	₱995	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due from affiliated companies							
Melco International's subsidiaries[1] (other than MPHIL, Melco and MCO Investments)							
Management fees and other expenses[3]	**₱–**	₱5,848	₱–	**₱–**	₱–		
Amounts due from Melco International's subsidiaries	**–**	–	–	**35**	72	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due to related parties							
Amounts due to affiliated companies							
Melco's subsidiaries[1]							
Acquisitions of property and equipment	**₱–**	₱–	₱23,097	**₱–**	₱–		
Management fees and other expenses[3]	**–**	–	166,861	**–**	–		
Melco International's subsidiaries[1]							
Acquisitions of property and equipment	**₱–**	₱–	₱15,010	**₱–**	₱–		
Management fees and other expenses[3]	**794,596**	689,805	342,716	**–**	–		
Trademark license fees	**784,712**	674,940	72,224	**–**	–		
Purchases of goods and services	**8,141**	3,773	870	**–**	–		
Amounts due to Melco International's subsidiaries	**–**	–	–	**186,880**	100,291	Repayable on demand; non-interest bearing	Unsecured

(In thousands of Philippine peso, except share and per share data)

16. **Related Party Transactions** – continued

	Amount of Transactions Year Ended December 31, 2018	2017	2016	Outstanding Balance December 31, 2018	2017	Terms	Conditions
Amounts due to related parties – continued							
Amounts due to affiliated companies – continued							
Crown Resorts Limited ("Crown")'s subsidiaries and an associated company[4]							
Acquisitions of property and equipment	₱–	₱–	₱20,027	₱–	₱–		
Management fees, consultancy fee and facilities expenses	–	5,126	53,883	–	–		

Notes:
(1) In May 2016, the Parent Company's ultimate holding company was changed from Melco to Melco International upon the completion of the restructuring transactions by Melco.
(2) The amount represents the recharge of share-based compensation for certain directors of MRP for the years ended December 31, 2018, 2017 and 2016.
(3) Management services are provided by Melco International group companies. These services include, but are not limited to, corporate expenses, gaming operations support and facilities services for the Group.
(4) In February 2017, Melco International completed the purchase of certain ordinary shares of Melco from a subsidiary of Crown. Upon completion of the transaction, Crown's beneficial interests in Melco decreased to below 10%, and Crown and its subsidiaries and associated company are no longer regarded as related parties of Melco and the Group.

Directors' Remuneration

For the years ended December 31, 2018, 2017 and 2016, the remuneration of directors of the Group was borne by Melco.

Compensation of Key Management Personnel

The compensation of key management personnel of the Group for the years ended December 31, 2018, 2017 and 2016 is as follows:

	Year Ended December 31, 2018	2017	2016
Basic salaries, allowances and benefits in kind	**₱67,611**	₱99,255	₱104,966
Performance bonuses	**33,937**	90,416	68,832
Retirement costs – defined contribution plans	**125**	3,929	3,416
Share-based compensation	**8,204**	20,841	15,329
	₱109,877	₱214,441	₱192,543

For the years ended December 31, 2018, 2017 and 2016, part of the compensation of key management personnel of the Group was borne by Melco.

(In thousands of Philippine peso, except share and per share data)

17. Basic/Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net profit (loss) for the year by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is calculated in the same manner, adjusted for the dilutive effect of any potential common shares.

The calculation of basic and diluted earnings (loss) per share is based on the following:

	Year Ended December 31,		
	2018	2017	2016
Net profit (loss)	**₱2,662,000**	₱353,923	(₱1,581,299)
Weighted average number of common shares outstanding used in the calculation of basic earnings (loss) per share	**5,671,875,650**	5,664,563,576	5,671,205,713
Adjustments for share options and restricted shares	**39,916,407**	44,764,328	–
Weighted average number of common shares outstanding used in the calculation of diluted earnings (loss) per share	**5,711,792,057**	5,709,327,904	5,671,205,713
Basic earnings (loss) per share	**₱0.47**	₱0.06	(₱0.28)
Diluted earnings (loss) per share	**₱0.47**	₱0.06	(₱0.28)
Anti-dilutive share options and restricted shares excluded from the calculation of diluted earnings (loss) per share	**8,707,861**	12,363,436	61,630,418

18. Income Tax

The provision for income tax for the years ended December 31, 2018, 2017 and 2016 consisted of:

	Year Ended December 31,		
	2018	2017	2016
Provision for current income tax	**₱75**	₱198	₱327
Over-provision of income tax in prior year	**(292)**	(160)	–
Deferred tax charge	**61,353**	38,245	82,069
	₱61,136	₱38,283	₱82,396

(In thousands of Philippine peso, except share and per share data)

18. **Income Tax** – continued

A reconciliation of income tax provision (benefit) computed at the statutory income tax rate to provision for income tax is as follows:

	Year Ended December 31,		
	2018	2017	2016
Income tax provision (benefit) computed at statutory income tax rate	**₱816,941**	₱117,662	(₱449,671)
Income tax effects of:			
Over-provision of income tax in prior year	**(292)**	(160)	–
Change in unrecognized deferred tax assets	**(601,123)**	409,787	1,231,758
Change in unrecognized deferred tax assets in prior year	**354,074**	(67,339)	99,238
Expenses not deductible for tax purposes	**185,663**	165,002	173,193
Expired NOLCO	**1,943,197**	1,418,088	432,014
Effect of profits generated by gaming operations exempted from corporate income tax	**(2,621,353)**	(1,991,571)	(1,398,046)
Interest income subject to final tax	**(13,956)**	(11,593)	(4,569)
Interest income not taxable	**(2,015)**	(1,593)	(1,521)
	₱61,136	₱38,283	₱82,396

The components of the Group's net deferred tax liabilities as of December 31, 2018 and 2017 were as follows:

	December 31,	
	2018	2017
Deferred tax asset:		
Deferred rent under PAS 17	**₱181,674**	₱207,291
Deferred tax liabilities:		
Capitalized interest expenses	**(181,674)**	(207,291)
Unrealized foreign exchange gains, net	**(180,786)**	(119,433)
	(362,460)	(326,724)
	(₱180,786)	(₱119,433)

(In thousands of Philippine peso, except share and per share data)

18. **Income Tax** – continued

The Group has not recognized the following deferred tax assets on deductible temporary differences since management believes the Group may not be able to realize the benefits from these deferred tax assets in the future.

	December 31, 2018	2017
NOLCO	**₱4,011,299**	₱4,777,998
Deferred rent under PAS 17	**1,681,104**	1,413,723
Share-based compensation	**121,889**	165,758
Interest expenses	–	32,031
Others	**228,872**	262,183
	₱6,043,164	₱6,651,693

As of December 31, 2018, the Group's NOLCO which can be carried forward and claimed as deductions from regular taxable income in future years is analysed as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2018	2021	**₱4,658,126**	**₱–**	**₱–**	**₱4,658,126**
2017	2020	**4,184,037**	–	–	**4,184,037**
2016	2019	**4,528,834**	–	–	**4,528,834**
2015	2018	**6,477,322**	–	**6,477,322**	–
		₱19,848,319	**₱–**	**₱6,477,322**	**₱13,370,997**

Section 13(2)(a) of Presidential Decree No. 1869 (the "PAGCOR Charter") grants PAGCOR an exemption from tax, income or otherwise, as well as exemption from any form of charges, fees, levies of whatever nature, whether national or local, except a 5% franchise tax on the gross revenue or earnings derived by PAGCOR on its operations under the franchise. Such tax shall be in lieu of all taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority. Section 13(2)(a) of the PAGCOR Charter which provides that the exemptions granted for earnings derived from the operations conducted under the franchise specifically from the payment of any tax, income or otherwise, as well as any form of charges, fees or levies, shall inure to the benefit of and extend to the corporations, associations, agencies or individuals with whom PAGCOR, or the operator has any contractual relationship in connection with the operations of the casino authorized to be conducted under the franchise and to those receiving compensation of other remuneration from PAGCOR or the operator as a result of essential facilities furnished and/or technical services rendered to PAGCOR or the operator. Management believes that the tax benefits granted to PAGCOR under its charter inure to the benefit of, and extend to corporations, associations and agencies, and individuals with whom PAGCOR has any contractual agreement in accordance with Section 13(2)(b) of the PAGCOR Charter.

18. **Income Tax** – continued

On April 17, 2013, the BIR issued Revenue Memorandum Circular ("RMC") No. 33-2013 clarified that PAGCOR was no longer exempt from corporate income tax and thus subject to corporate income tax under the National Internal Revenue Code (the "Tax Code") on its gaming and non-gaming operations. The RMC further provided that PAGCOR's licensees and contractees, which are entities duly authorized and licensed by PAGCOR to perform the gaming and non-gaming operations, were likewise subject to income tax under the Tax Code.

