# Melco Resorts and Entertainment (Philippines) Corporation

Parent Company Financial Statements
For The Years Ended December 31, 2021 and 2020

and

Independent Auditor's Report

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# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Melco Resorts and Entertainment (Philippines) Corporation

## Report on the Audit of the Parent Company Financial Statements

### Opinion

We have audited the parent company financial statements of Melco Resorts and Entertainment (Philippines) Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2021 and 2020 and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 20 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Melco Resorts and Entertainment (Philippines) Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bienvenido M. Rebullido II

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BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
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December 17, 2019, valid until December 16, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-136-2020, February 20, 2020, valid until February 19, 2023
PTR No. 8854355, January 3, 2022, Makati City

May 30, 2022

## MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION
## PARENT COMPANY BALANCE SHEETS
## DECEMBER 31, 2021 AND 2020
**(In thousands of Philippine peso, except share and per share data)**

| | Notes | December 31, **2021** | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 5, 15 and 16 | **₱1,959,933** | ₱168,821 |
| Amounts due from related parties | 11, 15 and 16 | **53,998** | 61,527 |
| Income tax recoverable | | **135** | 37 |
| Total Current Assets | | **2,014,066** | 230,385 |
| **Non-current Asset** | | | |
| Investment in a subsidiary | 6 | **27,688,590** | 27,688,590 |
| Total Non-current Asset | | **27,688,590** | 27,688,590 |
| | | **₱29,702,656** | ₱27,918,975 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Accrued expenses, other payables and other current liabilities | 7, 15 and 16 | **₱162,130** | ₱31,039 |
| Amounts due to related parties | 11, 15 and 16 | **1,430,738** | 85,636 |
| Total Current Liabilities | | **1,592,868** | 116,675 |
| **Equity** | | | |
| Capital stock | 8 | **5,689,765** | 5,689,765 |
| Additional paid-in capital | | **22,145,907** | 22,145,826 |
| Share-based compensation reserve | | **34,305** | 14,960 |
| Retained earnings (accumulated deficit) | | **239,811** | (48,251) |
| Total Equity | | **28,109,788** | 27,802,300 |
| | | **₱29,702,656** | ₱27,918,975 |

*See accompanying Notes to Parent Company Financial Statements.*

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

**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**
**(In thousands of Philippine peso, except share and per share data)**

| | Notes | Year Ended December 31, 2021 | 2020 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Dividend income | 9 | **₱1,802,697** | ₱– |
| Management fee income | 11 | **30,706** | 41,904 |
| Total Operating Revenues | | **1,833,403** | 41,904 |
| **OPERATING COSTS AND EXPENSES** | | | |
| General and administrative expenses | 10 | **(37,185)** | (70,540) |
| Total Operating Costs and Expenses | | **(37,185)** | (70,540) |
| **OPERATING PROFIT (LOSS)** | | **1,796,218** | (28,636) |
| **NON-OPERATING INCOME (EXPENSES)** | | | |
| Interest income | 5 | **1,146** | 310 |
| Foreign exchange (losses) gains, net | | **(12,400)** | 16,725 |
| Total Non-operating (Expenses) Income, Net | | **(11,254)** | 17,035 |
| **PROFIT (LOSS) BEFORE INCOME TAX** | | **1,784,964** | (11,601) |
| **INCOME TAX CREDIT** | 12 | **98** | 1,128 |
| **NET PROFIT (LOSS)** | | **1,785,062** | (10,473) |
| **OTHER COMPREHENSIVE INCOME** | | **–** | – |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **₱1,785,062** | (₱10,473) |

