COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

58648

Company Name

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
mrp@cod-manila.com	8691-8899	(0917) 858-6596

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

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Marissa T. Academia	aissatacademia@cod-manila.com	8691-8899	(0917) 861-0631

Contact Person's Address

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

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

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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, 2020 and 2019 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, 2020 and 2019, 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 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 No. 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 No. 15-2010 in Note 19 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.

SYCIP GORRES VELAYO & CO.

Bienvenido M. Rebullido II
Bienvenido M. Rebullido II
Partner
CPA Certificate No. 0119460
SEC Accreditation No. 1801-A (Group A),
December 17, 2019, valid until December 16, 2022
Tax Identification No. 248-415-617
BIR Accreditation No. 08-001998-136-2020,
February 20, 2020, valid until February 19, 2023
PTR No. 8534352, January 4, 2021, Makati City

April 29, 2021

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
PARENT COMPANY BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)

	Notes	December 31, 2020	2019
ASSETS			
Current Assets			
Cash and cash equivalents	5, 15 and 16	**₱168,821**	₱195,062
Amounts due from related parties	11, 15 and 16	**61,527**	77,663
Income tax recoverable		**37**	–
Total Current Assets		**230,385**	272,725
Non-current Asset			
Investment in a subsidiary	6	**27,688,590**	27,688,590
Total Non-current Asset		**27,688,590**	27,688,590
		₱27,918,975	₱27,961,315
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued expenses, other payables and other current liabilities	7, 15 and 16	**₱31,039**	₱79,944
Amounts due to related parties	11, 15 and 16	**85,636**	73,797
Income tax payable		**–**	116
Total Current Liabilities		**116,675**	153,857
Non-current Liabilities			
Other non-current liabilities	8	**–**	12,102
Deferred tax liability, net	12	**–**	975
Total Non-current Liabilities		**–**	13,077
Equity			
Capital stock	9	**5,689,765**	5,688,765
Additional paid-in capital		**22,145,826**	22,143,394
Share-based compensation reserve		**14,960**	–
Accumulated deficit		**(48,251)**	(37,778)
Total Equity		**27,802,300**	27,794,381
		₱27,918,975	₱27,961,315

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, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)

	Notes	Year Ended December 31, 2020	2019
REVENUE			
Management fee income	11	**₱41,904**	₱21,350
Total Revenue		**41,904**	21,350
OPERATING COSTS AND EXPENSES			
General and administrative expenses	10	**(70,540)**	(66,630)
Total Operating Costs and Expenses		**(70,540)**	(66,630)
OPERATING LOSS		**(28,636)**	(45,280)
NON-OPERATING INCOME			
Interest income	5	**310**	365
Foreign exchange gains, net		**16,725**	5,127
Total Non-operating Income, Net		**17,035**	5,492
LOSS BEFORE INCOME TAX		**(11,601)**	(39,788)
INCOME TAX CREDIT (EXPENSE)	12	**1,128**	(1,171)
NET LOSS		**(10,473)**	(40,959)
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE LOSS		**(₱10,473)**	(₱40,959)

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, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)

	Notes	Capital Stock (Note 9)	Additional Paid-in Capital	Share-based Compensation Reserve	Accumulated Deficit	Total
Balance as of January 1, 2020		**₱5,688,765**	**₱22,143,394**	**₱–**	**(₱37,778)**	**₱27,794,381**
Net loss and total comprehensive loss		**–**	**–**	**–**	**(10,473)**	**(10,473)**
Shares issued	9	**1,000**	**–**	**–**	**–**	**1,000**
Share-based compensation		**–**	**2,432**	**14,960**	**–**	**17,392**
Balance as of December 31, 2020		**₱5,689,765**	**₱22,145,826**	**₱14,960**	**(₱48,251)**	**₱27,802,300**
Balance as of January 1, 2019		₱5,687,271	₱22,259,788	₱228,972	(₱134,567)	₱28,041,464
Net loss and total comprehensive loss		–	–	–	(40,959)	(40,959)
Shares issued	9	1,494	–	–	–	1,494
Share-based compensation		–	2,427	23,849	–	26,276
Reclassification of MRP Share Incentive Plan from equity-settled to cash-settled	17	–	15,746	(249,640)	–	(233,894)
Transfer of share-based compensation reserve upon expiry of share options		–	–	(3,181)	3,181	–
Equity restructuring to eliminate accumulated deficit against additional paid-in capital	9	–	(134,567)	–	134,567	–
Balance as of December 31, 2019		₱5,688,765	₱22,143,394	₱–	(₱37,778)	₱27,794,381

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, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)

	Note	Year Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		**(₱11,601)**	(₱39,788)
Adjustments for:			
Unrealized foreign exchange gains, net		**(10,892)**	(3,894)
Interest income		**(310)**	(365)
Share-based compensation		**17,392**	26,276
Provisions for input value-added tax (“VAT”)	10	**1,011**	1,444
Operating loss before working capital changes		**(4,400)**	(16,327)
Changes in assets and liabilities:			
Decrease in accrued expenses, other payables and other current liabilities		**(49,438)**	(125,492)
Decrease in other non-current liabilities		**(12,102)**	(25,764)
Increase in other non-current assets		**(1,011)**	(1,444)
Decrease in amounts due from related parties		**27,029**	127,163
Increase in amounts due to related parties		**12,942**	35,266
Decrease in prepayments and other current assets		**–**	209
Net cash used in operations		**(26,980)**	(6,389)
Interest received		**310**	1,565
Income tax paid		**–**	(42)
Net cash used in operating activities		**(26,670)**	(4,866)
CASH FLOW FROM A FINANCING ACTIVITY			
Proceeds from issuance of common shares		**1,000**	1,494
Cash provided by a financing activity		**1,000**	1,494
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		**(571)**	(421)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(26,241)**	(3,793)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**195,062**	198,855
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱168,821**	₱195,062

See accompanying Notes to Parent Company Financial Statements.