To address the additional exposure to corporate income tax brought by BIR RMC No. 33-2013, in May 2014, PAGCOR temporarily allowed the Licensees to reallocate 10% of the license fees for payment of corporate income taxes effective from April 1, 2014. The said reallocation of 10% of the license fees was required to be used for subsidizing the payment of corporate income taxes and any portion not used for such payment must be paid to PAGCOR as an annual true-up payment (as defined). On August 10, 2016, the Supreme Court found in the case of Bloomberry Resorts and Hotels, Inc. vs. the BIR, G. R. No. 212530 ("Bloomberry Case") that all contractees and licensees of PAGCOR, should be exempt from tax, including corporate income taxes realized from the casino operations, upon payment of the 5% franchise tax. The BIR subsequently filed a Motion for Reconsideration of the said decision, which was denied by the Supreme Court with finality in its resolution dated November 28, 2016. Based on the Supreme Court decision, management believes that Melco Resorts Leisure's gaming operations should be exempt from corporate income tax, among other taxes, provided the license fees which are inclusive of the 5% franchise tax under the PAGCOR Charter, are paid.

As of December 31, 2018 and 2017, Melco Resorts Leisure was registered with Philippine Economic Zone Authority ("PEZA") as a tourism economic zone enterprise ("Tourism Economic Zone Enterprise") for the development and operation of tourist facilities. As a Tourism Economic Zone Enterprise, Melco Resorts Leisure was granted the following fiscal incentives: (a) tax and duty-free importation of certain eligible capital equipment to be used as part of its registered activities; and (b) VAT-zero rating on local purchases of certain eligible capital equipment in accordance with the PEZA rules and regulations.

In August 2017, Melco Resorts Leisure received from the BIR two separate LOAs for the review of all internal revenue taxes for 2015 (excluding 2015 VAT) and 2016 (including 2016 VAT). No assessment pertaining to the LOAs has been issued by the BIR as of the date of this report.

In July 2018, the Parent Company received from the BIR a LOA for the audit of all internal revenue taxes for 2010 to 2016.

(In thousands of Philippine peso, except share and per share data)

19. Obligations Under a Finance Lease

As of December 31, 2018 and 2017, the minimum lease payments and present value of minimum lease payments on the Group's obligations under a finance lease were as follows:

	December 31, 2018		December 31, 2017	
	Minimum Lease Payments	Present Value of Minimum Lease Payments	Minimum Lease Payments	Present Value of Minimum Lease Payments
Amounts payable under a finance lease:				
Within one year	**₱1,961,015**	**₱1,824,898**	₱1,786,101	₱1,661,799
In more than one year and not more than five years	**9,482,220**	**6,329,181**	8,942,975	5,939,560
In more than five years	**24,602,726**	**7,029,742**	27,101,474	7,332,393
	36,045,961	**15,183,821**	37,830,550	14,933,752
Less: Finance charges	**(20,862,140)**	–	(22,896,798)	–
Present value of lease obligations	**₱15,183,821**	**15,183,821**	₱14,933,752	14,933,752
Less: Current portion of obligations under a finance lease		**(1,824,898)**		(1,661,799)
Non-current portion of obligations under a finance lease		**₱13,358,923**		₱13,271,953

For the years ended December 31, 2018, 2017 and 2016, finance charges on obligations under a finance lease amounted to ₱2,032,700, ₱1,992,234 and ₱1,945,175, of which nil, ₱2,435 and ₱8,823, were capitalized, respectively.

20. Long-term Debt, Net

	December 31, 2018	December 31, 2017
Senior Notes	**₱–**	₱7,500,000
Less: Unamortized deferred financing costs	**–**	(40,366)
	–	7,459,634
Current portion of long-term debt	**–**	–
	₱–	₱7,459,634

(a) Senior Notes

On January 24, 2014, Melco Resorts Leisure issued ₱15,000,000 in an aggregate principal amount of 5% senior notes due 2019 and priced at 100% and offered to certain primary institutional lenders as noteholders via private placement in the Philippines (the "Senior Notes"). The net proceeds from the offering of the Senior Notes were mainly used for funding the City of Dreams Manila project.

20. **Long-term Debt, Net** – continued

(a) Senior Notes – continued

On August 31, 2018 and October 9, 2017, Melco Resorts Leisure partially redeemed the Senior Notes in an aggregate principal amount of ₱5,500,000 and ₱7,500,000, respectively, and on December 28, 2018 further redeemed in full the remaining portion of the Senior Notes in an aggregate principal amount of ₱2,000,000, together with accrued interest. Accordingly, the Group recorded a ₱12,144 and ₱48,641 losses on extinguishment of debt for the years ended December 31, 2018 and 2017, respectively.

The Senior Notes would have matured on January 24, 2019, and the interest on the Senior Notes was accrued at a rate of 5% per annum and was payable semi-annually in arrears. In addition, the Senior Notes included a tax gross-up provision requiring Melco Resorts Leisure to pay without any deduction or withholding for or on account of tax.

The Senior Notes were general obligations of Melco Resorts Leisure, secured on a first-ranking basis by pledge of shares of all present and future direct and indirect subsidiaries of MRP, ranked equally in right of payment to all existing and future senior indebtedness of Melco Resorts Leisure (save and except for any statutory preference or priority) and ranked senior in right of payment to any existing and future subordinated indebtedness of Melco Resorts Leisure.

The Senior Notes were guaranteed by MRP and all present and future direct and indirect subsidiaries of MRP (subject to certain limited exceptions) (collectively the "Guarantors"), jointly and severally with Melco Resorts Leisure; and irrevocably and unconditionally by Melco on a senior basis. The guarantees were general obligations of the Guarantors, ranked equally in right of payment to all existing and future senior indebtedness of the Guarantors (except for any statutory preference or priority) and ranked senior in right of payment to any existing and future subordinated indebtedness of the Guarantors.

The notes facility and security agreement (the "Notes Facility and Security Agreement") governing the Senior Notes contained certain covenants that, subject to certain exceptions and conditions, limited the ability of MRP and its subsidiaries, including Melco Resorts Leisure to, among other things: (i) incur or guarantee additional indebtedness; (ii) sell assets; (iii) create liens; and (iv) effect a consolidation or merger. The Notes Facility and Security Agreement also contained conditions and events of default customary for such financings.

20. **Long-term Debt, Net** – continued

(b) Shareholder Loan Facility

On December 23, 2013, Melco Resorts Leisure, as borrower (the "Borrower"), signed the definitive agreement of the senior secured shareholder loan facility (the "Shareholder Loan Facility") in an aggregate amount of up to US$340,000,000 (the "Shareholder Loan") with MCO Investments as lender (the "Lender"). The Shareholder Loan Facility is a term loan facility denominated in United States dollars ("US$"). MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2 (together with the Borrower, the "Obligors") have provided a guarantee under the Shareholder Loan Facility in favor of the Lender in relation to the obligations of the Obligors under the Shareholder Loan. The Lender may require such security as notified by the Lender to the Borrower, including a pledge of shares (legally and beneficially held) over each of the present and future direct and indirect subsidiaries of MRP to be provided as a condition precedent to the initial utilization of the Shareholder Loan.

The Shareholder Loan Facility availability period is to be notified by the Lender prior to the initial utilization of the Shareholder Loan, and is subject to quarterly amortization payments. The individual drawdowns under the Shareholder Loan Facility are subject to certain conditions precedent, including completion of a utilization request for proposed drawdowns and issuance of promissory notes in favor of the Lender with the same amount of proposed drawdowns. Borrowings under the Shareholder Loan Facility bear interest at a fixed rate of 5% per annum, accrued prior to the first interest payment date. The Shareholder Loan Facility includes a tax gross-up provision requiring Melco Resorts Leisure to pay without any deduction or withholding for or on account of tax.

As of December 31, 2018 and 2017, the Shareholder Loan Facility has not been drawn.