*See accompanying Notes to Parent Company Financial Statements.*

## MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
### (In thousands of Philippine peso, except share and per share data)

| | Notes | Capital Stock (Note 8) | Additional Paid-in Capital | Share-based Compensation Reserve | (Accumulated Deficit) Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2021 | | **₱5,689,765** | **₱22,145,826** | **₱14,960** | **(₱48,251)** | **₱27,802,300** |
| Net profit and total comprehensive income | | **–** | **–** | **–** | **1,785,062** | **1,785,062** |
| Share-based compensation | | **–** | **81** | **19,345** | **–** | **19,426** |
| Dividends declared | 9 | **–** | **–** | **–** | **(1,497,000)** | **(1,497,000)** |
| Balance as of December 31, 2021 | | **₱5,689,765** | **₱22,145,907** | **₱34,305** | **₱239,811** | **₱28,109,788** |
| Balance as of January 1, 2020 | | ₱5,688,765 | ₱22,143,394 | ₱– | (₱37,778) | ₱27,794,381 |
| Net loss and total comprehensive loss | | – | – | – | (10,473) | (10,473) |
| Shares issued | 8 | 1,000 | – | – | – | 1,000 |
| Share-based compensation | | – | 2,432 | 14,960 | – | 17,392 |
| Balance as of December 31, 2020 | | ₱5,689,765 | ₱22,145,826 | ₱14,960 | (₱48,251) | ₱27,802,300 |

*See accompanying Notes to Parent Company Financial Statements.*

## MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

## PARENT COMPANY STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
**(In thousands of Philippine peso, except share and per share data)**

| | Notes | Year Ended December 31, 2021 | 2020 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit (loss) before income tax | | **₱1,784,964** | (₱11,601) |
| Adjustments for: | | | |
| Dividend income | 9 | **(1,802,697)** | – |
| Interest income | | **(1,146)** | (310) |
| Share-based compensation | | **19,426** | 17,392 |
| Unrealized foreign exchange losses (gains), net | | **13,693** | (10,892) |
| Provisions for input value-added tax ("VAT") | 10 | **687** | 1,011 |
| Operating profit (loss) before working capital changes | | **14,927** | (4,400) |
| Changes in assets and liabilities: | | | |
| Decrease in accrued expenses, other payables and other current liabilities | | **(24,300)** | (49,438) |
| (Increase) decrease in amounts due from related parties | | **(5,630)** | 27,029 |
| Increase in other non-current assets | | **(687)** | (1,011) |
| Increase in amounts due to related parties | | **2,390** | 12,942 |
| Decrease in other non-current liabilities | | **–** | (12,102) |
| Net cash used in operations | | **(13,300)** | (26,980) |
| Interest received | | **1,146** | 310 |
| Net cash used in operating activities | | **(12,154)** | (26,670) |
| **CASH FLOW FROM AN INVESTING ACTIVITY** | | | |
| Dividends received | 9 | **1,802,697** | – |
| Cash provided by an investing activity | | **1,802,697** | – |
| **CASH FLOW FROM A FINANCING ACTIVITY** | | | |
| Proceeds from issuance of common shares | 8 | **–** | 1,000 |
| Cash provided by a financing activity | | **–** | 1,000 |
| **EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS** | | **569** | (571) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **1,791,112** | (26,241) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **168,821** | 195,062 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **₱1,959,933** | ₱168,821 |

*See accompanying Notes to Parent Company Financial Statements.*

1. **Organization and Business**

(a) Company Information

Melco Resorts and Entertainment (Philippines) Corporation (herein referred to as "MRP" or the "Parent Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC").

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

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 8.

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, 2021 and 2020, 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, the immediate holding company of the Parent Company was MCO (Philippines) Investments Limited ("MCO Investments"), a company incorporated in the British Virgin Islands. On February 4, 2021, MCO Investments distributed all its assets, including the shares of MRP that it owned, to MCO Europe Holdings (NL) B.V. ("MCO Europe"), a subsidiary of Melco and is incorporated in the Netherlands, subject to the terms and conditions set forth in a deed of distribution of assets. Accordingly, the immediate holding company of the Parent Company is MCO Europe as of December 31, 2021.