1. **Organization and Business**

(a) Company 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 the trading of MRP shares were automatically suspended by the PSE on December 10, 2018. The Parent Company was automatically delisted from the Official Registry of the PSE on June 11, 2019, by reason of its public ownership remaining below the 10% minimum threshold prescribed under the PSE's Rule on Minimum Public Ownership for a period of more than six months (the "Delisting").

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

On April 24, 2019, the Board of Directors approved a proposal to implement an equity restructuring for the purpose of eliminating the aggregated accumulated deficit for the Parent Company of approximately ₱134,567 as of December 31, 2018 by applying the additional paid-in capital against the accumulated deficit of the Parent Company. This proposal was approved by the SEC on October 15, 2019. Further information is included in Note 9.

On June 24, 2019, at the Annual Stockholders Meeting of MRP, the stockholders of the Parent Company approved an amendment to the Amended Articles of Incorporation of MRP to increase the par value of its shares from ₱1 per share to ₱500,000 per share ("Reverse Stock Split"). The Reverse Stock Split was approved by the SEC on May 12, 2020. Further information is included in Note 9.

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, 2020 and 2019, the Parent Company's ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") and listed on the main board of The Stock Exchange of Hong Kong Limited. Melco Resorts & Entertainment Limited ("Melco") is one of the Parent Company's intermediate holding companies. Melco is a company incorporated in the Cayman Islands with its American depositary shares ("ADSs") listed on the Nasdaq Global Select Market in the United States of America.

As of December 31, 2020 and 2019, the immediate holding company of the Parent Company is MCO (Philippines) Investments Limited ("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 April 29, 2021.

1. **Organization and Business** – continued

(b) Subsidiaries of MRP

As of December 31, 2020 and 2019, 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 were all 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.

1. **Organization and Business** – continued

(d) Recent Developments Related to COVID-19

In connection with the outbreak of the coronavirus (COVID-19) in the first quarter of 2020, travel restrictions, temporary business closures and other prohibitions have been imposed by the Philippines and other countries or regions throughout the world. Additionally, health-related precautionary measures have been imposed and remain in place at City of Dreams Manila which have significantly disrupted Melco Resorts Leisure's casino and resort operations. City of Dreams Manila was closed due to the Enhanced Community Quarantine for the entire island of Luzon including Metro Manila, which began on March 16, 2020. However, since June 19, 2020, as permitted by PAGCOR, City of Dreams Manila has conducted a dry run of its gaming and hospitality operations with a limited number of participants strictly adhering to the new guidelines on social distancing, hygiene and sanitation procedures imposed by the Philippine government. On August 3, 2020, a Modified Enhanced Community Quarantine was re-imposed in Metro Manila due to the rising number of COVID-19 cases and the dry run was halted for more than two weeks. On August 19, 2020, Metro Manila was placed under a General Community Quarantine and City of Dreams Manila was allowed to resume its dry run previously started in June 2020. On August 24, 2020, the Philippine government allowed PAGCOR-licensed casinos in areas covered by the General Community Quarantine to operate at limited operational capacity. The General Community Quarantine in Metro Manila was originally extended to until March 31, 2021. However, on March 27, 2021, the Philippine government re-imposed the Enhanced Community Quarantine over Metro Manila and adjacent provinces from March 29, 2021 to April 4, 2021 and was further extended to April 11, 2021 to stem the recent surge of COVID-19 cases. On April 11, 2021, the Philippine government downgraded the community quarantine classification over Metro Manila to Modified Enhanced Community Quarantine which shall be in effect from April 12, 2021 to April 30, 2021 but on April 29, 2021, an announcement was made that this would further be extended up to May 14, 2021. City of Dreams Manila was temporarily closed beginning on the imposition of the Enhanced Community Quarantine on March 29, 2021, and will remain closed for the duration of the Modified Enhanced Community Quarantine period, until further advice from the Philippine government.

The COVID-19 outbreak and the related events have also caused severe disruptions to Melco Resorts Leisure's resort tenants and other business partners, which may increase the risk of these entities defaulting on their contractual obligations with Melco Resorts Leisure.

The disruptions to Melco Resorts Leisure's business had material adverse effects on its financial condition and operations for the year ended December 31, 2020. As the disruptions are ongoing, such adverse effects have continued beyond the 2020 year and the Parent Company is unable to reasonably estimate the financial impact to its future results of operations, cash flows and financial condition due to uncertainties surrounding the business recovery from such disruptions, successful development of safe and effective vaccines and treatment of COVID-19, travel restrictions, customer sentiment and other events related to the COVID-19 outbreak.

1. **Organization and Business** – continued

(d) Recent Developments Related to COVID-19 – continued

As of December 31, 2020, the Parent Company had cash and cash equivalents of ₱168,821 and available borrowing capacity under the Credit Facility (as disclosed in Note 13) of ₱2,350,000, subject to the satisfaction of certain conditions precedent.

Melco Resorts Leisure has taken various mitigating measures to manage through the current COVID-19 outbreak challenges, such as implementing cost reduction programs to minimize cash outflows for non-essential items of Melco Resorts Leisure and rationalizing Melco Resorts Leisure's capital expenditure programs with deferrals and reductions.