(c) The Credit Facility

On October 14, 2015, the Parent Company entered into an on-demand, unsecured credit facility agreement of ₱2,350,000, as amended from time to time (the "Credit Facility") with a lender to finance advances to Melco Resorts Leisure. As of December 31, 2018, the Credit Facility availability period, as amended from time to time, is up to May 31, 2019, and the maturity date of each individual drawdown, as amended from time to time, to be the earlier of: (i) the date which is one year from the date of drawdown, and (ii) the date which is 360 days after the end of the availability period. The individual drawdowns under the Credit Facility are subject to certain conditions precedent, including issuance of a promissory notes in favor of the lender evidencing such drawdowns. As of December 31, 2018, borrowings under the Credit Facility bear interest, as amended, at the higher of: (i) the Philippine Dealing System Treasury Reference Rate PM (the "PDST-R2") of the selected interest period plus the applicable PDST-R2 margin of 1.25% per annum, and (ii) Philippines Term Deposit Facility Rate (the "TDF") of the selected interest period plus the applicable TDF margin ranging from 0.50% to 0.75% per annum, such rate to be set one business day prior to the relevant interest period. The Credit Facility includes a tax gross-up provision requiring the Parent Company to pay without any deduction or withholding for or on account of tax.

As of December 31, 2018 and 2017, the Credit Facility has not been drawn.

(In thousands of Philippine peso, except share and per share data)

20. **Long-term Debt, Net** – continued

(d) Unamortized Deferred Financing Costs

Direct and incremental costs of ₱333,711 incurred in connection with the issuance of the Senior Notes are capitalized in deferred financing costs. Other than the write-off of unamortized deferred financing costs of ₱12,144 and ₱48,641 as losses on extinguishment of debt during the years ended December 31, 2018 and 2017, respectively, deferred financing costs of ₱28,222, ₱62,493 and ₱66,148 were included in interest expenses and amortized to the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2017, the unamortized deferred financing costs of ₱40,366 were netted off and included in the amount of long-term debt as shown in the consolidated balance sheets.

For the years ended December 31, 2018, 2017 and 2016, interest expenses on long-term debt consisted of interest on the Senior Notes in the amounts of ₱352,170, ₱830,729 and ₱937,500, respectively. No interest on long-term debt was capitalized for the years ended December 31, 2018, 2017 and 2016.

For the years ended December 31, 2018, 2017 and 2016, the Group's borrowing rate was approximately 6.25% per annum in each of those years, including a tax gross-up impact on interest on the Senior Notes which required Melco Resorts Leisure to pay without any deduction or withholding for or on account of tax.

For the years ended December 31, 2018, 2017 and 2016, other finance fees on long-term debt represented the gross receipt tax on interest on the Senior Notes, including a tax gross-up impact which required Melco Resorts Leisure to pay without any deduction or withholding for or on account of tax amounted to ₱17,968, ₱42,384 and ₱47,832, respectively.

21. **Retirement Costs – Defined Benefit Obligations**

The Group has defined benefit obligations covering substantially all of its regular employees. The costs of providing benefits are valued every year by a professional qualified independent actuary in compliance with PAS 19. Benefits are dependent on the years of service and the respective employees' compensation, and are determined using the projected unit credit actuarial cost method.

The following tables summarize the components of retirement costs of defined benefit obligations recognized in the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 and the retirement liabilities of defined benefit obligations recognized in the consolidated balance sheets as of December 31, 2018 and 2017:

	Year Ended December 31,		
	2018	2017	2016
Retirement costs – defined benefit obligations:			
Current service costs	**₱22,615**	₱18,429	₱13,681
Interest costs	**4,002**	2,274	1,136
	₱26,617	₱20,703	₱14,817

(In thousands of Philippine peso, except share and per share data)

21. **Retirement Costs – Defined Benefit Obligations** – continued

	December 31, 2018	December 31, 2017
Retirement liabilities – defined benefit obligations (at present value):		
Balance at beginning of year	**₱69,199**	₱41,644
Current service costs	**22,615**	18,429
Interest costs	**4,002**	2,274
Remeasurement (gain) loss due to:		
Experience adjustments	**(7,108)**	2,066
Changes in demographic assumptions	**–**	7,758
Changes in financial assumptions	**(14,643)**	(2,972)
Balance at end of year	**₱74,065**	₱69,199

The principal assumptions used in determining the Group's retirement liabilities for defined benefit obligations as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Discount rate	**7.36%**	5.79%
Salary increase rate	**3.00%**	3.00%
Mortality rate	**2017 PICM**	2017 PICM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5
Turnover rate	**A scale ranging from 21% at age 18 to 0% at age 60**	A scale ranging from 21% at age 18 to 0% at age 60

The Group does not maintain a fund for its retirement benefit obligations.

As of December 31, 2018 and 2017, the expected maturity of undiscounted expected benefit payments are as follows:

	December 31, 2018	December 31, 2017
Plan year:		
Less than 1 year	**₱8,143**	₱161
More than 1 year but less than 5 years	**28,418**	22,209
More than 5 years but less than 10 years	**69,120**	57,354
More than 10 years but less than 15 years	**214,449**	204,087
More than 15 years but less than 20 years	**223,761**	234,920
More than 20 years	**538,123**	534,939

As of December 31, 2018 and 2017, the average duration of the expected benefit payments were 19.38 and 19.81 years, respectively.

(In thousands of Philippine peso, except share and per share data)

21. **Retirement Costs – Defined Benefit Obligations** – continued

As above, the retirement benefit obligations are subject to several key assumptions. The following sensitivity analysis summarizes the impact of key assumptions which have been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligations as of December 31, 2018 and 2017, assuming all other assumptions were held constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

	December 31, 2018 Effect on Present Value of Obligations
Discount rate:	
8.36% (Actual + 1.00%)	**₱66,546**
7.36% (Actual)	**74,065**
6.36% (Actual – 1.00%)	**82,924**
Salary increase rate:	
4.00% (Actual + 1.00%)	**₱83,619**
3.00% (Actual)	**74,065**
2.00% (Actual – 1.00%)	**65,873**

	December 31, 2017 Effect on Present Value of Obligations
Discount rate:	
6.79% (Actual + 1.00%)	₱61,111
5.79% (Actual)	69,199
4.79% (Actual – 1.00%)	78,828
Salary increase rate:	
4.00% (Actual + 1.00%)	₱79,392
3.00% (Actual)	69,199
2.00% (Actual – 1.00%)	60,537

22. **Cooperation Agreement, Operating Agreement and Lease Agreement**

Pursuant to a memorandum of agreement entered by a Melco's subsidiary with the Philippine Parties and certain of its subsidiaries in 2012 for the development of City of Dreams Manila, the relevant parties of the Licensees and certain of its subsidiaries, entered into the following agreements which became effective on March 13, 2013 and end on the date of expiry of the Regular License, currently expected to be on July 11, 2033 unless terminated earlier in accordance with the respective terms of the individual agreements.

22. **Cooperation Agreement, Operating Agreement and Lease Agreement** – continued

(a) Cooperation Agreement

The Licensees and certain of its subsidiaries entered into a cooperation agreement (the "Cooperation Agreement") and other related arrangements which govern the rights and obligations of the Licensees. Under the Cooperation Agreement, Melco Resorts Leisure is appointed as the sole and exclusive representative of the Licensees in connection with the Regular License and is designated as the operator to operate and manage City of Dreams Manila.

(b) Operating Agreement

The Licensees entered into an operating agreement (the "Operating Agreement") which governs the operation and management of City of Dreams Manila by Melco Resorts Leisure. Under the Operating Agreement, Melco Resorts Leisure is appointed as the sole and exclusive operator and manager of City of Dreams Manila, and is responsible for, and has sole discretion (subject to certain exceptions) and control over, all matters relating to the operation and management of City of Dreams Manila (including the gaming and non-gaming operations). The Operating Agreement also includes terms of certain monthly payments to PLAI from Melco Resorts Leisure, based on the performance of gaming operations of City of Dreams Manila, and is included in "Payments to the Philippine Parties" in the consolidated statements of comprehensive income, and further provides that Melco Resorts Leisure has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

(c) Lease Agreement

Melco Resorts Leisure and Belle entered into a lease agreement, as amended from time to time (the "Lease Agreement") under which Belle agreed to lease to Melco Resorts Leisure the land and certain of the building structures for City of Dreams Manila. The leased property is used by Melco Resorts Leisure and any of its affiliates exclusively as a hotel, casino and resort complex.

23. **Commitments and Contingencies**

(a) Capital Commitments

As of December 31, 2018, the Group had capital commitments contracted for but not provided mainly for the acquisitions of property and equipment for City of Dreams Manila totaling ₱786,381.

(In thousands of Philippine peso, except share and per share data)

23. **Commitments and Contingencies** – continued

(b) Lease Commitments

Operating Leases – As a Lessee

The Group leased a portion of land under the Lease Agreement for City of Dreams Manila and certain office spaces, warehouses, staff quarter and various equipment under non-cancellable operating lease agreements that expire at various dates through July 2033. Certain lease agreements provide for periodic rental increases based on both contractually agreed incremental rates and on general inflation rates once agreed by the Group and its lessors or contingent rental expenses stated as a percentage of turnover. For the years ended December 31, 2018, 2017 and 2016, rental expenses amounting to ₱202,553, ₱220,837 and ₱266,136, respectively, were recognized and included in other expenses in the consolidated statements of comprehensive income (Note 15). No contingent rental expenses were recognized for the years ended December 31, 2018, 2017 and 2016.

