

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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Company Name

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

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Form Type

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Department requiring the report

M	S	R	D
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Secondary License Type, If Applicable

With Secondary License

COMPANY INFORMATION

Company's Email Address

mrp@cod-manila.com

Company's Telephone Number/s

8691-8899

Mobile Number

(0917) 858-6596

No. of Stockholders

43

Annual Meeting
Month/Day

May/3rd Monday of each
calendar year

Fiscal Year
Month/Day

December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Marissa T. Academia

Email Address

aissatacademia@cod-manila.com

Telephone Number/s

8691-8899

Mobile Number

(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.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Melco Resorts and Entertainment (Philippines) Corporation and its subsidiaries (collectively referred to as the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



CLARENCE YUK MAN CHUNG
President & Chairman of the Board



KEVIN JAMES SWEET
Treasurer

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Melco Resorts and Entertainment (Philippines) Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2020 and 2019 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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



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

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

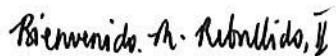
As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



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

SYCIP GORRES VELAYO & CO.



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 AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

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

	<u>Notes</u>	December 31, <u>2020</u>	<u>2019</u>
ASSETS			
Current Assets			
Cash and cash equivalents	5, 24 and 25	₱7,789,936	₱11,931,260
Restricted cash	6, 24 and 25	—	489,956
Accounts receivable, net	7, 24 and 25	894,027	812,385
Inventories		365,293	359,188
Prepayments and other current assets		741,271	297,592
Amounts due from related parties	17, 24 and 25	1,753	94
Income tax recoverable		37	—
Total Current Assets		9,792,317	13,890,475
Non-current Assets			
Property and equipment, net	9	8,517,728	10,433,008
Right-of-use assets, net	19	12,858,633	9,900,650
Contract acquisition costs, net	10	655,501	707,594
Other intangible assets, net	11	91,429	—
Other non-current assets	12	1,022,128	1,138,413
Total Non-current Assets		23,145,419	22,179,665
		₱32,937,736	₱36,070,140
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	24 and 25	₱48,274	₱155,200
Accrued expenses, other payables and other current liabilities	13, 24 and 25	3,468,997	7,344,503
Current portion of lease liabilities	19, 24 and 25	888,431	2,173,185
Amounts due to related parties	17, 24 and 25	2,840,467	1,756,529
Income tax payable		—	116
Total Current Liabilities		7,246,169	11,429,533
Non-current Liabilities			
Non-current portion of lease liabilities	19, 24 and 25	21,404,015	14,553,260
Retirement liabilities	21	186,264	195,933
Other non-current liabilities		13,982	28,107
Deferred tax liability, net	18	2	172,130
Total Non-current Liabilities		₱21,604,263	₱14,949,430

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – continued

DECEMBER 31, 2020 AND 2019

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

	<u>Notes</u>	December 31, <u>2020</u>	<u>2019</u>
Equity			
Capital stock	14	₱5,689,765	₱5,688,765
Additional paid-in capital		22,145,826	22,143,394
Share-based compensation reserve		27,228	—
Equity reserve	2 and 14	(3,613,990)	(3,613,990)
Accumulated deficit		(20,161,525)	(14,526,992)
Total Equity		4,087,304	9,691,177
		₱32,937,736	₱36,070,140

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

	<u>Notes</u>	Year Ended December 31, <u>2020</u>	<u>2019</u>
NET OPERATING REVENUES			
Casino		P8,688,664	P24,760,251
Rooms		1,389,329	3,062,105
Food and beverage		972,382	2,866,767
Entertainment, retail and other		204,287	617,204
Total Net Operating Revenues		<u>11,254,662</u>	<u>31,306,327</u>
OPERATING COSTS AND EXPENSES			
Gaming tax and license fees		(3,034,814)	(8,513,414)
Inventories consumed		(359,529)	(956,012)
Employee benefit expenses	15	(3,789,828)	(4,418,224)
Depreciation and amortization	9, 10, 11 and 19	(3,452,209)	(4,327,911)
Other expenses	16	(3,701,968)	(6,199,499)
Payments to the Philippine Parties		(639,833)	(2,971,751)
Total Operating Costs and Expenses		<u>(14,978,181)</u>	<u>(27,386,811)</u>
OPERATING (LOSS) PROFIT		<u>(3,723,519)</u>	<u>3,919,516</u>
NON-OPERATING INCOME (EXPENSES)			
Interest income		63,895	73,280
Interest expenses	19	(2,180,740)	(2,176,703)
Foreign exchange gains, net		30,936	7,184
Total Non-operating Expenses, Net		<u>(2,085,909)</u>	<u>(2,096,239)</u>
(LOSS) PROFIT BEFORE INCOME TAX		<u>(5,809,428)</u>	<u>1,823,277</u>
INCOME TAX CREDIT	18	<u>169,403</u>	<u>8,460</u>
NET (LOSS) PROFIT		<u>(5,640,025)</u>	<u>1,831,737</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to profit or loss in subsequent period			
Remeasurement gain (loss) on defined benefit obligations	21	<u>5,492</u>	<u>(33,226)</u>
TOTAL COMPREHENSIVE (LOSS) INCOME		<u><u>(P5,634,533)</u></u>	<u><u>P1,798,511</u></u>

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	Notes	Capital Stock (Note 14)	Additional Paid-in Capital	Share-based Compensation Reserve	Equity Reserve (Note 14)	Cumulative Remeasurement Gain (Loss)	Accumulated Deficit	Total
Balance as of January 1, 2020		P5,688,765	P22,143,394	P–	(P3,613,990)	P–	(P14,526,992)	P9,691,177
Net loss		–	–	–	–	–	(5,640,025)	(5,640,025)
Other comprehensive income	21	–	–	–	–	5,492	–	5,492
Total comprehensive loss		–	–	–	–	5,492	(5,640,025)	(5,634,533)
Shares issued	14	1,000	–	–	–	–	–	1,000
Share-based compensation		–	2,432	27,228	–	–	–	29,660
Transfer of remeasurement gain on defined benefit obligations		–	–	–	–	(5,492)	5,492	–
Balance as of December 31, 2020		P5,689,765	P22,145,826	P27,228	(P3,613,990)	P–	(P20,161,525)	P4,087,304
Balance as of January 1, 2019		P5,687,271	P22,259,788	P228,972	(P3,613,990)	P–	(P16,463,251)	P8,098,790
Net profit		–	–	–	–	–	1,831,737	1,831,737
Other comprehensive loss	21	–	–	–	–	(33,226)	–	(33,226)
Total comprehensive income		–	–	–	–	(33,226)	1,831,737	1,798,511
Shares issued	14	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	27	–	15,746	(249,640)	–	–	–	(233,894)
Transfer of share-based compensation reserve upon expiry of share options		–	–	(3,181)	–	–	3,181	–
Transfer of remeasurement loss on defined benefit obligations		–	–	–	–	33,226	(33,226)	–
Equity restructuring to eliminate accumulated deficit against additional paid-in capital	14	–	(134,567)	–	–	–	134,567	–
Balance as of December 31, 2019		P5,688,765	P22,143,394	P–	(P3,613,990)	P–	(P14,526,992)	P9,691,177

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)**

	<u>Notes</u>	Year Ended December 31, <u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit before income tax		(P5,809,428)	P1,823,277
Adjustments for:			
Interest income		(63,895)	(73,280)
Unrealized foreign exchange (gains) losses, net		(52,704)	28,209
Retirement costs – defined benefit obligations	21	(2,700)	88,642
Depreciation and amortization	9, 10, 11 and 19	3,452,209	4,327,911
Interest expenses	19	2,180,740	2,176,703
Provisions for credit losses		352,843	232,981
Provisions for input value-added tax (“VAT”) and other tax claims	12	263,024	193,039
Impairment loss recognized on property and equipment	9 and 16	34,925	174,036
Share-based compensation		29,660	26,276
Net loss on disposals of property and equipment	16	602	10,008
		385,276	9,007,802
Operating profit before working capital changes			
Changes in assets and liabilities:			
Decrease in accrued expenses, other payables and other current liabilities		(3,673,198)	(1,771,330)
(Increase) decrease in accounts receivable		(431,043)	464,886
Increase in other non-current assets		(298,691)	(242,109)
(Increase) decrease in prepayments and other current assets		(142,226)	71,593
(Decrease) increase in accounts payable		(107,053)	4,258
Decrease in other non-current liabilities		(14,125)	(7,376)
Increase in inventories		(6,105)	(49,056)
(Increase) decrease in amounts due from related parties		(1,661)	139,466
Decrease in retirement liabilities		(1,477)	–
Increase in amounts due to related parties		1,142,130	1,583,789
		(3,148,173)	9,201,923
Net cash (used in) generated from operations			
Interest received		57,670	70,765
Income tax paid		–	(42)
		(3,090,503)	9,272,646
Net cash (used in) provided by operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment		(770,382)	(2,283,239)
Acquisitions of other intangible assets		(55,562)	–
Payments for right-of-use assets		(21,945)	(14,765)
Payments for other non-current assets		(15,350)	(14,551)
Decrease in restricted cash		489,956	377,635
Proceeds from disposals of property and equipment		1,632	1,917
		(P371,651)	(P1,933,003)
Net cash used in investing activities			

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – continued
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands of Philippine peso, except share and per share data)

	<u>Note</u>	Year Ended December 31, <u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities (including associated interest)	19	(P613,702)	(P2,118,239)
Proceeds from issuance of common shares		1,000	1,494
Interest paid (including withholding tax)		–	(8,194)
Other finance fees paid (including gross-up withholding tax)		–	(42)
Net cash used in financing activities		(612,702)	(2,124,981)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS		(66,468)	(92,114)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(4,141,324)	5,122,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		11,931,260	6,808,712
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>P7,789,936</u>	<u>P11,931,260</u>

See accompanying Notes to Consolidated Financial Statements.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Business

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

On April 24, 2019, the Boards of Directors of the Group approved a proposal to implement an equity restructuring for the purpose of eliminating the aggregated accumulated deficit for the Group of approximately ₱15,709,963 as of December 31, 2018 by applying the additional paid-in capital against the accumulated deficits of each of the companies under the Group. This proposal was approved by the SEC on October 15, 2019. Further information is included in Note 14.

