



110282019000748



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
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Company Information

SEC Registration No. 0000058648
Company Name MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION DOING BUSINESS UNDER THE NAME/S AND STYLE/
Industry Classification Financial Holding Company Activities
Company Type Stock Corporation

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2 (c) THEREUNDER

1. **October 28, 2019**
Date of Report (Date of earliest event reported)
2. SEC Identification Number **58648** 3. BIR Tax Identification No. **000-410-840-000**
4. **MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**
Exact name of issuer as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction
of incorporation
6. (SEC Use Only)
Industry Classification Code:
7. **Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701**
Address of principal office Postal Code
8. **c/o (02) 691-8899**
Issuer's telephone number, including area code
9. **N/A**
Former name or former address, if changed since last report
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
Outstanding and Amount of Debt Outstanding

COMMON

5,688,764,700

11. Indicate the item numbers reported herein: **Item 9 – Other Events**

On October 22, 2019 Melco Resorts and Entertainment (Philippines) Corporation (the “**Corporation**”) and its subsidiaries, namely; MPHIL Holdings Corporation No. 1, MPHIL Holdings Corporation No. 2 and Melco Resorts Leisure (PHP) Corporation (collectively, the “**Melco Group**”), received from the Securities and Exchange Commission (“**SEC**”) the approval of the Melco Group’s application for equity restructuring by applying the additional paid-in capital of each corporation to eliminate their respective accumulated deficits.

Attached is a copy of the letter-approval from the SEC.

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

By:



MARISSA T. ACADEMIA
Compliance Officer

October 28, 2019
Date



REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
Ground Floor, Secretariat Building, PICC
City of Pasay, Metro Manila

COMPANY REG. NO. 58648

**CERTIFICATE OF APPROVAL OF
EQUITY RESTRUCTURING**

KNOW ALL PERSONS BY THESE PRESENTS:

THIS IS TO CERTIFY that the equity restructuring to wipe out the deficit as of December 31, 2018 in the amount of P134,567,233.09 against the Additional Paid-in Capital (APIC) of P22,259,788,014.37 of

**MELCO RESORTS AND ENTERTAINMENT
(PHILIPPINES) CORPORATION**
doing business under the name/s and style/s of
MELCO RESORTS PHILIPPINES

was approved by the Commission on this date considering the all the requirements have been complied with provided that the remaining APIC of P22,125,220,781.28 shall not be used to wipe out losses that may be incurred by the company in the future without prior approval of the Commission.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15th day of October, Twenty Nineteen.

GERARDO F. DEL ROSARIO

Director

Company Registration and Monitoring Department

June 6, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

Re: **Melco Resorts and Entertainment (Philippines) Corporation ("MRP") Group
Application for Equity Restructuring**

Ladies and Gentlemen:

We write in connection with the application of MRP and its subsidiaries for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit.

MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MRP's subsidiaries are 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") (MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as the "MRP Group" while each is referred to as "Corporation").

Each Corporation has a significant amount of APIC in its books due to the share premium over par value paid by each Corporation's shareholder(s) in connection with the subscription to and issuance of shares.

While the property was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, each Corporation has reported accumulated deficit and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of the MRP Group as of 31 December 2018 is as follows:

	Class of Stock	Authorized Capital (shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
MRP	Common @ ₱1.00 par value per share	5,900,000,000	5,900,000,000.00	5,687,270,800.00	5,687,270,800.00
MPHIL Holdings No. 1	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
MPHIL Holdings No. 2	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
Melco Resorts Leisure	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIIC and accumulated deficits of each Corporation as at 31 December 2018 are as follows:

	APIIC	Net Deficit
MRP	22,259,788,014.37	(134,567,233.09)
MPHIL Holdings No. 1	21,050,978,279.70	(21,750,558.18)
MPHIL Holdings No. 2	20,998,267,577.00	(18,153,719.43)
Melco Resorts Leisure	20,993,047,577.00	(15,535,491,382.34)

In light of the foregoing, the MRP Group respectfully requests for the approval of its equity restructuring plan to eliminate the respective accumulated deficit of each of MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2, and Melco Resorts Leisure as of 31 December 31, 2018 (the "Deficit") by applying each Corporation's existing APIIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Deficit of each member of the MRP Group.

After eliminating the Deficit, there will still be excess APIIC for each Corporation ("Net APIIC"), in the following amounts:

	NET APIIC
MRP	22,125,220,781.28
MPHIL Holdings No. 1	21,029,227,721.52
MPHIL Holdings No. 2	20,980,113,857.57
Melco Resorts Leisure	5,457,556,194.66

In support of this request, we hereby submit the following:

- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors of each Corporation approving the equity restructuring plan;
- 2.) Audited financial statements of each Corporation as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance for each Corporation.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 1 CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 2 CORPORATION

By:



Clarence Yuk Man Chung
President

MELCO RESORTS LEISURE (PHP) CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.



SECRETARY'S CERTIFICATE

I, **MARIE GRACE A. SANTOS**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of Melco Resorts and Entertainment (Philippines) Corporation (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. At the duly constituted Special Meeting of the Board of Directors held on April 24, 2019, at which meeting a quorum was present and acting throughout, the Corporation's Board of Directors unanimously approved the following resolutions:

MRP Resolution No. 2019-009

WHEREAS, the Board of Directors of Melco Resorts and Entertainment (Philippines) Corporation (the "**Corporation**") noted that the Corporation had a significant amount of additional paid-in capital ("**APIC**") in its books due to the share premium over par value paid by the Corporation's shareholders in connection with the subscription to and issuance of shares.

WHEREAS, the Board of Directors of the Corporation noted further that while City of Dreams Manila was in the opening stages and ramping up its operations, the Corporation had incurred substantial losses and the Corporation had reported an accumulated deficit/ negative retained earnings position. As of December 31, 2018, the Corporation's share premium/APIC was P22,259,788,014.37 and its accumulated deficit was P134,567,233.09.

RESOLVED, that Board approved to implement equity restructuring to eliminate the accumulated deficit of the Corporation by applying the Corporation's APIC against its deficit.

RESOLVED FURTHER, that in connection with the actions contemplated by the foregoing resolutions, each of the President and Chairman of the Board, Treasurer, Property President/Chief Operating Officer, and Vice President, Legal Affairs, Philippines or Corporate Secretary of the Corporation (collectively, the "**Authorized Representatives**") or, if applicable, any attorney of any Authorized Representative supported by relevant supporting documents (collectively, the "**Authorized Persons**") be authorized, in the name and on behalf of the Corporation or the relevant subsidiary, to do such further acts and things and to sign such documents as any such Authorized Persons might deem necessary or appropriate, including to do and perform (or procure to be done and performed), in the name and on behalf of the Corporation or its subsidiaries, all such acts and to sign, make, execute, deliver, issue or file (or procure to be signed, made, executed, issued, delivered or filed) with any person including, but not limited to, any stock exchange, governmental authority or agency, all such agreements, documents, instruments, certificates, consents, waivers, notifications and announcements and all amendments to any such agreements, documents, instruments, certificates, consents, waivers, notifications or announcements and where any such documents be required to be sealed or executed as a deed by affixing the corporate/common seal of the Corporation or the relevant subsidiary, to affix thereto the seal countersigned by any such Authorized Person and to pay, or procure to be paid, all such payments, in each case as any of them might deem necessary or advisable to carry out the intent of the foregoing resolutions,

the authority for the taking of such acts and things and the signing, making, execution, delivery, issue and filing of such of the foregoing to be conclusively evidenced thereby.

RESOLVED FINALLY, that any and all actions of the Corporation and/or any of its subsidiaries, or any Authorized Person, or such other duly authorized person, taken in connection with the actions contemplated by the foregoing resolutions prior to the date of these resolutions be ratified, confirmed, approved and adopted in all respects as if such actions had been presented to all Directors for approval, and approved by them prior to such action being taken.

3. The foregoing Resolutions have not been altered, modified, nor revoked and that the same are now in full force and in effect.

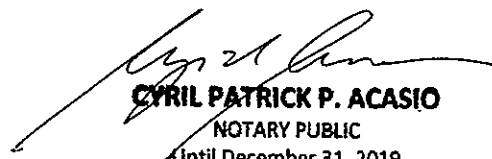
4. This Certification is issued to attest to the truth of the foregoing Resolutions.

IN WITNESS WHEREOF, I have hereunto set my hand on June 3, 2019 at Parañaque City.


MARIE GRACE A. SANTOS
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 3rd of June 2019 in Parañaque City, affiant exhibiting to me her Passport No. P4765321A issued at DFA, Manila, valid until October 18, 2022.

Doc. No. 506
Page No. 103
Book No. (1)
Series of 2019.


CYRIL PATRICK P. ACASIO
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527
PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574

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

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.


BUREAU OF INTERNAL REVENUE
EDWIN VALENTE
NOTARIAL PUBLIC TAXPAYERS SERVICE
NOTARIAL PUBLIC TAXPAYERS ASSISTANCE DIVISION
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58075
Date **APR 11 2019**
PTR No. 1713016/01-04-19/ Parañaque City
IBP No. 059340/01-07-19/RSM
MCLE Compliance No. 17-000830
RECEIVED
KARL AARON D. GACUTAN

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. 408;
Page No. 188;
Book No. V;
Series of 2019.

ATTY. JOVINO R. ANGEL
NOTARY PUBLIC
UNTIL DEC. 31, 2029
PTR NO. ~~633/193~~
ID NO. 052411
ISSUED ON 1/31/2019
ENL NO. 28761
MCLE COMPLIANCE
NO. V-0024151
10/25/2016

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
RECEIVED
KARL AARON D. GACUTAN

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).

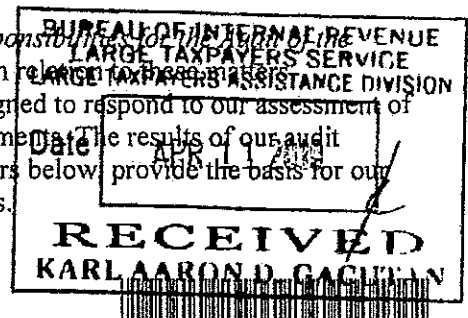
Basis for Opinion

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 the matters below. 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.

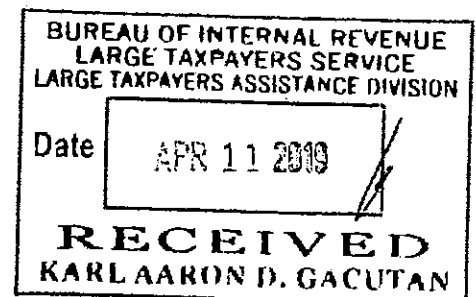
Audit Response

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.

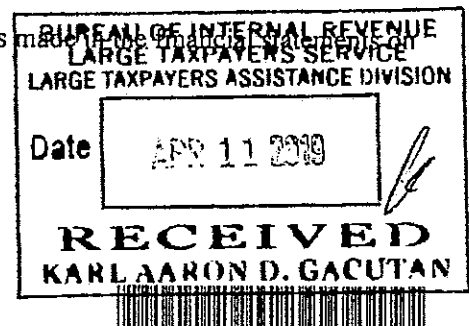
The disclosures on the allowance for the adoption of PFRS 15 are included in Notes 3 and 4 to the consolidated financial statements.

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

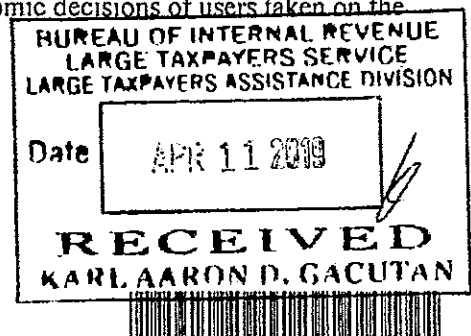
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement,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

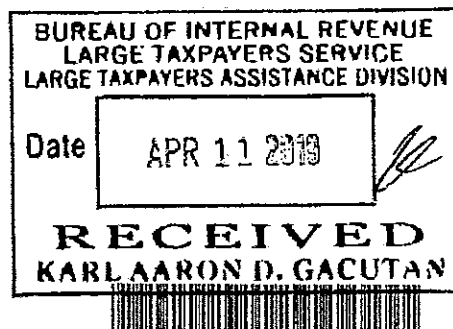


As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.



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

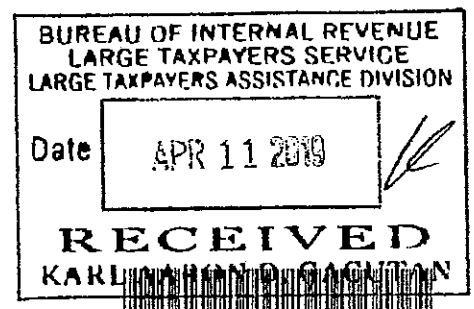
SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020

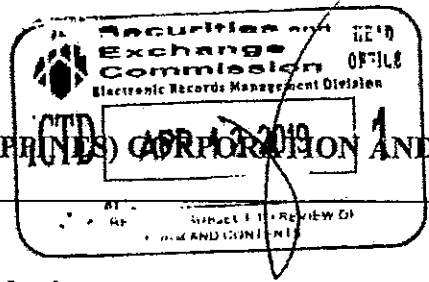
Tax Identification No. 191-180-015

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



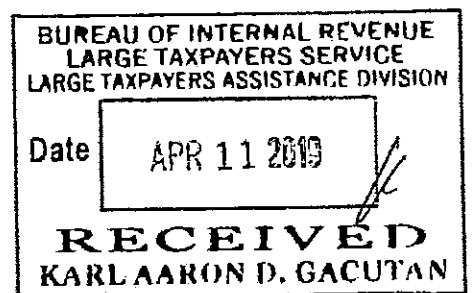


MELCO RESORTS AND ENTERTAINMENT (PHILIPPINE) CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017**

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

	<u>Notes</u>	<u>December 31, 2018</u>	<u>2017</u>
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		<u>10,015,943</u>	<u>9,087,339</u>
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		<u>23,140,819</u>	<u>25,341,060</u>
		<u>₱33,156,762</u>	<u>₱34,428,399</u>
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		<u>11,148,065</u>	<u>7,807,495</u>
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		<u>₱13,909,907</u>	<u>₱21,205,086</u>



**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
SUBSIDIARIES**

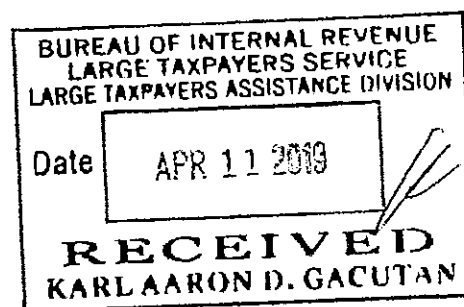
CONSOLIDATED BALANCE SHEETS – continued

DECEMBER 31, 2018 AND 2017

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

	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
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		<u>8,098,790</u>	<u>5,415,818</u>
		<u>₱33,156,762</u>	<u>₱34,428,399</u>

See accompanying Notes to Consolidated Financial Statements.



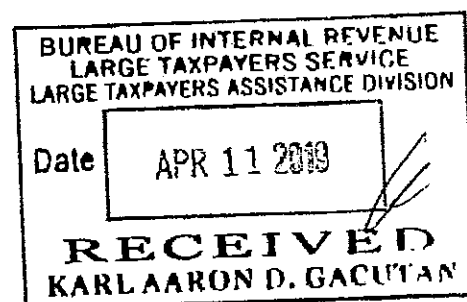
MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

**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		<u>32,425,748</u>	<u>32,755,217</u>	<u>23,418,789</u>
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		<u>(27,495,852)</u>	<u>(29,561,110)</u>	<u>(22,166,000)</u>
OPERATING PROFIT		<u>4,929,896</u>	<u>3,194,107</u>	<u>1,252,789</u>
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		<u>(2,206,760)</u>	<u>(2,801,901)</u>	<u>(2,751,692)</u>
PROFIT (LOSS) BEFORE INCOME TAX		<u>2,723,136</u>	<u>392,206</u>	<u>(1,498,903)</u>
INCOME TAX EXPENSE	18	<u>(61,136)</u>	<u>(38,283)</u>	<u>(82,396)</u>
NET PROFIT (LOSS)		<u>2,662,000</u>	<u>353,923</u>	<u>(1,581,299)</u>
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	<u>21,751</u>	<u>(6,852)</u>	<u>(3,210)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>₱2,683,751</u>	<u>₱347,071</u>	<u>(₱1,584,509)</u>
Basic Earnings (Loss) Per Share	17	<u>₱0.47</u>	<u>₱0.06</u>	<u>(₱0.28)</u>
Diluted Earnings (Loss) Per Share	17	<u>₱0.47</u>	<u>₱0.06</u>	<u>(₱0.28)</u>

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		P5,666,764	P22,108,082	P401,964	(P3,613,990)	P-	(P19,147,002)	P5,415,818
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		P5,687,271	P22,259,788	P228,972	(P3,613,990)	P-	(P16,463,251)	P8,098,790
Balance as of January 1, 2017		P5,662,897	P22,076,822	P416,835	(P3,613,990)	P-	(P19,508,461)	P5,034,103
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 options		-	-	(14,388)	-	-	14,388	-
Transfer of remeasurement loss on defined benefit obligations		-	-	-	-	6,852	(6,852)	-
Balance as of December 31, 2017		P5,666,764	P22,108,082	P401,964	(P3,613,990)	P-	(P19,147,002)	P5,415,818

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DEPARTMENT OF INTERNAL REVENUE
LABORER'S COMPENSATION DIVISION
1-2-2019

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

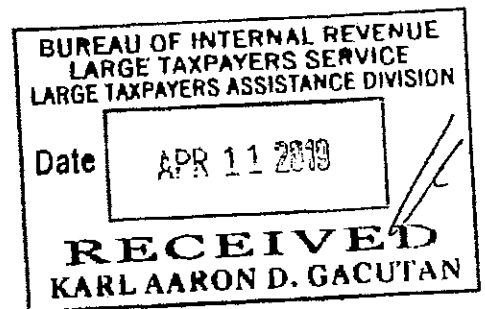
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – continued

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		P5,643,355	P21,932,963	P606,279	(P3,613,990)	P-	(P17,960,537)	P6,608,070
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		P5,662,897	P22,076,822	P416,835	(P3,613,990)	P-	(P19,508,461)	P5,034,103

See accompanying Notes to Consolidated Financial Statements.



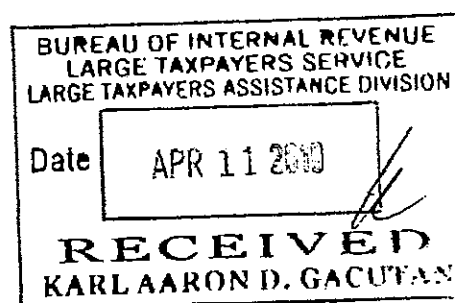
**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
SUBSIDIARIES**

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

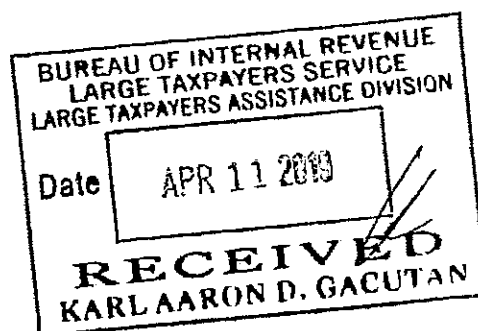


MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

**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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
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	<u>(2,012,491)</u>	<u>(996,344)</u>	<u>(1,233,785)</u>
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	<u>(9,756,752)</u>	<u>(10,326,776)</u>	<u>(2,621,257)</u>
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>229,851</u>	<u>93,906</u>	<u>294,428</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	476,131	(4,018,833)	2,891,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,332,581</u>	<u>10,351,414</u>	<u>7,460,229</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>₱6,808,712</u>	<u>₱6,332,581</u>	<u>₱10,351,414</u>

See accompanying Notes to Consolidated Financial Statements.



**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Business

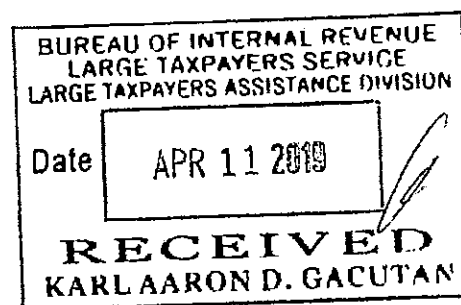
(a) Corporate Information

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.



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)**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.

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)**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.

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)

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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:

	<u>Year Ended December 31, 2018</u>		
	<u>Balances under New Revenue Standard (As reported)</u>	<u>Balances under Previous Basis</u>	<u>Effect of Change Higher (Lower)</u>
<i>Net Operating Revenues</i>			
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)
<i>Operating Costs and Expenses</i>			
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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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:

	<u>January 1, 2018</u>	
	<u>PAS 39</u> <u>Measurement</u> <u>Category</u>	<u>PFRS 9</u> <u>Measurement</u> <u>Category</u>
	<u>Loans and</u> <u>Receivables</u>	<u>Amortized</u> <u>Cost</u>
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
	<u>₱8,678,366</u>	<u>₱8,678,366</u>

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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.

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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).

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

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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.

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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.

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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.

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)**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.

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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.

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)**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.

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)

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.

**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)

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.

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)**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 AssetsContract 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.

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)**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.

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)

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.

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)**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.

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)

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,	
	<u>2017</u>	<u>2016</u>
Rooms	₱1,550,857	₱1,405,344
Food and beverage	1,893,010	1,386,418
Entertainment, retail and other	138,189	95,882
	<u>₱3,582,056</u>	<u>₱2,887,644</u>

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.

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)

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:

	<u>December 31,</u> <u>2018</u>	<u>January 1,</u> <u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
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
	<u>₱5,242,797</u>	<u>₱2,896,472</u>	<u>₱2,346,325</u>

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)**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 ExpensesRetirement 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.

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)**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).

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)**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.

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)**3. Summary of Significant Accounting Policies – continued**Income Tax – continuedDeferred 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.

**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)

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.

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)**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)).

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)**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.

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)

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).

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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).

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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,	
	<u>2018</u>	<u>2017</u>
Cash on hand	₱2,271,517	₱1,750,376
Cash in banks	4,537,195	4,582,205
	<u>₱6,808,712</u>	<u>₱6,332,581</u>

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.

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)

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
	<u>1,606,904</u>	<u>1,438,372</u>
Less: Allowances for doubtful debts	(130,540)	(110,000)
	<u>₱1,476,364</u>	<u>₱1,328,372</u>

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		<u>₱130,540</u>	<u>₱110,000</u>	<u>₱102,823</u>

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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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		
	<u>Expected Credit Loss Rate</u>	<u>Gross Carrying Amount</u>	<u>Expected Credit Losses</u>
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%	<u>₱1,606,904</u>	<u>₱130,540</u>

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
	<u>₱332,333</u>

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)

8. Property and Equipment, Net

	<u>December 31, 2018</u>						
	<u>Building under a Finance Lease</u>	<u>Leasehold Improvements</u>	<u>Motor Vehicles</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Plant and Gaming Machinery</u>	<u>Construction in Progress</u>	<u>Total</u>
Costs:							
Balance at beginning of year	P11,820,440	P13,888,234	P94,605	P7,078,679	P2,907,210	P-	P35,789,168
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	P9,249,627	P8,528,268	P27,353	P1,393,339	P1,160,679	P-	P20,359,266

	<u>December 31, 2017</u>						
	<u>Building under a Finance Lease</u>	<u>Leasehold Improvements</u>	<u>Motor Vehicles</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Plant and Gaming Machinery</u>	<u>Construction in Progress</u>	<u>Total</u>
Costs:							
Balance at beginning of year	P11,820,440	P13,989,533	P80,583	P6,752,930	P2,723,508	P94,945	P35,461,939
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	-	116,115	-	(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	P9,885,704	P9,556,107	P45,060	P2,317,097	P1,327,020	P-	P23,130,988

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).

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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9. Contract Acquisition Costs, Net

	December 31,	
	<u>2018</u>	<u>2017</u>
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	<u>₱759,687</u>	<u>₱811,779</u>

10. Other Intangible Assets, Net

	December 31,	
	<u>2018</u>	<u>2017</u>
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	<u>₱-</u>	<u>₱2,446</u>

11. Other Non-current Assets

	December 31,	
	<u>2018</u>	<u>2017</u>
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
	<u>₱2,021,866</u>	<u>₱1,395,847</u>

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)

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	<u>₱314,673</u>	<u>₱84,475</u>	<u>₱–</u>

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12. Accrued Expenses, Other Payables and Other Current Liabilities

	December 31,	
	<u>2018</u>	<u>2017</u>
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
	<u>₱8,985,142</u>	<u>₱5,908,468</u>

Accrued expenses, other payables and other current liabilities are due for payment within one year.

13. Equity

	<u>Note</u>	<u>Number of Shares</u>	<u>Capital Stock</u>
Ordinary shares of ₱1 per share			
Authorized:			
As of January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018		<u>5,900,000,000</u>	<u>₱5,900,000</u>
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		<u>5,666,764,407</u>	<u>5,666,764</u>
Issuance of shares for restricted shares vested	27	20,506,393	20,507
As of December 31, 2018		<u>5,687,270,800</u>	<u>₱5,687,271</u>

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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,	
	<u>2018</u>	<u>2017</u>
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
	<u>(₱3,613,990)</u>	<u>(₱3,613,990)</u>

As of December 31, 2018 and 2017, the Parent Company had 407 and 423 stockholders, respectively.