As of December 31, 2018, future minimum lease payments under non-cancellable operating leases were as follows:

	December 31, 2018
Within one year	**₱156,406**
In more than one year and not more than five years	**705,495**
In more than five years	**1,729,557**
	₱2,591,458

Operating Leases – As a Lessor

The Group entered into non-cancellable operating lease agreements mainly for mall spaces in City of Dreams Manila with various retailers that expire at various dates through December 2021. Certain of the operating lease agreements include minimum base fees with escalated contingent fee clauses. Contingent fees amounting to ₱14,140, ₱11,160 and ₱9,178 were recognized for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, future minimum fees to be received under non-cancellable operating lease were as follows:

	December 31, 2018
Within one year	**₱52,240**
In more than one year and not more than five years	**16,820**
	₱69,060

The total future minimum fees do not include the escalated contingent fee clauses.

23. **Commitments and Contingencies** – continued

(c) Other Commitments

Regular License

Other commitments required by PAGCOR under the Regular License include as follows:

(i) To secure a surety bond in favor of PAGCOR in the amount of ₱100 million to ensure prompt and punctual remittances/payments of all license fees.

(ii) License fees must be remitted on a monthly basis, in lieu of all taxes with reference to the income component of the gross gaming revenues: (a) 15% high roller tables; (b) 25% non-high roller tables; (c) 25% slot machines and electronic gaming machines; and (d) 15% junket operations. The license fees are inclusive of the 5% franchise tax under the PAGCOR Charter.

(iii) The Licensees are required to remit 2% of casino revenues generated from non-junket operation tables to a foundation devoted to the restoration of Philippine cultural heritage, as selected by the Licensees and approved by PAGCOR.

(iv) PAGCOR may collect a 5% fee on non-gaming revenue received from food and beverage, retail and entertainment outlets. All revenues for hotel operations should not be subject to the 5% fee except for rental income received from retail concessionaires.

(v) Grounds for revocation of the Regular License, among others, are as follows: (a) failure to comply with any material provisions in this license; (b) failure to remit license fees within 30 days from receipt of notice of default; (c) has become bankrupt or insolvent; and (d) if the debt-to-equity ratio is more than 70:30.

As of December 31, 2018 and 2017, MPHIL Holdings Group, as one of the Licensee parties, has complied with the required debt-to-equity ratio under the definition as agreed with PAGCOR. For further details refer to Note 24 under capital risk management.

Cooperation Agreement

Under the terms of the Cooperation Agreement, the Licensees are jointly and severally liable to PAGCOR under the Regular License and each Licensee (indemnifying Licensee) must indemnify the other Licensees for any losses suffered or incurred by that Licensees arising out of, or in connection with, any breach by the indemnifying Licensee of the Regular License. Also, each of the Philippine Parties and MPHIL Holdings Group agree to indemnify the non-breaching party for any losses suffered or incurred as a result of a breach of any warranties.

(d) Guarantee

Melco Resorts Leisure has issued a corporate guarantee of ₱100 million to a bank in respect of the surety bond issued to PAGCOR as disclosed in Note 23(c)(i).

23. **Commitments and Contingencies** – continued

(e) Litigation

As of December 31, 2018, the Group is a party to certain legal proceedings which relate to matters arising out of the ordinary course of its business. Management believes that the outcome of such proceedings will have no material impacts on the Group's consolidated financial statements as a whole.

24. Financial Risk Management Objectives and Policies

The Group has financial assets and liabilities including cash and cash equivalents, restricted cash, accounts receivable, security deposits, other deposits and receivables, amounts due from/to related parties, accounts payable, accrued expenses, other payables and other current liabilities, obligations under a finance lease, long-term debt and other non-current liabilities which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign exchange risk. Management reviews and approves policies for managing each of these risks and they are summarized below.

Interest Rate Risk

Other than the bank balances which carry interest at market rates and the Senior Notes which carry interest at a fixed rate, the Group has no other significant interest-bearing assets and liabilities and its operating cash flows are substantially independent of changes in market interest rates. Accordingly, management is of the opinion that the Group does not have significant interest rate risks.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group trades only with recognized and creditworthy third parties. It is the policy of the Group that all third parties who wish to trade on credit terms are subjected to credit verification procedures. Other current and non-current assets are monitored on an on-going basis with the result that the exposure of the Group to bad debts is not significant. The Group does not offer credit terms to third parties, without the specific approval of management.

With respect to credit risk from the financial assets of the Group, which are composed of cash and cash equivalents, restricted cash, accounts receivable, security deposits, other deposits and receivables and amounts due from related parties, the exposure of the Group to credit risk arises from the default of a bank where the Group's cash and cash equivalents and restricted cash are deposited, the default of the counterparties for which accounts receivable, security deposits and other deposits and receivables are held and the default in repayments from the related parties, with a maximum exposure equal to the carrying amount of these instruments.

24. **Financial Risk Management Objectives and Policies** – continued

Credit Risk – continued

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of casino receivables. The Group issues credit in the form of markers to approved casino customers following investigations of creditworthiness. Credit is also given to its gaming promoters, which receivables can be offset against commissions payable and any other items of value held by the Group on behalf of the respective customers and for which the Group intends to set off such amounts when such right exists. As of December 31, 2018 and 2017, a substantial portion of the Group's markers were due from customers and gaming promoters residing in foreign countries. Business or economic conditions, the legal enforceability of gaming debts, or other significant events in foreign countries could affect the collectability of receivables from customers and gaming promoters residing in these countries. Should there be any change in circumstances pertaining to one of these gaming promoters, it could have a material effect to the carrying amount of casino receivables.

The Group believes that the concentration of its credit risk in casino receivables is mitigated substantially by its credit evaluation processes, credit policies, credit controls and collection procedures, and also believes that no significant credit risk is inherent in the Group's accounts receivable not provided with allowances for doubtful debts as at December 31, 2018 and 2017. Other than casino receivables, there are no other concentrations of credit risk.

Credit Risk Exposures

The carrying values of the Group's financial assets represent the maximum exposure to credit risk and the Group did not hold any collateral or credit enhancements to cover its credit risk associated with its financial assets as of December 31, 2018 and 2017.

Credit Quality per Class of Financial Assets

Cash and cash equivalents and restricted cash are considered as high grade and include deposits made to reputable banks in the Philippines. Accounts receivable and other deposits and receivables (excluding amounts past due but not impaired) are considered as high grade as the Group only trades with recognized and creditworthy third parties. Amounts due from related parties (other than Melco) are considered as high grade as Melco will provide financial support to the related parties of the Group to meet in full its financial obligations as they fall due. Amount due from Melco is considered as high grade as Melco is listed on the NASDAQ Global Select Market and has positive financial performances. Security deposits are also classified as high grade since the security deposits in relation to the Lease Agreement are placed with Belle, a company listed on the PSE with positive financial performances to date. The credit risks for these financial assets have not increased significantly since initial recognition and for which the loss allowances are measured at an amount equal to 12-months ECLs.

The Group applies the simplified approach for impairment of accounts receivable, see Note 7 to the consolidated financial statements.

Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding or is the risk that the Group will not be able to meet its obligations associated with financial difficulties.

(In thousands of Philippine peso, except share and per share data)

24. **Financial Risk Management Objectives and Policies** – continued

Liquidity Risk – continued
The Group uses historical data and forecasts on its collections and disbursements to ensure it has sufficient cash to meet capital expenditures and operational needs and manages its liquid funds through cash planning on a monthly basis. The forecast takes into consideration the Group's issuance of new shares, debt financing plans and covenant compliance requirements and funding from intermediate holding companies.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities as of December 31, 2018 and 2017 based on undiscounted contractual cash flows.

	December 31, 2018				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱6,808,712	₱–	₱–	₱–	₱6,808,712
Restricted cash	867,591	–	–	–	867,591
Accounts receivable, net	1,476,364	–	–	–	1,476,364
Deposits and receivables, net	57,740	–	–	350,600	408,340
Amounts due from related parties	139,564	–	–	–	139,564
Financial Liabilities					
Accounts payable	₱151,145	₱–	₱–	₱–	₱151,145
Accrued expenses, other payables and other current liabilities(1)	3,017,174	–	–	–	3,017,174
Amounts due to related parties	186,880	–	–	–	186,880
Current portion of obligations under a finance lease	1,961,015	–	–	–	1,961,015
Non-current portion of obligations under a finance lease	–	4,544,135	4,938,085	24,602,726	34,084,946
Other non-current liabilities	–	15,335	2,265	–	17,600

(1) The balance included certain outstanding gaming chips and tokens and advance customer deposits that are part of the contract liabilities as disclosed in Note 3.