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 14.

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 consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors on April 29, 2021.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

1. Organization and Business – continued

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

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 the Group'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 the Group's resort tenants and other business partners, which may increase the risk of these entities defaulting on their contractual obligations with the Group.

The disruptions to the Group'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 Group 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.

As of December 31, 2020, the Group had cash and cash equivalents of ₱7,789,936 and available borrowing capacity under the Shareholder Loan Facility (as disclosed in Note 20) of US\$340,000,000 (equivalent to ₱16,332,020) and the Credit Facility (as disclosed in Note 20) of ₱2,350,000, subject to the satisfaction of certain conditions precedent.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)**1. Organization and Business – continued****(d) Recent Developments Related to COVID-19 – continued**

The Group 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 and rationalizing the Group's capital expenditure programs with deferrals and reductions.

The Group believes it will be able to support continuing operations and capital expenditures for at least twelve months from the date of these consolidated financial statements.

2. Basis of Preparation

The Group's consolidated financial statements 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 consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

2. Basis of Preparation – continued

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

Reverse acquisition applies only to the consolidated financial statements of MRP. The Parent Company financial statements continue to represent MRP as a standalone entity as of December 31, 2020 and 2019.

3. Summary of Significant Accounting Policies

Changes in Accounting Policies and Disclosures

The Group has adopted the following new and amended PFRSs as of January 1, 2020 and the adoption of these new and amended PFRSs had no material impact on the consolidated 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*
- **Amendments to PFRS 16, *COVID-19-related Rent Concessions***

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Changes in Accounting Policies and Disclosures – continued

▪ **Amendments to PFRS 16, *COVID-19-related Rent Concessions* – continued**

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19-related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with early adoption permitted.

The Group early adopted the amendments on January 1, 2020. The rent concessions given by the lessors for the year ended December 31, 2020 did not meet all the criteria for electing the practical expedient as set out in the amendments. The adoption of the amendments did not have any impact on the consolidated financial statements.

Standards Issued But Not Yet Effective

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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

Restricted Cash

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

Financial Assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

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

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

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

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

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

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

The Group's financial assets at amortized cost include cash and cash equivalents (see Note 5), restricted cash (see Note 6), accounts receivable (see Note 7), deposits and receivables (including security deposits) included under prepayments and other current assets (see Note 8) and other non-current assets (see Note 12) and amounts due from related parties (see Note 17).

The Group has no financial assets at fair value through other comprehensive income (debt instruments), financial assets designated at fair value through other comprehensive income (equity instruments) and financial assets at fair value through profit or loss as of December 31, 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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Derecognition of Financial Assets – continued

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets

The Group 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 Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

General Approach

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Impairment of Financial Assets – continued

General Approach – continued

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

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

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

Simplified Approach

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

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:

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Financial Liabilities – continued

Subsequent Measurement – continued

Loans and Borrowings

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

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

Loans and Borrowings and Payables

The Group's loans and borrowings and payables includes accounts payable, accrued expenses, other payables and other current liabilities (see Note 13), lease liabilities (see Note 19), amounts due to related parties (see Note 17) and other non-current liabilities.

The Group has no financial liabilities at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge as of December 31, 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 consolidated 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Inventories

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

Property and Equipment

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

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

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

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

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

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

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Intangible Assets

Contract Acquisition Costs

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

Other Intangible Assets

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

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

VAT

Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from the tax authority is included under other non-current assets as of December 31, 2020 and 2019 in the consolidated balance sheets.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Impairment of Non-financial Assets

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

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

Provisions

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

Capital Stock

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

Equity Reserve

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Accumulated Deficit

The accumulated deficit represents the Group's cumulative net losses. Remeasurements, comprising actuarial gains and losses, excluding amounts included in interest on the defined benefit obligations, are also included in accumulated deficit in the period in which they occur. 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

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

(a) Casino Revenues

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

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

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

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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

Revenue from Contracts with Customers – continued

(b) Rooms, Food and Beverage, Entertainment, Retail and Other Revenues

The transaction prices of rooms, food and beverage, entertainment, retail and other goods and services are the net amounts collected from customers for such goods and services and are recorded as revenues when the goods are provided, services are performed or events are held. Service taxes and other applicable taxes collected by the Group are excluded from revenues. Advance deposits on rooms and advance tickets sales are recorded as customer deposits until services are provided to the customers. Revenues from contracts with multiple goods or services provided by the Group are allocated to each good or services based on its relative standalone selling price.

(c) Management Fee Income

Revenue from the provision of management services is recognized when the services are provided and are included in entertainment, retail and other revenues.

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.

Rental Income

Rental income is included in entertainment, retail and other revenues and is recognized in accordance with PFRS 16. See *Leases* for the accounting policy of rental income.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

In providing goods and services to its customers, there may be a timing difference between cash receipts from customers and recognition of revenues, resulting in a contract or contract-related liability.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
3. Summary of Significant Accounting Policies – continued
Contract Liabilities – continued

The Group primarily has three types of liabilities related to contracts with customers: (1) outstanding gaming chips and tokens, which represent the amounts owed in exchange for gaming chips held by a customer; (2) loyalty program liabilities, which represent the deferred allocation of revenues relating to incentive earned from the Loyalty Programs; and (3) advance customer deposits and ticket sales, which represent casino front money deposits that are funds deposited by customers before gaming play occurs and advance payments on goods and services yet to be provided such as advance ticket sales and deposits on rooms and convention space. These liabilities are generally expected to be recognized as revenues within one year of being purchased, earned, or deposited and are recorded as accrued expenses, other payables and other current liabilities in the consolidated balance sheets. Decreases in these balances generally represent the recognition of revenues and increases in the balances represent additional chips and tokens held by customers, increases in unredeemed incentives relating to the Loyalty Programs and additional deposits made by customers.

The following table summarizes the activities related to contract and contract-related liabilities:

	December 31, 2020	January 1, 2020	Increase (Decrease)	December 31, 2019	January 1, 2019	Increase (Decrease)
Outstanding gaming chips and tokens	₱933,796	₱2,732,006	(₱1,798,210)	₱2,732,006	₱4,198,666	(₱1,466,660)
Loyalty program liabilities	189,588	219,322	(29,734)	219,322	201,137	18,185
Advance customer deposits and ticket sales	1,102,019	1,202,820	(100,801)	1,202,820	842,994	359,826
	<u>₱2,225,403</u>	<u>₱4,154,148</u>	<u>(₱1,928,745)</u>	<u>₱4,154,148</u>	<u>₱5,242,797</u>	<u>(₱1,088,649)</u>

Expenses Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized in the consolidated statements of comprehensive income in the year these are incurred.

Employee Benefit Expenses
Retirement Costs

Employees of the Group are members of a government-managed social security system scheme (the “SSS Scheme”) operated by the Philippine government and the Group is required to pay a certain percentage of employee relevant income and meet the minimum mandatory requirements of the SSS Scheme to fund the benefits. The obligation of the Group with respect to the SSS Scheme operated by the Philippine government is to make the required contributions specified therein.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Employee Benefit Expenses – continued

Retirement Costs – continued

The Group also has defined benefit obligations covering substantially all of its regular employees in the Philippines. A non-contributory defined benefit plan (the “Defined Benefit Plan”) was adopted by Melco Resorts Leisure on July 1, 2019. Before the adoption of the Defined Benefit Plan, retirement expenses were determined based on the provisions of Republic Act No. 7641, “Retirement Pay law”. The retirement benefit was computed as being 50% of basic monthly salary plus one-twelfth of the 13th month pay for every year of service and the cash equivalent of not more than 5 days of service incentive leaves. After the adoption of the Defined Benefit Plan, retirement expenses are determined according to the terms of the Defined Benefit Plan that meets the minimum retirement benefit specified under Republic Act No. 7641. The Group does not maintain a fund for its retirement benefit obligations, which are determined by using the projected unit credit actuarial cost method.

Current service costs represent the change in retirement liabilities resulting from employee services provided in the current period.

Remeasurements, comprising actuarial gains and losses, excluding amounts included in interest on the defined benefit obligations, are recognized immediately in other comprehensive income in the period in which they occur with a corresponding debit or credit to retained earnings/accumulated deficit.

Past service costs are recognized in the consolidated statements of comprehensive income on the earlier of:

- the date of the plan amendment or curtailment, and
- the date that the Group recognizes related restructuring costs.

Interest is calculated by applying discount rates to the defined benefit obligations. The Group recognizes current service costs, past service costs and interest costs as employee benefit expenses in the consolidated statements of comprehensive income.

Annual Leave and Other Paid Leave

Employee entitlements to annual leave and other paid leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and other paid leave as a result of services rendered by employees for the year.

Bonus Plans

The Group recognizes a liability and an expense for bonuses when contractually obliged or where there is a past practice that has created a constructive obligation.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Employee Benefit Expenses – continued

Share-based Compensation

For equity-settled share-based compensation, the Group measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award, while an award of equity instruments issued to consultants in exchange for services are measured at the fair values of services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the equity instruments granted. The costs of services received are recognized over the service period. Compensation is attributed to the periods of associate service and such expense is recognized on an accelerated basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Each portion is treated as a separate grant, as each portion has a different vesting period.

For cash-settled share-based compensation, a liability is recognized for the 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 Group'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 27.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Leases – continued

As a Lessee – continued

(a) Right-of-use Assets

The Group recognizes a right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on the straight-line basis over the shorter of these estimated useful lives and the lease terms. Right-of-use assets are subject to impairment, if applicable.

(b) Lease Liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

(c) Short-term Leases

The Group applies the short-term lease recognition exemption to all leases that have lease terms of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on the straight-line basis over the lease term.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Leases – continued

As a Lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income includes minimum operating lease income and variable lease income and is recognized in entertainment, retail and other revenues. Minimum operating lease income is accounted for on the straight-line basis over the lease terms. Variable lease income or contingent rent that does not depend on an index or a rate is recognized as income in the accounting period in which it is earned. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as minimum operating lease income.