Melco Resorts Leisure believes it will be able to support continuing operations for at least twelve months from the date of these Parent Company financial statements.

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 ("PFRSs"). PFRSs include all PFRSs, Philippine Accounting Standards ("PASs") 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.

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, 2020 and the adoption of these new and amended PFRSs had no material impact on the Parent Company financial statements.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures*, and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

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 PFRSs to have significant impacts on the Parent Company's financial position or performance.

- **Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2***

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR"):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
  - Relief from discontinuing hedging relationships; and
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

  The Parent Company shall also disclose information about:

  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Parent Company is not required to restate prior periods.

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

Standards Issued But Not Yet Effective – continued

- **Amendments to PFRS 3, *Reference to the Conceptual Framework***

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations*, to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- **Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use***

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- **Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract***

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

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

Standards Issued But Not Yet Effective – continued

- **Annual Improvements to PFRSs (2018-2020 Cycle)**

  - **Amendments to PFRS 1, *First-time Adoption of PFRSs, Subsidiary as a First-time Adopter***

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  - **Amendments to PFRS 9, *Financial Instruments*, *Fees in the "10 per cent" Test for Derecognition of Financial Liabilities***

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  - **Amendments to PFRS 16, *Lease Incentives***

    The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

  - **Amendments to PAS 41, *Agriculture, Taxation in Fair Value Measurements***

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

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); and
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts.

  PFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

- **Amendments to PAS 1, *Classification of Liabilities as Current or Non-current***

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement;
  - That a right to defer must exist at the end of the reporting period;
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

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 investors' 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
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 solely payments of principal and interest ("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.

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

Financial Assets – 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 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.

The Parent Company's financial assets at amortized cost include cash and cash equivalents (see Note 5) and amounts due from related parties (see Note 11).

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, 2020 and 2019.

Derecognition of Financial Assets
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.

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

Derecognition of Financial Assets – continued
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
The Parent Company recognizes an allowance for expected credit losses ("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
ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs 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 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.

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

Impairment of Financial Assets – continued

General Approach – continued

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:

- 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.

Financial Liabilities

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.

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

Financial Liabilities – continued
Subsequent Measurement – 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 11).

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, 2020 and 2019.

Derecognition of Financial Liabilities
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.

Determination of Fair Values of Financial Assets and Liabilities
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
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.

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.

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

VAT – continued
As of December 31, 2020 and 2019, input VAT, net amounting to nil for 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 Parent Company balance sheets. For the years ended December 31, 2020 and 2019, provisions for input VAT expected to be non-recoverable amounting to ₱1,011 and ₱1,444, respectively, were recognized and included in general and administrative expenses in the Parent Company statements of comprehensive income (Note 10). As of December 31, 2020 and 2019, provisions for input VAT were ₱19,429 and ₱18,418, respectively.

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, 2020 and 2019, 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.

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.

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

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
Revenue from Contracts with Customers
Management Fee Income
Revenue from the provision of management services is recognized when the services are provided.

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.

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.

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

Share-based Compensation

For equity-settled 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.

For cash-settled share-based compensation, a liability is recognized for the subsidiaries' employee services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, the liability is accrued for the outstanding awards as they become vested at the settlement amount, with a corresponding share-based compensation expense recognized in profit or loss for the period.

Forfeitures are estimated at the time of grant, and adjusted for actual forfeitures to the extent they differ from the estimate. When the equity-settled 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 Parent Company's share-based compensation arrangement for the years ended December 31, 2020 and 2019 for restricted shares and share options granted under the share incentive plans is included in Note 17.

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.

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

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.

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.

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

Income Tax – continued
Deferred Tax – continued
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 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.

Subsequent Events
Post period-end events that provide additional information about the Parent Company's financial position at the balance sheet date (adjusting events) are reflected in the Parent Company financial statements. Post period-end events that are not adjusting events are disclosed in the notes to Parent Company financial statements when material.

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.

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.

Impairment of Investment in a Subsidiary
PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the recoverable 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, 2020 and 2019. The carrying values of investment in a subsidiary amounted to ₱27,688,590 as of December 31, 2020 and 2019 for 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.

Deferred tax asset on NOLCO amounting to ₱4,243 was recognized as of December 31, 2020, to the extent of the amount of the reversing deductible temporary difference arising from unrealized foreign exchange gains, net.

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 ₱123,091 and ₱138,357 as of December 31, 2020 and 2019, respectively (see Note 12).

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

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 ₱310 and ₱365 for the years ended December 31, 2020 and 2019, respectively.

6. Investment in a Subsidiary

As of December 31, 2020 and 2019, 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 for each of those periods.

7. Accrued Expenses, Other Payables and Other Current Liabilities

	December 31,	
	2020	2019
Accruals for:		
Employee benefit expenses	**₱19,111**	₱63,938
Legal and other professional fees	**11,924**	12,258
Withholding taxes payable	**4**	3,367
Other payables and liabilities	**–**	381
	₱31,039	₱79,944

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

8. Other Non-current Liabilities

The amount represents accruals for employee benefit expenses of nil and ₱12,102 as of December 31, 2020 and 2019, respectively.