The accompanying Parent Company financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors on May 30, 2022.

1. **Organization and Business** – continued

(b) Subsidiaries of MRP

As of December 31, 2021 and 2020, MRP's wholly-owned subsidiaries included MPHIL Holdings No. 1 Corporation ("MPHIL Holdings No. 1"), MPHIL Holdings No. 2 Corporation ("MPHIL Holdings No. 2") and Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure") (collectively referred to as "MPHIL Holdings Group"). MPHIL Holdings No. 1, MPHIL Holdings No. 2 and Melco Resorts Leisure were all incorporated in the Philippines. The primary purpose of both MPHIL Holdings No. 1 and MPHIL Holdings No. 2 is investment holding and the primary purpose of Melco Resorts Leisure is to develop and operate tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components and to engage in casino gaming activities.

(c) Regular License

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

(d) Recent Developments Related to COVID-19

The disruptions to Melco Resorts Leisure's business caused by the coronavirus (COVID-19) outbreak continue to have a material effect on its financial condition and operations during 2021.

City of Dreams Manila's operations have been impacted by on-and-off travel restrictions and were operated at limited operational capacity under different levels of community quarantine measures in Metro Manila as imposed by the Philippine government in response to COVID-19 cases. During the period from March 29, 2021 to April 30, 2021 and from August 6, 2021 to September 16, 2021, City of Dreams Manila's operations were closed due to a resurgence in COVID-19 cases. On October 16, 2021, the Philippine government downgraded the community quarantine measures to Alert Level 3, allowing hotels to take vaccinated local guests on staycation packages, and further downgraded quarantine measures to Alert Level 2 on November 5, 2021 allowing hotels to take leisure guests. The Philippine government re-opened the borders to fully vaccinated international tourists with a negative RT-PCR test taken within 48 hours of departure of their country of origin effective on February 10, 2022 and lowered COVID-19 restrictions to Alert Level 1 effective on March 1, 2022 which allows casinos to operate at 100% capacity, subject to certain guidelines.

1. **Organization and Business** – continued

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

The pace of recovery from COVID-19-related disruptions continues to depend on future events, including duration of travel and visa restrictions, the pace of vaccination progress, development of new medicines for COVID-19 as well as customer sentiment and consumer behavior related to discretionary spending and travel, all of which remain highly uncertain.

The Parent Company is currently unable to reasonably estimate the financial impact to its future results of operations, cash flows and financial condition from these disruptions.

As of December 31, 2021, the Parent Company had cash and cash equivalents of ₱1,959,933 and available borrowing capacity under the Credit Facility (as disclosed in Note 13) of ₱2,350,000, subject to the satisfaction of certain conditions precedent.

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

Melco Resorts Leisure believes it will be able to support continuing operations and capital expenditures for at least twelve months after the date that these Parent Company financial statements are issued.

2. **Basis of Preparation**

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

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

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

3. **Summary of Significant Accounting Policies**

Changes in Accounting Policies and Disclosures
The Parent Company has adopted the following new and amended PFRSs as of January 1, 2021 and the adoption of these new and amended PFRSs had no material impact on the Parent Company financial statements.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
- Amendments to PFRS 16, *COVID-19-related Rent Concessions beyond June 30, 2021* (early adopted)

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

- **Amendments to PFRS 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.

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

Standards Issued But Not Yet Effective – continued

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

  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.

- **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.

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

Standards Issued But Not Yet Effective – continued

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

  - **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.

- **Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies***

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies; and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted as long as this fact is disclosed.

- **Amendments to PAS 8, *Definition of Accounting Estimates***

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- **Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

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

Standards Issued But Not Yet Effective – continued

- **Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*** – continued

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- **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. However, in November 2021, the International Accounting Standards Board ("IASB") tentatively decided to defer the effective date to no earlier than January 1, 2024.

- **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.