Foreign Currency Transactions

The Group's consolidated financial statements are presented in Philippine peso, the functional currency of the Parent Company and its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange at the balance sheet date. All differences are taken to the consolidated statements of comprehensive income. All exchange rate differences including those arising on the settlement of monetary items at rates different from those at which these were recorded are recognized in the consolidated statements of comprehensive income in the year in which the differences arise.

For income tax reporting purposes, exchange gains or losses are treated as taxable income or deductible expense in the year these are realized.

Income Tax

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted as of the balance sheet date.

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Income Tax – continued

Deferred Tax – continued

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profits nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax over regular corporate income tax and unused net operating loss carryovers (“NOLCO”) to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profits nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

3. Summary of Significant Accounting Policies – continued

Gaming Tax and License Fees

The Licensees are required to pay license fees to PAGCOR ranging from 15% to 25% of its gross gaming revenues on a monthly basis, starting from the date the casino commences operations. Such license fees include the 5% franchise tax on actual gross gaming revenues generated by the casino. The Group is also subject to fees based on 5% of certain non-gaming revenue and 2% of casino revenues generated from non-junket operation tables as further discussed in Note 23(b). These expenses are included in the accompanying consolidated statements of comprehensive income.

Contingencies

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

Subsequent Events

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Functional Currency

Based on the economic substance of underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and its subsidiaries operate and it is the currency that mainly influences the revenues and expenses for management and operation of City of Dreams Manila.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

4. Significant Accounting Judgments, Estimates and Assumptions – continued

Judgments – continued

Determining the Lease Term of Contracts with Renewal Options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Reporting Revenue Gross as a Principal or Net as an Agent

The Group follows the accounting standards for reporting revenue gross as a principal versus net as an agent, when accounting for the operations of one of the hotels and concluded that it is the controlling entity and is the principal to this arrangement. For the operations of one of the hotels, the Group is the owner of the hotel property, and the hotel manager operates the hotel under certain management agreements providing management services to the Group, and the Group receives all rewards and takes substantial risks associated with the hotel business, it is the principal and the transactions of the hotel are, therefore, recognized on a gross basis.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for ECLs of Accounts Receivable

The Group applies PFRS 9 simplified approach to measure ECLs, using a lifetime expected loss allowance for accounts receivable. The Group determines the allowance based on specific customer information, historical write-off experience, current industry and economic data and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. A provision of ECL for accounts receivable is recorded when the Group believes it is probable the recoverable amount of the receivables will be less than their carrying amounts. Account balances are written-off against the allowance when the Group considers the receivables to be uncollectible. Management believes there are no concentrations of credit risk for which an allowance has not been established. Although management believes the allowance is adequate, it is possible the estimated amount of cash collections with respect to accounts receivable could change.

The provisions for credit losses of accounts receivable for the years ended December 31, 2020 and 2019 amounted to ₱342,327 and ₱219,102, respectively. As of December 31, 2020, the carrying amount of accounts receivables, gross amounted to ₱1,856,380 (including current portion of ₱1,856,380 and non-current portion of nil) (2019: ₱1,462,805 (including current portion of ₱1,204,308 and non-current portion of ₱258,497)), with allowances for credit losses of ₱962,353 (including current portion of ₱962,353 and non-current portion of nil) (2019: ₱650,420 (including current portion of ₱391,923 and non-current portion of ₱258,497)) (see Notes 7 and 12).

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

4. Significant Accounting Judgments, Estimates and Assumptions – continued

Estimates and Assumptions – continued

Estimating Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for operational use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimations of the useful lives of property and equipment are based on collective assessments of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property and equipment would increase the recorded expenses and decrease non-current assets.

There were no changes made to the estimated useful lives of the Group's property and equipment. The carrying values of property and equipment amounted to ₱8,517,728 and ₱10,433,008 as of December 31, 2020 and 2019, respectively (see Note 9).

Estimating Retirement Benefits

The Group's obligation and cost for retirement benefits is dependent on the selection of certain assumptions used by the Group's actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rates of salary increases and turnover rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the retirement benefit obligations. The amount of retirement benefit obligations and expenses and an analysis of the movements in the estimated present values and assumptions used are disclosed in Note 21.

Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the recoverable value of property and equipment, right-of-use assets, contract acquisition costs, other intangible assets and other non-current assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that such assets are impaired. Any resulting impairment could have a material impact on the financial condition and results of operation of the Group.

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

For the years ended December 31, 2020 and 2019, an aggregate impairment loss of ₱34,925 and ₱174,036, respectively, was recognized in full against the carrying value of certain property and equipment due to the reconfigurations at the Group's operating properties. The impairment loss was recognized and included in other expenses in the consolidated statements of comprehensive income (Note 16).

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

4. Significant Accounting Judgments, Estimates and Assumptions – continued

Estimates and Assumptions – continued

Impairment of Non-financial Assets – continued

Provisions for input VAT and other tax claims expected to be non-recoverable of ₱263,024 and ₱193,039 were recognized for the years ended December 31, 2020 and 2019, respectively (see Note 16).

Except for the impairment loss on property and equipment and provisions for input VAT and other tax claims as mentioned above, no other impairment losses were recognized for the years ended December 31, 2020 and 2019. The carrying values of property and equipment amounted to ₱8,517,728 and ₱10,433,008 as of December 31, 2020 and 2019, respectively (see Note 9); the carrying values of right-of-use assets amounted to ₱12,858,633 and ₱9,900,650 as of December 31, 2020 and 2019, respectively (see Note 19); the carrying values of contract acquisition costs amounted to ₱655,501 and ₱707,594 as of December 31, 2020 and 2019, respectively (see Note 10); the carrying values of other intangible assets amounted to ₱91,429 and nil as of December 31, 2020 and 2019, respectively (see Note 11); and the carrying values of other non-current assets amounted to ₱1,022,128 and ₱1,138,413 as of December 31, 2020 and 2019, respectively (see Note 12).

Recognition of Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets at the end of each reporting period and reduces these to the extent it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits is based on the level and timing of forecasted taxable income of subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

Deferred tax assets on lease liabilities amounting to ₱1,702,522 and ₱3,074,753 and NOLCO amounting to ₱151,826 and nil were recognized as of December 31, 2020 and 2019, respectively, to the extent of the amount of the reversing deductible temporary difference arising from right-of-use assets, unrealized foreign exchange gains, net and capitalized interest expenses.

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 ₱4,651,413 and ₱6,243,771 as of December 31, 2020 and 2019, respectively (see Note 18).

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

5. Cash and Cash Equivalents

	December 31,	
	<u>2020</u>	<u>2019</u>
Cash on hand	₱1,218,040	₱2,431,735
Cash in banks	<u>6,571,896</u>	<u>9,499,525</u>
	<u>₱7,789,936</u>	<u>₱11,931,260</u>

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱58,926 and ₱62,916 for the years ended December 31, 2020 and 2019, respectively.

6. Restricted Cash

Restricted cash as of December 31, 2019 represented an escrow account that was restricted for foundation fees payable in accordance with the terms of the Regular License. The funds were fully released and the escrow account was closed during the year ended December 31, 2020. Interest income earned from restricted cash amounted to ₱953 and ₱1,845 for the years ended December 31, 2020 and 2019, respectively.

7. Accounts Receivable, Net

Components of accounts receivable, net are as follows:

	December 31,	
	<u>2020</u>	<u>2019</u>
Casino	₱1,850,935	₱1,154,666
Hotel	4,644	43,230
Other	<u>801</u>	<u>6,412</u>
	1,856,380	1,204,308
Less: Allowances for credit losses	<u>(962,353)</u>	<u>(391,923)</u>
	<u>₱894,027</u>	<u>₱812,385</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
7. Accounts Receivable, Net – continued

Movement in the allowances for credit losses were as follows:

	<u>Note</u>	Year Ended December 31, <u>2020</u>	<u>2019</u>
Balance at beginning of year		₱391,923	₱130,540
Provisions		342,327	219,102
Write-offs		–	(65)
Reclassified from long-term receivables, net	12	258,497	56,176
Effect of exchange rate		(30,394)	(13,830)
Balance at end of year		<u>₱962,353</u>	<u>₱391,923</u>

The Group grants unsecured credit lines to gaming promoters based on pre-approved credit limits. The Group typically issues markers to gaming promoters with a credit period of 30 days. There are some gaming promoters for whom credit is granted on a revolving basis based on the Group's monthly credit risk assessment of these gaming promoters. Credit lines granted to all gaming promoters are subject to monthly review and settlement procedures. For certain approved casino customers, the Group typically allows a credit period of 14 days to 28 days on issuance of markers following investigations of creditworthiness. An extended repayment term of up to 90 days may be offered to casino customers with large gaming losses and established credit history.

The Group currently has a legally enforceable right to offset the commissions payable and front money deposits against the casino receivables where it intends to settle on a net basis. As of December 31, 2020 and 2019, the gross amounts of current casino receivables of ₱2,290,121 and ₱1,864,017 were offset by commissions payable and front money deposits in aggregate amounts of ₱439,186 and ₱709,351, respectively.