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

9. **Equity**

	Number of Shares	Capital Stock
Ordinary shares		
Authorized:		
As of January 1, 2019, December 31, 2019 and January 1, 2020 (₱1 per share)	5,900,000,000	₱5,900,000
Decrease in number of shares as a result of Reverse Stock Split	**(5,899,988,200)**	–
As of December 31, 2020 (₱500,000 per share)	**11,800**	**₱5,900,000**
Issued and fully paid:		
As of January 1, 2019 (₱1 per share)	5,687,270,800.0000	₱5,687,271
Shares issued (₱1 per share)	1,493,900.0000	1,494
As of December 31, 2019 and January 1, 2020 (₱1 per share)	5,688,764,700.0000	5,688,765
Decrease in number of shares as a result of Reverse Stock Split	**(5,688,753,322.4706)**	–
Shares issued (₱500,000 per share)	**2.0000**	**1,000**
As of December 31, 2020 (₱500,000 per share)	**11,379.5294**	**₱5,689,765**

On June 26, 2017, the Board of Directors and the 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.

On April 24, 2019, the Board of Directors approved a proposal to implement an equity restructuring for the purpose of eliminating the aggregated accumulated deficit for the Parent Company of approximately ₱134,567 as of December 31, 2018 by applying the additional paid-in capital against the accumulated deficit. This proposal was approved by the SEC on October 15, 2019.

On April 24, 2019 and June 24, 2019, the Board of Directors and the stockholders of MRP approved the Reverse Stock Split as disclosed in Note 1(a), respectively, whereby, without changing the total amount of the authorized capital stock, the par value per ordinary share was increased from ₱1 per share to ₱500,000 per share, thereby decreasing the total number of ordinary shares on a pro-rata basis. The Reverse Stock Split was approved by the SEC on May 12, 2020. All share and per share data relating to the transactions carried out before May 12, 2020 as disclosed in the accompanying Parent Company financial statements, including the movements of outstanding options and restricted shares as disclosed in Note 17 for the year ended December 31, 2020, represent the number of shares or value per share before the Reverse Stock Split.

As a result of the Reverse Stock Split, only those stockholders of MRP who originally owned 500,000 ordinary shares with a par value of ₱1 per share (each an "Original Share") and in multiples thereof immediately prior to the Reverse Stock Split would now own whole shares (each a "MRP Whole Share") of stock of MRP. Other holders of the Original Shares could now only hold a fractional share of MRP ("MRP Fractional Share").

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

9. **Equity** – continued

To facilitate the elimination of MRP Fractional Shares held by other stockholders of MRP, MPHIL Corporation ("MPHIL"), a stockholder of MRP, offered to purchase the resulting MRP Fractional Shares at the purchase price to be calculated by multiplying the number of Original Shares represented by the relevant MRP Fractional Shares (which were equal to the number of Original Shares held by the relevant stockholder immediately prior to the Reverse Stock Split) by the price of ₱7.25 per Original Share ("Fractional Share Elimination Plan"). A stockholder could also sell any MRP Whole Shares to MPHIL under the Fractional Share Elimination Plan. Any holder of MRP Fractional Shares and/or MRP Whole Shares may accept this offer during the two-year period commencing from June 5, 2020.

Following the Reverse Stock Split, MRP currently has less than 200 stockholders holding at least 100 shares each. On June 17, 2020, MRP filed with the SEC a petition for Voluntary Revocation of Order of Registration and Permit to Sell Securities to the Public and Exemption from Reportorial Requirements under the Securities Regulations Code (the "Petition"). The Petition was approved by the SEC on October 22, 2020.

Pursuant to the approval of the Board of Directors on December 4, 2020 and June 24, 2019, the Parent Company issued and the independent directors subscribed for 2 and 1,493,900 common shares of the Parent Company with a par value of ₱500,000 and ₱1 per share, for a total consideration of approximately ₱1,000 and ₱1,494 on December 10, 2020 and July 31, 2019, respectively.

As of December 31, 2020 and 2019, the Parent Company had 43 stockholders (representing stockholders of MRP Whole Shares after the Reverse Stock Split) and 2,201 stockholders, respectively.

10. **General and Administrative Expenses**

		Year Ended December 31,	
	Notes	**2020**	2019
Share-based compensation – cash-settled	17	**₱21,264**	₱25,982
Management fee expenses	11	**20,129**	1,731
Share-based compensation – equity-settled	17	**14,960**	23,849
Legal and other professional fees		**11,516**	11,959
Office and administrative expenses		**1,273**	1,407
Provisions for input VAT		**1,011**	1,444
Taxes and licenses		**229**	180
Operating and other expenses		**158**	78
		₱70,540	₱66,630

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

11. 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 Parent Company financial statements, the Parent Company had the following significant transactions with related parties for the years:

	Amount of Transactions		Amounts Due From Related Parties[1]		Amounts Due To Related Parties[2]	
	Year Ended December 31,		December 31,		December 31,	
	2020	2019	**2020**	2019	**2020**	2019
An intermediate holding company						
Melco						
Management fee income[3]	**₱41,904**	₱21,350	**₱–**	₱–	**₱–**	₱–
Management fee expenses	**20,129**	1,731	**–**	–	**–**	–
Share-based compensation – equity-settled[4]	**14,960**	–	**–**	–	**–**	–
Amount due from Melco	**–**	–	**60,944**	77,079	**–**	–
Subsidiaries						
Amount due to MPHIL Holdings No. 1	**₱–**	₱–	**–**	–	**5,728**	5,727
Amount due from MPHIL Holdings No. 2	**₱–**	₱–	**583**	584	**–**	–
Amount due to Melco Resorts Leisure	**₱–**	₱–	**–**	–	**60,177**	47,344
Affiliated companies						
Amounts due to Melco International's subsidiaries (other than MPHIL Holdings No. 1 and Melco Resorts Leisure)	**₱–**	₱–	**–**	–	**19,731**	20,726
			₱61,527	₱77,663	**₱85,636**	₱73,797

Notes:
(1) The balances are unsecured, non-interest bearing and repayable on demand. No impairment losses are recognized for these balances.
(2) The balances are unsecured, non-interest bearing and repayable on demand.
(3) The amount represents the recharge of share-based compensation for certain directors of MRP for the years ended December 31, 2020 and 2019.
(4) The amount represents the share-based compensation related to the grant of certain share-based awards under the Melco Share Incentive Plan (as defined in Note 17) to certain directors of the Parent Company. Further information on the share-based compensation arrangements is included in Note 17.