14. **Employee Benefit Expenses**

	<u>Notes</u>	Year Ended December 31,		
		<u>2018</u>	<u>2017</u>	<u>2016</u>
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
		<u>₱4,135,820</u>	<u>₱3,637,272</u>	<u>₱3,449,766</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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
		<u>₱5,931,992</u>	<u>₱10,031,247</u>	<u>₱6,457,016</u>

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			Outstanding Balance		Terms	Conditions
	Year Ended December 31, 2018	2017	2016	December 31, 2018	2017		
Amounts due from related parties							
<i>Amount due from a shareholder</i>							
Amount due from MPHIL	₱—	₱—	₱—	₱6,157	₱5,716	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amount due from ultimate holding company</i>							
Melco ⁽¹⁾							
Management fee income ⁽²⁾	₱—	₱—	₱11,134	₱—	₱—		
Management fee expenses	—	—	1,706	—	—		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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16. Related Party Transactions – continued

	<u>Amount of Transactions</u> Year Ended December 31,			<u>Outstanding Balance</u> December 31,		<u>Terms</u>	<u>Conditions</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>		
Amounts due from related parties – continued							
<i>Amount due from an intermediate holding company</i>							
Melco ⁽¹⁾							
Management fee income ⁽²⁾	₱3,763	₱9,915	₱5,237	₱–	₱–	Repayable on demand; non-interest bearing	Unsecured, no impairment
Management fee expenses	255,253	148,397	39,533	–	–		
Amount due from Melco	–	–	–	132,377	156,887		
<i>Amount due from immediate holding company</i>							
Amount due from MCO Investments							
	₱–	₱–	₱–	₱995	₱995	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amounts due from affiliated companies</i>							
Melco International's subsidiaries ⁽¹⁾ (other than MPHIL, Melco and MCO Investments)							
Management fees and other expenses ⁽³⁾	₱–	₱5,848	₱–	₱–	₱–	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due from Melco International's subsidiaries	–	–	–	35	72		
Amounts due to related parties							
<i>Amounts due to affiliated companies</i>							
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	₱–	₱–	Repayable on demand; non-interest bearing	Unsecured
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		

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16. Related Party Transactions – continued

	<u>Amount of Transactions</u> Year Ended December 31,			<u>Outstanding Balance</u> December 31,		<u>Terms</u>	<u>Conditions</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>		
Amounts due to related parties – continued							
<i>Amounts due to affiliated companies – continued</i>							
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:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
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
	<u>₱109,877</u>	<u>₱214,441</u>	<u>₱192,543</u>

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net profit (loss)	<u>₱2,662,000</u>	<u>₱353,923</u>	<u>(₱1,581,299)</u>
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	<u>39,916,407</u>	<u>44,764,328</u>	<u>–</u>
Weighted average number of common shares outstanding used in the calculation of diluted earnings (loss) per share	<u>5,711,792,057</u>	<u>5,709,327,904</u>	<u>5,671,205,713</u>
Basic earnings (loss) per share	<u>₱0.47</u>	<u>₱0.06</u>	<u>(₱0.28)</u>
Diluted earnings (loss) per share	<u>₱0.47</u>	<u>₱0.06</u>	<u>(₱0.28)</u>
Anti-dilutive share options and restricted shares excluded from the calculation of diluted earnings (loss) per share	<u>8,707,861</u>	<u>12,363,436</u>	<u>61,630,418</u>

18. Income Tax

The provision for income tax for the years ended December 31, 2018, 2017 and 2016 consisted of:

	Year Ended December 31,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Provision for current income tax	₱75	₱198	₱327
Over-provision of income tax in prior year	(292)	(160)	–
Deferred tax charge	<u>61,353</u>	<u>38,245</u>	<u>82,069</u>
	<u>₱61,136</u>	<u>₱38,283</u>	<u>₱82,396</u>

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
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)
	<u>₱61,136</u>	<u>₱38,283</u>	<u>₱82,396</u>

The components of the Group's net deferred tax liabilities as of December 31, 2018 and 2017 were as follows:

	December 31,	
	<u>2018</u>	<u>2017</u>
Deferred tax asset:		
Deferred rent under PAS 17	<u>₱181,674</u>	<u>₱207,291</u>
Deferred tax liabilities:		
Capitalized interest expenses	(181,674)	(207,291)
Unrealized foreign exchange gains, net	(180,786)	(119,433)
	<u>(362,460)</u>	<u>(326,724)</u>
	<u>(₱180,786)</u>	<u>(₱119,433)</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

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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
	<u>₱6,043,164</u>	<u>₱6,651,693</u>

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:

<u>Year Incurred</u>	<u>Expiry Year</u>	<u>Amount</u>	<u>Applied</u>	<u>Expired</u>	<u>Balance</u>
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	–
		<u>₱19,848,319</u>	<u>₱–</u>	<u>₱6,477,322</u>	<u>₱13,370,997</u>

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.

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)**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.

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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:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Minimum Lease Payments</u>	<u>Present Value of Minimum Lease Payments</u>	<u>Minimum Lease Payments</u>	<u>Present Value of Minimum Lease Payments</u>
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
	<u>36,045,961</u>	<u>15,183,821</u>	<u>37,830,550</u>	<u>14,933,752</u>
Less: Finance charges	<u>(20,862,140)</u>	<u>–</u>	<u>(22,896,798)</u>	<u>–</u>
Present value of lease obligations	<u>₱15,183,821</u>	<u>15,183,821</u>	<u>₱14,933,752</u>	<u>14,933,752</u>
Less: Current portion of obligations under a finance lease		<u>(1,824,898)</u>		<u>(1,661,799)</u>
Non-current portion of obligations under a finance lease		<u>₱13,358,923</u>		<u>₱13,271,953</u>

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

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Senior Notes	₱–	₱7,500,000
Less: Unamortized deferred financing costs	–	(40,366)
	<u>–</u>	<u>7,459,634</u>
Current portion of long-term debt	–	–
	<u>₱–</u>	<u>₱7,459,634</u>

(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.

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)**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.

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)**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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retirement costs – defined benefit obligations:			
Current service costs	₱22,615	₱18,429	₱13,681
Interest costs	4,002	2,274	1,136
	<u>₱26,617</u>	<u>₱20,703</u>	<u>₱14,817</u>

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)

21. Retirement Costs – Defined Benefit Obligations – continued

	December 31,	
	<u>2018</u>	<u>2017</u>
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	<u>₱74,065</u>	<u>₱69,199</u>

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,	
	<u>2018</u>	<u>2017</u>
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,	
	<u>2018</u>	<u>2017</u>
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.

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)

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.

	<u>December 31, 2018</u> 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
	<u>December 31, 2017</u> 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.

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)**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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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:

	<u>December 31, 2018</u>
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
	<u>₱2,591,458</u>

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:

	<u>December 31, 2018</u>
Within one year	₱52,240
In more than one year and not more than five years	16,820
	<u>₱69,060</u>

The total future minimum fees do not include the escalated contingent fee clauses.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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).

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)**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.

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)**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.

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)

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.

	<u>December 31, 2018</u>				<u>Total</u>
	<u>Within 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>Over 5 Years</u>	
Financial Assets					
Cash and cash equivalents	P6,808,712	P–	P–	P–	P6,808,712
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	P151,145	P–	P–	P–	P151,145
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.

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

24. Financial Risk Management Objectives and Policies – continued
Liquidity Risk – continued

	<u>December 31, 2017</u>				<u>Total</u>
	<u>Within 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>Over 5 Years</u>	
Financial Assets					
Cash and cash equivalents	P6,332,581	P–	P–	P–	P6,332,581
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	P136,758	P–	P–	P–	P136,758
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:

	<u>December 31, 2018</u>					
	<u>HK\$ (In Unit)</u>	<u>Philippine Peso</u>	<u>US\$ (In Unit)</u>	<u>Philippine Peso</u>	<u>MOP (In Unit)</u>	<u>Philippine Peso</u>
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)
	<u>139,680,237</u>	<u>940,367</u>	<u>4,276,509</u>	<u>225,471</u>	<u>(20,500,128)</u>	<u>(133,993)</u>

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24. Financial Risk Management Objectives and Policies – continued

Foreign Exchange Risk – continued

	HK\$ (In Unit)	Philippine Peso	December 31, 2017		MOP (In Unit)	Philippine Peso
			US\$ (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)
	<u>322,799,035</u>	<u>2,071,349</u>	<u>8,223,626</u>	<u>410,548</u>	<u>(9,439,724)</u>	<u>(58,809)</u>

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.

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)

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.

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)

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	<u>₱–</u>	<u>₱15,183,821</u>

(1) Others mainly represent the effect of movements in debt financing costs and interest incurred on obligations under a finance lease.

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)

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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
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	₱—

**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)

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

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)

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
	<u>17,035,505</u>	<u>7.69</u>	<u>15,067,193</u>	<u>8.47</u>	<u>12,374,710</u>	<u>7.86</u>

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.

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)

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.....	<u>29,444,660</u>	<u>₱5.82</u>

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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Share Incentive Plan:			
Share options	(₱53,764)	(₱13,051)	(₱3,585)
Restricted shares	52,985	39,059	14,127
Total share-based compensation	<u>(₱779)</u>	<u>₱26,008</u>	<u>₱10,542</u>

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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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:

	<u>2018</u>	<u>December 31, 2017</u>	<u>2016</u>
Total assets – All in the Philippines at City of Dreams Manila	<u>₱33,156,762</u>	<u>₱34,428,399</u>	<u>₱41,690,660</u>
	<u>2018</u>	<u>Year Ended December 31, 2017</u>	<u>2016</u>
Total capital expenditures – All in the Philippines at City of Dreams Manila ⁽¹⁾	<u>₱1,201,622</u>	<u>₱709,700</u>	<u>₱448,264</u>

(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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(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,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
NET OPERATING REVENUES			
The Philippines – City of Dreams Manila	<u>₱32,425,748</u>	<u>₱32,755,217</u>	<u>₱23,418,789</u>
ADJUSTED EBITDA⁽¹⁾			
The Philippines – City of Dreams Manila	<u>₱14,187,720</u>	<u>₱11,854,024</u>	<u>₱7,561,263</u>
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	<u>(9,257,824)</u>	<u>(8,659,917)</u>	<u>(6,308,474)</u>
OPERATING PROFIT	<u>4,929,896</u>	<u>3,194,107</u>	<u>1,252,789</u>
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	<u>(2,206,760)</u>	<u>(2,801,901)</u>	<u>(2,751,692)</u>
PROFIT (LOSS) BEFORE INCOME TAX	<u>2,723,136</u>	<u>392,206</u>	<u>(1,498,903)</u>
INCOME TAX EXPENSE	<u>(61,136)</u>	<u>(38,283)</u>	<u>(82,396)</u>
NET PROFIT (LOSS)	<u>₱2,662,000</u>	<u>₱353,923</u>	<u>(₱1,581,299)</u>

(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.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

28. **Segment Information – continued**

The Group's geographic information for long-lived assets is as follows:

	<u>2018</u>	<u>December 31, 2017</u>	<u>2016</u>
Total long-lived assets – All in the Philippines	<u>₱21,118,953</u>	<u>₱23,945,213</u>	<u>₱27,735,886</u>



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

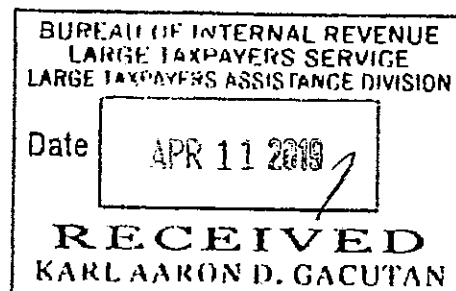
We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Melco Resorts and Entertainment (Philippines) Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at and for the years ended December 31, 2018 and 2017, 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
 CONSOLIDATED FINANCIAL STATEMENTS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued up to 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 ACCOUNTING STANDARDS Issued on December 31, 2016		Adopted	Not Fully 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 up to December 31, 2018		Adopted	Not yet 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 up to December 31, 2016		Adopted	Not 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 on December 31, 2013		Adopted	Not yet Adopted	No adoption	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

Melco Resorts and Entertainment (Philippines) Corporation

Parent Company Financial Statements
For The Years Ended December 31, 2018 and 2017

and

Independent Auditor's Report

SyCip Gorres Velayo & Co.

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

Report on the Audit of the Parent Company Financial Statements

Opinion

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

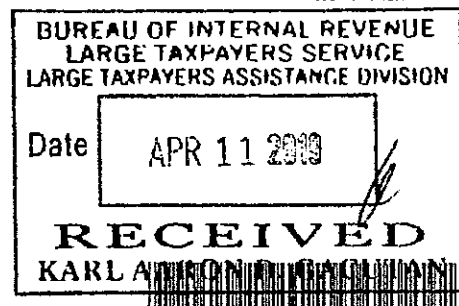
In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting 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 Parent Company Financial Statements* section of our report. We are independent of the Company 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 parent company 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.

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

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



In preparing the parent company financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

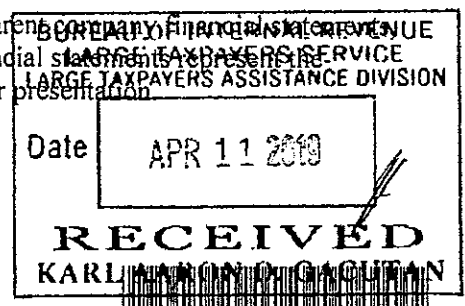
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 Company'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 Company'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 parent company 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements achieve fair presentation of underlying transactions and events in a manner that achieves fair presentation.



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.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 17 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Melco Resorts and Entertainment (Philippines) Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

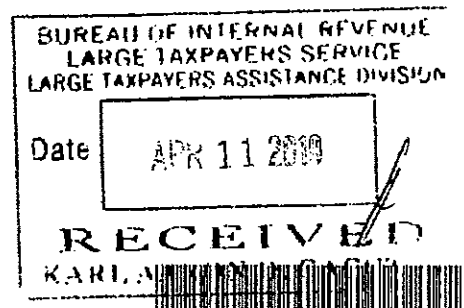
The engagement partner on the audit resulting in this independent auditor's report is Roel E. Lucas.

SYCIP GORRES VELAYO & CO.



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



STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

In preparing the parent company financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

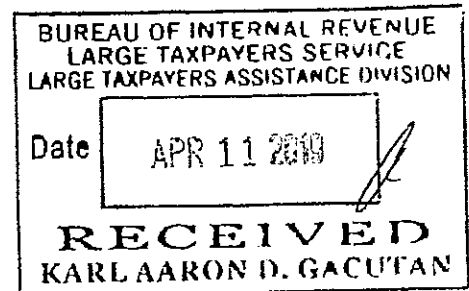
SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the parent company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion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



CLARENCE YUK MAN CHUNG
President & Chairman of the Board



DONALD N. TATEISHI
Treasurer




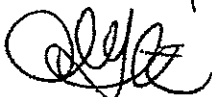
STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The management of Melco Resorts and Entertainment (Philippines) Corporation (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the parent company financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, Management is responsible for all the information and representations contained in all the other tax returns filed for the reporting period including, but not limited to, the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

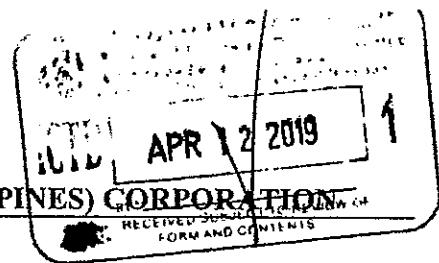
In this regard, Management affirms that the attached audited parent company financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, and are complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 08-2007 and other relevant issuances;
- (c) The Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


CLARENCE YUK MAN CHUNG
President & Chairman of the Board


DONALD N. TATEISHI
Treasurer

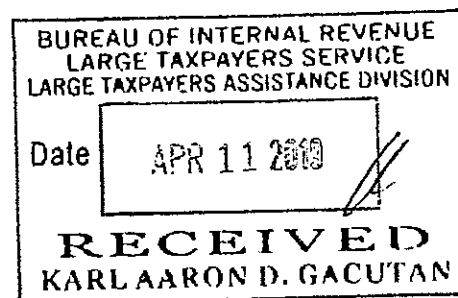
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MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
PARENT COMPANY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	December 31,	
		2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	5, 14 and 15	₱198,855	₱220,672
Prepayments and other current assets		1,409	57
Amounts due from related parties	10, 14 and 15	200,873	198,775
Income tax recoverable		38	-
Total Current Assets		401,175	419,504
Non-current Asset			
Investment in a subsidiary	6	27,688,590	27,688,590
Total Non-current Asset		27,688,590	27,688,590
		₱28,089,765	₱28,108,094
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued expenses, other payables and other current liabilities	7, 14 and 15	₱16,438	₱26,424
Amounts due to related parties	10, 14 and 15	31,863	30,595
Income tax payable		-	179
Total Current Liabilities		48,301	57,198
Equity			
Capital stock	8	5,687,271	5,666,764
Additional paid-in capital		22,259,788	22,108,082
Share-based compensation reserve		228,972	401,964
Accumulated deficit		(134,567)	(125,914)
Total Equity		28,041,464	28,050,896
		₱28,089,765	₱28,108,094

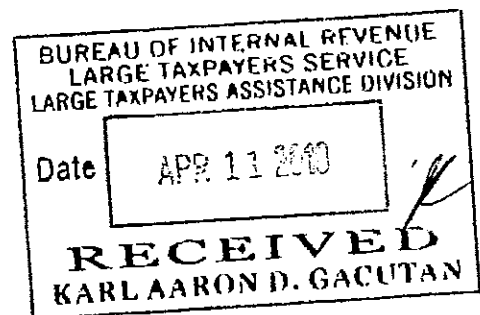
See accompanying Notes to Parent Company Financial Statements.



MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31,	
		2018	2017
REVENUE			
Management fee income	10	₱3,763	₱9,915
Total Revenue		3,763	9,915
OPERATING COSTS AND EXPENSES			
General and administrative expenses	9	(16,228)	(70,658)
Total Operating Costs and Expenses		(16,228)	(70,658)
OPERATING LOSS		(12,465)	(60,743)
NON-OPERATING INCOME (EXPENSES)			
Interest income	5	3,674	1,304
Foreign exchange (losses) gains, net		(79)	6
Total Non-operating Income, Net		3,595	1,310
LOSS BEFORE INCOME TAX		(8,870)	(59,433)
INCOME TAX CREDIT (EXPENSE)	11	217	(38)
NET LOSS		(8,653)	(59,471)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS		(₱8,653)	(₱59,471)

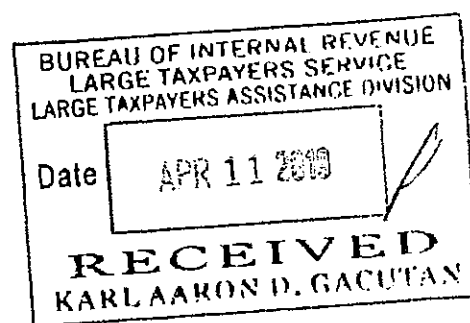
See accompanying Notes to Parent Company Financial Statements.



MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	Capital Stock (Note 8)	Additional Paid-in Capital	Share-based Compensation Reserve	Accumulated Deficit	Total
Balance as of January 1, 2018		₱5,666,764	₱22,108,082	₱401,964	(₱125,914)	₱28,050,896
Net loss and total comprehensive loss		-	-	-	(8,653)	(8,653)
Issuance of shares for restricted shares vested	8 and 16	20,507	151,706	(172,213)	-	-
Share-based compensation	16	-	-	(779)	-	(779)
Balance as of December 31, 2018		₱5,687,271	₱22,259,788	₱228,972	(₱134,567)	₱28,041,464
Balance as of January 1, 2017		₱5,662,897	₱22,076,822	₱416,835	(₱80,831)	₱28,075,723
Net loss and total comprehensive loss		-	-	-	(59,471)	(59,471)
Issuance of shares for restricted shares vested	8 and 16	2,827	19,838	(22,665)	-	-
Exercise of share options	8 and 16	1,040	11,422	(3,826)	-	8,636
Share-based compensation	16	-	-	26,008	-	26,008
Transfer of share-based compensation reserve upon expiry of share options		-	-	(14,388)	14,388	-
Balance as of December 31, 2017		₱5,666,764	₱22,108,082	₱401,964	(₱125,914)	₱28,050,896

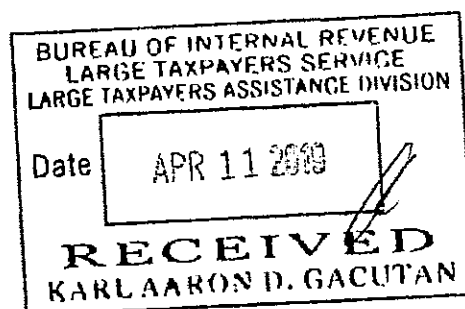
See accompanying Notes to Parent Company Financial Statements.



MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31,	
		2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(₱8,870)	(₱59,433)
Adjustments for:			
Interest income		(3,674)	(1,304)
Share-based compensation	16	(779)	26,008
Provisions for input value-added tax ("VAT")	9	1,717	2,172
Unrealized foreign exchange losses, net		139	195
Operating loss before working capital changes		(11,467)	(32,362)
Changes in assets and liabilities:			
(Decrease) increase in accrued expenses, other payables and other current liabilities		(10,309)	19,311
Increase in amounts due from related parties		(2,535)	(8,345)
Increase in other non-current assets		(1,717)	(2,172)
Increase in prepayments and other current assets		(165)	(11)
Increase in amounts due to related parties		1,076	2,202
Net cash used in operations		(25,117)	(21,377)
Interest received		2,487	1,291
Income tax paid		-	(19)
Net cash used in operating activities		(22,630)	(20,105)
CASH FLOW FROM A FINANCING ACTIVITY			
Proceeds from exercise of share options		-	8,636
Cash provided by a financing activity		-	8,636
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS			
		813	(206)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(21,817)	(11,675)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		220,672	232,347
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		₱198,855	₱220,672

See accompanying Notes to Parent Company Financial Statements.



MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS
(In thousands of Philippine peso, except share and per share data)

1. Organization and Business

(a) Corporate Information

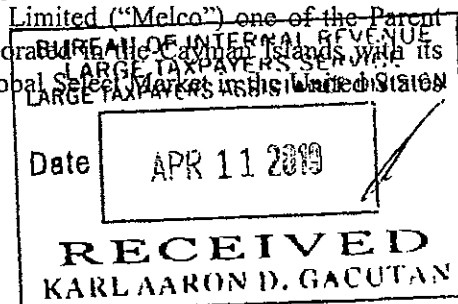
Melco Resorts and Entertainment (Philippines) Corporation (herein referred to as “MRP” or the “Parent Company”) is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the “SEC”). The shares of stock of the Parent Company were publicly traded on The Philippine 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 is principally engaged in acquiring investments and securities and providing financing to its group companies.

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.

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”) one of the Parent Company’s intermediate holding companies, is incorporated in the Cayman Islands with its American depository shares listed on the NASDAQ Global Select Market in the United States of America.



MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****1. Organization and Business – continued****(a) Corporate Information – continued**

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 Parent Company 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 namely, MPHIL Holdings Group, SM Investments Corporation, Belle Corporation and PremiumLeisure and Amusement, Inc. 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 Parent Company financial statements, which are prepared for submission to the SEC and the Bureau of Internal Revenue (the "BIR"), 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 Parent Company financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Parent Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Parent Company financial statements are disclosed in Note 4.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

2. Basis of Preparation – continued

The Parent Company also prepares and issues consolidated financial statements for the same year as the financial statements presented in conformity with PFRS. These may be obtained at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

The Parent Company 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 Parent Company financial statements are presented in Philippine peso, the functional and presentation currency of the Parent Company. All values are rounded off to the nearest thousand, unless otherwise indicated.

3. Summary of Significant Accounting Policies

Changes in Accounting Policies and Disclosures

The Parent Company 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 Parent Company financial statements, except for the adoption of 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, *Revenue from Contracts with Customers*
- 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 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

(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 Parent Company 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 Parent Company'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 Parent Company'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, deposits and receivables included under prepayments and other 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 Parent Company has not designated any financial liabilities at fair value through profit or loss. There are no changes in classifications and measurements of the Parent Company's financial liabilities at amortized cost.

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

	January 1, 2018	
	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash and cash equivalents	₱220,672	₱220,672
Deposits and receivables	57	57
Amounts due from related parties	198,775	198,775
	₱419,504	₱419,504

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(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**

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.

Standards Issued But Not Yet Effective

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

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

Standards Issued But Not Yet Effective – continued

▪ **PFRS 16, *Leases* – continued**

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.

▪ **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).

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 Parent Company 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 Parent Company.

▪ **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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

Standards Issued But Not Yet Effective – continued

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

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.

▪ **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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

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

3. Summary of Significant Accounting Policies – continued

Standards Issued But Not Yet Effective – continued

▪ **Annual Improvements to PFRSs (2015 – 2017 Cycle) – continued**

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

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.

- **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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

Standards Issued But Not Yet Effective – continued

- **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.

- **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 in banks including short-term deposits with a maturity of three months or less, which are unrestricted as to withdrawal and use.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

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

3. Summary of Significant Accounting Policies – continued

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 Parent Company's business model for managing them. The Parent Company 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.

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 Parent Company'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 Parent Company 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.

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 Parent Company 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 Parent Company statements of comprehensive income when the asset is derecognized, modified or impaired.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

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

Financial Assets at Amortized Cost (Debt Instruments) – continued

The Parent Company's financial assets at amortized cost include cash and cash equivalents (see Note 5), deposits and receivables included under prepayments and other current assets and amounts due from related parties (see Note 10).

The Parent Company 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.

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 Parent Company 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), deposits and receivables included under prepayments and other current assets and amounts due from related parties (see Note 10). The carrying values and fair values of loans and receivables are disclosed in Note 15.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

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

3. Summary of Significant Accounting Policies – continued

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

The Parent Company 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 Parent Company 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 Parent Company 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.

Where the Parent Company 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 Parent Company’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 Parent Company could be required to repay.

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018)

The Parent Company 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 Parent Company 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 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).

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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

At each reporting date, the Parent Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Parent Company 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.

The Parent Company considers a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written-off when there is no reasonable expectation of recovering the contractual cash flows. At each reporting date, the Parent Company 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 Parent Company, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the Parent Company 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.

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

The Parent Company 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Parent Company. The Parent Company 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 Parent Company 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 Parent Company 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 Parent Company statements of comprehensive income.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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 Parent Company's loans and borrowings and payables includes accrued expenses, other payables and other current liabilities (see Note 7) and amounts due to related parties (see Note 10).

The Parent Company 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 Parent Company 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 accrued expenses, other payables and other current liabilities (see Note 7) and amounts due to related parties (see Note 10). The carrying values and fair values of other financial liabilities are disclosed in Note 15.

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 Parent Company statements of comprehensive income.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Parent Company. 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 Parent Company 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 Parent Company 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.

Investment in a Subsidiary

A subsidiary is an entity that is controlled by the Parent Company. Investment in a subsidiary of the Parent Company is accounted for under the cost method of accounting in the Parent Company financial statements and is included in the Parent Company balance sheets at cost less any impairment loss. The Parent Company recognizes income from investment in a subsidiary only to the extent that the Parent Company receives distributions from accumulated profits of the subsidiary and arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of investment in a subsidiary.

As of December 31, 2018 and 2017, the Parent Company holds 100% direct equity interests in MPHIL Holdings No. 1, and 100% indirect equity interests in MPHIL Holdings No. 2 and Melco Resorts Leisure.