The Group applies a simplified approach in calculating ECLs for its accounts receivable. An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns and adjusted for factors specific to the debtors, general economic conditions forecasts and forward-looking information that is available without undue cost or effort.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
7. Accounts Receivable, Net – continued

Set out below is the information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

		<u>December 31, 2020</u>	
	<u>Expected Credit Loss Rate</u>	<u>Gross Carrying Amount</u>	<u>Expected Credit Losses</u>
Current	–	₱890,741	₱–
Past due:			
1 – 30 days	–	2,197	–
31 – 60 days	–	–	–
61 – 90 days	–	–	–
Over 90 days	99.9%	963,442	962,353
	51.8%	₱1,856,380	₱962,353
		<u>December 31, 2019</u>	
	<u>Expected Credit Loss Rate</u>	<u>Gross Carrying Amount</u>	<u>Expected Credit Losses</u>
Current	–	₱588,418	₱–
Past due:			
1 – 30 days	1.0%	10,815	110
31 – 60 days	–	214	–
61 – 90 days	29.6%	161,176	47,785
Over 90 days	77.5%	443,685	344,028
	32.5%	₱1,204,308	₱391,923

8. Prepayments and Other Current Assets

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Overpayment of lease liabilities	₱318,636	₱–
Creditable withholding tax	143,103	139,537
Prepaid payments to the Philippine Parties	133,642	11,391
Prepaid facilities and supplies expenses	60,475	69,274
Deposits for acquisitions of inventories	34,365	23,057
Prepaid office and administrative expenses	6,174	6,539
Rental and other receivables, net	5,974	23,356
Refundable deposits, net	4,104	13,355
Other prepayments and current assets	34,798	11,083
	₱741,271	₱297,592

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
9. Property and Equipment, Net

	December 31, 2020					
	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	Total
Costs:						
Balance at beginning of year	P15,348,380	P96,618	P7,757,798	P4,413,402	P1,696	P27,617,894
Adjustments to costs	(48,574)	–	(3,017)	(5)	–	(51,596)
Additions	226,066	–	268,550	274,114	–	768,730
Disposals and write-off	(33,611)	(5,001)	(51,631)	(6,285)	–	(96,528)
Transfer	(9,915)	–	9,487	428	–	–
Balance at end of year	15,482,346	91,617	7,981,187	4,681,654	1,696	28,238,500
Accumulated depreciation, amortization and impairment:						
Balance at beginning of year	(7,301,832)	(84,503)	(6,967,265)	(2,831,286)	–	(17,184,886)
Depreciation and amortization	(1,693,437)	(5,528)	(346,198)	(550,092)	–	(2,595,255)
Impairment	(33,611)	–	–	(1,314)	–	(34,925)
Disposals and write-off	33,611	3,317	51,238	6,128	–	94,294
Transfer	488	–	(471)	(17)	–	–
Balance at end of year	(8,994,781)	(86,714)	(7,262,696)	(3,376,581)	–	(19,720,772)
Net book value	P6,487,565	P4,903	P718,491	P1,305,073	P1,696	P8,517,728

	December 31, 2019						
	<u>Buildings</u>	<u>Leasehold Improvements</u>	<u>Motor Vehicles</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Plant and Gaming Machinery</u>	<u>Construction in Progress</u>	<u>Total</u>
Costs:							
Balance at beginning of year	₱11,820,440	₱14,362,961	₱94,605	₱7,336,780	₱3,312,249	₱–	₱36,927,035
Reclassified to right-of-use assets	(11,820,440)	–	–	–	–	–	(11,820,440)
Adjustments to costs	–	(17,477)	–	(5,602)	(37,918)	–	(60,997)
Additions	–	1,323,505	2,013	496,116	1,265,812	1,696	3,089,142
Disposals and write-off	–	(315,850)	–	(77,169)	(123,827)	–	(516,846)
Transfer	–	(4,759)	–	7,673	(2,914)	–	–
Balance at end of year	–	15,348,380	96,618	7,757,798	4,413,402	1,696	27,617,894
Accumulated depreciation, amortization and impairment:							
Balance at beginning of year	(2,570,813)	(5,834,693)	(67,252)	(5,943,441)	(2,151,570)	–	(16,567,769)
Reclassified to right-of-use assets	2,570,813	–	–	–	–	–	2,570,813
Depreciation and amortization	–	(1,617,750)	(17,251)	(1,089,511)	(794,303)	–	(3,518,815)
Impairment	–	(164,960)	–	(9,076)	–	–	(174,036)
Disposals and write-off	–	315,419	–	75,648	113,854	–	504,921
Transfer	–	152	–	(885)	733	–	–
Balance at end of year	–	(7,301,832)	(84,503)	(6,967,265)	(2,831,286)	–	(17,184,886)
Net book value	₱–	₱8,046,548	₱12,115	₱790,533	₱1,582,116	₱1,696	₱10,433,008

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
10. Contract Acquisition Costs, Net

	December 31,	
	<u>2020</u>	<u>2019</u>
Costs:		
Balance at beginning and at end of year	<u>₱1,063,561</u>	<u>₱1,063,561</u>
Accumulated amortization:		
Balance at beginning of year	(355,967)	(303,874)
Amortization	<u>(52,093)</u>	<u>(52,093)</u>
Balance at end of year	<u>(408,060)</u>	<u>(355,967)</u>
Net book value	<u>₱655,501</u>	<u>₱707,594</u>

11. Other Intangible Assets, Net

	December 31,	
	<u>2020</u>	<u>2019</u>
Costs:		
Balance at beginning of year	₱–	₱8,698
Additions	120,441	–
Write-off	<u>–</u>	<u>(8,698)</u>
Balance at end of year	<u>120,441</u>	<u>–</u>
Accumulated amortization:		
Balance at beginning of year	–	(8,698)
Amortization	(29,012)	–
Write-off	<u>–</u>	<u>8,698</u>
Balance at end of year	<u>(29,012)</u>	<u>–</u>
Net book value	<u>₱91,429</u>	<u>₱–</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
12. Other Non-current Assets

	December 31,	
	<u>2020</u>	<u>2019</u>
Input VAT, net	P632,714	P632,714
Security and rental deposits	208,703	183,477
Deposits for acquisitions of property and equipment	110,224	248,296
Other non-current assets and deposits ⁽¹⁾	70,487	73,926
	<u>P1,022,128</u>	<u>P1,138,413</u>

(1) The balance included operating deposits and prepayments for various operating services.

Input VAT, net represents the VAT expected to be recoverable from the tax authority in the Philippines. Certain input VAT incurred on purchase of assets of P438,846 was considered non-refundable, and, therefore, recognized as property and equipment for the year ended December 31, 2019. For the years ended December 31, 2020 and 2019, provisions for input VAT and other tax claims expected to be non-recoverable amounting to P263,024 and P193,039, respectively, were recognized and included in other expenses in the consolidated statements of comprehensive income (Note 16). As of December 31, 2020 and 2019, provisions for input VAT and other tax claims were P2,513,398 and P2,250,374, respectively.

Melco Resorts Leisure received from the Bureau of Internal Revenue (the “BIR”) a letter of authority (“LOA”) for the audit of the VAT for 2015 (“2015 VAT”) and the VAT for 2017 (“2017 VAT”) in June 2016 and April 2018, respectively, and the audit of the VAT for 2016 was included under a LOA received by Melco Resorts Leisure from the BIR in August 2017 for the review of all internal revenue taxes for 2016.

In June 2017 and February 2019, Melco Resorts Leisure received from the BIR a final assessment notice (“FAN”) relating to an alleged deficiency of VAT for 2014 (“2014 VAT”) and 2015 VAT on gaming revenues, respectively, after the BIR audit. Melco Resorts Leisure believes the legal basis for the FANs on gaming revenues is without merit and has filed protest letters with the BIR in July 2017 and March 2019 requesting the cancellation of the FAN of 2014 VAT and 2015 VAT, respectively. There is no reply from the BIR on the protest letters as of the date of this report.

In December 2018, Melco Resorts Leisure received from the BIR a preliminary assessment notice (“PAN”) which included a deficiency of the 2015 VAT for non-gaming operations, and Melco Resorts Leisure subsequently settled the deficiency of 2015 VAT related to the non-gaming operations in January 2019.

In April 2020, Melco Resorts Leisure received from the BIR a PAN which included a deficiency of the 2017 VAT for non-gaming operations, and Melco Resorts Leisure subsequently settled the deficiency of 2017 VAT related to the non-gaming operations in April 2020.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
12. Other Non-current Assets – continued

The audit of the VAT for 2018 (“2018 VAT”) was included under a LOA received by Melco Resorts Leisure from the BIR in December 2019 for the review of all internal revenue taxes for 2018. In July 2020, Melco Resorts Leisure received from the BIR a LOA for the audit of the VAT for 2019 (“2019 VAT”). No final assessment pertaining to the LOAs on 2018 VAT and 2019 VAT has been issued by the BIR as of the date of this report.

Long-term receivables, net represent casino receivables from casino customers where settlements are not expected within the next financial year. For the years ended December 31, 2020 and 2019, net amount of non-current accounts receivable of ₱258,497 and ₱56,176, and net amount of allowances for credit losses of ₱258,497 and ₱56,176, was reclassified to current accounts receivable and allowances for credit losses, respectively. As of December 31, 2020 and 2019, the gross amounts of non-current casino receivables of nil and ₱323,882 were offset by commissions payable and front money deposits in aggregate amounts of nil and ₱65,385, respectively. As of December 31, 2020 and 2019, the balance of long-term receivables, net was nil for each of those periods.

Movement in the allowances for credit losses for long-term receivables were as follows:

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	₱258,497	₱314,673
Reversal of provisions	(257,595)	(58,341)
Effect of exchange rate	(902)	2,165
Balance at end of year	<u>₱–</u>	<u>₱258,497</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
13. Accrued Expenses, Other Payables and Other Current Liabilities

	December 31,	
	<u>2020</u>	<u>2019</u>
Advance customer deposits and ticket sales	₱1,102,019	₱1,202,820
Outstanding gaming chips and tokens	933,796	2,732,006
Accruals for:		
Employee benefit expenses	302,687	731,763
Gaming tax and license fees	251,079	1,183,267
Other gaming operations expenses	140,245	173,001
Facilities and supplies expenses	135,087	206,468
Property and equipment	50,065	248,758
Legal and other professional fees	49,716	74,734
Taxes and licenses	29,056	47,471
Advertising, marketing, promotional and entertainment expenses	28,208	106,659
Operating and other expenses	110,611	237,258
Loyalty program liabilities	189,588	219,322
Withholding taxes payable	88,177	105,986
Other payables and liabilities	58,663	74,990
	<u>₱3,468,997</u>	<u>₱7,344,503</u>

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

14. Equity

	<u>Number of Shares</u>	<u>Capital Stock</u>
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)	<u>11,800</u>	<u>₱5,900,000</u>
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)	<u>11,379.5294</u>	<u>₱5,689,765</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

14. Equity – continued

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 Boards of Directors of the Parent Company and all of its subsidiaries 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 and for all of its subsidiaries of approximately ₱15,575,396, in aggregate total of approximately ₱15,709,963 for the Group, as of December 31, 2018 by applying the additional paid-in capital against the accumulated deficits of each of the companies under the Group. 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 the Parent Company 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 consolidated financial statements, including the movements of outstanding options and restricted shares as disclosed in Note 27 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").