(In thousands of Philippine peso, except share and per share data)

24. **Financial Risk Management Objectives and Policies** – continued

Liquidity Risk – continued

	December 31, 2017				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱6,332,581	₱–	₱–	₱–	₱6,332,581
Restricted cash	549,765	–	–	–	549,765
Accounts receivable, net	1,328,372	–	–	–	1,328,372
Deposits and receivables, net	154,385	6,420	–	266,811	427,616
Amounts due from related parties	163,670	–	–	–	163,670
Financial Liabilities					
Accounts payable	₱136,758	₱–	₱–	₱–	₱136,758
Accrued expenses, other payables and other current liabilities	1,604,147	–	–	–	1,604,147
Amounts due to related parties	100,291	–	–	–	100,291
Current portion of obligations under a finance lease	1,786,101	–	–	–	1,786,101
Non-current portion of obligations under a finance lease	–	4,121,938	4,821,037	27,101,474	36,044,449
Long-term debt	–	7,500,000	–	–	7,500,000
Interest expenses payable on long-term debt (including withholding tax)	468,750	29,948	–	–	498,698
Other finance fees payable on long-term debt (including gross-up withholding tax)	23,916	1,528	–	–	25,444
Other non-current liabilities	–	17,619	1,185	–	18,804

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of monetary assets and monetary liabilities will fluctuate due to changes in foreign exchange rates.

The Group has foreign currency exposures arising from translation of certain monetary assets and monetary liabilities denominated in foreign currencies, which are primarily denominated in Hong Kong dollars ("HK$"), US$ and Macau Patacas ("MOP"). Foreign exchange risks of the Group are regularly reviewed by management and appropriate processes are in place to monitor and mitigate the said risks by maintaining a certain amount of operating funds in the same currencies in which the Group has obligations to pay from time to time. Management decides not to hedge the currency exposures considering the cost of hedging being higher than the currency exposures.

Foreign currency denominated monetary assets and monetary liabilities, translated into Philippine peso equivalents, are as follows:

	December 31, 2018					
	HK$ (In Unit)	Philippine Peso	US$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	**187,544,979**	**1,262,606**	**5,178,312**	**273,017**	**516**	**3**
Monetary Liabilities	**(47,864,742)**	**(322,239)**	**(901,803)**	**(47,546)**	**(20,500,644)**	**(133,996)**
	139,680,237	**940,367**	**4,276,509**	**225,471**	**(20,500,128)**	**(133,993)**

(In thousands of Philippine peso, except share and per share data)

24. **Financial Risk Management Objectives and Policies** – continued

Foreign Exchange Risk – continued

	December 31, 2017					
	HK$ (In Unit)	Philippine Peso	US$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	329,276,772	2,112,916	8,585,338	428,606	–	–
Monetary Liabilities	(6,477,737)	(41,567)	(361,712)	(18,058)	(9,439,724)	(58,809)
	322,799,035	2,071,349	8,223,626	410,548	(9,439,724)	(58,809)

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the Group used the following rates of exchange as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Philippine peso to 1 unit of foreign currency:		
HK$	**6.73**	6.42
US$	**52.72**	49.92
MOP	**6.54**	6.23

The sensitivity of the profit before income tax with regard to the Group's monetary assets and monetary liabilities in HK$, US$ and MOP translated into Philippine peso with +/-1.1% and +/-0.9% changes in exchange rates for each of the foreign currencies as mentioned above for the years ended December 31, 2018 and 2017, respectively. The changes in currency rates are based on the Group's best estimate of expected changes considering historical trends and experience.

If the Philippine peso had strengthened against HK$ and US$, with all other variables held constant, profit before income tax would have decreased by ₱10,344 and ₱2,480 for the year ended December 31, 2018, respectively, mainly as a result of the translation of HK$ and US$ denominated cash and cash equivalents. If the Philippine peso had strengthened against MOP, with all other variables held constant, profit before income tax would have increased by ₱1,474 for the year ended December 31, 2018, mainly as a result of the translation of MOP denominated amounts due to related parties. If the Philippine peso had strengthened against HK$ and US$, with all other variables held constant, profit before income tax would have decreased by ₱18,642 and ₱3,695 for the year ended December 31, 2017, respectively, mainly as a result of the translation of HK$ and US$ denominated cash and cash equivalents. If the Philippine peso had strengthened against MOP, with all other variables held constant, profit before income tax would have increased by ₱529 for the year ended December 31, 2017, mainly as a result of the translation of MOP denominated amounts due to related parties.

However, if the Philippine peso had weakened against HK$, US$ and MOP by the same percentages, profit before income tax would have changed in the opposite direction by the same amounts.

24. **Financial Risk Management Objectives and Policies** – continued

Capital Risk Management

The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Group may obtain funding from issuance of new shares, debt financing and from intermediate holding companies.

The Group considers total equity and long-term debt as its capital which amounted to ₱8,098,790 and ₱12,875,452 as of December 31, 2018 and 2017, respectively.

Under the terms of the Regular License, it requires each of the Licensees to maintain a debt-to-equity ratio under the definition as agreed with PAGCOR (the "D/E Ratio") of not more than 70:30. The Group's strategy is to monitor capital and maintain the D/E Ratio to comply with the PAGCOR requirements. As of December 31, 2018 and 2017, MPHIL Holdings Group, as one of the Licensee parties, has complied with the D/E Ratio as required by PAGCOR.

25. **Financial Instruments**

Fair Value of Financial Instruments

Cash and cash equivalents, Restricted cash, Accounts receivable, Deposits and receivables, Amounts due from/to related parties, Accounts payable and Accrued expenses, other payables and other current liabilities

As of December 31, 2018 and 2017, the carrying values approximate their fair values at the reporting dates due to the relatively short-term maturities of the transactions.

Security deposits, Obligations under a finance lease and Long-term debt

As of December 31, 2018 and 2017, the carrying values approximate their fair values, which are measured by discounting estimated future cash flows to present value using a credit-adjusted discount rate.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(In thousands of Philippine peso, except share and per share data)

25. **Financial Instruments** – continued

Fair Value Hierarchy – continued
As of December 31, 2018 and 2017, the Group does not have financial instruments that are carried and measured at fair value. For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

26. **Note to Consolidated Statements of Cash Flows**

Major Non-cash Transactions

(a) For the year ended December 31, 2018, fit-out construction costs and costs of property and equipment totaling ₱189,255, nil and nil were funded through accrued expenses, other payables and other current liabilities, amounts due to related parties and other non-current liabilities, respectively (For the year ended December 31, 2017: ₱138,582, nil and nil, respectively; and for the year ended December 31, 2016: ₱8,547, ₱23,097 and ₱1,483, respectively).

(b) For the year ended December 31, 2017, accruals for property and equipment of ₱23,138 were reversed for project costs adjustments (For the year ended December 31, 2016: ₱255,704).

(c) For the year ended December 31, 2016, amounts due to related parties of ₱10,357 were offset with amounts due from related parties.

(d) For the year ended December 31, 2016, part of the reimbursable amount from the Philippine Parties to the MPHIL Holdings Group for consideration of disposals of property and equipment to Belle of ₱1,152,700 were offset by escrow funds refundable to the Philippine Parties.

Changes in Liabilities Arising from Financing Activities

	Long-term Debt	Obligations under a Finance Lease
As of January 1, 2017	₱14,848,500	₱14,586,355
Net change of cash flows from financing activities	(7,500,000)	(1,644,802)
Others[(1)]	111,134	1,992,199
As of December 31, 2017	7,459,634	14,933,752
Net change of cash flows from financing activities	**(7,500,000)**	**(1,782,631)**
Others[(1)]	**40,366**	**2,032,700**
As of December 31, 2018	**₱–**	**₱15,183,821**

(1) Others mainly represent the effect of movements in debt financing costs and interest incurred on obligations under a finance lease.

(In thousands of Philippine peso, except share and per share data)

27. Share Incentive Plan

The Group adopted the Share Incentive Plan, effective on June 24, 2013, which has been subsequently amended and restated, for grants of various share-based awards, including but not limited to, options to purchase the Parent Company's common shares, restricted shares, share appreciation rights and other types of awards to eligible directors, employees and consultants of the Group and its affiliates. The maximum term of an award is ten years from the date of grant. The maximum aggregate number of common shares to be available for all awards under the Share Incentive Plan is 442,630,330 shares and with up to 5% of the issued capital stock of the Parent Company from time to time over ten years. As of December 31, 2018, there were 151,992,134 common shares available for grants of various share-based awards under the Share Incentive Plan.