Impairment of Investment in a Subsidiary

The Parent Company assesses at each balance sheet date whether there is an indication that the investment in a subsidiary may be impaired. If any such indications exist, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. 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 asset. Impairment losses, if any, are recognized in the Parent Company statements of comprehensive income.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Impairment of Investment in a Subsidiary – continued

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 had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Parent Company statements of comprehensive income.

Provisions

Provisions are recognized when the Parent Company 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.

Accumulated Deficit

The accumulated deficit represents the Parent Company'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 Parent Company adopted PFRS 15, using the modified retrospective method.

Management Fee Income

Revenue from the provision of management services is recognized when the services are provided.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Revenue Recognition (applicable from January 1, 2018) – continued*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.

Revenue Recognition (applicable before January 1, 2018)

Revenue is recognized to the extent it is probable that the economic benefits associated with the transaction will flow to the Parent Company and the amount of the revenue can be measured reliably.

The specific recognition criteria set out below must also be met before revenue is recognized.

Management Fee Income

Revenue from the provision of management services is recognized when the services are provided.

Interest Income

Interest income is recognized on a time proportionate basis that reflects as the effective yield on the asset.

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 Parent Company statements of comprehensive income in the year these are incurred.

Share-based Compensation

The Parent Company measures the cost of its subsidiaries' 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

Share-based Compensation – continued

Further information on the Parent Company's share-based compensation arrangement for the years ended December 31, 2018 and 2017 for restricted shares and share options granted under its share incentive plan ("Share Incentive Plan") is included in Note 16.

Foreign Currency Transactions

The Parent Company financial statements are presented in Philippine peso, the functional currency of the Parent Company. 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 Parent Company 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 Parent Company 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.

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Income Tax – continuedDeferred Tax – continued

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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.

As of December 31, 2018 and 2017, input VAT, net amounting to nil in each of those periods, represents the VAT expected to be recoverable from the tax authority in the Philippines and is included under other non-current assets in the balance sheets. For the years ended December 31, 2018 and 2017, provisions for input VAT expected to be non-recoverable amounting to ₱1,717 and ₱2,172, respectively, were recognized and included in general and administrative expenses in the Parent Company statements of comprehensive income (Note 9). As of December 31, 2018 and 2017, provisions for input VAT were ₱16,974 and ₱15,257, respectively.

Contingencies

Contingent liabilities are not recognized in the Parent Company financial statements. These are disclosed in the notes to Parent Company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the Parent Company financial statements but are disclosed in the notes to Parent Company financial statements when an inflow of economic benefits is probable.

4. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the Parent Company financial statements requires management to make judgment, estimates and assumptions. The judgment, estimates and assumptions used in the Parent Company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Parent Company financial statements. Actual results could differ from such estimates.

Judgment

In the process of applying the Parent Company's policies, management has made the following judgment which has the most significant effect on the amounts recognized in the Parent Company financial statements.

Functional Currency

Based on the economic substance of underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

4. **Significant Accounting Judgment, Estimates and Assumptions – continued**

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.

Estimating Fair Value of Share-based Compensation

The Parent Company measures the cost of equity-settled transactions with its subsidiaries' 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 16.

Impairment of Investment in a Subsidiary

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in a subsidiary requires the determination of future cash flows expected to be generated from such investment, requires the Parent Company to make estimates and assumptions that can materially affect the Parent Company financial statements. Future events could cause the Parent Company to conclude that such investment is impaired. Any resulting impairment could have a material impact on the financial condition and results of operation of the Parent Company.

The preparation of the estimated future cash flows involves judgment and estimations. While the Parent Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Parent Company's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment losses for the Parent Company's investment in a subsidiary were recognized for the years ended December 31, 2018 and 2017. The carrying values of investment in a subsidiary amounted to ₱27,688,590 as of December 31, 2018 and 2017 in each of those periods (see Note 6).

Recognition of Deferred Tax Assets

The Parent Company 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 Parent Company'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 Parent Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued**

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

4. Significant Accounting Judgment, Estimates and Assumptions – continuedEstimates and Assumptions – continuedRecognition of Deferred Tax Assets – continued

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 ₱199,143 and ₱298,732 as of December 31, 2018 and 2017, respectively (see Note 11).

5. Cash and Cash Equivalents

The amount represents cash in banks where it earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱3,674 and ₱1,304 for the years ended December 31, 2018 and 2017, respectively.

6. Investment in a Subsidiary

As of December 31, 2018 and 2017, the Parent Company holds 100% direct equity interests in MPHIL Holdings No. 1, representing 2,281,894,500 common shares with a par value of ₱1 per share, with investment costs and carrying amounts amounting to ₱27,688,590 in each of those periods.

7. Accrued Expenses, Other Payables and Other Current Liabilities

	December 31,	
	2018	2017
Accruals for:		
Legal and other professional fees	₱12,190	₱26,408
Operating and other expenses	180	15
Withholding taxes payable	10	1
Other payables and liabilities	4,058	-
	<u>₱16,438</u>	<u>₱26,424</u>

Accrued expenses, other payables and other current liabilities are due for payment within one year.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued**

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

8. Capital Stock

	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	16	2,826,644	2,827
Exercise of share options	16	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	16	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.

As of December 31, 2018 and 2017, the Parent Company had 407 and 423 stockholders, respectively.

9. General and Administrative Expenses

	Notes	Year Ended December 31,	
		2018	2017
Legal and other professional fees		₱11,553	₱37,512
Management fee expenses	10	1,772	2,840
Provisions for input VAT		1,717	2,172
Taxes and licenses		376	190
Share-based compensation	16	(779)	26,008
Operating and other expenses		1,589	1,936
		₱16,228	₱70,658

10. 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

10. Related Party Transactions – continued

Save as disclosed elsewhere in the Parent Company financial statements, the Parent Company had the following significant transactions with related parties for the years:

	Amount of Transactions		Outstanding Balance		Terms	Conditions
	Year Ended December 31,		December 31,			
	2018	2017	2018	2017		
Amounts due from related parties						
<i>Amount due from an intermediate holding company</i>						
Melco						
Management fee income ^{d1}	₱3,763	₱9,915	₱–	₱–		
Management fee expenses	1,715	1,568	–	–		
Amount due from Melco	–	–	199,312	197,716	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amount due from a shareholder</i>						
Amount due from MPHIL Corporation	₱–	₱–	₱432	₱–	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amounts due from subsidiaries</i>						
Amounts due from MPHIL Holdings No. 1 and MPHIL Holdings No. 2	₱–	₱–	₱1,129	₱1,059	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due to related parties						
<i>Amount due to a subsidiary</i>						
Amount due to Melco Resorts Leisure	₱–	₱–	₱29,679	₱28,569	Repayable on demand; non-interest bearing	Unsecured

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****10. Related Party Transactions – continued**

	Amount of Transactions		Outstanding Balance		Terms	Conditions
	Year Ended December 31,		December 31,			
	2018	2017	2018	2017		
Amounts due to related parties – continued						
<i>Amounts due to affiliated companies</i>						
Melco International's subsidiaries						
Management fee expenses	₱57	₱1,272	₱–	₱–		
Amounts due to Melco International's subsidiaries	–	–	2,184	2,026	Repayable on demand; non-interest bearing	Unsecured

Note:

(1) The amount represents the recharge of share-based compensation for certain directors of MRP for the years ended December 31, 2018 and 2017.

Directors' Remuneration

For the years ended December 31, 2018 and 2017, the remuneration of directors of the Parent Company was borne by Melco.

Compensation of Key Management Personnel

For the years ended December 31, 2018 and 2017, the compensation of key management personnel of MRP was borne by Melco and Melco Resorts Leisure.

11. Income Tax

The income tax (credit) expense for the years ended December 31, 2018 and 2017 consisted of:

	Year Ended December 31,	
	2018	2017
Provision for current income tax	₱75	₱198
Over-provision of income tax in prior year	(292)	(160)
	(₱217)	₱38

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

11. Income Tax – continued

A reconciliation of income tax benefit computed at the statutory income tax rate to income tax (credit) expense is as follows:

	Year Ended December 31,	
	2018	2017
Income tax benefit computed at statutory income tax rate	(P2,661)	(P17,830)
Income tax effects of:		
Over-provision of income tax in prior year	(292)	(160)
Change in unrecognized deferred tax assets	(98,708)	17,766
Change in unrecognized deferred tax assets in prior year	812	–
Expenses not deductible for tax purposes	962	653
Expired NOLCO	100,772	–
Interest income subject to final tax	(1,102)	(391)
	(P217)	P38

No deferred tax assets and liabilities were recognized as of December 31, 2018 and 2017.

The Parent Company has not recognized the following deferred tax assets on deductible temporary differences since management believes the Parent Company may not be able to realize the benefits from these deferred tax assets in the future.

	December 31,	
	2018	2017
Share-based compensation	P121,889	P165,758
NOLCO	76,912	131,416
Others	342	1,558
	P199,143	P298,732

As of December 31, 2018, the Parent Company'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	P155,428	P–	P–	P155,428
2017	2020	53,271	–	–	53,271
2016	2019	47,674	–	–	47,674
2015	2018	335,907	–	335,907	–
		P592,280	P–	P335,907	P256,373

In July 2018, the Parent Company received from the BIR a Letter of Authority (“LOA”) for the audit of all internal revenue taxes for 2010 to 2016.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

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

12. Long-term Debt

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.

13. Other Commitment and Guarantee

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. As of December 31, 2018 and 2017, the Shareholder Loan Facility has not been drawn.

14. Financial Risk Management Objectives and Policies

The Parent Company has financial assets and liabilities including cash and cash equivalents, deposits and receivables, amounts due from/to related parties and accrued expenses, other payables and other current which arise directly from its operations.

The main risks arising from the Parent Company’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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****14. Financial Risk Management Objectives and Policies – continued**Interest Rate Risk

Other than the bank balances which carry interest at market rates, the Parent Company 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 Parent Company 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 Parent Company.

The Parent Company trades only with recognized and creditworthy third parties. It is the policy of the Parent Company 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 Parent Company to bad debts is not significant. The Parent Company 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 Parent Company, which are composed of cash and cash equivalents, deposits and receivables and amounts due from related parties, the exposure of the Parent Company to credit risk arises from the default of a bank where the Parent Company's cash and cash equivalents are deposited, the default of the counterparties for which 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. There are no significant concentrations of credit risk in the Parent Company.

Credit Risk Exposures

The carrying values of the Parent Company's financial assets represent the maximum exposure to credit risk and the Parent Company 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 are considered as high grade and include deposits made to reputable banks in the Philippines. Deposits and receivables are considered as high grade as the Parent Company 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 Parent Company 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. 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

14. Financial Risk Management Objectives and Policies – continued

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 Parent Company will not be able to meet its obligations associated with financial difficulties.

The Parent Company uses historical data and forecasts on its collections and disbursements to ensure it has sufficient cash to meet operational needs and manages its liquid funds through cash planning on a monthly basis. The forecast takes into consideration the Parent Company'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 Parent Company'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				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	₱198,855	₱–	₱–	₱–	₱198,855
Deposits and receivables	1,244	–	–	–	1,244
Amounts due from related parties	200,873	–	–	–	200,873
Financial Liability					
Amounts due to related parties	₱31,863	₱–	₱–	₱–	₱31,863
	December 31, 2017				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	₱220,672	₱–	₱–	₱–	₱220,672
Deposits and receivables	57	–	–	–	57
Amounts due from related parties	198,775	–	–	–	198,775
Financial Liabilities					
Accrued expenses, other payables and other current liabilities	₱12	₱–	₱–	₱–	₱12
Amounts due to related parties	30,595	–	–	–	30,595

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

14. Financial Risk Management Objectives and Policies – continued

Foreign Exchange Risk – continued

The Parent Company 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\$”) and US\$. Foreign exchange risks of the Parent Company 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 Parent Company 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
Monetary Assets	(23,973)	(161)	13,379	705
Monetary Liability	(324,123)	(2,182)	(32,370)	(1,707)
	(348,096)	(2,343)	(18,991)	(1,002)

	December 31, 2017			
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso
Monetary Assets	(23,973)	(154)	135,375	6,758
Monetary Liabilities	(317,609)	(2,038)	(32,370)	(1,616)
	(341,582)	(2,192)	103,005	5,142

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the Parent Company 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

The sensitivity of the loss before income tax with regard to the Parent Company’s monetary assets and monetary liabilities in HK\$ and US\$ 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 Parent Company’s best estimate of expected changes considering historical trends and experience.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued

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

14. Financial Risk Management Objectives and Policies – continued

Foreign Exchange Risk – continued

If the Philippine peso had strengthened against HK\$, with all other variables held constant, loss before income tax would have decreased by ₱26 and ₱20 for the years ended December 31, 2018 and 2017, respectively, mainly as a result of the translation of HK\$ denominated amounts due to related parties. If the Philippine peso had strengthened against US\$, with all other variables held constant, loss before income tax would have decreased by ₱11 for the year ended December 31, 2018, mainly as a result of the translation of US\$ denominated amounts due to related parties. If the Philippine peso had strengthened against US\$, with all other variables held constant, loss before income tax would have increased by ₱46 for the year ended December 31, 2017, mainly as a result of the translation of US\$ denominated cash and cash equivalents.

However, if the Philippine peso had weakened against HK\$ and US\$ by the same percentages, loss before income tax would have changed in the opposite direction by the same amounts.

Capital Risk Management

The primary objective of the Parent Company's capital management is to ensure that the Parent Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Parent Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Parent Company may obtain funding from issuance of new shares, debt financing and from intermediate holding companies.

The Parent Company considers total equity as its capital which amounted to ₱28,041,464 and ₱28,050,896 as of December 31, 2018 and 2017, respectively.

The Parent Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over total equity. The Parent Company's strategy is to monitor capital and maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios as of December 31, 2018 and 2017 were zero as there were no long-term debts for the Parent Company as of December 31, 2018 and 2017.

15. Financial Instruments

Fair Value of Financial Instruments

Cash and cash equivalents, Deposits and receivables, Amounts due from/to related parties 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****15. Financial Instruments – continued**Fair Value Hierarchy

The Parent Company 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.

As of December 31, 2018 and 2017, the Parent Company 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.

16. Share Incentive Plan

The Parent Company 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 Parent Company, its subsidiaries 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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****16. Share Incentive Plan – continued***Share Options – continued*

The Parent Company 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
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

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 and 2017 are presented as follows:

	Number of Share Options	Weighted Average Exercise Price per Share
Outstanding as of January 1, 2017	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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

16. 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	
	Number of Share Options Outstanding (Note)	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
₱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
₱8.98	5,422,117	8.59	5,612,357	9.59
	17,035,505	7.69	15,067,193	8.47

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 year ended December 31, 2018.

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****16. 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 and 2017 are presented as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2017	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 and 2017 recognized in the Parent Company financial statements is as follows:

	Year Ended December 31,	
	2018	2017
Share Incentive Plan:		
Share options	(₱53,764)	(₱13,051)
Restricted shares	52,985	39,059
Total share-based compensation	(₱779)	₱26,008

17. Supplementary Tax Information under Revenue Regulations 15-2010

On December 28, 2010, BIR issued Revenue Regulations (“RR”) No. 15-2010 which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of the Parent Company financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to Parent Company financial statements information on taxes, duties and license fees paid or accrued for the year in addition to the disclosures mandated by PFRS.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

17. Supplementary Tax Information under Revenue Regulations 15-2010 – continued

Below is the additional information required by RR No. 15-2010.

VAT

For the year ended December 31, 2018, the Parent Company did not have any income or reimbursements subject to output VAT.

The Parent Company's purchases from VAT-registered individuals or corporations are subject to input VAT.

Input VAT for 2018 per filed VAT returns:

Balance as of January 1	₱15,525
Services lodged under other accounts	1,717
Balance as of December 31	₱17,242

Other Taxes and Licenses Paid for in 2018

All other taxes and licenses are recognized as general and administrative expenses in the Parent Company statements of comprehensive income.

Year Ended December 31, 2018			
	Official Receipt Number	Date Paid	Amount
Documentary stamp tax	Various	Various	₱205
Others	Various	Various	171
			₱376

Withholding Taxes

Withholding taxes pertaining to various expenses amounted to ₱1,833 for the year ended December 31, 2018.

Year Ended December 31, 2018			
	Official Receipt Number	Date Paid	Amount
Creditable withholding taxes	Various	Various	₱85
Tax on compensation and benefits	Various	Various	1,748
			₱1,833

Tax Assessments and Cases

In July 2018, the Parent Company received from the BIR a LOA for the audit of all internal revenue taxes for 2010 to 2016.

**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

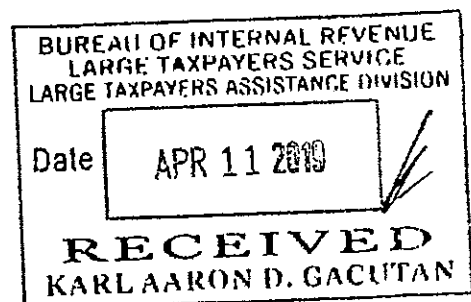
We have audited in accordance with Philippine Standards on Auditing, the financial statements of Melco Resorts and Entertainment (Philippines) Corporation (the Company) as at December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated March 21, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all issued standards and interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, 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

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			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	X			
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	X			
	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 PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation				X
	Amendment to PAS 16: 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		


PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28: Applying the Consolidation Exception				X
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value				X
	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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
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
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

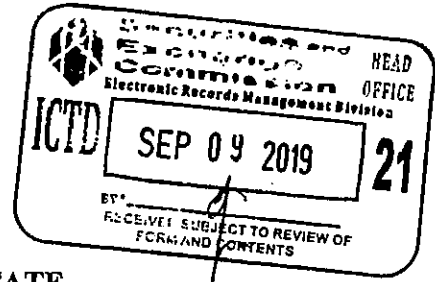


Republic of the Philippines
Department of Finance
Securities and Exchange Commission

MONITORING SLIP

NAME OF CORP.	MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION	SEC	58648
PURPOSE:	CG Clearance		
DEPARTMENT:	Corporate Governance and Finance Department		
Date Received: May 21, 2019	Date Released: May 21, 2019	Processed/Verified by: S. PANARES	
REMARKS : We interpose no objection to the subject company's request for Good Standing insofar as the matters under the CGFD are concerned. However this is without prejudice to the prerogative of this Department to act later against the subject entity, if warranted, to ensure full compliance with the provision of the Securities Regulation Code, its implementing rules and regulations, and other pertinent laws, rules and regulations, as may be necessary applicable under circumstances.			
 RACHEL ESTHER GUMTANG-REMALANTE Officer-in-Charge			

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.



SECRETARY'S CERTIFICATE

I, **MARIE GRACE A. SANTOS**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of Melco Resorts and Entertainment (Philippines) Corporation (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.
2. The Corporation is filing an application with the Securities and Exchange Commission for equity restructuring.
3. To the best of my knowledge and based on records in my custody, no action or proceeding has been filed or is pending before any Court or tribunal involving an intra-corporate dispute or claim by any person or group against the directors, officers or stockholders of the Corporation in their capacity as such.
4. This Certification is executed to attest to the truth of the foregoing.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 15th day of August 2019 at Parañaque City.

MARIE GRACE A. SANTOS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this day of 15th August 2019, affiant exhibiting to me her Passport No. P4765321A, issued at DFA Manila, and valid until 18 October 2022.

Doc. No. 121 ;
Page No. 4 ;
Book No. V ;
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



REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
Ground Floor, Secretariat Building, PICC
City of Pasay, Metro Manila

COMPANY REG. NO. CS201214789

**CERTIFICATE OF APPROVAL OF
EQUITY RESTRUCTURING**

KNOW ALL PERSONS BY THESE PRESENTS:

THIS IS TO CERTIFY that the equity restructuring to wipe out the deficit as of December 31, 2018 in the amount of P21,750,558.18 against the Additional Paid-in Capital (APIC) of P21,050,978,279.70 of

MPHIL HOLDINGS NO. 1 CORPORATION

was approved by the Commission on this date considering the all the requirements have been complied with provided that the remaining APIC of P21,029,227,721.52 shall not be used to wipe out losses that may be incurred by the company in the future without prior approval of the Commission.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15TH day of October, Twenty Nineteen.

GERARDO E. DEL ROSARIO

Director

Company Registration and Monitoring Department

MY/lea

June 6, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

Re: **Melco Resorts and Entertainment (Philippines) Corporation ("MRP") Group
Application for Equity Restructuring**

Ladies and Gentlemen:

We write in connection with the application of MRP and its subsidiaries for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit.

MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MRP's subsidiaries are 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") (MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as the "MRP Group" while each is referred to as "Corporation").

Each Corporation has a significant amount of APIC in its books due to the share premium over par value paid by each Corporation's shareholder(s) in connection with the subscription to and issuance of shares.

While the property was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, each Corporation has reported accumulated deficit and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of the MRP Group as of 31 December 2018 is as follows:

	Class of Stock	Authorized Capital (shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
MRP	Common @ ₱1.00 par value per share	5,900,000,000	5,900,000,000.00	5,687,270,800.00	5,687,270,800.00
MPHIL Holdings No. 1	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
MPHIL Holdings No. 2	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
Melco Resorts Leisure	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIC and accumulated deficits of each Corporation as at 31 December 2018 are as follows:

	APIC	Net Deficit
MRP	22,259,788,014.37	(134,567,233.09)
MPHIL Holdings No. 1	21,050,978,279.70	(21,750,558.18)
MPHIL Holdings No. 2	20,998,267,577.00	(18,153,719.43)
Melco Resorts Leisure	20,993,047,577.00	(15,535,491,382.34)

In light of the foregoing, the MRP Group respectfully requests for the approval of its equity restructuring plan to eliminate the respective accumulated deficit of each of MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2, and Melco Resorts Leisure as of 31 December 31, 2018 (the "Deficit") by applying each Corporation's existing APIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Deficit of each member of the MRP Group.

After eliminating the Deficit, there will still be excess APIC for each Corporation ("Net APIC"), in the following amounts:

	NET APIC
MRP	22,125,220,781.28
MPHIL Holdings No. 1	21,029,227,721.52
MPHIL Holdings No. 2	20,980,113,857.57
Melco Resorts Leisure	5,457,556,194.66

In support of this request, we hereby submit the following:

- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors of each Corporation approving the equity restructuring plan;
- 2.) Audited financial statements of each Corporation as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance for each Corporation.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 1 CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 2 CORPORATION

By:



Clarence Yuk Man Chung
President

MELCO RESORTS LEISURE (PHP) CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.

SECRETARY'S CERTIFICATE



I, **MARISSA T. ACADEMIA**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of MPHIL Holdings No. 1 Corporation (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. At the duly constituted Special Meeting of the Board of Directors held on April 24, 2019, at which meeting a quorum was present and acting throughout, the Corporation's Board of Directors unanimously approved the following resolutions:

MPHIL Holdings No. 1 Resolution No. 2019-005

WHEREAS, MPHIL Holdings No. 1 Corporation (the "**Corporation**") has a significant amount of additional paid-in capital ("**APIC**") in its books due to the share premium over par value paid by the Corporation's shareholders in connection with the subscription to and issuance of shares.

WHEREAS, while City of Dreams Manila was in the opening stages and ramping up its operations, the Corporation incurred substantial losses and reported accumulated deficit and negative retained earnings. As of December 31, 2018, the Corporation's share premium/APIC was P21,050,978,279.70 and its accumulated deficit was P21,750,558.18.

RESOLVED, that the management be authorized to implement equity restructuring for purpose of eliminating the above stated accumulated deficit by applying the above referred APIC against such deficit.

RESOLVED FURTHER, that in connection with the actions contemplated by the foregoing resolutions, each of the President and Chairman of the Board, Treasurer, Property President/Chief Operating Officer, and Vice President, Legal Affairs, Philippines or Corporate Secretary of the Corporation (collectively, the "**Authorized Representatives**") or, if applicable, any attorney of any Authorized Representative supported by relevant supporting documents (collectively, the "**Authorized Persons**") be authorized, in the name and on behalf of the Corporation or the relevant subsidiary, to do such further acts and things and to sign such documents as any such Authorized Persons might deem necessary or appropriate, including to do and perform (or procure to be done and performed), in the name and on behalf of the Corporation or its subsidiaries, all such acts and to sign, make, execute, deliver, issue or file (or procure to be signed, made, executed, issued, delivered or filed) with any person including, but not limited to, any stock exchange, governmental authority or agency, all such agreements, documents, instruments, certificates, consents, waivers, notifications and announcements and all amendments to any such agreements, documents, instruments, certificates, consents, waivers, notifications or announcements and where any such documents be required to be sealed or executed as a deed by affixing the corporate/common seal of the Corporation or the relevant subsidiary, to affix thereto the seal countersigned by any such Authorized Person and to pay, or procure to be paid, all such payments, in each case as any of them might deem necessary or advisable to carry out the intent of the foregoing resolutions,

the authority for the taking of such acts and things and the signing, making, execution, delivery, issue and filing of such of the foregoing to be conclusively evidenced thereby.

RESOLVED FINALLY, that any and all actions of the Corporation and/or any of its subsidiaries, or any Authorized Person, or such other duly authorized person, taken in connection with the actions contemplated by the foregoing resolutions prior to the date of these resolutions be ratified, confirmed, approved and adopted in all respects as if such actions had been presented to all Directors for approval, and approved by them prior to such action being taken.

3. The foregoing Resolutions have not been altered, modified, nor revoked and that the same are now in full force and in effect.

4. This Certification is issued to attest to the truth of the foregoing Resolutions.

IN WITNESS WHEREOF, I have hereunto set my hand on June 3, 2019 at Parañaque City.



MARISSA T. ACADEMIA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 3rd day of June 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila, valid until January 22, 2028.

Doc. No. 511
Page No. 104
Book No. 111
Series of 2019.



CYRIL PATRICK P. ACASIO
NOTARY PUBLIC

Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527

PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574

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MPHIL Holdings No. 1 Corporation

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

and

Independent Auditor's Report

SyCip Gorres Velayo & Co.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

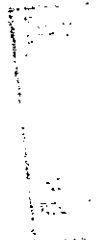
The management of MPHIL Holdings No. 1 Corporation (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, Management is responsible for all the information and representations contained in all the other tax returns filed for the reporting period including, but not limited to, the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

In this regard, Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, and are complete and correct in all material respects. Management likewise affirms that:

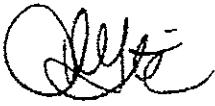
- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 08-2007 and other relevant issuances;
- (c) The Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.