To facilitate the elimination of MRP Fractional Shares held by other stockholders of MRP, 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.

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

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.

Equity Reserve

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

The equity reserve is accounted for as follows:

	December 31,	
	<u>2020</u>	<u>2019</u>
Retained earnings of MRP as of December 19, 2012	₱732,453	₱732,453
Consideration to MRP for the acquisition of MPHIL Holdings Group	(7,198,590)	(7,198,590)
Legal capital of MPHIL Holdings Group as of March 20, 2013	2,852,147	2,852,147
	<u>(₱3,613,990)</u>	<u>(₱3,613,990)</u>

As of December 31, 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.

15. Employee Benefit Expenses

	<u>Notes</u>	Year Ended December 31,	
		<u>2020</u>	<u>2019</u>
Basic salaries, allowances, bonuses			
other amenities		₱3,018,632	₱3,620,652
Annual leave and other paid leave		285,495	261,247
Retirement costs – defined contribution plans		107,563	109,035
Share-based compensation – equity-settled	27	69,578	23,849
Share-based compensation – cash-settled	27	21,264	25,982
Retirement costs – defined benefit obligations	21	(2,700)	88,642
Other employee benefits ⁽¹⁾		289,996	288,817
		<u>₱3,789,828</u>	<u>₱4,418,224</u>

(1) The amount included staff insurance expenses and other staff expenses.

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

	<u>Notes</u>	Year Ended December 31,	
		<u>2020</u>	<u>2019</u>
Management fee expenses		₱1,078,222	₱1,281,592
Facilities and supplies expenses		954,716	1,537,352
Other gaming operations expenses		618,714	976,661
Provisions for input VAT and other tax claims	12	263,024	193,039
Office and administrative expenses		239,625	197,980
Advertising, marketing, promotional and entertainment expenses		168,769	602,406
Trademark license fees	17	70,014	591,685
Legal and other professional fees		52,396	120,497
Taxes and licenses		51,624	57,111
Impairment loss recognized on property and equipment	9	34,925	174,036
Travel agents and other commissions		30,411	125,705
Vehicles running costs		6,868	38,813
Rental expenses	19	1,631	1,363
Net loss on disposals of property and equipment		602	10,008
Operating and other expenses		130,427	291,251
		<u>₱3,701,968</u>	<u>₱6,199,499</u>

17. Related Party Transactions

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

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

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

	<u>Amount of Transactions</u> <u>Year Ended December 31,</u>		<u>Amounts Due From</u> <u>Related Parties⁽¹⁾</u> <u>December 31,</u>		<u>Amounts Due To</u> <u>Related Parties⁽²⁾</u> <u>December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
A shareholder						
Amount due from MPHIL	<u>P–</u>	<u>P–</u>	<u>P20</u>	<u>P–</u>	<u>P–</u>	<u>P–</u>
An intermediate holding company						
Melco						
Management fee income ⁽³⁾	P41,904	P21,350	–	–	–	–
Management fee expenses	352,388	271,959	–	–	–	–
Share-based compensation – equity settled ⁽⁴⁾	69,578	–	–	–	–	–
Amount due to Melco	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	553,613	187,435
Affiliated companies						
Melco International's subsidiaries (other than MPHIL and Melco)						
Acquisitions of other intangible assets	P64,879	P–	–	–	–	–
Management fee income	8,511	8,550	–	–	–	–
Management fees and other expenses recognized as expenses ⁽⁵⁾	765,848	1,170,165	–	–	–	–
Management fees capitalized in property and equipment	–	3,956	–	–	–	–
Trademark license fees	70,014	591,685	–	–	–	–
Purchases of goods and services	2,407	11,742	–	–	–	–
Amounts due from/to Melco International's subsidiaries	<u>–</u>	<u>–</u>	1,733	94	2,286,854	1,569,094
			P1,753	P94	P2,840,467	P1,756,529

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 27) to certain directors and employees of the Group. Further information on the share-based compensation arrangements is included in Note 27.

(5) Management services are provided by Melco International group companies. These services include, but are not limited to, corporate expenses, gaming operations support and gaming software license and support fees for the Group.

Directors' Remuneration

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
17. Related Party Transactions – continued
Compensation of Key Management Personnel

The compensation of key management personnel of the Group for the years ended December 31, 2020 and 2019 is as follows:

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Basic salaries, allowances and benefits in kind	₱99,826	₱108,393
Performance bonuses	–	24,473
Retirement costs – defined contribution plans	219	201
Share-based compensation	24,264	8,059
	<u>₱124,309</u>	<u>₱141,126</u>

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

18. Income Tax

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

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Provision for current income tax	₱2,996	₱271
Over-provision of income tax in prior year	(271)	(75)
Deferred tax credit	(172,128)	(8,656)
	<u>(₱169,403)</u>	<u>(₱8,460)</u>

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

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

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Income tax (benefit) provision computed at statutory income tax rate	(P1,742,828)	P546,983
Income tax effects of:		
Over-provision of income tax in prior year	(271)	(75)
Change in unrecognized deferred tax assets	(1,590,710)	191,138
Change in unrecognized deferred tax assets in prior year	1,414,136	53,273
Expenses not deductible for tax purposes	686,088	242,656
Utilization of tax loss previously not recognized	–	(424)
Expired NOLCO	1,255,211	1,358,226
Effect of profits generated by gaming operations exempted from corporate income tax	(171,861)	(2,378,253)
Interest income subject to final tax	(16,184)	(19,429)
Interest income not taxable	(2,984)	(2,555)
	<u>(P169,403)</u>	<u>(P8,460)</u>

The components of the Group's net deferred tax liabilities as of December 31, 2020 and 2019 were as follows:

	December 31,	
	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Lease liabilities	P1,702,522	P3,074,753
NOLCO	151,826	–
	<u>1,854,348</u>	<u>3,074,753</u>
Deferred tax liabilities:		
Right-of-use assets	(1,572,083)	(2,918,696)
Unrealized foreign exchange gains, net	(151,828)	(172,130)
Capitalized interest expenses	(130,439)	(156,057)
	<u>(1,854,350)</u>	<u>(3,246,883)</u>
	<u>(P2)</u>	<u>(P172,130)</u>

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

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

	December 31,	
	<u>2020</u>	<u>2019</u>
NOLCO	₱3,493,266	₱3,924,299
Lease liabilities	1,052,468	1,943,739
Share-based compensation	26,607	22,812
Allowances for credit losses	7,714	201,088
Others	71,358	151,833
	<u>₱4,651,413</u>	<u>₱6,243,771</u>

On September 30, 2020, the BIR issued Revenue Regulations 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 Group’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:

<u>Year Incurred</u>	<u>Expiry Year</u>	<u>Amount</u>	<u>Applied</u>	<u>Expired</u>	<u>Balance</u>
2019	2022	₱4,421,156	₱–	₱–	₱4,421,156
2018	2021	4,658,126	–	–	4,658,126
2017	2020	4,184,037	–	(4,184,037)	–
		<u>₱13,263,319</u>	<u>₱–</u>	<u>(₱4,184,037)</u>	<u>₱9,079,282</u>

As of December 31, 2020, the Group’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:

<u>Year Incurred</u>	<u>Expiry Year</u>	<u>Amount</u>	<u>Applied</u>	<u>Expired</u>	<u>Balance</u>
2020	2025	<u>₱3,071,026</u>	<u>₱–</u>	<u>₱–</u>	<u>₱3,071,026</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

18. Income Tax – continued

Section 13(2)(a) of Presidential Decree No. 1869 (the “PAGCOR Charter”) grants PAGCOR an exemption from tax, income or otherwise, as well as exemption from any form of charges, fees, levies of whatever nature, whether national or local, except a 5% franchise tax on the gross revenue or earnings derived by PAGCOR on its operations under the franchise. Such tax shall be in lieu of all taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority. Section 13(2)(a) of the PAGCOR Charter which provides that the exemptions granted for earnings derived from the operations conducted under the franchise specifically from the payment of any tax, income or otherwise, as well as any form of charges, fees or levies, shall inure to the benefit of and extend to the corporations, associations, agencies or individuals with whom PAGCOR, or the operator has any contractual relationship in connection with the operations of the casino authorized to be conducted under the franchise and to those receiving compensation of other remuneration from PAGCOR or the operator as a result of essential facilities furnished and/or technical services rendered to PAGCOR or the operator. Management believes that the tax benefits granted to PAGCOR under its charter inure to the benefit of, and extend to corporations, associations and agencies, and individuals with whom PAGCOR has any contractual agreement in accordance with Section 13(2)(b) of the PAGCOR Charter.

Based on the Supreme Court of the Philippines decision in the case of Bloomberry Resorts and Hotels, Inc. vs. the BIR, G. R. No. 212530 dated November 28, 2016, management believes that Melco Resorts Leisure’s gaming operations are exempt from corporate income tax, among other taxes, provided the license fees which are inclusive of the 5% franchise tax under the PAGCOR Charter, are paid.

As of December 31, 2020 and 2019, Melco Resorts Leisure was registered with Philippine Economic Zone Authority (“PEZA”) as a tourism economic zone enterprise (“Tourism Economic Zone Enterprise”) for the development and operation of tourist facilities. As a Tourism Economic Zone Enterprise, Melco Resorts Leisure was granted the following fiscal incentives: (a) tax and duty-free importation of certain eligible capital equipment to be used as part of its registered activities; and (b) VAT-zero rating on local purchases of certain eligible capital equipment in accordance with the PEZA rules and regulations.