Share Options

During the years ended December 31, 2018 and 2017, the exercise prices for share options granted under the Share Incentive Plan were determined with reference to the market closing prices of the Parent Company's common shares on the dates of grant as defined in the Share Incentive Plan. These share options generally became exercisable over vesting periods of two to three years. The share options granted expire ten years from the date of grant. There was no share options granted under the Share Incentive Plan during the year ended December 31, 2016.

The Group uses the Black-Scholes valuation model to determine the estimated fair value for each share option granted, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Dividend yield is based on the estimate of annual dividends expected to be paid at the time of the grant. Expected volatility is based on the historical volatility of the Parent Company's common shares trading on the PSE and the historical volatility of a peer group of publicly traded companies. Expected term is based upon the vesting term or the historical expected term of Melco. The risk-free interest rate used for each period presented is based on the Philippine government bond yield at the time of grant for the period equal to the expected term.

The fair values of share options granted under the Share Incentive Plan were estimated on the date of grant using the following weighted average assumptions as follows:

	Year Ended December 31,		
	2018	2017	2016
Expected dividend yield	–	–	–
Expected stock price volatility	**45%**	45%	–
Risk-free interest rate	**5.69%**	4.47%	–
Expected average term (years)	**5.6**	5.9	–
Weighted average share price per share	**₱7.80**	₱8.27	₱–
Weighted average exercise price per share	**₱7.80**	₱8.27	₱–

(In thousands of Philippine peso, except share and per share data)

27. **Share Incentive Plan** – continued

Share Options – continued

On August 2, 2016, the Board approved a proposal to allow for an option exchange program, designed to provide eligible personnel an opportunity to exchange certain outstanding underwater share options for new restricted shares to be granted (the "Option Exchange Program"). Share options eligible for exchange were those that were granted during the years ended December 31, 2013 and 2014 under the Share Incentive Plan, including those unvested, or vested but not exercised. The acquiescence of the SEC on the Option Exchange Program was obtained by the Group on September 30, 2016. The exchange was subject to the eligible personnel's consent and became effective on October 21, 2016, which was the deadline for acceptance of the exchange by the eligible personnel. A total of 96,593,629 eligible share options were tendered by eligible personnel, representing 99.2% of the total share options eligible for exchange. The Group granted an aggregate of 43,700,116 new restricted shares in exchange for the eligible share options surrendered. The new restricted shares have vesting periods of three years. Total incremental share-based compensation expenses resulting from the Option Exchange Program was approximately ₱42,425, representing the excess of the fair value of the new restricted shares over the fair value of the surrendered share options immediately before the exchange. The fair value of the new restricted shares was determined with reference to the market closing price of the Parent Company's common shares at the effective date of the exchange. The incremental share-based compensation expense is being recognized over the new vesting period.

A summary of share options activity under the Share Incentive Plan as of December 31, 2018, and changes for the years ended December 31, 2018, 2017 and 2016 are presented as follows:

	Number of Share Options	Weighted Average Exercise Price per Share
Outstanding as of January 1, 2016	124,710,632	₱8.22
Forfeited	(6,850,299)	9.68
Cancelled under Option Exchange Program	(96,593,629)	8.39
Expired	(8,891,994)	8.81
Outstanding as of December 31, 2016	12,374,710	5.72
Granted	7,143,469	8.27
Exercised	(1,040,485)	8.30
Expired	(3,410,501)	8.59
Outstanding as of December 31, 2017	15,067,193	6.10
Granted	**2,158,552**	**7.80**
Forfeited	**(190,240)**	**8.98**
Outstanding as of December 31, 2018	**17,035,505**	**₱6.28**
Exercisable as of December 31, 2018	**7,923,724**	**₱4.15**

(In thousands of Philippine peso, except share and per share data)

27. **Share Incentive Plan** – continued

Share Options – continued

The range of exercise prices and the weighted average remaining contractual terms of the above share options outstanding as at the dates indicated are as follows:

	Year Ended December 31,					
	2018		2017		2016	
	Number of Share Options Outstanding (Note)	Weighted Average Remaining Contractual Term	Number of Share Options Outstanding	Weighted Average Remaining Contractual Term	Number of Share Options Outstanding	Weighted Average Remaining Contractual Term
Exercise price per share:						
₱3.46	**6,796,532**	**6.88**	6,796,532	7.88	6,796,532	8.88
₱5.66	**1,531,112**	**8.21**	1,531,112	9.21	–	–
₱7.80	**2,158,552**	**9.25**	–	–	–	–
₱8.30	**1,127,192**	**4.49**	1,127,192	5.49	5,375,838	6.59
₱8.98	**5,422,117**	**8.59**	5,612,357	9.59	–	–
₱13.26	–	–	–	–	202,340	7.42
	17,035,505	**7.69**	15,067,193	8.47	12,374,710	7.86

Note: 3,398,266 share options vested for the year ended December 31, 2018.

Share options exercised for the year ended December 31, 2017 resulted in 1,040,485 common shares of the Parent Company being issued at a weighted average price of ₱8.30. The related weighted average share price at the time of exercise was ₱8.60 during the year. No share options were exercised for the years ended December 31, 2018 and 2016.

Restricted Shares

During the years ended December 31, 2018 and 2017, the grant date fair values for restricted shares granted under the Share Incentive Plan were determined with reference to the market closing prices of the Parent Company's common shares on the dates of grant as defined in the Share Incentive Plan. These restricted shares generally have vesting periods of two to three years. There were no restricted shares granted under the Share Incentive Plan during the year ended December 31, 2016.

(In thousands of Philippine peso, except share and per share data)

27. **Share Incentive Plan** – continued

Restricted Shares – continued

A summary of restricted shares activity under the Share Incentive Plan as of December 31, 2018, and changes for the years ended December 31, 2018, 2017 and 2016 are presented as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2016	28,531,215	₱8.12
Granted under Option Exchange Program	43,700,116	4.38
Vested	(19,541,800)	8.36
Forfeited	(3,433,823)	10.10
Unvested as of December 31, 2016	49,255,708	4.57
Granted	7,298,372	8.22
Vested	(2,826,644)	8.02
Forfeited	(5,081,073)	4.45
Unvested as of December 31, 2017	48,646,363	4.91
Granted	**6,482,482**	**7.34**
Vested	**(20,506,393)**	**4.49**
Forfeited	**(5,177,792)**	**4.46**
Unvested as of December 31, 2018	**29,444,660**	**₱5.82**

The impact of share options and restricted shares for the years ended December 31, 2018, 2017 and 2016 recognized in the consolidated financial statements is as follows:

	Year Ended December 31,		
	2018	2017	2016
Share Incentive Plan:			
Share options	**(₱53,764)**	(₱13,051)	(₱3,585)
Restricted shares	**52,985**	39,059	14,127
Total share-based compensation	**(₱779)**	₱26,008	₱10,542

28. **Segment Information**

The Group principal operating and developmental activities are engaged in the gaming and hospitality business in the Philippines. The chief operating decision-maker monitors its operations and evaluates earnings by reviewing the assets and operations of City of Dreams Manila as one operating segment. As of December 31, 2018, 2017 and 2016, the Group operates in one geographical area, the Philippines, where it derives its revenue.

(In thousands of Philippine peso, except share and per share data)

28. **Segment Information** – continued

The Group's segment information for total assets and capital expenditures is as follows:

	December 31,		
	2018	2017	2016
Total assets – All in the Philippines at City of Dreams Manila	**₱33,156,762**	₱34,428,399	₱41,690,660

	Year Ended December 31,		
	2018	2017	2016
Total capital expenditures – All in the Philippines at City of Dreams Manila(1)	**₱1,201,622**	₱709,700	₱448,264

(1) For the years ended December 31, 2017 and 2016, the amounts of total capital expenditures did not include the adjustments for reversal of project costs of ₱23,138 and ₱255,704, respectively. There were no adjustments to project costs for the year ended December 31, 2018.