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

11. **Related Party Transactions** – continued

Directors' Remuneration

For the years ended December 31, 2020 and 2019, the remuneration of certain directors of the Parent Company was borne by Melco.

Compensation of Key Management Personnel

For the years ended December 31, 2020 and 2019, the compensation of key management personnel of MRP was borne by Melco and Melco Resorts Leisure.

12. **Income Tax**

The income tax (credit) expense for the years ended December 31, 2020 and 2019 consisted of:

	Year Ended December 31,	
	2020	2019
Provision for current income tax	**₱118**	₱271
Over-provision of income tax in prior year	**(271)**	(75)
Deferred tax (credit) charge	**(975)**	975
	(₱1,128)	₱1,171

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,	
	2020	2019
Income tax benefit computed at statutory income tax rate	**(₱3,480)**	(₱11,936)
Income tax effects of:		
Over-provision of income tax in prior year	**(271)**	(75)
Change in unrecognized deferred tax assets	**(15,266)**	(60,288)
Change in unrecognized deferred tax assets in prior year	**788**	53,273
Expenses not deductible for tax purposes	**1,213**	6,853
Utilization of tax loss previously not recognized	**–**	(424)
Expired NOLCO	**15,981**	13,878
Interest income subject to final tax	**(93)**	(110)
	(₱1,128)	₱1,171

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

12. **Income Tax** – continued

The components of the Parent Company's net deferred tax liability as of December 31, 2020 and 2019 were as follows:

	December 31,	
	2020	2019
Deferred tax asset:		
NOLCO	**₱4,243**	₱–
Deferred tax liability:		
Unrealized foreign exchange gains, net	**(4,243)**	(975)
	₱–	(₱975)

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,	
	2020	2019
NOLCO	**₱112,751**	₱115,274
Share-based compensation	**10,222**	22,812
Others	**118**	271
	₱123,091	₱138,357

On September 30, 2020, the BIR issued Revenue Regulations ("RR") No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Parent Company's NOLCO before taxable year 2020 which can be carried forward and claimed as deductions from regular taxable income for the next three consecutive taxable years is analysed as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2019	2022	**₱173,824**	**₱–**	**₱–**	**₱173,824**
2018	2021	**155,428**	**–**	**–**	**155,428**
2017	2020	**53,271**	**–**	**(53,271)**	**–**
		₱382,523	**₱–**	**(₱53,271)**	**₱329,252**

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

12. **Income Tax** – continued

As of December 31, 2020, the Parent Company's NOLCO in taxable year 2020 which can be carried forward and claimed as deductions from regular taxable income for the next five consecutive taxable years is analysed as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2020	2025	**₱60,728**	**₱–**	**₱–**	**₱60,728**

In July 2018, MRP received from the BIR a letter of authority ("LOA") for the audit of all internal revenue taxes for 2010 to 2016. In August 2019, MRP received from the BIR a preliminary assessment notice ("PAN") for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the PAN is without merit and has filed protest letters with the BIR in September 2019 requesting the cancellation of the PAN, there is no reply from the BIR on the protest letters as of the date of this report.

13. **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, 2020, the Credit Facility availability period, as amended from time to time, is up to January 31, 2021 and was further extended to May 1, 2021, in January 2021, and the maturity date of each individual drawdown, as amended from time to time, to be the earlier of: (i) the date which is 180 days from the date of drawdown, and (ii) the date which is 180 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 note in favor of the lender evidencing such drawdown. As of December 31, 2020, borrowings under the Credit Facility bear interest, as amended from time to time, at the higher of: (i) the PHP BVAL Reference Rate of the selected interest period plus the applicable margin to be mutually agreed by the bank and the borrower at the time of drawdown, and (ii) Philippines Term Deposit Facility Rate of the selected interest period plus the applicable margin to be mutually agreed by the bank and the borrower at the time of drawdown, 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, 2020 and 2019, the Credit Facility had not yet been drawn and the available borrowing capacity under the Credit Facility was ₱2,350,000.

14. **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$340,000,000 (equivalent to ₱14,927,765) (the "Shareholder Loan") with MCO Investments as lender (the "Lender"). The Shareholder Loan Facility is a term loan facility denominated in United States dollars ("US$"). 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, 2020 and 2019, the Shareholder Loan Facility had not yet been drawn and the available borrowing capacity under the Shareholder Loan Facility was US$340,000,000 (equivalent to ₱16,332,020 and ₱17,252,753 as of December 31, 2020 and 2019, respectively).

On March 23, 2021, the Lender assigned the Shareholder Loan Facility to Melco Resorts Services Limited, an indirect subsidiary of Melco, with other terms and conditions unchanged.

15. **Financial Risk Management Objectives and Policies**

The Parent Company has financial assets and liabilities including cash and cash equivalents, amounts due from/to related parties and accrued expenses, other payables and other current liabilities 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.

<u>Interest Rate Risk</u>
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.

<u>Credit Risk</u>
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Parent Company.

With respect to credit risk from the financial assets of the Parent Company, which are composed of cash and cash equivalents 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 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.