In August 2017, Melco Resorts Leisure received from the BIR two separate LOAs for the review of all internal revenue taxes for 2015 (excluding VAT) and 2016 (including VAT). In August 2020, Melco Resorts Leisure received the PAN for the internal revenue taxes of 2015 and 2016 and subsequently settled the deficiency in August 2020.

In December 2019, Melco Resorts Leisure received from the BIR a LOA for the review of all internal revenue taxes for 2017 (excluding VAT). In September 2020, Melco Resorts Leisure received the PAN for the internal revenue taxes of 2017 (excluding VAT) and subsequently settled the deficiency in February 2021.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
18. Income Tax – continued

In December 2019 and September 2020, Melco Resorts Leisure received from the BIR a LOA for the review of all internal revenue taxes for 2018 (including VAT) and for 2019 (excluding VAT), respectively. No final assessment pertaining to the LOA of all internal revenue taxes of 2018 (including VAT) and 2019 (excluding VAT) has been issued by the BIR as of the date of this report.

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.

19. Leases
As a Lessee

The Group leased the land and certain of the building structures for City of Dreams Manila under the Lease Agreement (as defined in Note 22(c)) and various assets under lease agreements that expire at various dates through July 2033. Certain lease agreements provide for periodic rental increases based on both contractually agreed incremental rates and on general inflation rates once agreed by the Group and its lessors or contingent rental expenses stated as a percentage of turnover. Certain leases include options to extend the lease term and options to terminate the lease term.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
19. Leases – continued
As a Lessee – continued

Set out below, are the carrying amounts of the Group's right-of-use assets and the movements for the years ended December 31, 2020 and 2019:

	<u>Land</u>	<u>Buildings</u>	<u>Motor Vehicles</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Total</u>
As of January 1, 2019	₱1,338,816	₱9,251,467	₱4,948	₱44,923	₱10,640,154
Additions	14,765	–	–	–	14,765
Modification	–	2,734	–	–	2,734
Depreciation	(93,241)	(638,715)	(4,948)	(20,099)	(757,003)
As of December 31, 2019	1,260,340	8,615,486	–	24,824	9,900,650
Additions	21,945	–	61,241	–	83,186
Modification ⁽¹⁾	(79,342)	3,729,988	–	–	3,650,646
Depreciation	(94,823)	(638,014)	(27,732)	(15,280)	(775,849)
As of December 31, 2020	<u>₱1,108,120</u>	<u>₱11,707,460</u>	<u>₱33,509</u>	<u>₱9,544</u>	<u>₱12,858,633</u>

- (1) As a result of the disruptions caused by the COVID-19 pandemic, Melco Resorts Leisure and Belle have discussed the rent modification during 2020, and the principal terms and conditions on the modified rent were discussed and general parameters were broadly agreed as of December 31, 2020 by both parties. The supplemental agreement to the Lease Agreement to make certain adjustments to the rental payments paid and payable by Melco Resorts Leisure for 2020 and 2021 has only been formalized and signed on March 22, 2021. Accordingly, Melco Resorts Leisure is entitled to rent concession of approximately ₱2.0 billion for 2020 and a maximum rent concession of approximately ₱1.7 billion for 2021. The carrying amount of lease liabilities associated with the Lease Agreement was remeasured by discounting the revised lease payments using a revised discount rate as of December 31, 2020. The difference between the carrying amount of the modified liabilities and the lease liabilities immediately before the modification was recognized as an adjustment to the right-of-use asset as of December 31, 2020.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
19. Leases – continued
As a Lessee – continued

Set out below, are the carrying amounts of the Group's lease liabilities and the movements for the years ended December 31, 2020 and 2019:

	December 31,	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	₱16,726,445	₱16,665,247
Additions	46,142	–
Modification	3,952,821	2,734
Interest expenses	2,180,740	2,176,703
Payments	(613,702)	(2,118,239)
Balance at end of year	<u>₱22,292,446</u>	<u>₱16,726,445</u>
Current	₱888,431	₱2,173,185
Non-current	₱21,404,015	₱14,553,260

The maturity analysis of lease liabilities is disclosed in Note 24.

The following are the amounts recognized in the consolidated statements of comprehensive income:

	Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
Depreciation of right-of-use assets	₱775,849	₱757,003
Interest expenses on lease liabilities	2,180,740	2,176,703
Rental expenses relating to short-term leases	1,631	1,363
	<u>₱2,958,220</u>	<u>₱2,935,069</u>

No variable lease payments were recognized for the years ended December 31, 2020 and 2019.

For the years ended December 31, 2020 and 2019, the total cash outflow for leases was ₱615,011 and ₱2,119,602, including ₱1,309 and ₱1,363 for short-term leases, respectively.

As a Lessor

The Group entered into non-cancellable operating lease agreements mainly for mall spaces in City of Dreams Manila with various retailers that expire at various dates through January 2025. Certain of the operating lease agreements include minimum base fees with escalated contingent fee clauses.

For the years ended December 31, 2020 and 2019, the Group earned minimum operating lease income of ₱42,451 and ₱85,588, respectively, and variable lease income of ₱3,093 and ₱15,723, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
19. Leases – continued
As a Lessor – continued

As of December 31, 2020, future minimum fees to be received under non-cancellable operating lease were as follows:

	December 31, 2020
Within one year	P54,753
In more than one year and not more than five years	41,412
	P96,165

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

20. Long-term Debt, Net
(a) 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 P14,927,765) (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.

The Shareholder Loan Facility availability period is to be notified by the Lender prior to the initial utilization of the Shareholder Loan, and is subject to quarterly amortization payments. The individual drawdowns under the Shareholder Loan Facility are subject to certain conditions precedent, including completion of a utilization request for proposed drawdowns and issuance of promissory notes in favor of the Lender with the same amount of proposed drawdowns. Borrowings under the Shareholder Loan Facility bear interest at a fixed rate of 5% per annum, accrued prior to the first interest payment date. The Shareholder Loan Facility includes a tax gross-up provision requiring Melco Resorts Leisure to pay without any deduction or withholding for or on account of tax.

As of December 31, 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 P16,332,020 and P17,252,753 as of December 31, 2020 and 2019, respectively).

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

20. Long-term Debt, Net – continued

(a) Shareholder Loan Facility – continued

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.

(b) 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.

21. Retirement Costs – Defined Benefit Obligations

The Group has defined benefit obligations covering substantially all of its regular employees. The costs of providing benefits are valued every year by a professional qualified independent actuary in compliance with PAS 19R, *Employee Benefits*. Benefits are dependent on the years of service and the respective employees’ compensation, and are determined using the projected unit credit actuarial cost method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
21. Retirement Costs – Defined Benefit Obligations – continued

The following tables summarize the components of retirement costs of defined benefit obligations recognized in the consolidated statements of comprehensive income for the years ended December 31, 2020 and 2019 and the retirement liabilities of defined benefit obligations recognized in the consolidated balance sheets as of December 31, 2020 and 2019:

	Year Ended December 31,	2019
	<u>2020</u>	<u>2019</u>
Retirement costs – defined benefit obligations:		
Current service costs	₱45,154	₱31,467
Past service (credit) costs	(57,217)	50,488
Interest costs	9,363	6,687
	<u>(₱2,700)</u>	<u>₱88,642</u>
	December 31,	2019
	<u>2020</u>	<u>2019</u>
Retirement liabilities – defined benefit obligations (at present value):		
Balance at beginning of year	₱195,933	₱74,065
Current service costs	45,154	31,467
Past service (credit) costs	(57,217)	50,488
Interest costs	9,363	6,687
Benefits paid	(1,477)	–
Remeasurement loss (gain) due to:		
Experience adjustments	9,167	(13,256)
Changes in demographic assumptions	(14,880)	–
Changes in financial assumptions	221	46,482
Balance at end of year	<u>₱186,264</u>	<u>₱195,933</u>

The principal assumptions used in determining the Group's retirement liabilities for defined benefit obligations as of December 31, 2020 and 2019 are as follows:

	December 31,	2019
	<u>2020</u>	<u>2019</u>
Discount rate	3.87%	4.94%
Salary increase rate	2.00%	3.00%
Mortality rate	2017 PICM	2017 PICM
Disability rate	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5
Turnover rate	A scale ranging from 25% at age 18 to 0% at age 60	A scale ranging from 21% at age 18 to 0% at age 60

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
21. Retirement Costs – Defined Benefit Obligations – continued

As of December 31, 2020 and 2019, the expected maturity of undiscounted expected benefit payments are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Plan year:		
Less than 1 year	₱9,780	₱12,785
More than 1 year but less than 5 years	38,023	47,369
More than 5 years but less than 10 years	137,595	179,561
More than 10 years but less than 15 years	246,024	333,179
More than 15 years but less than 20 years	266,166	359,347
More than 20 years	616,460	801,992

As of December 31, 2020 and 2019, the average duration of the expected benefit payments were 18.66 and 18.48 years, respectively.

As above, the retirement benefit obligations are subject to several key assumptions. The following sensitivity analysis summarizes the impact of key assumptions which have been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligations as of December 31, 2020 and 2019, assuming all other assumptions were held constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

	<u>December 31, 2020</u>
	<u>Effect on Present</u>
	<u>Value of Obligations</u>
Discount rate:	
4.87% (Actual + 1.00%)	₱165,103
3.87% (Actual)	186,264
2.87% (Actual – 1.00%)	211,546
Salary increase rate:	
3.00% (Actual + 1.00%)	₱212,750
2.00% (Actual)	186,264
1.00% (Actual – 1.00%)	163,799
Turnover rate:	
120% of actual	₱164,848
Actual	186,264
80% of actual	211,560

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
21. Retirement Costs – Defined Benefit Obligations – continued

	<u>December 31, 2019</u> Effect on Present Value of Obligations
Discount rate:	
5.94% (Actual + 1.00%)	P174,511
4.94% (Actual)	195,933
3.94% (Actual – 1.00%)	221,302
Salary increase rate:	
4.00% (Actual + 1.00%)	P203,152
3.00% (Actual)	195,933
2.00% (Actual – 1.00%)	189,505
Turnover rate:	
120% of actual	P173,084
Actual	195,933
80% of actual	222,584

22. Cooperation Agreement, Operating Agreement and Lease Agreement

Pursuant to a memorandum of agreement entered into by a Melco's subsidiary with the Philippine Parties and certain of its subsidiaries in 2012 for the development of City of Dreams Manila, the relevant parties of the Licensees and certain of its subsidiaries entered into the following agreements which became effective on March 13, 2013 and end on the date of expiry of the Regular License, currently expected to be on July 11, 2033 unless terminated earlier in accordance with the respective terms of the individual agreements.