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

Standards Issued But Not Yet Effective – continued

- **PFRS 17, *Insurance Contracts*** – continued

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

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

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB.

  PFRS 17 is effective for annual reporting periods beginning on or after January 1, 2025, with comparative figures required. Early adoption is permitted.

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

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

Cash and Cash Equivalents

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

Financial Assets

*Initial Recognition and Measurement*

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Parent Company's business model for managing them. The Parent Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

Financial Assets – continued
*Initial Recognition and Measurement* – continued
In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

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

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

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

*Financial Assets at Amortized Cost (Debt Instruments)*
The Parent Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

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

The Parent Company has no financial assets at fair value through other comprehensive income (debt instruments), financial assets designated at fair value through other comprehensive income (equity instruments) and financial assets at fair value through profit or loss as of December 31, 2021 and 2020.

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

Derecognition of Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

Financial assets at amortized cost are subject to impairment under the general approach for measurement of ECLs as detailed below.

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities – continued
*Subsequent Measurement* – continued
*Loans and Borrowings and Payables*
The Parent Company's loans and borrowings and payables includes accrued expenses, other payables and other current liabilities (see Note 7) and amounts due to related parties (see Note 11).

The Parent Company has no financial liabilities at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge as of December 31, 2021 and 2020.

Derecognition of Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Parent Company statements of comprehensive income.

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

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the Parent Company balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Parent Company or the counterparty.

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

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

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

VAT – continued
As of December 31, 2021 and 2020, input VAT, net amounting to nil for each of those periods, represents the VAT expected to be recoverable from the tax authority in the Philippines and is included under other non-current assets in the Parent Company balance sheets. For the years ended December 31, 2021 and 2020, provisions for input VAT expected to be non-recoverable amounting to ₱687 and ₱1,011, respectively, were recognized and included in general and administrative expenses in the Parent Company statements of comprehensive income (Note 10). As of December 31, 2021 and 2020, provisions for input VAT were ₱20,116 and ₱19,429, respectively.

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

As of December 31, 2021 and 2020, the Parent Company holds 100% direct equity interests in MPHIL Holdings No. 1, and 100% indirect equity interests in MPHIL Holdings No. 2 and Melco Resorts Leisure.

Impairment of Investment in a Subsidiary
The Parent Company assesses at each balance sheet date whether there is an indication that the investment in a subsidiary may be impaired. If any such indications exist, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present values using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. Impairment losses, if any, are recognized in the Parent Company statements of comprehensive income.

An assessment is made at each balance sheet date as to whether there is an indication that previously recognized impairment losses, if any, may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount which would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Parent Company statements of comprehensive income.

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

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

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

Retained Earnings (Accumulated Deficit)
The retained earnings or accumulated deficit represent the Parent Company's net accumulative earnings less cumulative dividends declared or cumulative net losses, respectively. Such retained earnings or 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.

Dividends
The Parent Company recognizes a liability to pay a dividend when the distribution is authorized, and the distribution is no longer at the discretion of the Parent Company. As per the Amended By-Laws of the Parent Company, a distribution is authorized when it is approved by the Board of Directors.

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

*Revenue from Other Sources*
*Dividend Income*
Dividend income is recognized when the right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Parent Company and the amount of the dividend can be measured reliably.

*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.

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

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

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

Forfeitures are estimated at the time of grant, and adjusted for actual forfeitures to the extent they differ from the estimate. When the equity-settled share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share-based compensation reserve will be transferred to retained profits. When the awarded shares are not vested or are forfeited during the vesting period, no share-based compensation expense is recognized.

Further information on the Parent Company's share-based compensation arrangement for the years ended December 31, 2021 and 2020 for restricted shares and share options granted under the share incentive plans is included in Note 18.