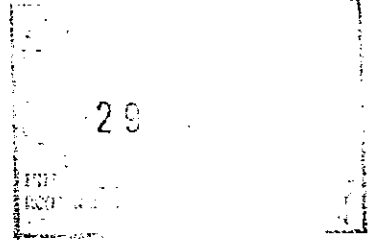
CLARENCE YUK MAN CHUNG
President & Chairman of the Board



29



DONALD N. TATEISHI
Treasurer



STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of MPHIL Holdings No. 1 Corporation (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

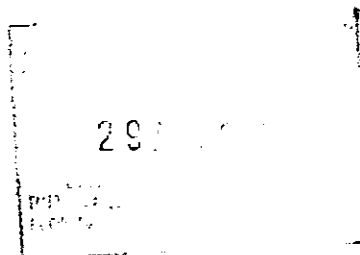
The Board of Directors is responsible for overseeing the Company's financial reporting process.

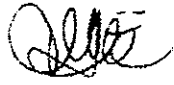
The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company 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





DONALD N. TATFISHI
Treasurer

29:
[Faint, illegible text]

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
MPHIL Holdings No. 1 Corporation
Asean Avenue cor. Roxas Boulevard
Brgy. Tambo, Parañaque City 1701

2020-000

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MPHIL Holdings No. 1 Corporation (the Company), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 Financial Statements* section of our report. We are independent of the Company 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 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



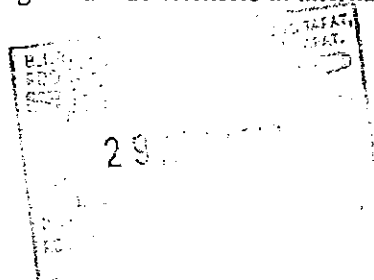
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 15 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MPHIL Holdings No. 1 Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, 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

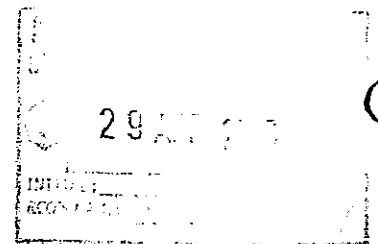
SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020

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

April 24, 2019



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
MPHIL Holdings No. 1 Corporation
Asean Avenue cor. Roxas Boulevard
Brgy. Tambo, Parañaque City 1701

We have audited the financial statements of MPHIL Holdings No. 1 Corporation (the Company) as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated April 24, 2019.

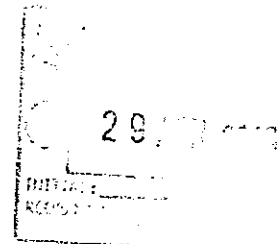
In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has one (1) stockholder owning one hundred (100) or more shares.

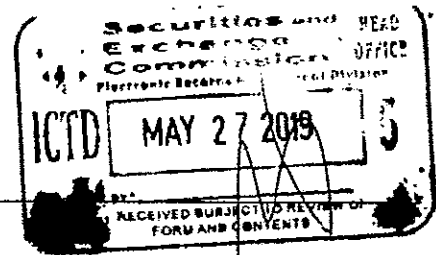
SYCIP GORRES VELAYO & CO.

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

April 24, 2019





MPHIL HOLDINGS NO. 1 CORPORATION

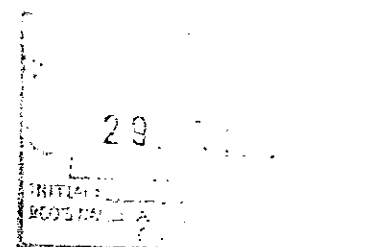
BALANCE SHEETS

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, 13 and 14	₱15,579	₱15,002
Amounts due from related parties	9, 13 and 14	13,266	13,266
Total Current Assets		28,845	28,268
Non-current Asset			
Investment in a subsidiary	6	23,287,310	23,287,310
Total Non-current Asset		23,287,310	23,287,310
		₱23,316,155	₱23,315,578
LIABILITIES AND EQUITY			
Current Liability			
Amounts due to related parties	9, 13 and 14	₱5,029	₱4,458
Total Current Liability		5,029	4,458
Non-current Liability			
Deferred tax liability	10	4	3
Total Non-current Liability		4	3
Equity			
Capital stock	7	2,281,895	2,281,895
Additional paid-in capital		21,050,978	21,050,978
Accumulated deficit		(21,751)	(21,756)
Total Equity		23,311,122	23,311,117
		₱23,316,155	₱23,315,578

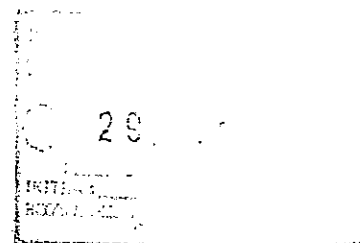
See accompanying Notes to Financial Statements.



MPHIL HOLDINGS NO. 1 CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31,	
		2018	2017
OPERATING COSTS AND EXPENSES			
General and administrative expenses	8	(P1)	(P4)
Total Operating Costs and Expenses		(1)	(4)
NON-OPERATING INCOME			
Interest income	5	2	-
Foreign exchange gains, net		5	-
Total Non-operating Income		7	-
PROFIT (LOSS) BEFORE INCOME TAX		6	(4)
INCOME TAX EXPENSE	10	(1)	(3)
NET PROFIT (LOSS)		5	(7)
OTHER COMPREHENSIVE INCOME			
		-	-
TOTAL COMPREHENSIVE INCOME (LOSS)		P5	(P7)

See accompanying Notes to Financial Statements.



MPHIL HOLDINGS NO. 1 CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

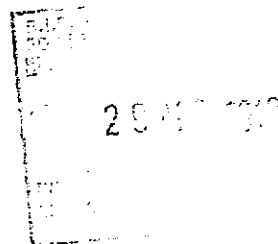
	Capital Stock (Note 7)	Additional Paid-in Capital	Accumulated Deficit	Total
Balance as of January 1, 2018	₱2,281,895	₱21,050,978	(₱21,756)	₱23,311,117
Net profit and total comprehensive income	-	-	5	5
Balance as of December 31, 2018	₱2,281,895	₱21,050,978	(₱21,751)	₱23,311,122
Balance as of January 1, 2017	₱2,281,895	₱21,050,978	(₱21,749)	₱23,311,124
Net loss and total comprehensive loss	-	-	(7)	(7)
Balance as of December 31, 2017	₱2,281,895	₱21,050,978	(₱21,756)	₱23,311,117

See accompanying Notes to Financial Statements.

2018

MPHIL HOLDINGS NO. 1 CORPORATION**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017****(In thousands of Philippine peso, except share and per share data)**

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	P6	(P4)
Adjustments for:		
Unrealized foreign exchange gains, net	(5)	-
Interest income	(2)	-
Operating loss before working capital changes	(1)	(4)
Changes in asset and liability:		
Increase in amounts due to related parties	10	-
Decrease in amount due from a related party	-	2,005
Net cash generated from operations	9	2,001
Interest received	2	-
Net cash provided by operating activities	11	2,001
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		
	566	22
NET INCREASE IN CASH AND CASH EQUIVALENTS	577	2,023
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,002	12,979
CASH AND CASH EQUIVALENTS AT END OF YEAR	P15,579	P15,002

See accompanying Notes to Financial Statements.

MPHIL HOLDINGS NO. 1 CORPORATION

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Business

(a) Corporate Information

MPHIL Holdings No. 1 Corporation (the "Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC").

The Company is principally engaged in acquiring investments and securities and providing financing to its group companies.

The 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.

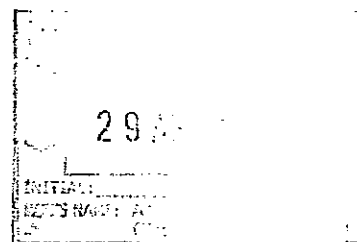
As of December 31, 2018 and 2017, the Company's ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated and listed in the Hong Kong Special Administrative Region of the People's Republic of China, and Melco Resorts & Entertainment Limited ("Melco"),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

As of December 31, 2018 and 2017, the immediate holding company of the Company is Melco Resorts and Entertainment (Philippines) Corporation ("MRP"), an indirect subsidiary of Melco International and incorporated in the Philippines with shares publicly traded on The Philippine Stock Exchange, Inc. until its trading suspension on December 10, 2018.

The accompanying financial statements were approved and authorized for issue in accordance with a resolution by the board of directors on April 24, 2019.

(b) Subsidiaries of the Company

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in MPHIL Holdings No. 2 Corporation ("MPHIL Holdings No. 2") which, in turn, holds 100% direct equity interests in Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure"). Both MPHIL Holdings No. 2 and Melco Resorts Leisure were incorporated in the Philippines. The Company, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as "MPHIL Holdings Group". The primary purpose of 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.



MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****1. Organization and Business – continued****(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 Company’s 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 financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The 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 financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All values are rounded off to the nearest thousand, unless otherwise indicated.

The Company elected not to prepare consolidated financial statements under the exemption provided in PFRS 10, *Consolidated Financial Statements*. MRP, the Company’s immediate holding company, prepared and issued consolidated financial statements for the same year as presented in conformity with PFRS, which may be obtained from MRP’s registered office at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies**Changes in Accounting Policies and Disclosures

The Company 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 financial statements, except for the adoption of 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, *Revenue from Contracts with Customers*
- 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 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.

The Company 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 Company'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 Company'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 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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedChanges in Accounting Policies and Disclosures – continued▪ **PFRS 9, *Financial Instruments* – continued***Classification and Measurement – continued*

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

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

	January 1, 2018	
	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash and cash equivalents	₱15,002	₱15,002
Amounts due from related parties	13,266	13,266
	₱28,268	₱28,268

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.

Standards Issued But Not Yet Effective

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

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Standards Issued But Not Yet Effective – continued****▪ 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.

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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

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***

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).

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 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.

- **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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedStandards Issued But Not Yet Effective – continued

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

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.

- **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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Standards Issued But Not Yet Effective – continued▪ **Annual Improvements to PFRSs (2015 – 2017 Cycle) – continued**

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

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.

- **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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedStandards Issued But Not Yet Effective – continued▪ **PFRS 17, *Insurance Contracts*** – continued

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.

▪ **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 in banks including short-term deposits with a maturity of three months or less, which are unrestricted 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 Company's business model for managing them. The Company 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.

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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*****Initial Recognition and Measurement – continued***

The Company'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 Company 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.

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 Company 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 SPP1 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 statements of comprehensive income when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include cash and cash equivalents (see Note 5) and amounts due from related parties (see Note 9).

The Company 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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****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.

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 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) and amounts due from related parties (see Note 9). The carrying values and fair values of loans and receivables are disclosed in Note 14.

The Company 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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

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)**

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 Company 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 Company 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.

Where the Company 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 Company’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 Company could be required to repay.

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018)

The Company 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 Company 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.

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 Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*General Approach – continued*

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written-off when there is no reasonable expectation of recovering the contractual cash flows. At each reporting date, the Company 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 Company, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the Company 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.

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

The Company 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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**
(In thousands of Philippine peso, except share and per share data)**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 Company. The Company 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 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 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 statements of comprehensive income.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Company's loans and borrowings and payables includes amounts due to related parties (see Note 9).

The Company 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 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 amounts due to related parties (see Note 9). The carrying values and fair values of other financial liabilities are disclosed in Note 14.

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 statements of comprehensive income.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Company. 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 Company 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 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.

Investment in a Subsidiary

A subsidiary is an entity that is controlled by the Company. Investment in a subsidiary of the Company is accounted for under the cost method of accounting in the financial statements and is included in the balance sheets at cost less any impairment loss. The Company recognizes income from investment in a subsidiary only to the extent that the Company receives distributions from accumulated profits of the subsidiary and arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of investment in a subsidiary.

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in MPHIL Holdings No. 2, and 100% indirect equity interests in Melco Resorts Leisure.

Impairment of Investment in a Subsidiary

The Company assesses at each balance sheet date whether there is an indication that the investment in a subsidiary may be impaired. If any such indications exist, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. 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 asset. Impairment losses, if any, are recognized in the statements of comprehensive income.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Investment in a Subsidiary – continued

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 had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of comprehensive income.

Provisions

Provisions are recognized when the Company 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.

Accumulated Deficit

The accumulated deficit represents the Company'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)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.

Revenue Recognition (applicable before January 1, 2018)

Revenue is recognized to the extent it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(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.

Interest Income

Interest income is recognized on a time proportionate basis that reflects as the effective yield on the asset.

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 statements of comprehensive income in the year these are incurred.

Foreign Currency Transactions

The Company's financial statements are presented in Philippine peso, the functional currency of the Company. 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 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 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 TaxCurrent 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.

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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Income Tax – continuedDeferred Tax – continued

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.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS -- continued****(In thousands of Philippine peso, except share and per share data)****4. Significant Accounting Judgment, Estimates and Assumptions**

The preparation of the Company's financial statements requires management to make judgment, estimates and assumptions. The judgment, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgment

In the process of applying the Company's policies, management has made the following judgment which has the most significant effect on the amounts recognized in the financial statements.

Functional Currency

Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

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.

Impairment of Investment in a Subsidiary

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in a subsidiary requires the determination of future cash flows expected to be generated from such investment, requires the Company to make estimates and assumptions that can materially affect the Company's financial statements. Future events could cause the Company to conclude that such investment is impaired. Any resulting impairment could have a material impact on the financial condition and results of operation of the Company.

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment losses for the Company's investment in a subsidiary were recognized for the years ended December 31, 2018 and 2017. The carrying values of investment in a subsidiary amounted to ₱23,287,310 as of December 31, 2018 and 2017 in each of those periods (see Note 6).

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****4. Significant Accounting Judgment, Estimates and Assumptions – continued***Estimates and Assumptions – continued**Recognition of Deferred Tax Assets*

The Company 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 Company'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 Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

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 and ₱699 as of December 31, 2018 and 2017, respectively (see Note 10).

5. Cash and Cash Equivalents

The amount represents cash in banks where it earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱2 and nil for the years ended December 31, 2018 and 2017, respectively.

6. Investment in a Subsidiary

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in MPHIL Holdings No. 2, representing 2,281,894,500 common shares with a par value of ₱1 per share, with investment costs and carrying amounts amounting to ₱23,287,310 in each of those periods.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****7. Capital Stock**

	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	5,200,000,000	₱5,200,000
Issued and fully paid:		
As of January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	2,281,894,500	₱2,281,895

8. General and Administrative Expenses

	Year Ended December 31,	
	2018	2017
Taxes and licenses	₱1	₱–
Operating and other expenses	–	4
	₱1	₱4

9. 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.

	Outstanding Balance		Terms	Conditions
	December 31, 2018	2017		
Amounts due from related parties				
<i>Amount due from an intermediate holding company</i>				
Amount due from MCO (Philippines) Investments Limited (“MCO Investments”)	₱995	₱995	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amount due from a subsidiary</i>				
Amount due from MPHIL Holdings No. 2	₱6,999	₱6,999	Repayable on demand; non-interest bearing	Unsecured, no impairment

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

9. Related Party Transactions – continued

	Outstanding Balance		Terms	Conditions
	December 31, 2018	2017		
Amounts due from related parties – continued				
<i>Amount due from an affiliated company</i>				
Amount due from MPHIL Corporation ("MPHIL") ⁽¹⁾	₱5,272	₱5,272	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due to related parties				
<i>Amount due to an intermediate holding company</i>				
Amount due to Melco	₱111	₱111	Repayable on demand; non-interest bearing	Unsecured
<i>Amount due to immediate holding company</i>				
Amount due to MRP	₱540	₱530	Repayable on demand; non-interest bearing	Unsecured
<i>Amount due to a subsidiary</i>				
Amount due to Melco Resorts Leisure	₱4,378	₱3,817	Repayable on demand; non-interest bearing	Unsecured

Note:

(1) MPHIL is an indirect subsidiary of Melco International as of December 31, 2018 and 2017.

Directors' Remuneration

For the years ended December 31, 2018 and 2017, the remuneration of certain directors of the Company was borne by Melco.

Compensation of Key Management Personnel

For the years ended December 31, 2018 and 2017, the compensation of key management personnel of the Company was borne by Melco, MRP and Melco Resorts Leisure.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****10. Income Tax**

The provision for income tax for the years ended December 31, 2018 and 2017 consisted of:

	Year Ended December 31,	
	2018	2017
Deferred tax charge	₱1	₱3

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
Income tax provision (benefit) computed at statutory income tax rate	₱2	(₱1)
Income tax effects of:		
Change in unrecognized temporary differences	(693)	(3,628)
Expenses not deductible for tax purposes	–	1
Expired NOLCO	693	3,631
Interest income subject to final tax	(1)	–
	₱1	₱3

The component of the Company's deferred tax liability as of December 31, 2018 and 2017 was as follows:

	December 31,	
	2018	2017
Deferred tax liability:		
Unrealized foreign exchange gains, net	₱4	₱3

The Company has not recognized the following deferred tax asset on deductible temporary differences since management believes the Company may not be able to realize the benefits from this deferred tax asset in the future.

	December 31,	
	2018	2017
NOLCO	₱6	₱699

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

10. Income Tax – continued

As of December 31, 2018, the Company'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	₱1	₱–	₱–	₱1
2017	2020	2	–	–	2
2016	2019	19	–	–	19
2015	2018	2,311	–	2,311	–
		₱2,333	₱–	₱2,311	₱22

11. Cooperation Agreement and Operating 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.

(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 further provides that Melco Resorts Leisure has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****12. Commitments and Contingencies****Other Commitments****(a) 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 section 13(2)(a) of Presidential Decree No. 1869.
- (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 13 under capital risk management.

(b) 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 including the Company agree to indemnify the non-breaching party for any losses suffered or incurred as a result of a breach of any warranties.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****12. Commitments and Contingencies – continued****Other Commitments – continued****(c) 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. 2 and the Company (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 including the Company to be provided as a condition precedent to the initial utilization of the Shareholder Loan. As of December 31, 2018 and 2017, the Shareholder Loan Facility has not been drawn.

13. Financial Risk Management Objectives and Policies

The Company has financial assets and liability including cash and cash equivalents, amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Company’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, the Company 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 Company 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 Company.

With respect to credit risk from the financial assets of the Company, which are composed of cash and cash equivalents and amounts due from related parties, the exposure of the Company to credit risk arises from the default of a bank where the Company’s cash and cash equivalents are deposited and the default in repayments from related parties, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk in the Company.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

13. Financial Risk Management Objectives and Policies – continuedCredit Risk – continuedCredit Risk Exposures

The carrying values of the Company's financial assets represent the maximum exposure to credit risk and the Company 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 are considered as high grade and include deposits made to reputable banks in the Philippines. Amounts due from related parties are considered as high grade as Melco will provide financial support to the related parties of the Company to meet in full its financial obligations as they fall due. 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.

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 Company will not be able to meet its obligations associated with financial difficulties.

The Company uses historical data and forecasts on its disbursements to ensure it has sufficient cash to meet the investment needs and with the statutory fee and expenses for maintaining the Company and manages its liquid funds through cash planning on a monthly basis. The forecast takes into consideration the Company'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 Company's financial assets held for liquidity purposes and financial liability as of December 31, 2018 and 2017 based on undiscounted contractual cash flows.

	December 31, 2018				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	₱15,579	₱–	₱–	₱–	₱15,579
Amounts due from related parties	13,266	–	–	–	13,266
Financial Liability					
Amounts due to related parties	₱5,029	₱–	₱–	₱–	₱5,029

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

13. Financial Risk Management Objectives and Policies – continuedLiquidity Risk – continued

	December 31, 2017				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	₱15,002	₱–	₱–	₱–	₱15,002
Amounts due from related parties	13,266	–	–	–	13,266
Financial Liability					
Amounts due to related parties	₱4,458	₱–	₱–	₱–	₱4,458

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of monetary asset and monetary liability will fluctuate due to changes in foreign exchange rates.

The Company has foreign currency exposures arising from translation of certain monetary asset and monetary liability denominated in foreign currency, which are primarily denominated in US\$. Foreign exchange risks of the Company 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 Company 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 asset and monetary liability, translated into Philippine peso equivalents, are as follows:

	December 31,			
	2018		2017	
	US\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso
Monetary Asset	202,007	10,650	201,805	10,075
Monetary Liability	(200,200)	(10,555)	(200,000)	(9,985)
	1,807	95	1,805	90

In translating the foreign currency-denominated monetary asset and liability into Philippine peso amounts, the Company used the following rate of exchange as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Philippine peso to 1 unit of foreign currency:		
US\$	52.72	49.92

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****13. Financial Risk Management Objectives and Policies – continued**Foreign Exchange Risk – continued

The sensitivity of the profit (loss) before income tax with regard to the Company's monetary asset and monetary liability in US\$ translated into Philippine peso with +/-1.1% and +/-0.9% changes in exchange rates for the years ended December 31, 2018 and 2017, respectively. The changes in currency rates are based on the Company's best estimate of expected changes considering historical trends and experience.

If the Philippine peso had strengthened against US\$, with all other variables held constant, profit before income tax would have decreased by ₱1 for the year ended December 31, 2018, mainly as a result of the translation of US\$ denominated cash and cash equivalents and amounts due to related parties. If the Philippine peso had strengthened against US\$, with all other variables held constant, loss before income tax would have increased by ₱1 for the year ended December 31, 2017, mainly as a result of the translation of US\$ denominated cash and cash equivalents and amounts due to related parties.

However, if the Philippine peso had weakened against US\$ by the same percentages, profit (loss) before income tax would have changed in the opposite direction by the same amounts.

Capital Risk Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain funding from issuance of new shares, debt financing and from intermediate holding companies.

The Company considers total equity as its capital which amounted to ₱ 23,311,122 and ₱23,311,117 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 Company'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, the Company, as one of the Licensee parties, has complied with the D/E Ratio as required by PAGCOR.

14. Financial InstrumentsFair Value of Financial Instruments*Cash and cash equivalents and Amounts due from/to related parties*

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.

MPHIL HOLDINGS NO. 1 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****14. Financial Instruments – continued**Fair Value Hierarchy

The Company 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.

As of December 31, 2018 and 2017, the Company 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.

15. Supplementary Tax Information under Revenue Regulations 15-2010

On December 28, 2010, the Bureau of Internal Revenue (the “BIR”) issued Revenue Regulations (“RR”) No. 15-2010 which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued for the year in addition to the disclosures mandated by PFRS.

Below is the additional information required by RR No. 15-2010.

Other Taxes and Licenses in 2018

All other taxes and licenses are recognized as general and administrative expenses in the statements of comprehensive income.

Year Ended December 31, 2018		
Official Receipt Number	Date Paid	Amount
Annual registration	291800023536829	January 29, 2019
		₱1

Withholding Taxes

The Company did not incur any expenses or make any payments subject to withholding taxes for the year ended December 31, 2018.

Tax Assessments and Cases

As of December 31, 2018, the Company had no ongoing tax assessment with BIR.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
MPHIL Holdings No. 1 Corporation
Asean Avenue cor. Roxas Boulevard
Brgy. Tambo, Parañaque City 1701

We have audited in accordance with Philippine Standards on Auditing, the financial statements of MPHIL Holdings No. 1 Corporation as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated April 24, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all issued standards and interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, 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

April 24, 2019



MPHIL HOLDINGS NO. 1 CORPORATION

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued on 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 Yet 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			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued by December 31, 2013		Adopted	Not Yet Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	X			
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	X			
	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 PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation				X
	Amendment to PAS 16: 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		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued up to December 31, 2013		Adopted	Not Yet Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28: Applying the Consolidation Exception				X
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value				X
	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

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued on December 31, 2016		Adopted	Not Yet Adopted	Not Adopted	Not Applicable
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
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

29 APR 2018

NOTICE
REDS & CO.



Republic of the Philippines
Department of Finance
Securities and Exchange Commission

Company Registration and Monitoring Department
Compliance Monitoring Division

MONITORING SHEET/NO PENALTY

Corporate Name	MPHIL HOLDINGS NO. 1 CORPORATION (Formerly: MCE HOLDINGS (PHILIPPINES) CORPORATION)		
Registration No.	CS201214789	Date of Registration	AUGUST 13, 2012
Term of Existence	50 YEARS	Annual Meeting	LAST MONDAY OF JULY
Principal Office	ASEAN AVENUE COR. ROXAS BOULEVARD, BRGY. TAMBO, PARANAQUE CITY 1701	Actual Meeting	JULY 30, 2018
No. of Directors/Trustees	5	Fiscal Year	DECEMBER 31

<input checked="" type="checkbox"/> STOCK CORPORATION	<input type="checkbox"/> NON-STOCK CORPORATION
Authorized Capital P 5,200,000,000	Equity/Fund Balance P
Retained Earnings P	Negative Fund Balance P
Deficit P 21,751,000	Fiscal Year ended
Capital Deficiency P	Fine: P per year, per report
Fiscal Year ended DECEMBER 31, 2018	
Fine: P 500 per year, per report	

COMPUTATION OF FINES					
YEAR	General Information Sheet		Financial Statements		FINE
2014	MONITORED	08/08/2014		MONITORED	
2015		MONITORED		05/02/2017	
2016		05/02/2017	OT		
2017	OT		OT		
2018	OT		OT		
2019					
Stock and Transfer Book / Membership Book			MONITORED		

OT - On Time
NF - Not Filed
FL/RL - Filed/Registered Late

Monitored by:	 L.P. DELICA	DATE: 05/03/2019 RETURN: 05/28/2019
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- ✓ Compliant with all reportorial requirements and CLEARED per CIS-URDB as of 31 May 2019.
- ✓ FIA REGISTERED

The finding/ assessment is based on the documents/reports available in the SEC database and the documents presented by the party to the monitor as of: _____

Representative
Signature over Printed Name

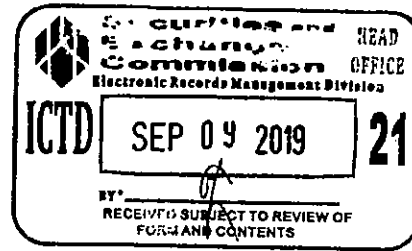
For the Director: GERARDO F. DEL ROSARIO

By: EMERLIZA M. CASTRO
SEC Records Specialist II

Note:

This assessment does not constitute as waiver of any fine or penalty for deficiencies in reportorial requirements due from, or may hereafter be assessed against, the corporation nor does it preclude the institution of any action against the corporation for violation of any of the provisions of the Corporation Code of the Philippines, the Securities Regulation Code, and its implementing rules and regulations, and other pertinent laws, rules and regulations implemented by the Commission.