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

15. **Financial Risk Management Objectives and Policies** – continued

Credit Risk – continued

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, 2020 and 2019.

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 (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 is in good liquidity position. 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 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, 2020 and 2019 based on undiscounted contractual cash flows.

	December 31, 2020				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	**₱168,821**	**₱–**	**₱–**	**₱–**	**₱168,821**
Amounts due from related parties	**61,527**	**–**	**–**	**–**	**61,527**
Financial Liabilities					
Accrued expenses, other payables and other current liabilities	**₱462**	**₱–**	**₱–**	**₱–**	**₱462**
Amounts due to related parties	**85,636**	**–**	**–**	**–**	**85,636**

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

15. **Financial Risk Management Objectives and Policies** – continued

Liquidity Risk – continued

	December 31, 2019				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱195,062	₱–	₱–	₱–	₱195,062
Amounts due from related parties	77,663	–	–	–	77,663
Financial Liabilities					
Accrued expenses, other payables and other current liabilities	₱8,572	₱–	₱–	₱–	₱8,572
Amounts due to related parties	73,797	–	–	–	73,797

Foreign Exchange Risk

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

The Parent Company has foreign currency exposures arising from translation of certain monetary assets and monetary liability denominated in foreign currencies, which are primarily denominated in Hong Kong dollars (“HK$”), US$ and Macau Patacas (“MOP”). 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 liability, translated into Philippine peso equivalents, are as follows:

	December 31, 2020					
	HK$ (In Unit)	Philippine Peso	US$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	**(23,973)**	**(149)**	**(4,196,088)**	**(201,561)**	**–**	**–**
Monetary Liability	**(332,123)**	**(2,058)**	**(32,170)**	**(1,545)**	**(2,939,514)**	**(17,683)**
	(356,096)	**(2,207)**	**(4,228,258)**	**(203,106)**	**(2,939,514)**	**(17,683)**

	December 31, 2019					
	HK$ (In Unit)	Philippine Peso	US$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	(23,973)	(156)	(2,810,335)	(142,606)	–	–
Monetary Liability	(327,323)	(2,132)	(32,170)	(1,632)	(2,939,514)	(18,593)
	(351,296)	(2,288)	(2,842,505)	(144,238)	(2,939,514)	(18,593)

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

15. **Financial Risk Management Objectives and Policies** – continued

Foreign Exchange Risk – continued
In translating the foreign currency-denominated monetary assets and liability into Philippine peso amounts, the Parent Company used the following rates of exchange as of December 31, 2020 and 2019:

	December 31, 2020	2019
Philippine peso to 1 unit of foreign currency:		
HK$	**6.20**	6.51
US$	**48.04**	50.74
MOP	**6.02**	6.33

The sensitivity of the loss before income tax with regard to the Parent Company's monetary assets and monetary liability in HK$, US$ and MOP translated into Philippine peso with +/-0.6% and +/-1.0% changes in exchange rates for each of the foreign currencies as mentioned above for the years ended December 31, 2020 and 2019, respectively. The changes in currency rates are based on the Parent Company's best estimate of expected changes considering historical trends and experience.

If the Philippine peso had strengthened against HK$, with all other variables held constant, loss before income tax would have decreased by ₱13 and ₱23 for the years ended December 31, 2020 and 2019, respectively, mainly as a result of the translation of HK$ denominated amounts due to related parties. If the Philippine peso had strengthened against US$, with all other variables held constant, loss before income tax would have decreased by ₱1,219 and ₱1,442 for the years ended December 31, 2020 and 2019, respectively, mainly as a result of the translation of US$ denominated amounts due from related parties. If the Philippine peso had strengthened against MOP, with all other variables held constant, loss before income tax would have decreased by ₱106 and ₱186 for the years ended December 31, 2020 and 2019, respectively, 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, 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 ₱27,802,300 and ₱27,794,381 as of December 31, 2020 and 2019, respectively.

15. **Financial Risk Management Objectives and Policies** – continued

Capital Risk Management – continued
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, 2020 and 2019 were zero as there were no long-term debts for the Parent Company as of December 31, 2020 and 2019.

16. **Financial Instruments**

Fair Value of Financial Instruments
Cash and cash equivalents, Amounts due from/to related parties and Accrued expenses, other payables and other current liabilities
As of December 31, 2020 and 2019, the carrying values approximate their fair values at the reporting dates due to the relatively short-term maturities of the transactions.

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, 2020 and 2019, the Parent Company does not have financial instruments that are carried and measured at fair value. For the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

17. Share Incentive Plans

MRP Share Incentive Plan

The Parent Company adopted a share incentive plan (the "MRP 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 10 years from the date of grant. The maximum aggregate number of common shares to be available for all awards under the MRP 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 10 years. As of December 31, 2020, there were 305 common shares available for grants of various share-based awards under the MRP Share Incentive Plan.

On May 22, 2019, the Parent Company offered to all eligible participants of the MRP Share Incentive Plan the option to retire all outstanding equity awards, including the unvested share options, vested but unexercised share options and unvested restricted shares (collectively, the "Outstanding Awards") by the payment of cash to the eligible participants (the "SIP Retirement Arrangements") in light of the Delisting of the Parent Company as disclosed in Note 1(a). The acquiescence of such SIP Retirement Arrangements was obtained from the SEC on May 17, 2019. As a result of all eligible participants electing to participate in the SIP Retirement Arrangements, all the Outstanding Awards, including a total of 15,971,173 outstanding share options (including both unvested and vested but unexercised share options) and 29,068,424 outstanding restricted shares under the MRP Share Incentive Plan, were irrevocably cancelled and extinguished pursuant to the SIP Retirement Arrangements on May 31, 2019 (the "SIP Modification").