(a) Cooperation Agreement

The Licensees and certain of its subsidiaries entered into a cooperation agreement (the "Cooperation Agreement") and other related arrangements which govern the rights and obligations of the Licensees. Under the Cooperation Agreement, Melco Resorts Leisure is appointed as the sole and exclusive representative of the Licensees in connection with the Regular License and is designated as the operator to operate and manage City of Dreams Manila.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

22. Cooperation Agreement, Operating Agreement and Lease Agreement – continued

(b) Operating Agreement

The Licensees entered into an operating agreement (the “Operating Agreement”) which governs the operation and management of City of Dreams Manila by Melco Resorts Leisure. Under the Operating Agreement, Melco Resorts Leisure is appointed as the sole and exclusive operator and manager of City of Dreams Manila, and is responsible for, and has sole discretion (subject to certain exceptions) and control over, all matters relating to the operation and management of City of Dreams Manila (including the gaming and non-gaming operations). The Operating Agreement also includes terms of certain monthly payments to PLAI from Melco Resorts Leisure, based on the performance of gaming operations of City of Dreams Manila, and is included in “Payments to the Philippine Parties” in the consolidated statements of comprehensive income, and further provides that Melco Resorts Leisure has the right to retain all revenues from non-gaming operations of City of Dreams Manila.

(c) Lease Agreement

Melco Resorts Leisure and Belle entered into a lease agreement, as amended from time to time (the “Lease Agreement”) under which Belle agreed to lease to Melco Resorts Leisure the land and certain of the building structures for City of Dreams Manila. The leased property is used by Melco Resorts Leisure and any of its affiliates exclusively as a hotel, casino and resort complex.

23. Commitments and Contingencies

(a) Capital Commitments

As of December 31, 2020, the Group had capital commitments contracted for but not provided mainly for the acquisitions of property and equipment for City of Dreams Manila totaling ₱544,232.

(b) Other Commitments

Regular License

Other commitments required by PAGCOR under the Regular License include as follows:

- (i) To secure a surety bond in favor of PAGCOR in the amount of ₱100 million to ensure prompt and punctual remittances/payments of all license fees.
- (ii) License fees must be remitted on a monthly basis, in lieu of all taxes with reference to the income component of the gross gaming revenues: (a) 15% high roller tables; (b) 25% non-high roller tables; (c) 25% slot machines and electronic gaming machines; and (d) 15% junket operations. The license fees are inclusive of the 5% franchise tax under the PAGCOR Charter.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

23. Commitments and Contingencies – continued

(b) Other Commitments – continued

Regular License – continued

- (iii) The Licensees are required to remit 2% of casino revenues generated from non-junket operation tables to a foundation devoted to the restoration of Philippine cultural heritage, as selected by the Licensees and approved by PAGCOR.
- (iv) PAGCOR may collect a 5% fee on non-gaming revenue received from food and beverage, retail and entertainment outlets. All revenues for hotel operations should not be subject to the 5% fee except for rental income received from retail concessionaires.
- (v) Grounds for revocation of the Regular License, among others, are as follows: (a) failure to comply with any material provisions in this license; (b) failure to remit license fees within 30 days from receipt of notice of default; (c) has become bankrupt or insolvent; and (d) if the debt-to-equity ratio is more than 70:30.

As of December 31, 2020 and 2019, MPHIL Holdings Group, as one of the Licensee parties, has complied with the required debt-to-equity ratio under the definition as agreed with PAGCOR. For further details refer to Note 24 under capital risk management.

Cooperation Agreement

Under the terms of the Cooperation Agreement, the Licensees are jointly and severally liable to PAGCOR under the Regular License and each Licensee (indemnifying Licensee) must indemnify the other Licensees for any losses suffered or incurred by that Licensees arising out of, or in connection with, any breach by the indemnifying Licensee of the Regular License. Also, each of the Philippine Parties and MPHIL Holdings Group agree to indemnify the non-breaching party for any losses suffered or incurred as a result of a breach of any warranties.

(c) Guarantee

Melco Resorts Leisure has issued a corporate guarantee of ₱100 million to a bank in respect of the surety bond issued to PAGCOR as disclosed in Note 23(b)(i).

(d) Litigation

As of December 31, 2020, the Group is a party to certain legal proceedings which relate to matters arising out of the ordinary course of its business. Management believes that the outcome of such proceedings will have no material impact on the Group's consolidated financial statements as a whole.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

24. Financial Risk Management Objectives and Policies

The Group has financial assets and liabilities including cash and cash equivalents, restricted cash, accounts receivable, security deposits, other deposits and receivables, amounts due from/to related parties, accounts payable, accrued expenses, other payables and other current liabilities, lease liabilities and other non-current liabilities which arise directly from its operations.

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

Interest Rate Risk

Other than the bank balances which carry interest at market rates, the Group has no other significant interest-bearing assets and liabilities and its operating cash flows are substantially independent of changes in market interest rates. Accordingly, management is of the opinion that the Group does not have significant interest rate risks.

Credit Risk

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

The Group trades only with recognized and creditworthy third parties. It is the policy of the Group that all third parties who wish to trade on credit terms are subjected to credit verification procedures. Other current and non-current assets are monitored on an on-going basis with the result that the exposure of the Group to bad debts is not significant. The Group does not offer credit terms to third parties, without the specific approval of management.

With respect to credit risk from the financial assets of the Group, which are composed of cash and cash equivalents, restricted cash, accounts receivable, security deposits, other deposits and receivables and amounts due from related parties, the exposure of the Group to credit risk arises from the default of a bank where the Group's cash and cash equivalents and restricted cash are deposited, the default of the counterparties for which accounts receivable, security deposits and other deposits and receivables are held and the default in repayments from the related parties, with a maximum exposure equal to the carrying amount of these instruments.

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of casino receivables. The Group issues credit in the form of markers to approved casino customers following investigations of creditworthiness. Credit is also given to its gaming promoters, which receivables can be offset against commissions payable and any other items of value held by the Group on behalf of the respective customers and for which the Group intends to set off such amounts when such right exists. As of December 31, 2020 and 2019, a substantial portion of the Group's markers were due from customers and gaming promoters residing in foreign countries. Business or economic conditions, the legal enforceability of gaming debts, or other significant events in foreign countries could affect the collectability of receivables from customers and gaming promoters residing in these countries. Should there be any change in circumstances pertaining to one of these gaming promoters, it could have a material effect to the carrying amount of casino receivables.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

24. Financial Risk Management Objectives and Policies – continued

Credit Risk – continued

The Group believes that the concentration of its credit risk in casino receivables is mitigated substantially by its credit evaluation processes, credit policies, credit controls and collection procedures, and also believes that no significant credit risk is inherent in the Group's accounts receivable not provided with allowances for credit losses as at December 31, 2020 and 2019. Other than casino receivables, there are no other concentrations of credit risk.

Credit Risk Exposures

The carrying values of the Group's financial assets represent the maximum exposure to credit risk and the Group did not hold any collateral or credit enhancements to cover its credit risk associated with its financial assets as of December 31, 2020 and 2019.

Credit Quality per Class of Financial Assets

Cash and cash equivalents and restricted cash are considered as high grade and include deposits made to reputable banks in the Philippines. Accounts receivable and other deposits and receivables (excluding amounts past due but not impaired) are considered as high grade as the Group only trades with recognized and creditworthy third parties. Amounts due from related parties are considered as high grade as Melco will provide financial support to the related parties of the Group to meet in full its financial obligations as they fall due. Security deposits are also classified as high grade since the security deposits in relation to the Lease Agreement are placed with Belle, a company listed on the PSE with positive financial performances to date. The credit risks for these financial assets have not increased significantly since initial recognition and for which the loss allowances are measured at an amount equal to 12-months ECLs.

The Group applies the simplified approach for impairment of accounts receivable, see Note 7 to the consolidated financial statements.

Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding or is the risk that the Group will not be able to meet its obligations associated with financial difficulties.

The Group uses historical data and forecasts on its collections and disbursements to ensure it has sufficient cash to meet capital expenditures and operational needs and manages its liquid funds through cash planning on a monthly basis. The forecast takes into consideration the Group's issuance of new shares, debt financing plans and covenant compliance requirements and funding from intermediate holding companies.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities as of December 31, 2020 and 2019 based on undiscounted contractual cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
24. Financial Risk Management Objectives and Policies – continued
Liquidity Risk – continued

	December 31, 2020				
	<u>Within 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Financial Assets					
Cash and cash equivalents	P7,789,936	P–	P–	P–	P7,789,936
Accounts receivable, net	894,027	–	–	–	894,027
Deposits and receivables, net	335,300	22,391	–	417,355	775,046
Amounts due from related parties	1,753	–	–	–	1,753
Financial Liabilities					
Accounts payable	P48,274	P–	P–	P–	P48,274
Accrued expenses, other payables and other current liabilities ⁽¹⁾	1,480,261	–	–	–	1,480,261
Amounts due to related parties	2,840,467	–	–	–	2,840,467
Current portion of lease liabilities	917,040	–	–	–	917,040
Non-current portion of lease liabilities	–	5,299,036	5,495,235	20,689,292	31,483,563
Other non-current liabilities	–	9,549	2,682	–	12,231
	December 31, 2019				
	<u>Within 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Financial Assets					
Cash and cash equivalents	P11,931,260	P–	P–	P–	P11,931,260
Restricted cash	489,956	–	–	–	489,956
Accounts receivable, net	812,385	–	–	–	812,385
Deposits and receivables, net	48,353	37,490	–	379,988	465,831
Amounts due from related parties	94	–	–	–	94
Financial Liabilities					
Accounts payable	P155,200	P–	P–	P–	P155,200
Accrued expenses, other payables and other current liabilities ⁽¹⁾	2,556,331	–	–	–	2,556,331
Amounts due to related parties	1,756,529	–	–	–	1,756,529
Current portion of lease liabilities	2,329,432	–	–	–	2,329,432
Non-current portion of lease liabilities	–	5,181,984	5,427,786	23,569,465	34,179,235
Other non-current liabilities	–	12,394	3,612	–	16,006

(1) The balance included certain outstanding gaming chips and tokens and advance customer deposits that are part of the contract liabilities as disclosed in Note 3.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
24. Financial Risk Management Objectives and Policies – continued
Foreign Exchange Risk

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

The Group has foreign currency exposures arising from translation of certain monetary assets and monetary liabilities denominated in foreign currencies, which are primarily denominated in Hong Kong dollars (“HK\$”), US\$ and Macau Patacas (“MOP”). Foreign exchange risks of the Group are regularly reviewed by management and appropriate processes are in place to monitor and mitigate the said risks by maintaining a certain amount of operating funds in the same currencies in which the Group has obligations to pay from time to time. Management decides not to hedge the currency exposures considering the cost of hedging being higher than the currency exposures.