In case the corporation is subject of a complaint or investigation by the Commission or any party, the computation of penalty may be years, earlier than the five (5) years and imposition of fine shall be made if warranted.



September 9, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

Re: **MPHIL Holdings No. 1 Corporation ("MPHIL Holdings No. 1")**
Application for Equity Restructuring

Ladies and Gentlemen:

We write further to our letter-application dated June 6, 2019 in connection with the application of Melco Resorts and Entertainment (Philippines) Corporation ("MRP") and its subsidiaries ("MRP Group") for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit ("Application").

In compliance with the comments dated August 15, 2019 of the Financial Analysis and Audit Division in relation to the Application, we are filing this letter request on behalf of MPHIL Holdings No. 1.

MPHIL Holdings No. 1, a wholly-owned subsidiary of MRP, is part of the MRP Group. MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MPHIL Holdings No. 1 has a significant amount of APIC in its books due to the share premium over par value paid by MRP in connection with the subscription to and issuance of MPHIL Holdings No. 1 shares.

While City of Dreams Manila was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, MPHIL Holdings No. 1 has reported accumulated deficit ("Deficit") and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of MPHIL Holdings No. 1 is as follows:

Class of Stock	Authorized Capital (shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
Common @ P1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIC and accumulated deficit of MPHIL Holdings No. 1 as at December 31, 2018 are as follows:

APIC	Net Deficit
₱21,050,978,279.70	₱(21,750,558.18)

In light of the foregoing and in furtherance of the Application, MPHIL Holdings No. 1 respectfully requests for the approval of its equity restructuring plan to eliminate its accumulated deficit as of December 31, 2018 (the "Net Deficit") by applying its existing APIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Net Deficit of MPHIL Holdings No. 1.

After eliminating the Deficit, MPHIL Holdings No. 1 will still have excess APIC ("Net APIC"), in the amount of ₱21,029,227,721.52.

In support of this request, we have previously submitted the following:

- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors approving the equity restructuring plan;
- 2.) Audited financial statements as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MPHIL HOLDINGS NO. 1 CORPORATION

By:



Clarence Yuk Man-Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.

SECRETARY'S CERTIFICATE

I, MARISSA T. ACADEMIA, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City, after having been duly sworn in accordance with law, state that:



1. I am the Corporate Secretary of MPHIL HOLDINGS NO. 1 CORPORATION (the "Corporation"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. The Corporation is filing an application with the Securities and Exchange Commission for equity restructuring.

3. To the best of my knowledge and based on records in my custody, no action or proceeding has been filed or is pending before any Court involving an intra-corporate dispute and/or claim by and between any person or group against the Board of Directors, individual directors, and/or officers or stockholders of the Corporation in their capacity as such.

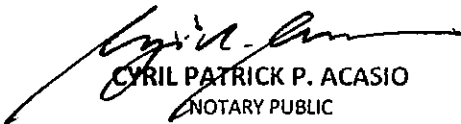
4. This Certification is executed to attest to the truth of the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand this ~~AUG 22 2019~~ AUG 22 2019 of August 2019 at Parañaque City.


MARISSA T. ACADEMIA
Corporate Secretary 

SUBSCRIBED AND SWORN TO before me this AUG 22 2019 day of August 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila, valid until January 22, 2028.

Doc. No. 102
Page No. 22
Book No. IV
Series of 2019.


CYRIL PATRICK P. ACASIO
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527
PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574



REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
Ground Floor, Secretariat Building, PICC
City of Pasay, Metro Manila

COMPANY REG. NO. CS201215365

CERTIFICATE OF APPROVAL OF
EQUITY RESTRUCTURING

KNOW ALL PERSONS BY THESE PRESENTS:

THIS IS TO CERTIFY that the equity restructuring to wipe out the deficit as of December 31, 2018 in the amount of P18,153,719.43 against the Additional Paid-in Capital (APIC) of P20,998,267,577.00 of

MPHIL HOLDINGS NO. 2 CORPORATION

was approved by the Commission on this date considering the all the requirements have been complied with provided that the remaining APIC of P20,980,113,857.57 shall not be used to wipe out losses that may be incurred by the company in the future without prior approval of the Commission.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15th day of October, Twenty Nineteen.


GERARDO F. DEL ROSARIO
Director
Company Registration and Monitoring Department

MY/lea

June 6, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

Re: **Melco Resorts and Entertainment (Philippines) Corporation ("MRP") Group
Application for Equity Restructuring**

Ladies and Gentlemen:

We write in connection with the application of MRP and its subsidiaries for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit.

MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MRP's subsidiaries are 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") (MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as the "MRP Group" while each is referred to as "Corporation").

Each Corporation has a significant amount of APIC in its books due to the share premium over par value paid by each Corporation's shareholder(s) in connection with the subscription to and issuance of shares.

While the property was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, each Corporation has reported accumulated deficit and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of the MRP Group as of 31 December 2018 is as follows:

	Class of Stock	Authorized Capital (shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
MRP	Common @ P1.00 par value per share	5,900,000,000	5,900,000,000.00	5,687,270,800.00	5,687,270,800.00
MPHIL Holdings No. 1	Common @ P1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
MPHIL Holdings No. 2	Common @ P1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
Melco Resorts Leisure	Common @ P1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIIC and accumulated deficits of each Corporation as at 31 December 2018 are as follows:

	APIIC	Net Deficit
MRP	22,259,788,014.37	(134,567,233.09)
MPHIL Holdings No. 1	21,050,978,279.70	(21,750,558.18)
MPHIL Holdings No. 2	20,998,267,577.00	(18,153,719.43)
Melco Resorts Leisure	20,993,047,577.00	(15,535,491,382.34)

In light of the foregoing, the MRP Group respectfully requests for the approval of its equity restructuring plan to eliminate the respective accumulated deficit of each of MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2, and Melco Resorts Leisure as of 31 December 31, 2018 (the "Deficit") by applying each Corporation's existing APIIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Deficit of each member of the MRP Group.

After eliminating the Deficit, there will still be excess APIIC for each Corporation ("Net APIIC"), in the following amounts:

	NET APIIC
MRP	22,125,220,781.28
MPHIL Holdings No. 1	21,029,227,721.52
MPHIL Holdings No. 2	20,980,113,857.57
Melco Resorts Leisure	5,457,556,194.66

In support of this request, we hereby submit the following:

- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors of each Corporation approving the equity restructuring plan;
- 2.) Audited financial statements of each Corporation as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance for each Corporation.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 1 CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 2 CORPORATION

By:



Clarence Yuk Man Chung
President

MELCO RESORTS LEISURE (PHP) CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.



SECRETARY'S CERTIFICATE

I, **MARISSA T. ACADEMIA**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of MPHIL Holdings No. 2 Corporation (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. At the duly constituted Special Meeting of the Board of Directors held on April 24, 2019, at which meeting a quorum was present and acting throughout, the Corporation's Board of Directors unanimously approved the following resolutions:

MPHIL Holdings No. 2 Resolution No. 2019-005

WHEREAS, MPHIL Holdings No. 2 Corporation (the "**Corporation**") has a significant amount of additional paid-in capital ("**APIC**") in its books due to the share premium over par value paid by the Corporation's shareholders in connection with the subscription to and issuance of shares.

WHEREAS, while City of Dreams Manila was in the opening stages and ramping up its operations, the Corporation incurred substantial losses and reported accumulated deficit and negative retained earnings. As of December 31, 2018, the Corporation's share premium/APIC was P20,998,267,577.00 and its accumulated deficit was P18,153,719.43.

RESOLVED, that the management be authorized to implement equity restructuring for purpose of eliminating the above stated accumulated deficit by applying the above referred APIC against such deficit.

RESOLVED FURTHER, that in connection with the actions contemplated by the foregoing resolutions, each of the President and Chairman of the Board, Treasurer, Property President/Chief Operating Officer, and Vice President, Legal Affairs, Philippines or Corporate Secretary of the Corporation (collectively, the "**Authorized Representatives**") or, if applicable, any attorney of any Authorized Representative supported by relevant supporting documents (collectively, the "**Authorized Persons**") be authorized, in the name and on behalf of the Corporation or the relevant subsidiary, to do such further acts and things and to sign such documents as any such Authorized Persons might deem necessary or appropriate, including to do and perform (or procure to be done and performed), in the name and on behalf of the Corporation or its subsidiaries, all such acts and to sign, make, execute, deliver, issue or file (or procure to be signed, made, executed, issued, delivered or filed) with any person including, but not limited to, any stock exchange, governmental authority or agency, all such agreements, documents, instruments, certificates, consents, waivers, notifications and announcements and all amendments to any such agreements, documents, instruments, certificates, consents, waivers, notifications or announcements and where any such documents be required to be sealed or executed as a deed by affixing the corporate/common seal of the Corporation or the relevant subsidiary, to affix thereto the seal countersigned by any such Authorized Person and to pay, or procure to be paid, all such payments, in each case as any of them might deem necessary or advisable to carry out the intent of the foregoing resolutions,

the authority for the taking of such acts and things and the signing, making, execution, delivery, issue and filing of such of the foregoing to be conclusively evidenced thereby.

RESOLVED FINALLY, that any and all actions of the Corporation and/or any of its subsidiaries, or any Authorized Person, or such other duly authorized person, taken in connection with the actions contemplated by the foregoing resolutions prior to the date of these resolutions be ratified, confirmed, approved and adopted in all respects as if such actions had been presented to all Directors for approval, and approved by them prior to such action being taken.

3. The foregoing Resolutions have not been altered, modified, nor revoked and that the same are now in full force and in effect.

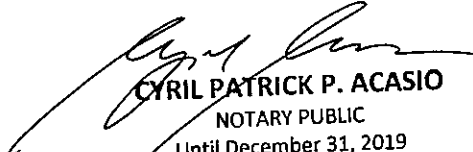
4. This Certification is issued to attest to the truth of the foregoing Resolutions.

IN WITNESS WHEREOF, I have hereunto set my hand on June 3, 2019 at Parañaque City.


MARISSA T. ACADEMIA
Corporate Secretary 

SUBSCRIBED AND SWORN TO before me this 3rd day of June 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila, valid until January 22, 2028.

Doc. No. 512
Page No. 104
Book No. III
Series of 2019.


CYRIL PATRICK P. ACASIO
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527
PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574

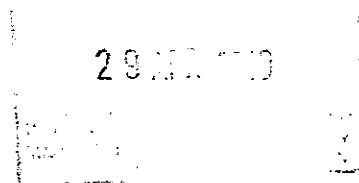
MPHIL Holdings No. 2 Corporation

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

and

Independent Auditor's Report

Sycip Gorres Velayo & Co.




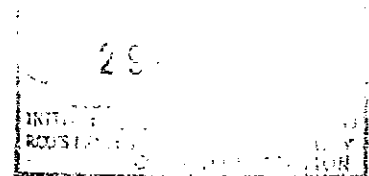
STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The management of MPHIL Holdings No. 2 Corporation (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, Management is responsible for all the information and representations contained in all the other tax returns filed for the reporting period including, but not limited to, the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

In this regard, Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, and are complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 08-2007 and other relevant issuances;
- (c) The Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


CLARENCE YUK MAN CHUNG
President & Chairman of the Board





DONALD N. TATEISHI
Treasurer

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

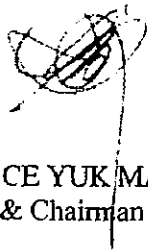
The management of MPHIL Holdings No. 2 Corporation (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

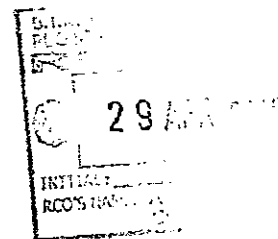
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the 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 financial statements of the Company 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



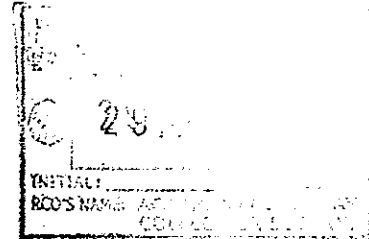


DONALD N. LATEISHI
Treasurer

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
MPHIL Holdings No. 2 Corporation
Asean Avenue cor. Roxas Boulevard,
Brgy. Tambo, Parañaque City 1701



Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MPHIL Holdings No. 2 Corporation (the Company), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 Financial Statements* section of our report. We are independent of the Company 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 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



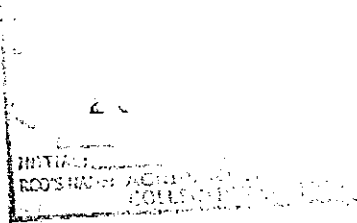
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.





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Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 15 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MPHIL Holdings No. 2 Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Roel E. Lucas

Partner

CPA Certificate No. 98200

SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020

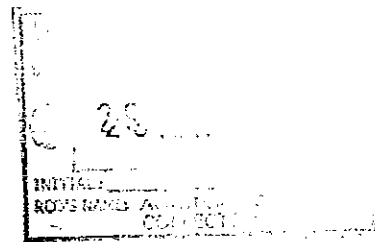
Tax Identification No. 191-180-015

BIR Accreditation No. 08-001998-95-2016,

January 3, 2017, valid until January 2, 2020

PTR No. 7332567, January 3, 2019, Makati City

April 24, 2019



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
MPHIL Holdings No. 2 Corporation
Asean Avenue cor. Roxas Boulevard,
Brgy. Tambo, Parañaque City 1701

We have audited the financial statements of MPHIL Holdings No. 2 Corporation (the Company) as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated April 24, 2019.

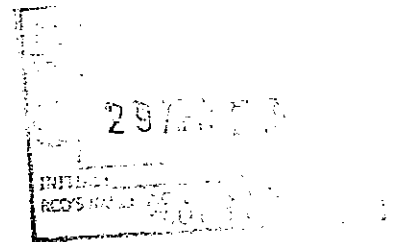
In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has one (1) stockholder owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Roel E. Lucas

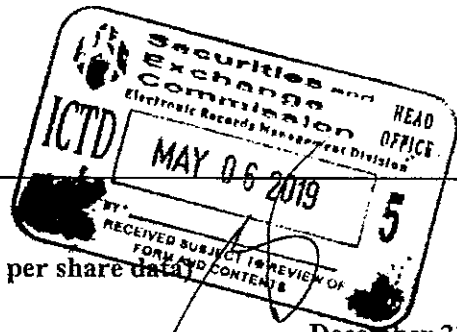
Roel E. Lucas
Partner
CPA Certificate No. 98200
SEC Accreditation No. 1079-AR-2 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 191-180-015
BIR Accreditation No. 08-001998-95-2016,
January 3, 2017, valid until January 2, 2020
PTR No. 7332567, January 3, 2019, Makati City

April 24, 2019



MPHIL HOLDINGS NO. 2 CORPORATION
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 Asset

Cash and cash equivalents	5, 13 and 14	₱268	₱211
Total Current Asset		268	211

Non-current Asset

Investment in a subsidiary	6	23,286,310	23,286,310
Total Non-current Asset		23,286,310	23,286,310
		₱23,286,578	₱23,286,521

LIABILITY AND EQUITY

Current Liability

Amounts due to related parties	9, 13 and 14	₱24,570	₱24,506
Total Current Liability		24,570	24,506

Equity

Capital stock	7	2,281,895	2,281,895
Additional paid-in capital		20,998,267	20,998,267
Accumulated deficit		(18,154)	(18,147)
Total Equity		23,262,008	23,262,015
		₱23,286,578	₱23,286,521

See accompanying Notes to Financial Statements.



MPHIL HOLDINGS NO. 2 CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

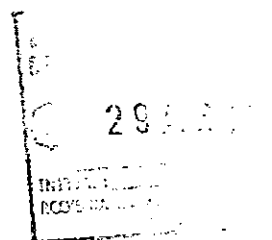
	Notes	Year Ended December 31,	
		2018	2017
OPERATING COSTS AND EXPENSES			
General and administrative expenses	8	(₱6)	(₱6)
Total Operating Costs and Expenses		(6)	(6)
NON-OPERATING EXPENSES			
Foreign exchange losses, net		(1)	—
Total Non-operating Expenses		(1)	—
LOSS BEFORE INCOME TAX		(7)	(6)
INCOME TAX EXPENSE	10	—	—
NET LOSS		(7)	(6)
OTHER COMPREHENSIVE INCOME			
		—	—
TOTAL COMPREHENSIVE LOSS		(₱7)	(₱6)

See accompanying Notes to Financial Statements.

MPHIL HOLDINGS NO. 2 CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Capital Stock (Note 7)	Additional Paid-in Capital	Accumulated Deficit	Total
Balance as of January 1, 2018	₱2,281,895	₱20,998,267	(₱18,147)	₱23,262,015
Net loss and total comprehensive loss	-	-	(7)	(7)
Balance as of December 31, 2018	₱2,281,895	₱20,998,267	(₱18,154)	₱23,262,008
Balance as of January 1, 2017	₱2,281,895	₱20,998,267	(₱18,141)	₱23,262,021
Net loss and total comprehensive loss	-	-	(6)	(6)
Balance as of December 31, 2017	₱2,281,895	₱20,998,267	(₱18,147)	₱23,262,015

See accompanying Notes to Financial Statements.



MPHIL HOLDINGS NO. 2 CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(₱7)	(₱6)
Adjustment for unrealized foreign exchange losses, net	1	-
Operating loss before working capital changes	(6)	(6)
Change in liability:		
Increase in amounts due to related parties	60	-
Net cash provided by (used in) operating activities	54	(6)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		
	3	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57	(6)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	211	217
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱268	₱211

See accompanying Notes to Financial Statements.

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MPHIL HOLDINGS NO. 2 CORPORATION

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Business

(a) Corporate Information

MPHIL Holdings No. 2 Corporation (the "Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC").

The Company is principally engaged in acquiring investments and securities and providing financing to its group companies.

The 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.

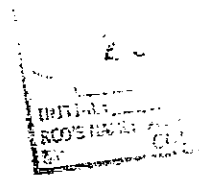
As of December 31, 2018 and 2017, the Company's ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated and listed in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), and Melco Resorts & Entertainment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

As of December 31, 2018 and 2017, the immediate holding company of the Company is MPHIL Holdings No. 1 Corporation ("MPHIL Holdings No. 1"), a company incorporated in the Philippines. The Company, MPHIL Holdings No. 1 and Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure"), the direct wholly-owned subsidiary of the Company, are collectively referred to as "MPHIL Holdings Group". MPHIL Holdings Group, including the Company, is wholly-owned by Melco Resorts and Entertainment (Philippines) Corporation ("MRP"), an indirect subsidiary of Melco International and incorporated in the Philippines with shares publicly traded on The Philippine Stock Exchange, Inc. until its trading suspension on December 10, 2018.

The accompanying financial statements were approved and authorized for issue in accordance with a resolution by the board of directors on April 24, 2019.

(b) Subsidiary of the Company

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in Melco Resorts Leisure, a company incorporated in the Philippines. 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.



MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****1. Organization and Business – continued****(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 Company’s 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 financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The 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 financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All values are rounded off to the nearest thousand, unless otherwise indicated.

Although the Company had net current liability of ₱24,302 and ₱24,295 as of December 31, 2018 and 2017, respectively, Melco has agreed to provide continuing financial support to enable the Company to meet in full its financial obligations as they fall due for a period of twelve months from February 27, 2019, the date of the letter of financial support.

In the opinion of the directors, in light of the above, the Company 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 financial statements on a going concern basis.

The Company elected not to prepare consolidated financial statements under the exemption provided in PFRS 10, *Consolidated Financial Statements*. MRP prepared and issued consolidated financial statements for the same year as presented in conformity with PFRS, which may be obtained from MRP’s registered office at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies**Changes in Accounting Policies and Disclosures

The Company 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 financial statements, except for the adoption of 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, *Revenue from Contracts with Customers*
- 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 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.

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

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedChanges in Accounting Policies and Disclosures – continued▪ **PFRS 9, *Financial Instruments* – continued***Classification and Measurement – continued*

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

	January 1, 2018	
	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash and cash equivalents	₱211	₱211

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.

Standards Issued But Not Yet Effective

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

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Standards Issued But Not Yet Effective – continued****▪ 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.

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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

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***

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).

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 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.

- **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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedStandards Issued But Not Yet Effective – continued

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

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.

- **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.

MPHIL HOLDINGS NO. 2 CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
3. Summary of Significant Accounting Policies – continued
Standards Issued But Not Yet Effective – continued
▪ Annual Improvements to PFRSs (2015 – 2017 Cycle) – continued

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

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.

- **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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedStandards Issued But Not Yet Effective – continued▪ **PFRS 17, *Insurance Contracts* – continued**

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.

▪ **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 in banks including short-term deposits with a maturity of three months or less, which are unrestricted 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 Company's business model for managing them. The Company 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.

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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*****Initial Recognition and Measurement – continued***

The Company'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 Company 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.

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 Company 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 statements of comprehensive income when the asset is derecognized, modified or impaired.

The Company's financial asset at amortized cost include cash and cash equivalents (see Note 5).

The Company 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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****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.

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 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). The carrying values and fair values of loans and receivables are disclosed in Note 14.

The Company 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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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)

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 Company 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 Company 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.

Where the Company 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 Company’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 Company could be required to repay.

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018)

The Company 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 Company 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.

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 Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*General Approach – continued*

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written-off when there is no reasonable expectation of recovering the contractual cash flows. At each reporting date, the Company 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 Company, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the Company 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.

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

The Company 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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**
(In thousands of Philippine peso, except share and per share data)**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 Company. The Company 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 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 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 statements of comprehensive income.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Company's loans and borrowings and payables includes amounts due to related parties (see Note 9).

The Company 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 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 amounts due to related parties (see Note 9). The carrying values and fair values of other financial liabilities are disclosed in Note 14.

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 statements of comprehensive income.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Company. 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 Company 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 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.

Investment in a Subsidiary

A subsidiary is an entity that is controlled by the Company. Investment in a subsidiary of the Company is accounted for under the cost method of accounting in the financial statements and is included in the balance sheets at cost less any impairment loss. The Company recognizes income from investment in a subsidiary only to the extent that the Company receives distributions from accumulated profits of the subsidiary and arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of investment in a subsidiary.

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in Melco Resorts Leisure.

Impairment of Investment in a Subsidiary

The Company assesses at each balance sheet date whether there is an indication that the investment in a subsidiary may be impaired. If any such indications exist, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. 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 asset. Impairment losses, if any, are recognized in the statements of comprehensive income.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Investment in a Subsidiary – continued

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 had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of comprehensive income.

Provisions

Provisions are recognized when the Company 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.

Accumulated Deficit

The accumulated deficit represents the Company'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.

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 statements of comprehensive income in the year these are incurred.

Foreign Currency Transactions

The Company's financial statements are presented in Philippine peso, the functional currency of the Company. 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 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 statements of comprehensive income in the year in which the differences arise.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Foreign Currency Transactions – continued

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.

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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Income Tax – continuedDeferred Tax – continued

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.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

4. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgment, estimates and assumptions. The judgment, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgment

In the process of applying the Company's policies, management has made the following judgment which has the most significant effect on the amounts recognized in the financial statements.

Functional Currency

Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****4. Significant Accounting Judgment, Estimates and Assumptions – continued***Estimates and Assumptions – continued**Impairment of Investment in a Subsidiary*

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of investment in a subsidiary requires the determination of future cash flows expected to be generated from such investment, requires the Company to make estimates and assumptions that can materially affect the Company's financial statements. Future events could cause the Company to conclude that such investment is impaired. Any resulting impairment could have a material impact on the financial condition and results of operation of the Company.

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment losses for the Company's investment in a subsidiary were recognized for the years ended December 31, 2018 and 2017. The carrying values of investment in a subsidiary amounted to ₱23,286,310 as of December 31, 2018 and 2017 in each of those periods (see Note 6).

Recognition of Deferred Tax Assets

The Company 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 Company'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 Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

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 ₱96 and ₱342 as of December 31, 2018 and 2017, respectively (see Note 10).

5. Cash and Cash Equivalents

The amount represents cash in banks amounted to ₱268 and ₱211 as of December 31, 2018 and 2017, respectively.

6. Investment in a Subsidiary

As of December 31, 2018 and 2017, the Company holds 100% direct equity interests in Melco Resorts Leisure, representing 2,281,894,500 common shares with a par value of ₱1 per share, with investment costs and carrying amounts amounting to ₱23,286,310 in each of those periods.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

7. Capital Stock

	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	5,200,000,000	₱5,200,000
Issued and fully paid:		
As of January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	2,281,894,500	₱2,281,895

8. General and Administrative Expenses

	Year Ended December 31,	
	2018	2017
Taxes and licenses	₱1	₱–
Bank service fees	5	3
Operating and other expenses	–	3
	₱6	₱6

9. 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.

	Outstanding Balance		Terms	Conditions
	December 31,			
	2018	2017		
Amounts due to related parties				
<i>Amounts due to intermediate holding companies</i>				
Amounts due to Melco and MRP	₱701	₱640	Repayable on demand; non-interest bearing	Unsecured
<i>Amount due to immediate holding company</i>				
Amount due to MPHIL Holdings No. 1	₱6,999	₱6,999	Repayable on demand; non-interest bearing	Unsecured

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

9. Related Party Transactions – continued

	Outstanding Balance		Terms	Conditions
	December 31,			
	2018	2017		
Amounts due to related parties – continued				
<i>Amount due to a subsidiary:</i>				
Amount due to Melco Resorts Leisure	₱16,841	₱16,838	Repayable on demand; non-interest bearing	Unsecured
<i>Amount due to an affiliated company</i>				
Amount due to a subsidiary of Melco International	₱29	₱29	Repayable on demand; non-interest bearing	Unsecured

Directors' Remuneration

For the years ended December 31, 2018 and 2017, the remuneration of certain directors of the Company was borne by Melco.

Compensation of Key Management Personnel

For the years ended December 31, 2018 and 2017, the compensation of key management personnel of the Company was borne by Melco, MRP and Melco Resorts Leisure.

10. Income Tax

No provision for income tax was provided for the years ended December 31, 2018 and 2017 as the Company incurred tax losses.

A reconciliation of income tax benefit computed at the statutory income tax rate to provision for income tax is as follows:

	Year Ended December 31,	
	2018	2017
Income tax benefit computed at statutory income tax rate	(₱2)	(₱2)
Income tax effects of:		
Change in unrecognized deferred tax assets	(246)	(3,199)
Expenses not deductible for tax purposes	–	1
Expired NOLCO	248	3,200
	₱–	₱–

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

10. Income Tax -- continued

The Company has not recognized the following deferred tax assets on deductible temporary differences since management believes the Company may not be able to realize the benefits from these deferred tax assets in the future.