Under the SIP Retirement Arrangements, the Parent Company will pay the eligible participants a fixed amount in cash ("Settlement Amount") according to the original vesting schedules of the outstanding share options and restricted shares, subject to other terms and conditions. The Settlement Amount of the outstanding restricted shares is ₱7.25 per share, based on the offer price of the voluntary tender offer conducted by MCO Investments in 2018 and the Settlement Amount of the outstanding share options which was determined using the Black-Scholes valuation model at the modification date, 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. 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 terms are based upon the expected exercise behavior of the outstanding options. The risk-free interest rate is based on the Philippine government bond yield for the period equal to the expected term.

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

17. **Share Incentive Plans** – continued

MRP Share Incentive Plan – continued

The fair values of the outstanding share options under the SIP Retirement Arrangements at modification date were estimated using the following weighted average assumptions as follows:

Expected dividend yield	–
Expected stock price volatility	45.00%
Risk-free interest rate	5.81%
Expected average term (years)	5.7
Weighted average share price per share	₱7.25
Weighted average exercise price per share	₱6.15
Weighted average fair value of share options at modification date	₱4.23

As a result of the SIP Modification, on May 31, 2019, the Parent Company recognized a liability of ₱233,894 with a corresponding reduction in share-based compensation reserve of ₱249,640 and an increment in additional paid-in capital of ₱15,746, which represented the excess of grant date fair values over the modification date fair values of the Outstanding Awards to which the vesting period had expired. All the Outstanding Awards were modified from equity-settled to cash-settled, with other terms unchanged. Since the fair values of the modified awards and the original awards were the same on the modification date, no incremental share-based compensation expenses resulted. At each balance sheet date until the liability is settled, the liability is accrued for the Outstanding Awards as they become vested at the Settlement Amount, with a corresponding share-based compensation expense recognized in the accompanying Parent Company statements of comprehensive income.

As of December 31, 2020 and 2019, the accrued liability associated with the cash-settled share options and restricted shares was ₱19,111 and ₱76,040, respectively. No fair value gain or loss on remeasurement of the liability associated with the cash-settled share options and restricted shares was recognized for the years ended December 31, 2020 and 2019.

Share Options

There were no share options granted under the MRP Share Incentive Plan for the years ended December 31, 2020 and 2019.

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

17. **Share Incentive Plans** – continued

MRP Share Incentive Plan – continued

Share Options – continued

A summary of the share options activity under the MRP Share Incentive Plan as of December 31, 2020, and changes for the years ended December 31, 2020 and 2019 are presented as follows:

	Number of Share Options	Weighted Average Exercise Price per Share
Equity-settled		
Outstanding as of January 1, 2019	17,035,505	₱6.28
Forfeited	(197,261)	8.34
Expired	(867,071)	8.30
Modified to cash-settled	(15,971,173)	6.15
Outstanding as of December 31, 2019 and 2020	–	₱–
Exercisable as of December 31, 2020	–	₱–

	Number of Share Options
Cash-settled	
Outstanding as of January 1, 2019	–
Modified from equity-settled	15,971,173
Vested	(8,587,765)
Outstanding as of December 31, 2019	7,383,408
Vested	**(6,357,751)**
Outstanding as of December 31, 2020	**1,025,657**

No equity-settled share options were exercised for the years ended December 31, 2020 and 2019.

Restricted Shares

There were no restricted shares granted under the MRP Share Incentive Plan for the years ended December 31, 2020 and 2019.

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

17. **Share Incentive Plans** – continued

MRP Share Incentive Plan – continued

Restricted Shares – continued

A summary of the restricted shares activity under the MRP Share Incentive Plan as of December 31, 2020, and changes for the years ended December 31, 2020 and 2019 are presented as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Equity-settled		
Unvested as of January 1, 2019	29,444,660	₱5.82
Forfeited	(376,236)	5.42
Modified to cash-settled	(29,068,424)	5.83
Unvested as of December 31, 2019 and 2020	–	₱–

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Cash-settled		
Unvested as of January 1, 2019	–	₱–
Modified from equity-settled	29,068,424	5.83
Vested	(20,816,777)	4.94
Forfeited	(15,961)	4.38
Unvested as of December 31, 2019	8,235,686	8.08
Vested	**(5,922,184)**	**8.35**
Unvested as of December 31, 2020	**2,313,502**	**₱7.37**

Melco Share Incentive Plan

On March 31, 2020, certain share-based awards under Melco's share incentive plan adopted on December 7, 2011 (the "Melco Share Incentive Plan"), which has been subsequently amended and restated, were granted by Melco to certain directors of the Parent Company.

In accordance with the applicable accounting standards, the share-based compensation expenses related to the grant of share-based awards under the Melco Share Incentive Plan to certain directors of the Parent Company, to the extent of services received by the Parent Company, are recognized in the accompanying Parent Company statement of comprehensive income with a corresponding increase in share-based compensation reserve, representing capital contributions from Melco.

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

17. **Share Incentive Plans** – continued

Melco Share Incentive Plan – continued

Share Options

For the year ended December 31, 2020, the exercise price for share options granted under the Melco Share Incentive Plan was determined at the market closing price of Melco's ADS trading on the Nasdaq Global Select Market on the date of grant. These share options became exercisable over vesting periods of three years. The share options granted expire 10 years from the date of grant.

Melco 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 grant. Expected volatility is based on the historical volatility of Melco's ADS trading on the Nasdaq Global Select Market. Expected term is based upon the vesting term or the historical expected term of publicly traded companies. The risk-free interest rate is based on the United States of America Treasury yield curve at the time of grant for the period equal to the expected term.