Foreign currency denominated monetary assets and monetary liabilities, translated into Philippine peso equivalents, are as follows:

	December 31, 2020					
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	65,279,238	404,469	16,661,856	800,358	7,406	45
Monetary Liabilities	(80,868,806)	(501,061)	(19,867,863)	(954,360)	(236,564,810)	(1,423,058)
	<u>(15,589,568)</u>	<u>(96,592)</u>	<u>(3,206,007)</u>	<u>(154,002)</u>	<u>(236,557,404)</u>	<u>(1,423,013)</u>
	December 31, 2019					
	HK\$ (In Unit)	Philippine Peso	US\$ (In Unit)	Philippine Peso	MOP (In Unit)	Philippine Peso
Monetary Assets	247,079,358	1,609,680	3,125,670	158,607	7,406	47
Monetary Liabilities	(52,417,283)	(341,490)	(11,856,004)	(601,614)	(132,272,936)	(836,636)
	<u>194,662,075</u>	<u>1,268,190</u>	<u>(8,730,334)</u>	<u>(443,007)</u>	<u>(132,265,530)</u>	<u>(836,589)</u>

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the Group used the following rates of exchange as of December 31, 2020 and 2019:

	December 31,	
	<u>2020</u>	<u>2019</u>
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) profit before income tax with regard to the Group’s monetary assets and monetary liabilities in HK\$, US\$ and MOP translated into Philippine peso with +/-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 Group’s best estimate of expected changes considering historical trends and experience.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued (In thousands of Philippine peso, except share and per share data)

24. Financial Risk Management Objectives and Policies – continued

Foreign Exchange Risk – continued

If the Philippine peso had strengthened against HK\$, US\$ and MOP, with all other variables held constant, loss before income tax would have decreased by ₱580, ₱924 and ₱8,538 for the year ended December 31, 2020, respectively, mainly as a result of the translation of HK\$, US\$ and MOP denominated amounts due to related parties. If the Philippine peso had strengthened against HK\$, with all other variables held constant, profit before income tax would have decreased by ₱12,682 for the year ended December 31, 2019, mainly as a result of the translation of HK\$ denominated cash and cash equivalents. If the Philippine peso had strengthened against US\$ and MOP, with all other variables held constant, profit before income tax would have increased by ₱4,430 and ₱8,366 for the year ended December 31, 2019, respectively, mainly as a result of the translation of US\$ and MOP denominated amounts due to related parties.

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

Capital Risk Management

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

The Group considers total equity as its capital which amounted to ₱4,087,304 and ₱9,691,177 as of December 31, 2020 and 2019, respectively.

Under the terms of the Regular License, it requires each of the Licensees to maintain a debt-to-equity ratio under the definition as agreed with PAGCOR (the "D/E Ratio") of not more than 70:30. The Group's strategy is to monitor capital and maintain the D/E Ratio to comply with the PAGCOR requirements. As of December 31, 2020 and 2019, MPHIL Holdings Group, as one of the Licensee parties, has complied with the D/E Ratio as required by PAGCOR.

25. Financial Instruments

Fair Value of Financial Instruments

Cash and cash equivalents, Restricted cash, Accounts receivable, Deposits and receivables, Amounts due from/to related parties, Accounts payable and Accrued expenses, other payables and other current liabilities

As of December 31, 2020 and 2019, the carrying values approximate their fair values at the reporting dates due to the relatively short-term maturities of the transactions.

Security deposits and Lease liabilities

As of December 31, 2020 and 2019, the carrying values approximate their fair values, which are measured by discounting estimated future cash flows to present value using a credit-adjusted discount rate.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)

25. Financial Instruments – continued

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of December 31, 2020 and 2019, the Group 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.

26. Notes to Consolidated Statements of Cash Flows

Major Non-cash Transactions

- (a) For the year ended December 31, 2020, costs of property and equipment totaling ₱35,538 were funded through accrued expenses, other payables and other current liabilities and amounts due to related parties (For the year ended December 31, 2019: ₱192,640).
- (b) For the year ended December 31, 2020, costs of other intangible assets totaling ₱64,879 were funded through amounts due to related parties (For the year ended December 31, 2019: nil).
- (c) For the year ended December 31, 2020, accruals for property and equipment of ₱51,596 were reversed for costs adjustments (For the year ended December 31, 2019: ₱60,997).
- (d) For the year ended December 31, 2019, change in input VAT of ₱438,846 was related to acquisitions of property and equipment.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
26. Notes to Consolidated Statements of Cash Flows – continued
Changes in Liabilities Arising from Financing Activities

	<u>Note</u>	<u>Lease Liabilities</u>
As of January 1, 2019		P15,183,821
Net change of cash flows from financing activities		(2,118,239)
Effect of adoption of PFRS 16		1,481,426
Others ⁽¹⁾		2,179,437
As of December 31, 2019		16,726,445
New leases	19	46,142
Net change of cash flows from financing activities		(613,702)
Others ⁽¹⁾		6,133,561
As of December 31, 2020		<u>P22,292,446</u>

(1) Others represent the effect of lease modification and interest incurred on lease liabilities.

27. Share Incentive Plans
MRP Share Incentive Plan

The Group 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 Group 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”).

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
27. Share Incentive Plans – continued
MRP Share Incentive Plan – continued

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.

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 Group 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 consolidated 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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27. 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:

	<u>Number of Share Options</u>	<u>Weighted Average Exercise Price per Share</u>
Equity-settled		
Outstanding as of January 1, 2019.....	17,035,505	P6.28
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.....	—	P—
Exercisable as of December 31, 2020.....	—	P—
		<u>Number of Share Options</u>
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		<u>1,025,657</u>

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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27. 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	P5.82
Forfeited	(376,236)	5.42
Modified to cash-settled	(29,068,424)	5.83
Unvested as of December 31, 2019 and 2020	–	P–
	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Cash-settled		
Unvested as of January 1, 2019	–	P–
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	P7.37

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 and employees of the Group.

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 and employees of the Group, to the extent of services received by the Group, are recognized in the accompanying consolidated statement of comprehensive income with a corresponding increase in share-based compensation reserve, representing capital contributions from Melco.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
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27. 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, <u>2020</u>
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

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
27. Share Incentive 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.....	443,556	4.13
Forfeited.....	(37,341)	4.13
Transfer from Melco, net	359,073	4.13
Outstanding as of December 31, 2020	<u>765,288</u>	<u>4.13</u>
Exercisable as of December 31, 2020	<u>–</u>	<u>–</u>

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:

	<u>December 31, 2020</u>	
	Number of Share Options Outstanding	Weighted Average Remaining Contractual Term (Years)
<u>Exercise Price per Share (US\$):</u>		
4.13	<u>765,288</u>	<u>9.25</u>

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.

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)
27. Share Incentive 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.....	236,475	4.13
Forfeited.....	(8,298)	4.13
Transfer from Melco, net	25,356	4.13
Unvested as of December 31, 2020	<u>253,533</u>	<u>4.13</u>

In January 2021, Melco approved the grant of restricted shares under the Melco Share Incentive Plan to the eligible management personnel of the Group in lieu of the 2020 bonus for their services performed during 2020. The grant vested immediately on the grant date on March 31, 2021 and the grant date fair value was determined with reference to the closing price of Melco's ADS trading on the Nasdaq Global Select Market on the date of grant. Share-based compensation expenses of ₱42,350 were recognized for such grant for the year ended December 31, 2020 based on the estimated bonus amount.

In accordance with the applicable accounting standards, the share-based compensation expenses related to this grant of restricted shares under the Melco Share Incentive Plan to the eligible management personnel of the Group, to the extent of services received by the Group, were recognized in the accompanying consolidated statement of comprehensive income with a corresponding increase in amounts due to related parties as the amounts were charged to the Group by Melco.

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

	Year Ended December 31, <u>2020</u>	<u>2019</u>
MRP Share Incentive Plan	₱21,264	₱49,831
Melco Share Incentive Plan	69,578	—
Total share-based compensation	<u>₱90,842</u>	<u>₱49,831</u>

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
(In thousands of Philippine peso, except share and per share data)**28. Subsequent Events**

- (a) As a result of the disruptions caused by the COVID-19 pandemic, on March 22, 2021, Melco Resorts Leisure and PLAI entered into a supplemental agreement to the Operating Agreement where the monthly payments paid or payable by Melco Resorts Leisure from 2019 to 2022 have been adjusted.
- (b) 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 Group’s consolidated financial statements as of December 31, 2020 as Melco Resorts Leisure which operates City of Dreams Manila is in a net loss and taxable loss position as of December 31, 2020.
- (c) As disclosed in Note 20(a), the Lender assigned the Shareholder Loan Facility to Melco Resorts Services Limited on March 23, 2021.