	December 31,	
	2018	2017
NOLCO	₱94	₱340
Others	2	2
	₱96	₱342

As of December 31, 2018, the Company'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	₱6	₱-	₱-	₱6
2017	2020	3	-	-	3
2016	2019	305	-	-	305
2015	2018	827	-	827	-
		₱1,141	₱-	₱827	₱314

11. Cooperation Agreement and Operating 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.

(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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****11. Cooperation Agreement and Operating Agreement – continued****(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 further provides that Melco Resorts Leisure has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

12. Commitments and Contingencies**Other Commitments****(a) 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 section 13(2)(a) of Presidential Decree No. 1869.
- (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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****12. Commitments and Contingencies – continued****Other Commitments – continued****(a) Regular License – continued**

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 13 under capital risk management.

(b) 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 including the Company agree to indemnify the non-breaching party for any losses suffered or incurred as a result of a breach of any warranties.

(c) 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 (Philippines) Investments Limited (an indirect subsidiary of Melco) as lender (the “Lender”). The Shareholder Loan Facility is a term loan facility denominated in United States dollars (“US\$”). MRP, MPHIL Holdings No. 1 and the Company (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 including the Company to be provided as a condition precedent to the initial utilization of the Shareholder Loan. As of December 31, 2018 and 2017, the Shareholder Loan Facility has not been drawn.

13. Financial Risk Management Objectives and Policies

The Company has financial asset and liability including cash and cash equivalents and amounts due to related parties which arise directly from its operations.

The main risks arising from the Company’s financial instruments are credit risk, liquidity risk and foreign exchange risk. Management reviews and approves policies for managing each of these risks and they are summarized below.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****13. Financial Risk Management Objectives and Policies – continued**Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

With respect to credit risk from the financial asset of the Company, which is composed of cash and cash equivalents, the exposure of the Company to credit risk arises from the default of a bank where the Company's cash and cash equivalents are deposited, with a maximum exposure equal to the carrying amount of this instrument. There are no significant concentrations of credit risk in the Company.

Credit Risk Exposures

The carrying values of the Company's financial asset represent the maximum exposure to credit risk and the Company did not hold any collateral or credit enhancements to cover its credit risk associated with its financial asset as of December 31, 2018 and 2017.

Credit Quality per Class of Financial Asset

Cash and cash equivalents are considered as high grade and include deposits made to reputable banks in the Philippines. The credit risks for this financial asset have not increased significantly since initial recognition and for which the loss allowances are measured at an amount equal to 12-months ECLs.

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 Company will not be able to meet its obligations associated with financial difficulties.

The Company uses historical data and forecasts on its disbursements to ensure it has sufficient cash to meet the investment needs and with the statutory fee and expenses for maintaining the Company and manages its liquid funds through cash planning on a monthly basis. The forecast takes into consideration the Company'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 Company's financial asset held for liquidity purposes and financial liability as of December 31, 2018 and 2017 based on undiscounted contractual cash flows.

	December 31, 2018				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Asset					
Cash and cash equivalents	₱268	₱–	₱–	₱–	₱268
Financial Liability					
Amounts due to related parties	₱24,570	₱–	₱–	₱–	₱24,570

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

13. Financial Risk Management Objectives and Policies – continuedLiquidity Risk – continued

	December 31, 2017				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Asset					
Cash and cash equivalents	₱211	₱–	₱–	₱–	₱211
Financial Liability					
Amounts due to related parties	₱24,506	₱–	₱–	₱–	₱24,506

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of monetary asset and monetary liability will fluctuate due to changes in foreign exchange rates.

The Company has foreign currency exposures arising from translation of certain monetary asset and monetary liability denominated in foreign currencies, which are primarily denominated in Hong Kong dollars (“HK\$”) and US\$. Foreign exchange risks of the Company 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 Company 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 asset and monetary liability, translated into Philippine peso equivalents, are as follows:

	December 31, 2018			
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso
Monetary Asset	–	–	1,179	62
Monetary Liability	(4,353)	(29)	(1,200)	(63)
	(4,353)	(29)	(21)	(1)
	December 31, 2017			
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso
Monetary Asset	–	–	977	49
Monetary Liability	(4,353)	(28)	(1,000)	(50)
	(4,353)	(28)	(23)	(1)

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****13. Financial Risk Management Objectives and Policies – continued**Foreign Exchange Risk – continued

In translating the foreign currency-denominated monetary asset and liability into Philippine peso amounts, the Company 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

The sensitivity of the loss before income tax with regard to the Company's monetary asset and monetary liability in HK\$ and US\$ 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 Company's best estimate of expected changes considering historical trends and experience.

If the Philippine peso had strengthened or weakened against HK\$ and US\$, with all other variables held constant, there will be no impact to the loss before income tax for the years ended December 31, 2018 and 2017 for each of the foreign currencies as mentioned above as the amounts of foreign currencies asset and liability are immaterial.

Capital Risk Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain funding from issuance of new shares, debt financing and from intermediate holding companies.

The Company considers total equity as its capital which amounted to ₱ 23,262,008 and ₱23,262,015 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 Company'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, the Company, as one of the Licensee parties, has complied with the D/E Ratio as required by PAGCOR.

14. Financial InstrumentsFair Value of Financial Instruments*Cash and cash equivalents and Amounts due to related parties*

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.

MPHIL HOLDINGS NO. 2 CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

14. Financial Instruments – continuedFair Value Hierarchy

The Company 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.

As of December 31, 2018 and 2017, the Company 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.

15. Supplementary Tax Information under Revenue Regulations 15-2010

On December 28, 2010, the Bureau of Internal Revenue (the “BIR”) issued Revenue Regulations (“RR”) No. 15-2010 which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued for the year in addition to the disclosures mandated by PFRS.

Below is the additional information required by RR No. 15-2010.

Other Taxes and Licenses in 2018

All other taxes and licenses are recognized as general and administrative expenses in the statements of comprehensive income.

Year Ended December 31, 2018		
Official Receipt Number	Date Paid	Amount
Annual registration	291800023536977	January 29, 2019
		₱1

Withholding Taxes

The Company did not incur any expenses or make any payments subject to withholding taxes for the year ended December 31, 2018.

Tax Assessments and Cases

As of December 31, 2018, the Company had no ongoing tax assessment with BIR.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
MPHIL Holdings No. 2 Corporation
Asean Avenue cor. Roxas Boulevard,
Brgy. Tambo, Parañaque City 1701

We have audited in accordance with Philippine Standards on Auditing, the financial statements of MPHIL Holdings No. 2 Corporation (the Company) as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated April 24, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all issued standards and interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, 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

April 24, 2019



MPHIL HOLDINGS NO. 2 CORPORATION

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued on December 31, 2018		Adopted	Not Fully 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 As released on December 31, 2013		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			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not yet Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	X			
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	X			
	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 PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation				X
	Amendment to PAS 16: 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		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued on December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28: Applying the Consolidation Exception				X
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value				X
	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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2013		Adopted	Not yet Adopted	No. Adopted	No. Applicable
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
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

2013.01.01



Republic of the Philippines
Department of Finance
Securities and Exchange Commission

Company Registration and Monitoring Department
Compliance Monitoring Division

MONITORING SHEET - NO PENALTY

Corporate Name	MPHIL HOLDINGS NO. 2 CORPORATION		
Registration No.	CS201215365	Date of Registration	August 22, 2012
Term of Existence	50 YRS.	Annual Meeting	Last Monday of July
Principal Office	Asean Avenue, cor. Roxas Boulevard, Brgy. Tambo, Parañaque City	Actual Meeting	July 30, 2018
No. of Directors/Trustees	Five (5)	Fiscal Year	12.31

<input checked="" type="checkbox"/> STOCK CORPORATION	<input type="checkbox"/> NON-STOCK CORPORATION
Authorized Capital Stock P 5,200,000,000.00	Equity/Fund Balance P
Retained Earnings P	Negative Fund Balance P
Deficit P (18,154.00)	Fiscal Year ended
Capital Deficiency P	Fine: P per year, per report
Fiscal Year ended DECEMBER 31, 2018	
Fine: P 500.00 per year, per report	

COMPUTATION OF FINES					
YEAR	General Information Sheet		Financial Statements		FINE
2017	Monitored	03.01.2018	OT		
2018	Monitored	03.01.2018	OT		
2019					
Stock and Transfer/Membership Book Monitored					
TOTAL					NO PENALTY

OT - On Time
NF - Not Filed
FL/RL - Filed/Registered Late

Monitored by:		DATE: 05.16.19
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Certification Issuance System-Unified Reference Database - CLEARED as of May 16, 2019.

Compliant with all reportorial requirements as of MAY 16, 2019.

The findings/assessment is based on the documents/reports available in the SEC database and the documents presented by the party to the monitor as of:

Representative
Signature Over Printed Name

For the Director: GERARDO F. DEL ROSARIO

By: Emerliza M. Castro
SEC Administrative Officer II

Note:

This assessment does not constitute as waiver of any fine or penalty for deficiencies in reportorial requirements due from, or may hereafter be assessed against, the corporation nor does it preclude the institution of any action against the corporation for violation of any of the provisions of the Corporation Code of the Philippines, the Securities Regulation Code, and its implementing rules and regulations, and other pertinent laws, rules and regulations implemented by the Commission.

In case the corporation is subject of a complaint or investigation by the Commission or any party, the computation of penalty may be years, earlier than the five (5) years and imposition of fine shall be made if warranted.

MS-NP, v.2019

2 GIS filed for the year 2018 for clarificaton



September 9, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

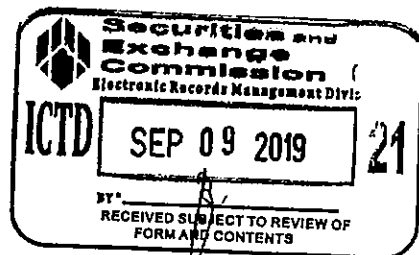
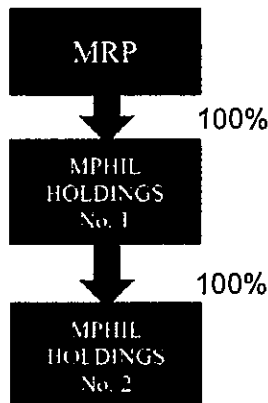
Re: **MPHIL Holdings No. 2 Corporation ("MPHIL Holdings No. 2")**
Application for Equity Restructuring

Ladies and Gentlemen:

We write further to our letter-application dated June 6, 2019 in connection with the application of Melco Resorts and Entertainment (Philippines) Corporation ("MRP") and its subsidiaries ("MRP Group") for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit ("Application").

In compliance with the comments dated August 15, 2019 of the Financial Analysis and Audit Division in relation to the Application, we are filing this letter request on behalf of MPHIL Holdings No. 2.

MPHIL Holdings No. 2 is part of the MRP Group under the following structure:



MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MPHIL Holdings No. 2 has a significant amount of APIC in its books due to the share premium over par value paid by MPHIL Holdings No. 1 in connection with the subscription to and issuance of MPHIL Holdings No. 2 shares.

While City of Dreams Manila was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, MPHIL Holdings No. 2 has reported accumulated deficit ("Deficit") and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of MPHIL Holdings No. 2 is as follows:

Class of Stock	Authorized Capital (Shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
Common @ P1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIC and accumulated deficit of MPHIL Holdings No. 2 as at December 31, 2018 are as follows:

APIC	Net Deficit
P20,998,267,577.00	P(18,153,719.43)

In light of the foregoing and in furtherance of the Application, MPHIL Holdings No. 2 respectfully requests for the approval of its equity restructuring plan to eliminate its accumulated deficit as of December 31, 2018 (the "Net Deficit") by applying its existing APIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Net Deficit of MPHIL Holdings No. 2.

After eliminating the Deficit, MPHIL Holdings No. 2 will still have excess APIC ("Net APIC"), in the amount of P20,980,113,857.57.

In support of this request, we have previously submitted the following:

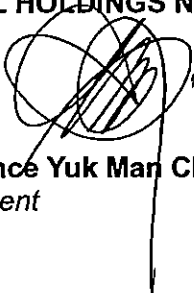
- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors approving the equity restructuring plan;
- 2.) Audited financial statements as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MPHIL HOLDINGS NO. 2 CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.

SECRETARY'S CERTIFICATE

I, **MARISSA T. ACADEMIA**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City, after having been duly sworn in accordance with law, state that:


1. I am the Corporate Secretary of **MPHIL HOLDINGS NO. 2 CORPORATION** (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. The Corporation is filing an application with the Securities and Exchange Commission for equity restructuring.

3. To the best of my knowledge and based on records in my custody, no action or proceeding has been filed or is pending before any Court involving an intra-corporate dispute and/or claim by and between any person or group against the Board of Directors, individual directors, and/or officers or stockholders of the Corporation in their capacity as such.

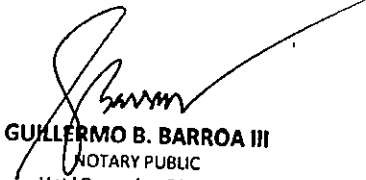
4. This Certification is executed to attest to the truth of the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand this MAY 03 2019 at Parañaque City.


MARISSA T. ACADEMIA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 2th day of May 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila with validity until January 22, 2028.

Doc. No. 154
Page No. 32
Book No. 11
Series of 2019.


GUILLERMO B. BARROA III
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 198-2018
Roll No. 58025
PTR No. 1713018/01-04-19/ Parañaque City
IBP No. 059341/01-07-19/ Manila III
MCLE Compliance No. VI-0011916



REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
Ground Floor, Secretariat Building, PICC
City of Pasay, Metro Manila

COMPANY REG. NO. CS201215883

**CERTIFICATE OF APPROVAL OF
EQUITY RESTRUCTURING**

KNOW ALL PERSONS BY THESE PRESENTS:

THIS IS TO CERTIFY that the equity restructuring to wipe out the deficit as of December 31, 2018 in the amount of P15,535,491,382.34 against the Additional Paid-in Capital (APIC) of P20,993,047,577.00 of

MELCO RESORTS LEISURE (PHP) CORPORATION
doing business under the name and style of
CITY OF DREAMS MANILA AND COD MANILA

was approved by the Commission on this date considering the all the requirements have been complied with provided that the remaining APIC of P5,457,556,194.66 shall not be used to wipe out losses that may be incurred by the company in the future without prior approval of the Commission.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15th day of October, Twenty Nineteen.

GERARDO F. DEL ROSARIO

Director

Company Registration and Monitoring Department

June 6, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: **Director Gerardo F. Del Rosario**
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

Re: **Melco Resorts and Entertainment (Philippines) Corporation ("MRP") Group
Application for Equity Restructuring**

Ladies and Gentlemen:

We write in connection with the application of MRP and its subsidiaries for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit.

MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

MRP's subsidiaries are 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") (MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure are collectively referred to as the "MRP Group" while each is referred to as "Corporation").

Each Corporation has a significant amount of APIC in its books due to the share premium over par value paid by each Corporation's shareholder(s) in connection with the subscription to and issuance of shares.

While the property was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, each Corporation has reported accumulated deficit and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of the MRP Group as of 31 December 2018 is as follows:

	Class of Stock	Authorized Capital (Shares)	Authorized Capital (P)	Subscribed Capital (P)	Paid-Up Capital (P)
MRP	Common @ ₱1.00 par value per share	5,900,000,000	5,900,000,000.00	5,687,270,800.00	5,687,270,800.00
MPHIL Holdings No. 1	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
MPHIL Holdings No. 2	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00
Melco Resorts Leisure	Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIIC and accumulated deficits of each Corporation as at 31 December 2018 are as follows:

	APIIC	Net Deficit
MRP	22,259,788,014.37	(134,567,233.09)
MPHIL Holdings No. 1	21,050,978,279.70	(21,750,558.18)
MPHIL Holdings No. 2	20,998,267,577.00	(18,153,719.43)
Melco Resorts Leisure	20,993,047,577.00	(15,535,491,382.34)

In light of the foregoing, the MRP Group respectfully requests for the approval of its equity restructuring plan to eliminate the respective accumulated deficit of each of MRP, MPHIL Holdings No. 1, MPHIL Holdings No. 2, and Melco Resorts Leisure as of 31 December 31, 2018 (the "Deficit") by applying each Corporation's existing APIIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Deficit of each member of the MRP Group.

After eliminating the Deficit, there will still be excess APIIC for each Corporation ("Net APIIC"), in the following amounts:

	NET APIIC
MRP	22,125,220,781.28
MPHIL Holdings No. 1	21,029,227,721.52
MPHIL Holdings No. 2	20,980,113,857.57
Melco Resorts Leisure	5,457,556,194.66

In support of this request, we hereby submit the following:

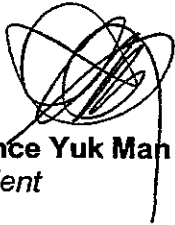
- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors of each Corporation approving the equity restructuring plan;
- 2.) Audited financial statements of each Corporation as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance for each Corporation.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 1 CORPORATION

By:



Clarence Yuk Man Chung
President

MPHIL HOLDINGS NO. 2 CORPORATION

By:



Clarence Yuk Man Chung
President

MELCO RESORTS LEISURE (PHP) CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.

SECRETARY'S CERTIFICATE



I, **MARISSA T. ACADEMIA**, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of Melco Resorts Leisure (PHP) Corporation (the “**Corporation**”), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. At the duly constituted Special Meeting of the Board of Directors held on April 24, 2019, at which meeting a quorum was present and acting throughout, the Corporation’s Board of Directors unanimously approved the following resolutions:

Melco Resorts Leisure Resolution No. 2019-021

WHEREAS, Melco Resorts Leisure (PHP) Corporation (the “**Corporation**”) has a significant amount of additional paid-in capital (“**APIC**”) in its books due to the share premium over par value paid by the Corporation’s shareholders in connection with the subscription to and issuance of shares.

WHEREAS, while City of Dreams Manila was in the opening stages and ramping up its operations, the Corporation incurred substantial losses and reported accumulated deficit and negative retained earnings. As of December 31, 2018, the Corporation's share premium/APIC was P20,993,047,577.00 and its accumulated deficit was P15,535,491,382.34.

RESOLVED, that the management be authorized to implement equity restructuring for purpose of eliminating the above stated accumulated deficit by applying the above referred APIC against such deficit.

RESOLVED FURTHER, that in connection with the actions contemplated by the foregoing resolutions, each of the President and Chairman of the Board, Treasurer, Property President/Chief Operating Officer, and Vice President, Legal Affairs, Philippines or Corporate Secretary of the Corporation (collectively, the “**Authorized Representatives**”) or, if applicable, any attorney of any Authorized Representative supported by relevant supporting documents (collectively, the “**Authorized Persons**”) be authorized, in the name and on behalf of the Corporation or the relevant subsidiary, to do such further acts and things and to sign such documents as any such Authorized Persons might deem necessary or appropriate, including to do and perform (or procure to be done and performed), in the name and on behalf of the Corporation or its subsidiaries, all such acts and to sign, make, execute, deliver, issue or file (or procure to be signed, made, executed, issued, delivered or filed) with any person including, but not limited to, any stock exchange, governmental authority or agency, all such agreements, documents, instruments, certificates, consents, waivers, notifications and announcements and all amendments to any such agreements, documents, instruments, certificates, consents, waivers, notifications or announcements and where any such documents be required to be sealed or executed as a deed by affixing the corporate/common seal of the Corporation or the relevant subsidiary, to affix thereto the seal countersigned by any such Authorized Person and to pay, or procure to be paid, all such payments, in each case as any of them might deem necessary or advisable to carry out the intent of the foregoing resolutions,

the authority for the taking of such acts and things and the signing, making, execution, delivery, issue and filing of such of the foregoing to be conclusively evidenced thereby.

RESOLVED FINALLY, that any and all actions of the Corporation and/or any of its subsidiaries, or any Authorized Person, or such other duly authorized person, taken in connection with the actions contemplated by the foregoing resolutions prior to the date of these resolutions be ratified, confirmed, approved and adopted in all respects as if such actions had been presented to all Directors for approval, and approved by them prior to such action being taken.

3. The foregoing Resolutions have not been altered, modified, nor revoked and that the same are now in full force and in effect.


4. This Certification is issued to attest to the truth of the foregoing Resolutions.

IN WITNESS WHEREOF, I have hereunto set my hand on June 3, 2019 at Parañaque City.


MARISSA T. ACADEMIA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 3rd day of June 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila, valid until January 22, 2028.

Doc. No. 510
Page No. 103
Book No. 11
Series of 2019.


CYRIL PATRICK P. ACASIO
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527
PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574

MELCO RESORTS LEISURE (PHP) CORPORATION

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

and

Independent Auditor's Report


SyCip Gorres Velayo & Co.


STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

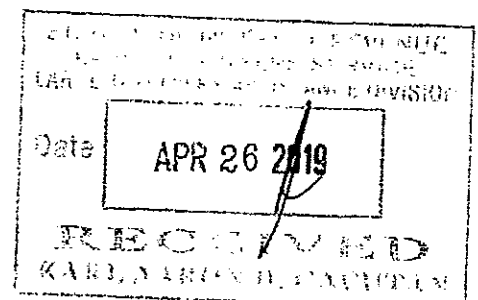
The management of Melco Resorts Leisure (PHP) Corporation (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, Management is responsible for all the information and representations contained in all the other tax returns filed for the reporting period including, but not limited to, the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

In this regard, Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, and are complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 08-2007 and other relevant issuances;
- (c) The Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


CLARENCE YUK MAN CHUNG
President & Chairman of the Board


DONALD N. TATEISHI
Treasurer



STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

The Board of Directors reviews and approves the 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 financial statements of the Company 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



DONALD N. TATEISHI
Treasurer

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Melco Resorts Leisure (PHP) Corporation (the Company), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

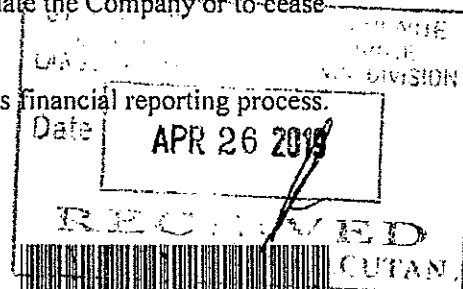
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



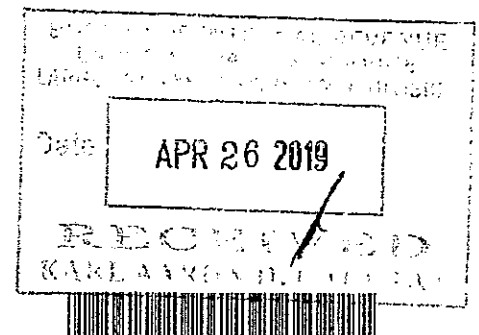
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Melco Resorts Leisure (PHP) Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, 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

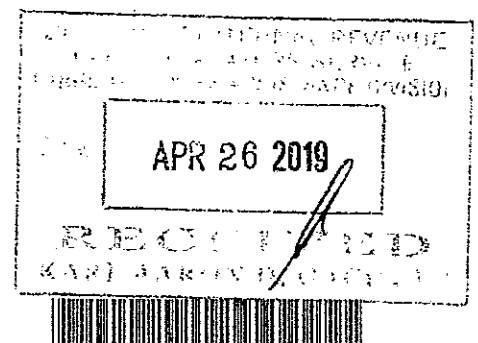
Tax Identification No. 191-180-015

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



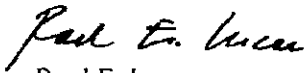
INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of Melco Resorts Leisure (PHP) Corporation (the Company) as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated March 21, 2019.

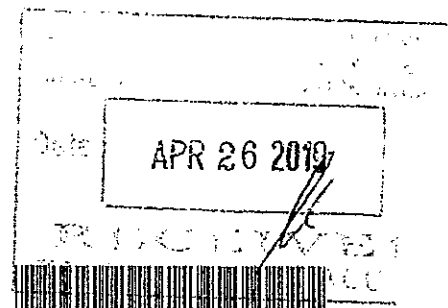
In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has one (1) stockholder owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.



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,
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March 21, 2019

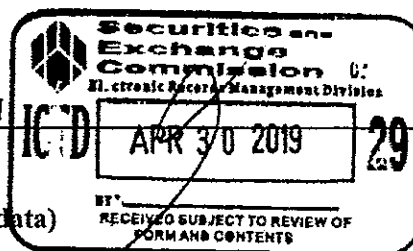


MELCO RESORTS LEISURE (PHP) CORPORATION

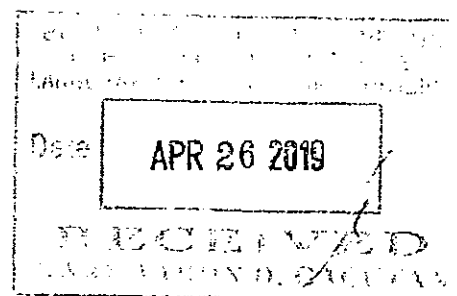
BALANCE SHEETS

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, 23 and 24	₱6,594,010	₱6,096,697
Restricted cash	6, 23 and 24	867,591	549,765
Accounts receivable, net	7, 23 and 24	1,476,364	1,328,372
Inventories		310,132	327,620
Prepayments and other current assets		412,134	385,274
Amounts due from related parties	16, 23 and 24	51,385	49,740
Total Current Assets		9,711,616	8,737,468
Non-current Assets			
Property and equipment, net	8	20,352,311	23,122,772
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		23,133,864	25,332,844
		₱32,845,480	₱34,070,312
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	23 and 24	₱151,145	₱136,758
Accrued expenses, other payables and other current liabilities	12, 23 and 24	8,968,703	5,882,043
Current portion of obligations under a finance lease	18, 23 and 24	1,824,898	1,661,799
Amounts due to related parties	16, 23 and 24	251,380	138,845
Total Current Liabilities		11,196,126	7,819,445
Non-current Liabilities			
Non-current portion of obligations under a finance lease	18, 23 and 24	13,358,923	13,271,953
Long-term debt, net	19, 23 and 24	—	7,459,634
Retirement liabilities	20	74,065	69,199
Other non-current liabilities		296,133	284,867
Deferred tax liability, net	17	180,781	119,430
Total Non-current Liabilities		₱13,909,902	₱21,205,083



MELCO RESORTS LEISURE (PHP) CORPORATION

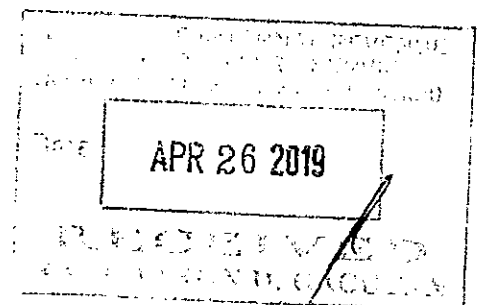
BALANCE SHEETS – continued

DECEMBER 31, 2018 AND 2017

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

	Note	December 31,	
		2018	2017
Equity			
Capital stock	13	₱2,281,895	₱2,281,895
Additional paid-in capital		20,993,048	20,993,048
Accumulated deficit		(15,535,491)	(18,229,159)
Total Equity		7,739,452	5,045,784
		₱32,845,480	₱34,070,312

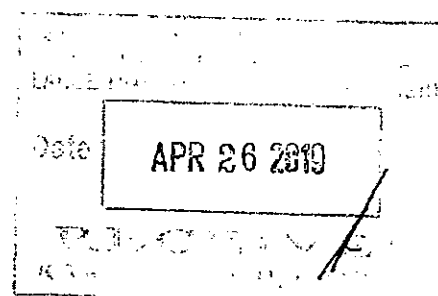
See accompanying Notes to Financial Statements.