The fair values of share options granted under the Melco Share Incentive Plan were estimated on the date of grant using the following weighted average assumptions as follows:

	Year Ended December 31, 2020
Expected dividend yield	**3.10%**
Expected stock price volatility	**43.50%**
Risk-free interest rate	**0.43%**
Expected average term (years)	**5.6**
Weighted average share price per share (US$)	**4.13**
Weighted average exercise price per share (US$)	**4.13**
Weighted average fair value per share option (US$)	**1.21**

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

17. **Share Incentive Plans** – continued

Melco Share Incentive Plan – continued

Share Options – continued

A summary of the share options activity under the Melco Share Incentive Plan as of December 31, 2020, and changes for the year ended December 31, 2020 are presented as follows:

	Number of Share Options	Weighted Average Exercise Price per Share US$
Equity-settled		
Outstanding as of January 1, 2020	–	–
Granted	**61,236**	**4.13**
Outstanding as of December 31, 2020	**61,236**	**4.13**
Exercisable as of December 31, 2020	**–**	**–**

The exercise price and the weighted average remaining contractual term of the above equity-settled share options outstanding as at the date indicated are as follows:

	December 31, 2020	
Exercise Price per Share (US$)	Number of Share Options Outstanding	Weighted Average Remaining Contractual Term (Years)
4.13	**61,236**	**9.25**

Restricted Shares

For the year ended December 31, 2020, the grant date fair value for restricted shares granted under the Melco Share Incentive Plan was determined with reference to the market closing price of Melco's ADS trading on the Nasdaq Global Select Market on the date of grant. These restricted shares have vesting periods of three years.

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

17. **Share Incentive Plans** – continued

Melco Share Incentive Plan – continued

Restricted Shares – continued

A summary of the restricted shares activity under the Melco Share Incentive Plan as of December 31, 2020, and changes for the year ended December 31, 2020 are presented as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value US$
Equity-settled		
Unvested as of January 1, 2020	–	–
Granted	**151,515**	**4.13**
Transfer to Melco	**(54,438)**	**4.13**
Unvested as of December 31, 2020	**97,077**	**4.13**

The share-based compensation expenses for the Parent Company were recognized as follows:

	Year Ended December 31,	
	2020	2019
MRP Share Incentive Plan	**₱21,264**	₱49,831
Melco Share Incentive Plan	**14,960**	–
Total share-based compensation	**₱36,224**	₱49,831

18. **Subsequent Events**

(a) On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") was signed by President Duterte of the Philippines as Republic Act (RA) No. 11534, which was published in the Official Gazette of the Philippines on March 27, 2021 and is set to take effect 15 days after such publication in the Official Gazette. As of the date of this report, the implementing rules and regulations have been finalized. Management determined that this is a non-adjusting event for 2020 financial reporting purposes. Management identified that the main change of CREATE is the reduction of minimum corporate income tax in the Philippines from 2% to 1% starting July 1, 2020 until June 30, 2023 and the corporate income tax rate in the Philippines from 30% to 25% starting July 1, 2020. Management believes that these changes in the tax rates will not have a significant impact to the Parent Company financial statements as of December 31, 2020 as the Parent Company is in a net loss and taxable loss position as of December 31, 2020.

(b) As disclosed in Note 14, the Lender assigned the Shareholder Loan Facility to Melco Resorts Services Limited on March 23, 2021.

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

19. Supplementary Tax Information under RR No. 15-2010

On December 28, 2010, the BIR issued 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.

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

VAT
For the year ended December 31, 2020, 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 2020 per filed VAT returns:

Balance as of January 1	**₱18,686**
Services lodged under other accounts	**962**
Balance as of December 31	**₱19,648**

Other Taxes and Licenses Paid for in 2020
All other taxes and licenses are recognized as general and administrative expenses in the Parent Company statements of comprehensive income.

	Year Ended December 31, 2020		
	Official Receipt Number	Date Paid	Amount
Documentary stamp tax	Various	Various	**₱10**
Others	Various	Various	**219**
			₱229

Withholding Taxes
Withholding taxes pertaining to various expenses amounted to ₱183 for the year ended December 31, 2020.

	Year Ended December 31, 2020		
	Official Receipt Number	Date Paid	Amount
Tax on compensation and benefits	Various	Various	**₱183**

19. **Supplementary Tax Information under RR No. 15-2010** – continued

Tax Assessments and Cases

In July 2018, MRP received from the BIR a LOA for the audit of all internal revenue taxes for 2010 to 2016. In August 2019, MRP received from the BIR a PAN for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the PAN is without merit and has filed protest letters with the BIR in September 2019 requesting the cancellation of the PAN, there is no reply from the BIR on the protest letters as of the date of this report.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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 the parent company financial statements of Melco Resorts and Entertainment (Philippines) Corporation (the Company), as at December 31, 2020 and for the year then ended, on which we have rendered the attached report dated April 29, 2021.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the above Company has only two (2) stockholders owning more than one hundred (100) shares.

SYCIP GORRES VELAYO & CO.

Bienvenido M. Rebullido II

Bienvenido M. Rebullido II
Partner
CPA Certificate No. 0119460
SEC Accreditation No. 1801-A (Group A),
December 17, 2019, valid until December 16, 2022
Tax Identification No. 248-415-617
BIR Accreditation No. 08-001998-136-2020,
February 20, 2020, valid until February 19, 2023
PTR No. 8534352, January 4, 2021, Makati City

April 29, 2021