(In thousands of Philippine peso, except share and per share data)

28. **Segment Information** – continued

The Group's segment information on its results of operations is as follows:

	Year Ended December 31,		
	2018	2017	2016
NET OPERATING REVENUES			
The Philippines –			
City of Dreams Manila	**₱32,425,748**	₱32,755,217	₱23,418,789
ADJUSTED EBITDA[(1)]			
The Philippines –			
City of Dreams Manila	**₱14,187,720**	₱11,854,024	₱7,561,263
OPERATING COSTS AND EXPENSES			
Payments to the Philippine Parties	**(3,211,857)**	(2,609,353)	(1,642,175)
Land rent to Belle	**(158,469)**	(158,469)	(158,478)
Net gain on disposals of property and equipment to Belle	**–**	–	380,454
Pre-opening costs	**(8,500)**	–	–
Depreciation and amortization	**(4,015,503)**	(4,285,650)	(4,388,885)
Share-based compensation	**779**	(26,008)	(10,542)
Corporate expenses	**(1,483,829)**	(1,447,588)	(562,247)
Property charges and other	**(380,445)**	(132,849)	73,399
Total Operating Costs and Expenses	**(9,257,824)**	(8,659,917)	(6,308,474)
OPERATING PROFIT	**4,929,896**	3,194,107	1,252,789
NON-OPERATING INCOME (EXPENSES)			
Interest income	**53,233**	43,955	20,300
Interest expenses, net of capitalized interest	**(2,413,092)**	(2,883,021)	(2,940,000)
Other finance fees	**(17,968)**	(42,384)	(47,832)
Foreign exchange gains, net	**183,211**	128,190	215,840
Loss on extinguishment of debt	**(12,144)**	(48,641)	–
Total Non-operating Expenses, Net	**(2,206,760)**	(2,801,901)	(2,751,692)
PROFIT (LOSS) BEFORE INCOME TAX	**2,723,136**	392,206	(1,498,903)
INCOME TAX EXPENSE	**(61,136)**	(38,283)	(82,396)
NET PROFIT (LOSS)	**₱2,662,000**	₱353,923	(₱1,581,299)

(1) "Adjusted EBITDA" is earnings before interest, taxes, depreciation, amortization, payments to the Philippine Parties, land rent to Belle, net gain on disposals of property and equipment to Belle, pre-opening costs, share-based compensation, corporate expenses, property charges and other, and other non-operating income and expenses. The chief operating decision-maker uses Adjusted EBITDA to measure the operating performance of City of Dreams Manila and to compare the operating performance of its property with those of its competitors.

28. **Segment Information** – continued

The Group's geographic information for long-lived assets is as follows:

	December 31,		
	2018	2017	2016
Total long-lived assets – All in the Philippines	**₱21,118,953**	₱23,945,213	₱27,735,886

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
Melco Resorts and Entertainment (Philippines) Corporation
Asean Avenue cor. Roxas Boulevard
Brgy. Tambo, Parañaque City 1701

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Melco Resorts and Entertainment (Philippines) Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at and for the years ended December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, included in this Form 17-A and have issued our report thereon dated March 21, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Roel E. Lucas

Roel E. Lucas
Partner
CPA Certificate No. 98200
SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 191-180-015
BIR Accreditation No. 08-001998-95-2016,
January 3, 2017, valid until January 2, 2020
PTR No. 7332567, January 3, 2019, Makati City

March 21, 2019

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
As of December 31, 2018
Schedule A. Financial Assets
(In thousands of Philippine peso)

Name of issuing entity and association of each issue	Amounts shown in the balance sheet	Interest income received or receivable
Cash and cash equivalents:		
Metropolitan Bank and Trust Company	3,326,464	5,191
BDO Unibank, Inc.	648,081	25,549
Bank of China	376,424	13,616
Eastwest Bank	185,946	370
Industrial and Commercial Bank of China	180	28
UnionBank of the Philippines	100	-
Cash on hand	2,271,517	-
	6,808,712	44,754
Restricted cash:		
BDO Unibank, Inc.	867,591	1,764
Accounts receivable, net:		
Various customers	1,476,364	-
Deposits and receivables, net:		
Various entities	247,971	6,715
Amounts due from related parties:		
Melco Resorts & Entertainment Limited	132,377	-
MPHIL Corporation	6,157	-
MCO (Philippines) Investments Limited	995	-
Integrated Casino Resorts Cyprus Limited	31	-
Studio City Hospitality and Services Limited	4	-
	139,564	-

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
As of December 31, 2018
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
(In thousands of Philippine peso)

Receivable of Melco Resorts Leisure (PHP) Corporation from Melco Resorts and Entertainment (Philippines) Corporation

			Deductions					
Name and designation of debtor	Beginning balance	Additions	Amounts collected	Amounts written off	Revaluation of oustanding balance	Current	Non-current	Ending balance
Melco Resorts and Entertainment (Philippines) Corporation	28,569	1,017	-	-	93	29,679	-	29,679

Receivable of Melco Resorts and Entertainment (Philippines) Corporation and Melco Resorts Leisure (PHP) Corporation from MPHIL Holdings No. 1 Corporation

			Deductions					
Name and designation of debtor	Beginning balance	Additions	Amounts collected	Amounts written off	Revaluation of oustanding balance	Current	Non-current	Ending balance
MPHIL Holdings No. 1 Corporation	4,347	10	-	-	561	4,918	-	4,918

Receivable of Melco Resorts and Entertainment (Philippines) Corporation, MPHIL Holdings No. 1 Corporation and Melco Resorts Leisure (PHP) Corporation from MPHIL Holdings No. 2 Corporation

			Deductions					
Name and designation of debtor	Beginning balance	Additions	Amounts collected	Amounts written off	Revaluation of oustanding balance	Current	Non-current	Ending balance
MPHIL Holdings No. 2 Corporation	24,366	60	-	-	4	24,430	-	24,430

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
As of December 31, 2018
Schedule D. Intangible Assets
(In thousands of Philippine peso)

Description	Beginning balance	Additions of cost	Amortization charged to cost and expenses	Other changes additions (deductions)	Ending balance
Contract acquisition costs, net	811,779	-	(52,092)	-	759,687
Other intangible assets, net (for right to use of trademarks)	2,446	-	(2,446)	-	-

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

As of December 31, 2018
Schedule H. Capital Stock

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	Number of Shares Held by		
				Affiliates/Related Parties	Directors, Officers and Employees	Others
Common	5,900,000,000	5,687,270,800	46,480,165	5,570,230,232	9,501	117,031,067

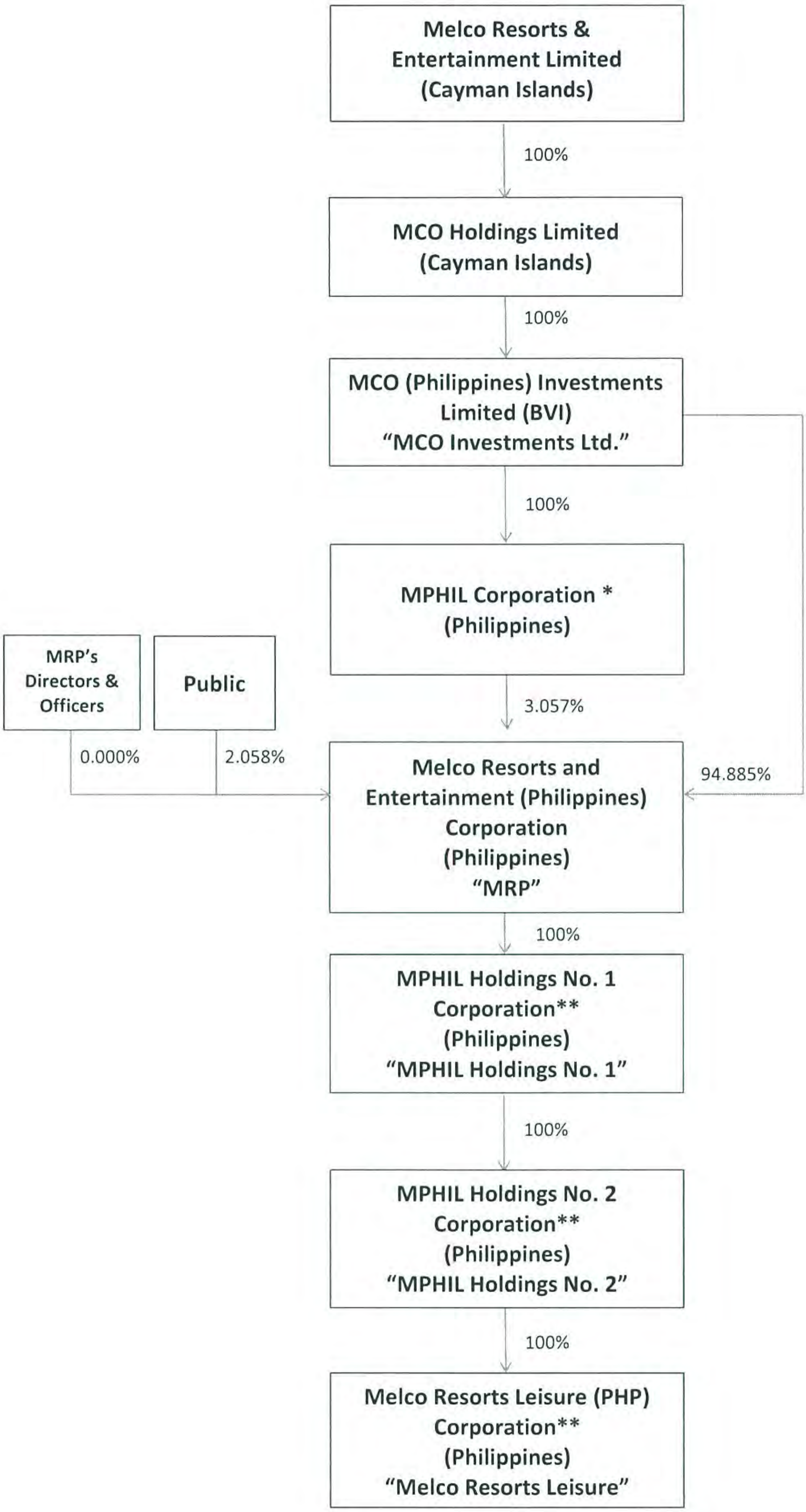
RECONCILIATION OF RETAINED EARNINGS
As of December 31, 2018