MELCO RESORTS LEISURE (PHP) CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31,	
		2018	2017
NET OPERATING REVENUES			
Casino		₱26,241,009	₱30,463,494
Rooms		2,815,424	1,072,132
Food and beverage		2,759,911	688,820
Entertainment, retail and other		605,714	521,217
Total Net Operating Revenues		32,422,058	32,745,663
OPERATING COSTS AND EXPENSES			
Gaming tax and license fees		(9,222,131)	(8,053,459)
Inventories consumed		(978,549)	(944,129)
Employee benefit expenses	14	(4,136,599)	(3,611,264)
Depreciation and amortization		(4,014,242)	(4,284,389)
Other expenses	15	(5,915,051)	(9,986,948)
Payments to the Philippine Parties		(3,211,857)	(2,609,353)
Total Operating Costs and Expenses		(27,478,429)	(29,489,542)
OPERATING PROFIT		4,943,629	3,256,121
NON-OPERATING INCOME (EXPENSES)			
Interest income		49,557	42,650
Interest expenses, net of capitalized interest	18 and 19	(2,413,092)	(2,883,021)
Other finance fees		(17,968)	(42,384)
Foreign exchange gains, net		183,286	128,184
Loss on extinguishment of debt	19	(12,144)	(48,641)
Total Non-operating Expenses, Net		(2,210,361)	(2,803,212)
PROFIT BEFORE INCOME TAX		2,733,268	452,909
INCOME TAX EXPENSE	17	(61,351)	(38,242)
NET PROFIT		2,671,917	414,667
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to profit or loss in subsequent period			
Remeasurement gain (loss) on defined benefit obligations	20	21,751	(6,852)
TOTAL COMPREHENSIVE INCOME		₱2,693,668	₱407,815

See accompanying Notes to Financial Statements.



MELCO RESORTS LEISURE (PHP) CORPORATION

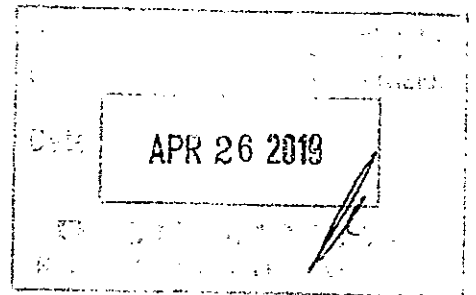
STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

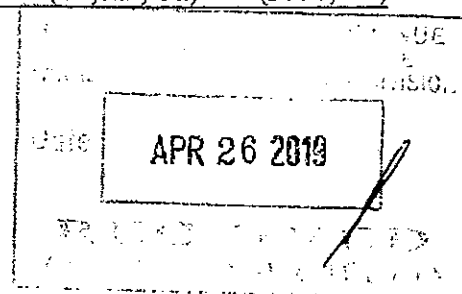
	Note	Capital Stock (Note 13)	Additional Paid-in Capital	Cumulative Remeasurement Gain (Loss)	Accumulated Deficit	Total
Balance as of January 1, 2018		₱2,281,895	₱20,993,048	₱-	(₱18,229,159)	₱5,045,784
Net profit		-	-	-	2,671,917	2,671,917
Other comprehensive income	20	-	-	21,751	-	21,751
Total comprehensive income		-	-	21,751	2,671,917	2,693,668
Transfer of remeasurement gain on defined benefit obligations		-	-	(21,751)	21,751	-
Balance as of December 31, 2018		₱2,281,895	₱20,993,048	₱-	(₱15,535,491)	₱7,739,452
Balance as of January 1, 2017		₱2,281,895	₱20,993,048	₱-	(₱18,636,974)	₱4,637,969
Net profit		-	-	-	414,667	414,667
Other comprehensive loss	20	-	-	(6,852)	-	(6,852)
Total comprehensive income		-	-	(6,852)	414,667	407,815
Transfer of remeasurement loss on defined benefit obligations		-	-	6,852	(6,852)	-
Balance as of December 31, 2017		₱2,281,895	₱20,993,048	₱-	(₱18,229,159)	₱5,045,784

See accompanying Notes to Financial Statements.



MELCO RESORTS LEISURE (PHP) CORPORATION**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017****(In thousands of Philippine peso, except share and per share data)**

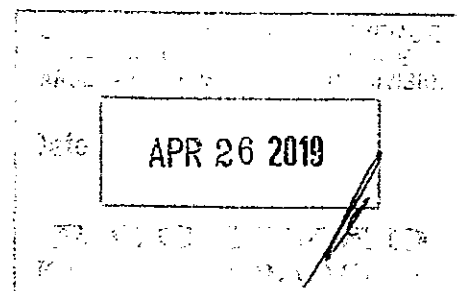
	Notes	Year Ended December 31,	
		2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		₱2,733,268	₱452,909
Adjustments for:			
Unrealized foreign exchange gains, net		(204,506)	(192,472)
Interest income		(49,557)	(42,650)
Depreciation and amortization		4,014,242	4,284,389
Interest expenses, net of capitalized interest		2,413,092	2,883,021
Provisions for doubtful debts		242,953	95,865
Provisions for input value-added tax ("VAT")	11	214,653	139,878
Retirement costs -- defined benefit obligations	14 and 20	26,617	20,703
Other finance fees		17,968	42,384
Loss on extinguishment of debt	19	12,144	48,641
Net loss on disposals of property and equipment	15	11,610	185,569
Amortization of prepaid rent		8,957	7,284
Operating profit before working capital changes		9,441,441	7,925,521
Changes in assets and liabilities:			
Increase in accounts receivable		(398,371)	(34,604)
Increase in other non-current assets		(247,142)	(224,691)
Decrease in accounts payable		(10,145)	(49,087)
Increase in prepayments and other current assets		(6,653)	(50,819)
Increase in amounts due from related parties		(989)	(11)
Increase in accrued expenses, other payables and other current liabilities		3,072,742	700,794
Increase (decrease) in amounts due to related parties		117,397	(1,025,921)
Increase in other non-current liabilities		18,306	45,212
Decrease (increase) in inventories		17,488	(97,209)
Net cash generated from operations		12,004,074	7,189,185
Interest received		34,013	39,308
Net cash provided by operating activities		12,038,087	7,228,493
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits for acquisitions of property and equipment		(869,779)	(81,384)
Payments for acquisitions of property and equipment		(742,599)	(611,236)
Increase in restricted cash		(317,826)	(309,740)
Payments for other non-current assets		(83,056)	-
Proceeds from disposals of property and equipment		769	6,016
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)



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

	Year E	
	2018	2017
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)
Interest paid	(450,747)	(1,132,813)
Other finance fees paid	(23,374)	(57,797)
Cash used in financing activities	(9,756,752)	(10,335,412)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		
	228,469	94,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	497,313	(4,009,174)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	6,096,697	10,105,871
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	₱6,594,010	₱6,096,697

See accompanying Notes to Financial Statements.



MELCO RESORTS LEISURE (PHP) CORPORATION

NOTES TO FINANCIAL STATEMENTS

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

1. Organization and Business

(a) Corporate Information

Melco Resorts Leisure (PHP) Corporation (the "Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC") on August 30, 2012.

The Company is principally engaged in the development and operation of tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components and to engage in casino gaming activities in the Philippines.

The 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.

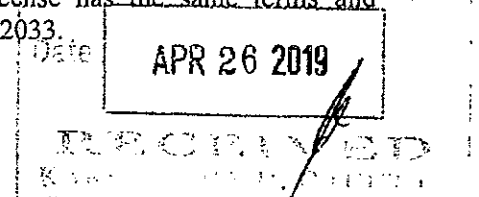
As of December 31, 2018 and 2017, the Company's ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated and listed in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), and Melco Resorts & Entertainment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

As of December 31, 2018 and 2017, the immediate holding company of the Company is MPHIL Holdings No. 2 Corporation ("MPHIL Holdings No. 2"), which in turn is wholly-owned by MPHIL Holdings No. 1 Corporation ("MPHIL Holdings No. 1"). Both MPHIL Holdings No. 2 and MPHIL Holdings No. 1 were incorporated in the Philippines. MPHIL Holdings No. 1, MPHIL Holdings No. 2 and the Company are collectively referred to as the "MPHIL Holdings Group". MPHIL Holdings Group, including the Company, is wholly-owned by Melco Resorts and Entertainment (Philippines) Corporation ("MRP"), an indirect subsidiary of Melco International and incorporated in the Philippines with shares publicly traded on The Philippine Stock Exchange, Inc. (the "PSE") until its trading suspension on December 10, 2018.

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

(b) 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 the Company, 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.



MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

2. Basis of Preparation

The Company's 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 financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The 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 financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All values are rounded off to the nearest thousand, unless otherwise indicated.

Although the Company had net current liabilities of ₱1,484,510 as of December 31, 2018 (December 31, 2017: Net current assets of ₱918,023), the Company has the Shareholder Loan Facility of US\$340,000,000 (as disclosed in Note 19(b)) which remain available for drawdown to meet its financial obligations.

In the opinion of the directors, in light of the above, the Company 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 financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Changes in Accounting Policies and Disclosures

The Company 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 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*

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(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***

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 Company has changed the accounting policy with respect to revenue recognition as disclosed below.

On January 1, 2018, the Company 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.
- 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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(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**

The amounts of affected financial statement line items in the 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)
<i>Net Operating Revenues</i>			
Casino	₱26,241,009	₱34,829,741	(₱8,588,732)
Rooms	2,815,424	1,136,171	1,679,253
Food and beverage	2,759,911	688,389	2,071,522
Entertainment, retail and other	605,714	477,581	128,133
Total Net Operating Revenues	₱32,422,058	₱37,131,882	(₱4,709,824)
<i>Operating Costs and Expenses</i>			
Other expenses	(₱5,915,051)	(₱10,624,875)	₱4,709,824

There is no impact on the net profit for the year ended December 31, 2018.

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

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(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 Company 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 Company'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 Company'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 Company has not designated any financial liabilities at fair value through profit or loss. There are no changes in classifications and measurements of the Company's financial liabilities at amortized cost.

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

	January 1, 2018	
	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash and cash equivalents	₱6,096,697	₱6,096,697
Restricted cash	549,765	549,765
Accounts receivable, net	1,328,372	1,328,372
Deposits and receivables, net	303,921	303,921
Amounts due from related parties	49,740	49,740
	₱8,328,495	₱8,328,495

MELCO RESORTS LEISURE (PHP) CORPORATION

NOTES TO FINANCIAL STATEMENTS – continued

(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**

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 Company has applied the simplified approach to recognize lifetime ECLs for its accounts receivable. The Company 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 financial statements which are relevant to the Company are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when adopted at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PASs, PFRSs and the Philippine Interpretation to have significant impacts on the Company’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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 Company will adopt PFRS 16 from January 1, 2019 using the modified retrospective method without restating comparative information. In addition, the Company 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 Company 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 Company is currently assessing the quantitative impact PFRS 16 will have on its financial statements and related disclosures, the Company expects the most significant changes will be related to the recognition of right of use assets and lease liabilities for operating leases on the Company's balance sheet, with no material impact to net income or cash flows.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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***

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).

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 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 Company.

▪ **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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Standards Issued But Not Yet Effective – continued**▪ 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.

▪ 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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

Standards Issued But Not Yet Effective – continued

▪ **Annual Improvements to PFRSs (2015 – 2017 Cycle) – continued**

▪ **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.

▪ **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.

MELCO RESORTS LEISURE (PHP) CORPORATION

NOTES TO FINANCIAL STATEMENTS – continued

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

3. Summary of Significant Accounting Policies – continued

Standards Issued But Not Yet Effective – continued

▪ **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.

▪ **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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

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

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 Company's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company 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 Company'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 Company 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.

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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continuedFinancial Assets at Amortized Cost (Debt Instruments) – continued

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 statements of comprehensive income when the asset is derecognized, modified or impaired.

The Company'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 Company 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.

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 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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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

Loans and Receivables – continued

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 24.

The Company 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 Company 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 Company 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.

Where the Company 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 Company’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 Company could be required to repay.

Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018)

The Company 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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*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 Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written-off when there is no reasonable expectation of recovering the contractual cash flows. At each reporting date, the Company 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 Company, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Financial Assets (policies under PFRS 9 applicable from January 1, 2018) – continued*Simplified Approach*

For accounts receivable that do not contain a significant financing component or when the Company applies the practical expedient of not adjusting the effect of a significant financing component, the Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Company 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 Company'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 Company 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 Company 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.

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 Company. The Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Impairment of Financial Assets (applicable before January 1, 2018) – continued*Financial Assets Carried at Amortized Cost – continued*

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 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 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 statements of comprehensive income. ○

Loans and Borrowings and Payables

The Company'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 18), amounts due to related parties (see Note 16), long-term debt (see Note 19) and other non-current liabilities.

The Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Financial Liabilities (policies under PAS 39 applicable before January 1, 2018) – continued*****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 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 18), amounts due to related parties (see Note 16), long-term debt (see Note 19) and other non-current liabilities. The carrying values and fair values of other financial liabilities are disclosed in Note 24.

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 statements of comprehensive income.

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 Company. 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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**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 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 statements of comprehensive income when the asset is derecognized.

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 Company 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 statements of comprehensive income during the financial period in which they are incurred.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued****Property and Equipment** – continued

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 and 2017, total interest expenses incurred amounted to ₱2,413,092 and ₱2,885,456, of which nil and ₱2,435 were capitalized, respectively.

Intangible Assets***Contract Acquisition Costs***

Certain costs incurred by the Company 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 cost 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 21(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 Company'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 statements of comprehensive income when the assets are derecognized.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 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 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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Accumulated Deficit

The accumulated deficit represents the Company'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 Company adopted PFRS 15 using the modified retrospective method.

The Company'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 Company 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 Company's non-discretionary incentives programs (including loyalty programs).

For casino transactions that include complimentary goods or services provided by the Company to incentivize future gaming, the Company 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 Company's control and discretion and supplied by third parties are recorded as operating expenses.

The Company 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 Company 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 Company-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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Revenue Recognition (applicable from January 1, 2018) – 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 Company 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 Company are allocated to each good or services based on its relative standalone selling price.

(c) 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 Company's activities.

Revenue is recognized to the extent it is probable that the economic benefits associated with the transaction will flow to the Company 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 Company bases its estimation on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

3. Summary of Significant Accounting Policies – continuedRevenue Recognition (applicable before January 1, 2018) – continuedRooms, 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 Company'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 statements of comprehensive income. The amounts of such promotional allowances excluded from total net operating revenues for the year ended December 31, 2017 are as follows:

	Year Ended December 31, 2017
Rooms	₱1,550,857
Food and beverage	1,893,010
Entertainment, retail and other	138,189
	<u>₱3,582,056</u>

Interest Income

Interest income is recognized on a time proportionate basis that reflects as the effective yield on the asset.

Point-loyalty Programs (applicable before January 1, 2018)

The Company 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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Contract Liabilities (applicable from January 1, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Company 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 Company 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 Company 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 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

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 statements of comprehensive income in the year these are incurred.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**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 and ₱62,493 were recognized and included in interest expenses in the statements of comprehensive income for the years ended December 31, 2018 and 2017, respectively.

Employee Benefit ExpensesRetirement Costs

Employees of the Company are members of a government-managed social security system scheme (the “SSS Scheme”) operated by the Philippine government and the Company 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 Company with respect to the SSS Scheme operated by the Philippine government is to make the required contributions specified therein.

The Company 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 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 Company recognizes the changes in defined benefit obligations such as service costs and interest costs as employee benefit expenses in the statements of comprehensive income.

The Company 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 Company’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 Company by independent trustees.

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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**
(In thousands of Philippine peso, except share and per share data)**3. Summary of Significant Accounting Policies – continued**Employee Benefit Expenses – continuedBonus Plans

The Company recognizes a liability and an expense for bonuses when contractually obliged or where there is a past practice that has created a constructive obligation.

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).

As a Lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased asset to the Company, 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 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 Company 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 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 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Foreign Currency Transactions

The Company's financial statements are presented in Philippine peso, the functional currency of the Company. 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 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 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.

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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**Income Tax – continuedDeferred Tax – continued

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.

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 balance sheets.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****3. Summary of Significant Accounting Policies – continued**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 Company 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 17. 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 Company 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 22(c). These expenses are included in the accompanying statements of comprehensive income.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions. The judgments, estimates and assumptions used in the financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments

In the process of applying the Company’s policies, management has made the following judgments which have the most significant effect on the amounts recognized in the financial statements.

Functional Currency

Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates 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 Company’s financial position or performance as the classification of the amounts of property and equipment and the lease obligations depend on this assessment.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****4. Significant Accounting Judgments, Estimates and Assumptions – continued**Judgments – continued*Evaluating Lease Agreement* – continued

The Company, 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 Company. 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 Company. 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 Company with a bargain purchase option over the leased asset (see Note 21(c)).

As a Lessee

The Company has entered into various operating lease agreements as a lessee. The Company 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 Company at the end of the lease term and do not provide the Company with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases.

As a Lessor

The Company has entered into various operating lease agreements as a lessor. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that the Company 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 Company 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 Company is the owner of the hotel property, and the hotel manager operates the hotel under certain management agreements providing management services to the Company, and the Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION

NOTES TO FINANCIAL STATEMENTS – continued

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

4. Significant Accounting Judgments, Estimates and Assumptions – continued

Estimates and Assumptions – continued

Provisions for ECLs of Accounts Receivable (applicable from January 1, 2018)

The Company applies PFRS 9 simplified approach to measure ECLs, using a lifetime expected loss allowance for accounts receivable. The Company 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 Company 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 Company 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.

Estimating Allowances for Doubtful Debts (applicable before January 1, 2018)

The allowances for doubtful debts represented the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable balance. The Company 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 and 2017 amounted to ₱244,966 and ₱95,649, 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 Company 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 Company 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 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****4. Significant Accounting Judgments, Estimates and Assumptions – continued***Estimates and Assumptions – continued**Estimating Useful Lives of Property and Equipment*

The Company 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 Company's property and equipment. The carrying values of property and equipment amounted to ₱20,352,311 and ₱23,122,772 as of December 31, 2018 and 2017, respectively (see Note 8).

Estimating Retirement Benefits

The Company's obligation and cost for retirement benefits is dependent on the selection of certain assumptions used by the Company'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 20.

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 Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company 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 Company.

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

4. Significant Accounting Judgments, Estimates and Assumptions – continued

Estimates and Assumptions – continued

Impairment of Non-financial Assets – continued

Except for provisions for input VAT expected to be non-recoverable amounted to ₱214,653 and ₱139,878 recognized for the years ended December 31, 2018 and 2017, respectively (see Note 15), no other impairment losses were recognized for the years ended December 31, 2018 and 2017. The carrying values of property and equipment amounted to ₱20,352,311 and ₱23,122,772 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).

Recognition of Deferred Tax Assets

The Company 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 Company'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 Company 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 ₱5,843,919 and ₱6,351,919 as of December 31, 2018 and 2017, respectively (see Note 17).

5. Cash and Cash Equivalents

	December 31,	
	2018	2017
Cash on hand	₱2,271,517	₱1,750,376
Cash in banks	4,322,493	4,346,321
	<u>₱6,594,010</u>	<u>₱6,096,697</u>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱41,078 and ₱36,344 for the years ended December 31, 2018 and 2017, respectively.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****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 and ₱995 for the years ended December 31, 2018 and 2017, respectively.

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
Others	4,703	3,716
	1,606,904	1,438,372
<u>Less: Allowances for doubtful debts</u>	<u>(130,540)</u>	<u>(110,000)</u>
	₱1,476,364	₱1,328,372

Movement in the allowances for doubtful debts were as follows:

	Note	Year Ended December 31,	
		2018	2017
Balance at beginning of year		₱110,000	₱102,823
Additional provisions		244,966	95,649
Write-offs, net of recoveries		-	(354)
Reclassified to long-term receivables, net	11	(230,198)	(84,475)
Revaluations		5,772	(3,643)
<u>Balance at end of year</u>		₱130,540	₱110,000

The Company grants unsecured credit lines to gaming promoters based on pre-approved credit limits. The Company 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 Company'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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

7. Accounts Receivable, Net – continued

The Company 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 Company 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.

Set out below is the information about the credit risk exposure on the Company'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

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

8. Property and Equipment, Net

	December 31, 2018						Total
	Building under a Finance Lease	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	
Costs:							
Balance at beginning of year	P11,820,440	P13,876,251	P94,605	P7,078,679	P2,907,210	P-	P35,777,185
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	14,350,978	94,605	7,336,780	3,312,249	-	36,915,052
Accumulated depreciation and amortization:							
Balance at beginning of year	(1,934,736)	(4,328,360)	(49,545)	(4,761,582)	(1,580,190)	-	(12,654,413)
Depreciation and amortization	(636,077)	(1,501,968)	(17,707)	(1,216,348)	(587,604)	-	(3,959,704)
Disposals	-	682	-	34,468	16,226	-	51,376
Transfer	-	(19)	-	21	(2)	-	-
Balance at end of year	(2,570,813)	(5,829,665)	(67,252)	(5,943,441)	(2,151,570)	-	(16,562,741)
Net book value	P9,249,627	P8,521,313	P27,353	P1,393,339	P1,160,679	P-	P20,352,311
	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	P11,820,440	P13,977,550	P80,583	P6,752,930	P2,723,508	P94,945	P35,449,956
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	13,876,251	94,605	7,078,679	2,907,210	-	35,777,185
Accumulated depreciation and amortization:							
Balance at beginning of year	(1,298,658)	(2,977,483)	(35,856)	(3,280,443)	(1,000,415)	-	(8,592,855)
Depreciation and amortization	(636,078)	(1,484,705)	(18,080)	(1,500,873)	(589,570)	-	(4,229,306)
Disposals	-	133,849	4,391	19,671	9,837	-	167,748
Transfer	-	(21)	-	63	(42)	-	-
Balance at end of year	(1,934,736)	(4,328,360)	(49,545)	(4,761,582)	(1,580,190)	-	(12,654,413)
Net book value	P9,885,704	P9,547,891	P45,060	P2,317,097	P1,327,020	P-	P23,122,772

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).

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

9. Contract Acquisition Costs, Net

	December 31,	
	2018	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	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	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

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(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 and 2017, provisions for input VAT expected to be non-recoverable amounting to ₱214,653 and ₱139,878, respectively, were recognized and included in other expenses in the statements of comprehensive income (Note 15). As of December 31, 2018 and 2017, provisions for input VAT were ₱2,040,361 and ₱1,825,708, respectively.

The Company received from the Bureau of Internal Revenue (the “BIR”) a letter of authority (“LOA”) for audit of the VAT for 2017 (“2017 VAT”) in April 2018, and the audit of the VAT for 2016 (“2016 VAT”) was included under a LOA received by the Company from the BIR in August 2017 for the review of all internal revenue taxes for 2016.

In June 2017 and February 2019, the Company received from the BIR a final assessment notice (“FAN”) relating to an alleged deficiency of VAT for 2014 (“2014 VAT”) and VAT for 2015 (“2015 VAT”) on gaming revenues, respectively, after the BIR audit. The Company 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 the Company. In December 2018, the Company received from the BIR a preliminary assessment notice (“PAN”) which included a deficiency of the 2015 VAT for non-gaming operations, and the Company 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
Balance at beginning of year	₱84,475	₱-
Additional provisions	230,713	85,223
Revaluations	(515)	(748)
Balance at end of year	<u>₱314,673</u>	<u>₱84,475</u>

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(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	845,829	871,711
Advance customer deposits and ticket sales	842,994	582,889
Withholding taxes payable	227,212	140,768
Interest expenses payable	–	85,417
Other payables and liabilities	65,359	44,191
	₱8,968,703	₱5,882,043

Accrued expenses, other payables and other current liabilities are due for payment within one year.

13. Capital Stock

	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	5,200,000,000	₱5,200,000
Issued and fully paid:		
As of January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	2,281,894,500	₱2,281,895

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

14. Employee Benefit Expenses

	Note	Year Ended December 31,	
		2018	2017
Basic salaries, allowances, bonuses and other amenities		₱3,626,940	₱3,149,680
Annual leave and other paid leave		193,036	163,680
Retirement costs – defined contribution plans		81,687	67,311
Retirement costs – defined benefit obligations	20	26,617	20,703
Other employee benefits		208,319	209,890
		₱4,136,599	₱3,611,264

15. Other Expenses

	Notes	Year Ended December 31,	
		2018	2017
Facilities and supplies expenses		₱1,548,891	₱1,482,785
Management fee expenses		966,284	801,789
Other gaming operations expenses		928,788	5,376,929
Trademark license fees	16	784,712	674,940
Advertising, marketing, promotional and entertainment expenses		614,812	437,532
Provisions for input VAT	11	214,653	139,878
Rental expenses	22(b)	202,553	220,837
Office and administrative expenses		199,117	168,230
Taxes and licenses		40,694	52,564
Net loss on disposals of property and equipment		11,610	185,569
Operating and other expenses		402,937	445,895
		₱5,915,051	₱9,986,948

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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

16. Related Party Transactions – continued

Save as disclosed elsewhere in the financial statements, the Company had the following significant transactions with related parties for the years:

	Amount of Transactions		Outstanding Balance		Terms	Conditions
	Year Ended December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017		
Amounts due from related parties						
<i>Amounts due from intermediate holding companies</i>						
Amount due from MPHIL Holdings No. 1	₱-	₱-	₱4,378	₱3,817	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amount due from MRP	₱-	₱-	₱29,679	₱28,569	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amount due from MPHIL Holdings No. 2	₱-	₱-	₱16,841	₱16,838	Repayable on demand; non-interest bearing	Unsecured, no impairment
<i>Amounts due from affiliated companies</i>						
Melco International's subsidiaries (other than MPHIL Holdings No. 1, MRP and MPHIL Holdings No. 2)						
Management fees and other expenses ⁽¹⁾	₱-	₱5,848	₱-	₱-		
Amounts due from Melco International's subsidiaries	-	-	487	516	Repayable on demand; non-interest bearing	Unsecured, no impairment
Amounts due to related parties						
<i>Amount due to an intermediate holding company</i>						
Melco						
Management fee expenses	₱253,538	₱146,829	₱-	₱-		
Amount due to Melco	-	-	66,713	40,608	Repayable on demand; non-interest bearing	Unsecured

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

16. Related Party Transactions – continued

	Amount of Transactions		Outstanding Balance		Terms	Conditions
	Year Ended December 31,		December 31,			
	2018	2017	2018	2017		
Amounts due to related parties						
– continued						
<i>Amounts due to affiliated companies</i>						
Melco International's subsidiaries						
Management fees and other expenses ⁽¹⁾	₱794,538	₱688,533	₱–	₱–		
Trademark license fees	784,712	674,940	–	–		
Purchases of goods and services	8,141	3,773	–	–		
Amounts due to Melco International's subsidiaries	–	–	184,667	98,237	Repayable on demand; non-interest bearing	Unsecured
A subsidiary and an associated company of Crown Resorts Limited ("Crown") ⁽²⁾						
Management fees, consultancy fee and facilities expenses	₱–	₱5,126	₱–	₱–		

Notes:

- (1) Management services are provided by Melco International group companies. These services include, but are not limited to, corporate expenses and gaming operations support for the Company.
- (2) 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 subsidiary and associated company are no longer regarded as related parties of Melco and the Company.

Directors' Remuneration

For the years ended December 31, 2018 and 2017, the remuneration of directors of the Company was borne by Melco.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

16. Related Party Transactions – continued**Compensation of Key Management Personnel**

The compensation of key management personnel of the Company for the years ended December 31, 2018 and 2017 is as follows:

	Year Ended December 31,	
	2018	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
	₱101,673	₱193,600

Under the terms of share incentive plan of MRP, certain employees of the Company were granted restricted shares and share options to purchase shares of MRP.

Details of the share incentive plan of MRP were disclosed in MRP's audited consolidated financial statements for the same year to be filed to the PSE on or about April 11, 2019.

In the opinion of directors, such employee entitlements were borne by MRP and not charged to the Company as it is not practicable to allocate the employees' entitlements between their services to MRP and the Company.

For the years ended December 31, 2018 and 2017, part of the compensation of key management personnel of the Company was borne by Melco.

17. Income Tax

The provision for income tax for the years ended December 31, 2018 and 2017 consisted of:

	Year Ended December 31,	
	2018	2017
Deferred tax charge	₱61,351	₱38,242

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

17. **Income Tax – continued**

A reconciliation of income tax provision computed at the statutory income tax rate to provision for income tax is as follows:

	Year ended December 31,	
	2018	2017
Income tax provision computed at statutory income tax rate	₱819,980	₱135,873
Income tax effects of:		
Change in unrecognized deferred tax assets	(501,475)	398,847
Change in unrecognized deferred tax assets in prior year	353,261	(67,339)
Expenses not deductible for tax purposes	184,322	163,970
Expired NOLCO	1,841,483	1,411,257
Effect of profits generated by gaming operations exempted from corporate income tax	(2,621,353)	(1,991,571)
Interest income subject to final tax	(12,852)	(11,202)
Interest income not taxable	(2,015)	(1,593)
	₱61,351	₱38,242

The components of the Company'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	(180,781)	(119,430)
	(362,455)	(326,721)
	(₱180,781)	(₱119,430)

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

17. Income Tax – continued

The Company has not recognized the following deferred tax assets on deductible temporary differences since management believes the Company may not be able to realize the benefits from these deferred tax assets in the future.

	December 31,	
	2018	2017
NOLCO	₱3,934,287	₱4,645,541
Deferred rent under PAS 17	1,681,104	1,413,723
Interest expenses	–	32,031
Others	228,528	260,624
	₱5,843,919	₱6,351,919

As of December 31, 2018, the Company'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	₱4,502,691	₱–	₱–	₱4,502,691
2017	2020	4,130,762	–	–	4,130,762
2016	2019	4,480,836	–	–	4,480,836
2015	2018	6,138,277	–	6,138,277	–
		₱19,252,566	₱–	₱6,138,277	₱13,114,289

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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****17. Income Tax – continued**

Based on the Supreme Court decision in the case of Bloomberry Resorts and Hotels, Inc. vs. the BIR, G. R. No. 212530 dated November 28, 2016, management believes that the Company'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, the Company 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, the Company 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, the Company 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.

18. 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 Company's obligations under a finance lease were as follows:

	December 31,		2017	
	2018	2017	2018	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 and 2017, finance charges on obligations under a finance lease amounted to ₱2,032,700 and ₱1,992,234, of which nil and ₱2,435, were capitalized, respectively.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

19. Long-term Debt, Net

	December 31,	
	2018	2017
Senior Notes	P--	P7,500,000
Less: Unamortized deferred financing costs	-	(40,366)
	-	7,459,634
Current portion of long-term debt	-	-
	P--	P7,459,634

(a) Senior Notes

On January 24, 2014, the Company issued P15,000,000 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.

On August 31, 2018 and October 9, 2017, the Company partially redeemed the Senior Notes in an aggregate principal amount of P5,500,000 and P7,500,000, respectively, and on December 28, 2018 further redeemed in full the remaining portion of the Senior Notes in an aggregate principal amount of P2,000,000, together with accrued interest. Accordingly, the Company recorded a P12,144 and P48,641 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 the Company to pay without any deduction or withholding for or on account of tax.

The Senior Notes were general obligations of the Company, 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 the Company (save and except for any statutory preference or priority) and ranked senior in right of payment to any existing and future subordinated indebtedness of the Company.

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 the Company; 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.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

19. Long-term Debt, Net – continued

(a) Senior Notes – continued

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 the Company 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.

(b) Shareholder Loan Facility

On December 23, 2013, the Company, 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 (Philippines) Investments Limited 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 the Company 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) 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 and ₱62,493 were included in interest expenses and amortized to the statements of comprehensive income for the years ended December 31, 2018 and 2017, 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 balance sheets.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

19. Long-term Debt, Net – continued

For the years ended December 31, 2018 and 2017, interest expenses on long-term debt consisted of interest on the Senior Notes in the amounts of ₱352,170 and ₱830,729, respectively. No interest on long-term debt was capitalized for the years ended December 31, 2018 and 2017.

For the years ended December 31, 2018 and 2017, the Company'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 the Company to pay without any deduction or withholding for or on account of tax.

For the years ended December 31, 2018 and 2017, 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 the Company to pay without any deduction or withholding for or on account of tax amounted to ₱17,968 and ₱42,384, respectively.

20. Retirement Costs – Defined Benefit Obligations

The Company 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 statements of comprehensive income for the years ended December 31, 2018 and 2017 and the retirement liabilities of defined benefit obligations recognized in the balance sheets as of December 31, 2018 and 2017:

	Year Ended December 31,	
	2018	2017
Retirement costs – defined benefit obligations:		
Current service costs	₱22,615	₱18,429
Interest costs	4,002	2,274
	<u>₱26,617</u>	<u>₱20,703</u>

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

20. Retirement Costs – Defined Benefit Obligations – continued

	December 31,	
	2018	2017
Retirement liabilities – defined benefit obligations (at present value):		
Balance at beginning of year	P69,199	P41,644
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	P74,065	P69,199

The principal assumptions used in determining the Company's retirement liabilities for defined benefit obligations as of December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	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 Company 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	2017
Plan year:		
Less than 1 year	P8,143	P161
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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****20. 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

21. 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

21. 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, the Company 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 the Company. Under the Operating Agreement, the Company 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 the Company, based on the performance of gaming operations of City of Dreams Manila, and is included in “Payments to the Philippine Parties” in the statements of comprehensive income, and further provides that the Company has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

(c) Lease Agreement

Belle and the Company entered into a lease agreement, as amended from time to time (the “Lease Agreement”) under which Belle agreed to lease to the Company the land and certain of the building structures for City of Dreams Manila. The leased property is used by the Company and any of its affiliates exclusively as a hotel, casino and resort complex.

22. Commitments and Contingencies**(a) Capital Commitments**

As of December 31, 2018, the Company had capital commitments contracted for but not provided mainly for the acquisitions of property and equipment for City of Dreams Manila totaling ₱786,381.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****22. Commitments and Contingencies – continued****(b) Lease Commitments***Operating Leases – As a Lessee*

The Company 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 Company and its lessors or contingent rental expenses stated as a percentage of turnover. For the years ended December 31, 2018 and 2017, rental expenses amounting to ₱202,553 and ₱220,837, respectively, were recognized and included in other expenses in the statements of comprehensive income (Note 15). No contingent rental expenses were recognized for the years ended December 31, 2018 and 2017.

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 Company 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 and ₱11,160 were recognized for the years ended December 31, 2018 and 2017, 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****22. 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 23 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

The Company has issued a corporate guarantee of ₱100 million to a bank in respect of the surety bond issued to PAGCOR as disclosed in Note 22(c)(i).

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****22. Commitments and Contingencies – continued****(e) Litigation**

As of December 31, 2018, the Company 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 Company's financial statements as a whole.

23. Financial Risk Management Objectives and Policies

The Company 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 Company'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 Company 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 Company 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 Company.

The Company trades only with recognized and creditworthy third parties. It is the policy of the Company 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 Company to bad debts is not significant. The Company does not offer credit terms to third parties, without the specific approval of management.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****23. Financial Risk Management Objectives and Policies – continued*****Credit Risk – continued***

With respect to credit risk from the financial assets of the Company, 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 Company to credit risk arises from the default of a bank where the Company'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.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of casino receivables. The Company 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 Company on behalf of the respective customers and for which the Company intends to set off such amounts when such right exists. As of December 31, 2018 and 2017, a substantial portion of the Company'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 Company 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 Company'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 Company's financial assets represent the maximum exposure to credit risk and the Company 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 Company only trades with recognized and creditworthy third parties. Amounts due from related parties are considered as high grade as Melco will provide financial support to the related parties of the Company to meet in full its financial obligations as they fall due. 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

23. Financial Risk Management Objectives and Policies – continuedCredit Risk – continued

The Company applies the simplified approach for impairment of accounts receivable, see Note 7 to the 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 Company will not be able to meet its obligations associated with financial difficulties.

The Company 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 Company'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 Company'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				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	₱6,594,010	₱–	₱–	₱–	₱6,594,010
Restricted cash	867,591	–	–	–	867,591
Accounts receivable, net	1,476,364	–	–	–	1,476,364
Deposits and receivables, net	56,496	–	–	350,600	407,096
Amounts due from related parties	51,385	–	–	–	51,385
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	251,380	–	–	–	251,380
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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

23. Financial Risk Management Objectives and Policies – continuedLiquidity Risk – continued

	December 31, 2017				Total
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	
Financial Assets					
Cash and cash equivalents	P6,096,697	P–	P–	P–	P6,096,697
Restricted cash	549,765	–	–	–	549,765
Accounts receivable, net	1,328,372	–	–	–	1,328,372
Deposits and receivables, net	154,328	6,420	–	266,811	427,559
Amounts due from related parties	49,740	–	–	–	49,740
Financial Liabilities					
Accounts payable	P136,758	P–	P–	P–	P136,758
Accrued expenses, other payables and other current liabilities	1,604,136	–	–	–	1,604,136
Amounts due to related parties	138,845	–	–	–	138,845
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 Company 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 Company 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 Company 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

23. Financial Risk Management Objectives and Policies – continuedForeign Exchange Risk – continued

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	187,568,952	1,262,767	6,460,855	340,637	516	3
Monetary Liabilities	(47,536,265)	(320,028)	(2,167,140)	(114,258)	(20,500,440)	(133,995)
	140,032,687	942,739	4,293,715	226,379	(20,499,924)	(133,992)

	December 31, 2017					
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	328,398,509	2,107,280	9,409,929	469,772	–	–
Monetary Liabilities	(5,253,539)	(33,711)	(1,291,089)	(64,455)	(9,439,724)	(58,809)
	323,144,970	2,073,569	8,118,840	405,317	(9,439,724)	(58,809)

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the Company 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 Company'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 Company's best estimate of expected changes considering historical trends and experience.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

23. Financial Risk Management Objectives and Policies – continuedForeign Exchange Risk – continued

If the Philippine peso had strengthened against HK\$ and US\$, with all other variables held constant, profit before income tax would have decreased by ₱10,370 and ₱2,490 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 ₱18,662 and ₱3,648 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.

Capital Risk Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain funding from issuance of new shares, debt financing and from intermediate holding companies.

The Company considers total equity and long-term debt as its capital which amounted to ₱7,739,452 and ₱12,505,418 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 Company'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, the Company, as one of the Licensee parties, has complied with the D/E Ratio as required by PAGCOR.

24. Financial InstrumentsFair 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.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****24. Financial Instruments – continued**Fair Value of Financial Instruments – continued*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 Company 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.

As of December 31, 2018 and 2017, the Company 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.

25. Note to Statements of Cash FlowsMajor Non-cash Transactions

(a) For the year ended December 31, 2018, costs of property and equipment totaling ₱189,255 were funded through accrued expenses, other payables and other current liabilities (For the year ended December 31, 2017: ₱138,582).

(b) For the year ended December 31, 2017, accruals for property and equipment of ₱23,138 were reversed for project costs adjustments.

MELCO RESORTS LEISURE (PHP) CORPORATION
NOTES TO FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

25. Note to Statements of Cash Flows – continued

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.

26. Supplementary Tax Information under Revenue Regulations 15-2010

On December 28, 2010, BIR issued Revenue Regulations (“RR”) No. 15-2010 which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued for the year in addition to the disclosures mandated by PFRS.

Below is the additional information required by RR No. 15-2010.

VAT

For the year ended December 31, 2018, the Company declared output VAT of ₱434,723.

The Company’s purchases from VAT-registered individuals or corporations are subject to input VAT.

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued**

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

26. Supplementary Tax Information under Revenue Regulations 15-2010 – continuedVAT – continued

Input VAT for 2018 per filed VAT returns:

Balance as of January 1 ⁽¹⁾	₱128,877
Less: Output VAT offset during 2018	(434,723)
Goods other than capital goods ⁽²⁾	126,207
Capital goods subject to amortization ⁽³⁾	75,085
Services lodged under other accounts	350,627
Tax payments/credits	14,529
Less: Input tax attributable to exempt sales	(251,838)
Balance as of December 31	₱8,764

Notes:

(1) The amount of input VAT includes input tax carried over and excludes VAT refund claimed.

(2) The amount of input VAT is based on invoices date of goods purchases.

(3) The amount of input VAT claimed is based on invoices date of goods purchases.

Other Taxes and Licenses in 2018

All other taxes and licenses are recognized as other expenses in the statements of comprehensive income.

Year Ended December 31, 2018			
	Official Receipt Number	Date Paid	Amount
Business permits and other permits/fees	Various	Various	₱40,694
			₱40,694

Withholding Taxes

Withholding taxes was deducted by the Company on various expenses for the year ended December 31, 2018.

Year Ended December 31, 2018			
	Official Receipt Number	Date Paid	Amount
Creditable withholding taxes	Various	Various	₱330,411
Tax on compensation and benefits	Various	Various	616,230
Final withholding tax	Various	Various	186,172
Withholding VAT	Various	Various	28,081
			₱1,160,894

MELCO RESORTS LEISURE (PHP) CORPORATION**NOTES TO FINANCIAL STATEMENTS – continued****(In thousands of Philippine peso, except share and per share data)****26. Supplementary Tax Information under Revenue Regulations 15-2010 – continued**Tax Assessments and Cases

The Company received from the BIR a LOA for audit of 2017 VAT in April 2018. In August 2017, the Company 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 June 2017 and February 2019, the Company received from the BIR a FAN relating to an alleged deficiency of 2014 VAT and 2015 VAT on gaming revenues, respectively, after the BIR audit. The Company 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 the Company. In December 2018, the Company received from the BIR a PAN which included a deficiency of the 2015 VAT for non-gaming operations, and the Company subsequently settled the deficiency of 2015 VAT related to the non-gaming operations in January 2019.



SyCip Gorres Velayo & Co
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 810 0872
ey.com/ph

BOA/PRC Reg No 0001,
December 14, 2015 valid until December 31 2018
SEC Accreditation No 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Melco Resorts Leisure (PHP) Corporation

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Melco Resorts Leisure (PHP) Corporation as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report 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 accompanying schedule of all issued standards and interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, 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
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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

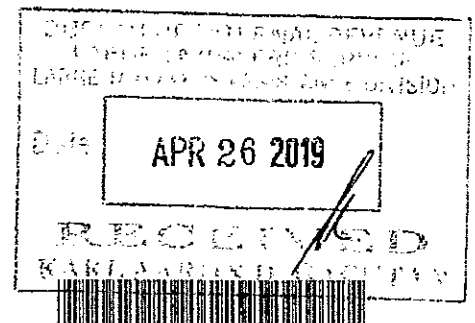
We have audited in accordance with Philippine Standards on Auditing, the financial statements of Melco Resorts Leisure (PHP) Corporation (the Company) as at and for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated March 21, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all issued standards and interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, 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
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March 2, 2017, valid until March 1, 2020
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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 LEISURE (PHP) CORPORATION

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS <i>Issued on December 31, 2013</i>		Adopted	to Be adopted	No Adopted	No 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 on December 31, 2015		Adopted	Not Yet Adopted	Not Anticipated	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			

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	X			
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	X			
	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 PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation				X
	Amendment to PAS 16: 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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued December 31, 2016		Adopted	Not yet Adopted	Not Adopted	Not Applicable
	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
	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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as of December 31, 2018		Adopted	Not Early Adopted	Not Adopted	Not Applicable
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
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





Republic of the Philippines
Department of Finance
Securities and Exchange Commission

Company Registration and Monitoring Department
Compliance Monitoring Division

MONITORING SHEET – NO PENALTY

Corporate Name	MELCO RESORTS LEISURE (PHP) CORPORATION DOING BUSINESS UNDER THE NAME AND STYLE OF CITY OF DREAMS MANILA AND COD MANILA		
Registration No.	CS201215883	Date of Registration	AUGUST 30, 2012
Term of Existence	50 YEARS	Annual Meeting	3 RD MONDAY OF MAY
Principal Office	ASEAN AVE., COR ROXAS BLVD., TAMBO PARANAQUE CITY	Actual Meeting	JULY 30, 2018
No. of Directors/Trustees	FIVE (5)	Fiscal Year	DECEMBER 31

<input checked="" type="checkbox"/> STOCK CORPORATION	<input type="checkbox"/> NON-STOCK CORPORATION		
Authorized Capital Stock	P 5,200,000,000.00	Equity/Fund Balance	P
Paid-Up Capital Stock	P 2,281,895	Negative Fund Balance	P
APIC	P20,993,048	Fiscal Year ended	
Retained Earnings	P	Fine: P per year, per report	
Deficit	P 15,535,491		
Capital Deficiency	P		
Fiscal Year ended	2018		
Fine: P 500.00 per year, per report			

COMPUTATION OF FINES

YEAR	General Information Sheet		Financial Statements		FINE
2013	MONITORED	DTD. 12.26.13	W/ COP	DTD. 07.23.14	
2014	MONITORED	DTD. 06.17.15	MONITORED	DTD. 06.17.15	
2015			MONITORED	DTD. 07.21.16	
2016	MONITORED	DTD. 07.21.16			
2017	MONITORED	DTD. 01.11.18	OT		
2018	OT		OT		
Stock and Transfer Book MONITORED					

WITH FIA

OT	- On Time
NF	- Not Filed
FL/RL	- Filed/Registered Late

Assessed by:	SCR/SMD	DATE: 05.03.19 05.14.19
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Compliant with all reportorial requirements as of May 16, 2019

Cleared CIS-URDB as of May 16, 2019

The findings/assessment is based on the documents/reports available in the SEC database and the documents presented by the party to the monitor as of: _____

Representative
Signature Over Printed Name

For the Director: GERARDO F. DEL ROSARIO

By:
EMERLIZA M. CASTRO
SEC Administrative Officer II
Pasay City.

*WITH SECRETARY CERT (NO-INTRA)

Note: This assessment does not constitute as waiver of any fine or penalty for deficiencies in reportorial requirements due from, or may hereafter be assessed against, the corporation nor does it preclude the institution of any action against the corporation for violation of any of the provisions of the Corporation Code of the Philippines, the Securities Regulation Code, and its implementing rules and regulations, and other pertinent laws, rules and regulations implemented by the Commission.

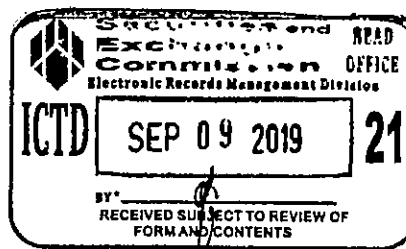
In case the corporation is subject of a complaint or investigation by the Commission or any party, the computation of penalty may be years, earlier than the five (5) years and imposition of fine shall be made if warranted.

MS-NP_v2019

FOR UPLOADING IN THE SYSTEM.



September 9, 2019



SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

Attention: Director Gerardo F. Del Rosario
Company Registration and Monitoring Department

Gloria P. Manzon
Assistant Director
Financial Analysis and Audit Division

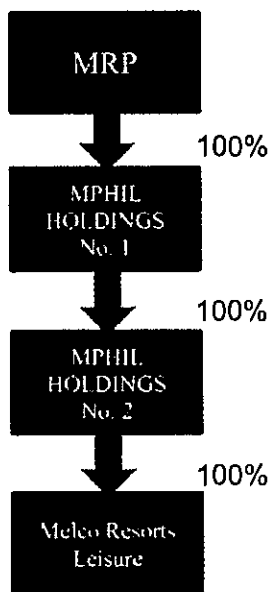
Re: Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure")
Application for Equity Restructuring

Ladies and Gentlemen:

We write further to our letter-application dated June 6, 2019 in connection with the application of Melco Resorts and Entertainment (Philippines) Corporation ("MRP") and its subsidiaries ("MRP Group") for approval to undergo equity restructuring by applying additional paid-in capital ("APIC") to eliminate accumulated deficit ("Application").

In compliance with the comments dated August 15, 2019 of the Financial Analysis and Audit Division in relation to the Application, we are filing this letter request on behalf of Melco Resorts Leisure.

Melco Resorts Leisure is part of the MRP Group under the following structure:



MRP, through its subsidiaries, develops and operates City of Dreams Manila, an integrated hotel, gaming, retail, and entertainment complex within the Entertainment City in Parañaque City.

Melco Resorts Leisure has a significant amount of APIC in its books due to the share premium over par value paid by MPHIL Holdings No. 2 in connection with the subscription to and issuance of Melco Resorts Leisure shares.

While City of Dreams Manila was opening in stages and ramping up its operations, the MRP Group had incurred substantial losses that, to date, Melco Resorts Leisure has reported accumulated deficit ("Deficit") and negative retained earnings (i.e., retained earnings deficit) position.

The capital structure of Melco Resorts Leisure is as follows:

Class of Stock	Authorized Capital (shares)	Authorized Capital (₱)	Subscribed Capital (₱)	Paid-Up Capital (₱)
Common @ ₱1.00 par value per share	5,200,000,000	5,200,000,000.00	2,281,894,500.00	2,281,894,500.00

The share premium/APIC and accumulated deficit of Melco Resorts Leisure as at December 31, 2018 are as follows:

APIC	Net Deficit
₱20,993,047,577.00	₱(15,535,491,382.34)

In light of the foregoing and in furtherance of the Application, Melco Resorts Leisure respectfully requests for the approval of its equity restructuring plan to eliminate its accumulated deficit as of December 31, 2018 (the "Net Deficit") by applying its existing APIC against its Deficit.

If approved by the Honorable Commission, the equity restructuring will result in completely eliminating the Net Deficit of Melco Resorts Leisure.

After eliminating the Deficit, Melco Resorts Leisure will still have excess APIC ("Net APIC"), in the amount of ₱5,457,556,194.66.

In support of this request, we have previously submitted the following:

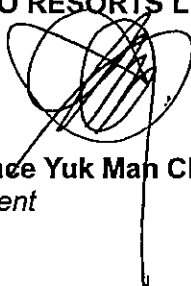
- 1.) Certification under oath by the Corporate Secretary on the resolution of the Board of Directors approving the equity restructuring plan;
- 2.) Audited financial statements as of 31 December 2018, stamped received by the Bureau of Internal Revenue and the SEC; and
- 3.) Compliance Monitoring Division (CMD) Clearance.

We trust that this request will merit your prompt and favorable consideration. Thank you.

Very truly yours,

MELCO RESORTS LEISURE (PHP) CORPORATION

By:



Clarence Yuk Man Chung
President

REPUBLIC OF THE PHILIPPINES)
CITY OF PARAÑAQUE) S.S.

SECRETARY'S CERTIFICATE

I, MARISSA T. ACADEMIA, of legal age, Filipino, with business address at City of Dreams Manila, Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City, after having been duly sworn in accordance with law, state that:

1. I am the Corporate Secretary of Melco Resorts Leisure (PHP) Corporation (the "Corporation"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701.

2. The Corporation is filing an application with the Securities and Exchange Commission for equity restructuring.

3. To the best of my knowledge and based on records in my custody, no action or proceeding has been filed or is pending before any Court or tribunal involving an intra-corporate dispute or claim by any person or group against the directors, officers or stockholders of the Corporation in their capacity as such.


4. This Certification is executed to attest to the truth of the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand this ~~22~~ 22 day of August 2019 at Parañaque City.


MARISSA T. ACADEMIA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this AUG 22 2019 day of August 2019 2019 in Parañaque City, affiant exhibiting to me her Passport No. P5723284A issued at DFA, Manila, valid until January 22, 2028.

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Series of 2019.


CYRIL PATRICK P. ACASIO
NOTARY PUBLIC
Until December 31, 2019
Notarial Commission No. 166-2018
Roll No. 54527
PTR No. 1713015/01-04-19/ Parañaque City
IBP No. 059338/01-07-19/Makati City
MCLE Compliance No. VI-0015574