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701

Unappropriated deficit per financial statements, beginning		**(₱125,914,028)**
Adjustments: (see adjustments in previous year's reconciliation)		**569,891**
Unappropriated deficit, as adjusted, beginning		**(125,344,137)**
Net loss based on the face of AFS	**(₱8,653,205)**	
Adjustment: Non-actual losses:		
Unrealized foreign exchange losses – net (except those attributable to cash and cash equivalents)	**951,818**	
Net loss actual/realized		**(7,701,387)**
UNAPPROPRIATED DEFICIT, AS ADJUSTED, ENDING		**(₱133,045,524)**

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
Key Performance Indicators
As of December 31, 2018 and 2017

		December 31, 2018	December 31, 2017	Note
Current ratio	Current assets over current liabilities	0.90	1.16	
Debt-to-equity ratio	Long term and short term debt over total equity	-	1.38	Nil Debt as at December 31, 2018
Interest coverage ratio	Net income before interest and taxes over interest expense	2.11	1.12	
Return on assets	Net income over total assets	8.0%	1.0%	
Return on equity	Net income over total equity	32.9%	6.5%	



* 0.0033% of this company is owned by 5 nominee directors

** 0.00000022% of these companies are owned by 5 nominee directors of each company respectively

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		X			
PFRSs Practice Statement 1: Management Commentary					X
PFRSs Practice Statement 2: Making Materiality Judgements		X			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	X			
PFRS 2	Share-based Payment	X			
	Amendment to PFRS 2: Definition of Vesting Condition	X			
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	X			
PFRS 3 (Revised)	Business Combinations	X			
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	X			
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures				X
	Amendments to PFRS 3: Definition of a Business		X		
	Amendments to PFRS 3: Previously Held Interest in a Joint Operation		X		
PFRS 4	Insurance Contracts				X
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4				X
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations				X
	Amendment to PFRS 5: Changes in Method of Disposal				X
PFRS 6	Exploration for and Evaluation of Mineral Resources				X
PFRS 7	Financial Instruments: Disclosures	X			
	Amendments to PFRS 7: Servicing Contracts	X			
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	X			
PFRS 8	Operating Segments	X			
	Amendments to PFRS 8: Aggregation of Operating Segments	X			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not adopted	Not Applicable
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	X			
PFRS 9 (2014)	Financial Instruments	X			
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		X		
PFRS 10	Consolidated Financial Statements	X			
	Amendments to PFRS 10 : Applying the Consolidation Exception	X			
	Amendments to PFRS 10 : Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		X		
PFRS 11	Joint Arrangements				X
	Amendments to PFRS 11 : Accounting for Acquisitions of Interests in Joint Operations				X
	Amendments to PFRS 11: Previously held interest in a joint operation		X		
PFRS 12	Disclosure of Interests in Other Entities				X
	Amendments to PFRS 12: Applying the Consolidation Exception				X
	Amendment to PFRS 12: Clarification of the Scope of the Standard				X
PFRS 13	Fair Value Measurement	X			
	Amendment to PFRS 13 : Portfolio Exception	X			
PFRS 14	Regulatory Deferral Accounts				X
PFRS 15	Revenue from Contracts with Customers	X			
PFRS 16	Leases		X		
PFRS 17	Insurance Contracts		X		
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	X			
	Amendments to PAS 1: Disclosure Initiative	X			
	Amendments to PAS 1: Definition of Material		X		
PAS 2	Inventories	X			
PAS 7	Statement of Cash Flows	X			
	Amendments to PAS 7: Disclosure Initiative	X			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X			
	Amendments to PAS 8: Definition of Material		X		
PAS 10	Events after the Reporting Period	X			
PAS 12	Income Taxes	X			
	Amendment to PAS 12: Recognition of Deferred	X			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not adopted	Not Applicable
	Tax Assets for Unrealized Losses				
	Amendments to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity		X		
PAS 16	Property, Plant and Equipment	X			
	Amendment to PAS16 : Revaluation Method – Proportionate Restatement of Accumulated Depreciation				X
	Amendment to PAS16 : Clarification of Acceptable Methods of Depreciation and Amortization	X			
	Amendment to PAS 16: Bearer Plants				X
PAS 17	Leases	X			
PAS 19 (Revised)	Employee Benefits	X			
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	X			
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement		X		
	Amendments to PAS 19: Discount Rate: Regional Market Issue	X			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance				X
PAS 21	The Effects of Changes in Foreign Exchange Rates	X			
PAS 23 (Revised)	Borrowing Costs	X			
	Amendments to PAS 23 : Borrowing Costs Eligible for Capitalization		X		
PAS 24 (Revised)	Related Party Disclosures	X			
	Amendment to PAS 24 : Key Management Personnel	X			
PAS 26	Accounting and Reporting by Retirement Benefit Plans				X
PAS 27 (Amended)	Separate Financial Statements				X
	Amendments to PAS 27 : Equity Method in Separate Financial Statements				X
PAS 28 (Amended)	Investments in Associates and Joint Ventures				X
	Amendments to PAS 28 : Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		X		
	Amendments to PAS 28 : Applying the Consolidation Exception				X
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value				X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not adopted	Not Applicable
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		X		
PAS 29	Financial Reporting in Hyperinflationary Economies				X
PAS 32	Financial Instruments: Presentation	X			
PAS 33	Earnings per Share	X			
PAS 34	Interim Financial Reporting	X			
	Amendment to PAS 34 : Disclosure of Information 'Elsewhere in the Interim Financial Report'	X			
PAS 36	Impairment of Assets	X			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X			
PAS 38	Intangible Assets	X			
	Amendment to PAS 38 : Revaluation Method – Proportionate Restatement of Accumulated Amortization				X
	Amendment to PAS 38 : Clarification of Acceptable Methods of Depreciation and Amortization	X			
PAS 39	Financial Instruments: Recognition and Measurement	X			
PAS 40	Investment Property				X
	Amendment to PAS 40: Clarifying the Interrelationship Between PFRS 3 and PAS 40 When Classifying Property as Investment Property or Owner-occupied Property				X
	Amendment to PAS 40 : Transfers of Investment Property				X
PAS 41	Agriculture				X
	Amendment to PAS 41: Bearer Plants				X
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities				X
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments				X
IFRIC 4	Determining Whether an Arrangement Contains a Lease	X			
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds				X
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment				X
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies				X
IFRIC 10	Interim Financial Reporting and Impairment				X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not adopted	Not Applicable
IFRIC 12	Service Concession Arrangements				X
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction				X
IFRIC 16	Hedges of a Net Investment in a Foreign Operation				X
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments				X
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine				X
IFRIC 21	Levies	X			
IFRIC 22	Foreign Currency Transactions and Advance Consideration	X			
IFRIC 23	Uncertainty over Income Tax Treatments		X		
SIC-7	Introduction of the Euro				X
SIC-10	Government Assistance - No Specific Relation to Operating Activities				X
SIC-15	Operating Leases - Incentives	X			
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders				X
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	X			
SIC-29	Service Concession Arrangements: Disclosures				X
SIC-32	Intangible Assets - Web Site Costs				X