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

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

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

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

*Deferred Tax*
Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimates and Assumptions

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

*Impairment of Investment in a Subsidiary*

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

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

No impairment losses for the Parent Company's investment in a subsidiary were recognized for the years ended December 31, 2021 and 2020. The carrying values of investment in a subsidiary amounted to ₱27,688,590 as of December 31, 2021 and 2020 for each of those periods (see Note 6).

*Recognition of Deferred Tax Assets*

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

Deferred tax asset on NOLCO amounting to ₱112 and ₱4,243 was recognized as of December 31, 2021 and 2020, respectively, to the extent of the amount of the reversing deductible temporary difference arising from unrealized foreign exchange gains.

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 ₱68,073 and ₱123,091 as of December 31, 2021 and 2020, respectively (see Note 12).

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

5. **Cash and Cash Equivalents**

The amount represents cash in banks where it earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱1,146 and ₱310 for the years ended December 31, 2021 and 2020, respectively.

6. **Investment in a Subsidiary**

As of December 31, 2021 and 2020, the Parent Company holds 100% direct equity interests in MPHIL Holdings No. 1, representing 2,281,894,500 common shares with a par value of ₱1 per share, with investment costs and carrying amounts amounting to ₱27,688,590 for each of those periods.

7. **Accrued Expenses, Other Payables and Other Current Liabilities**

| | December 31, | |
|---|---|---|
| | **2021** | 2020 |
| Withholding taxes payable | **₱143,738** | ₱4 |
| Dividends payable | **11,653** | – |
| Accruals for: | | |
| Legal and other professional fees | **6,739** | 11,924 |
| Employee benefit expenses | **–** | 19,111 |
| | **₱162,130** | ₱31,039 |

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

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

8. **Equity**

| | Number of Shares | Capital Stock |
|---|---|---|
| **Ordinary shares** | | |
| Authorized: | | |
| As of 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, January 1, 2021 and December 31, 2021 (₱500,000 per share) | **11,800** | **₱5,900,000** |
| Issued and fully paid: | | |
| As of 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, January 1, 2021 and December 31, 2021 (₱500,000 per share) | **11,379.5294** | **₱5,689,765** |

On June 26, 2017, the Board of Directors and the stockholders of MRP approved an increase in the authorized capital stock of up to ₱11,900,000 divided into 11.9 billion shares with a par value of ₱ 1 per share from the authorized capital stock of ₱5,900,000 divided into 5.9 billion shares with a par value of ₱1 per share, subject to the SEC's approval.

On April 24, 2019 and June 24, 2019, the Board of Directors and the stockholders of MRP approved the Reverse Stock Split as disclosed in Note 1(a), respectively, whereby, without changing the total amount of the authorized capital stock, the par value per ordinary share was increased from ₱1 per share to ₱500,000 per share, thereby decreasing the total number of ordinary shares on a pro-rata basis. The Reverse Stock Split was approved by the SEC on May 12, 2020. All share and per share data relating to the transactions carried out before May 12, 2020 as disclosed in the accompanying Parent Company financial statements, including the movements of outstanding options and restricted shares as disclosed in Note 18 for the years ended December 31, 2021 and 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").

8. **Equity** – continued

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

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

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

As of December 31, 2021 and 2020, the Parent Company had 31 and 43 stockholders (representing stockholders of MRP Whole Shares after the Reverse Stock Split), respectively.

9. **Dividends**

For the year ended December 31, 2021, MPHIL Holdings No. 1, the subsidiary of the Parent Company, declared dividends of ₱1,802,697 to the Parent Company and such amount was recorded as dividend income.

On December 28, 2021, the Board of Directors approved the declaration of cash dividends of ₱131,552.02 per share for a total amount of ₱1,497,000 to stockholders on record as of December 28, 2021. No cash payment was made for the year ended December 31, 2021 and was subsequently settled in January 2022. Such amount was recorded as distributions against retained earnings.

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

## 10. General and Administrative Expenses

| | Notes | Year Ended December 31, 2021 | 2020 |
|---|---|---|---|
| Share-based compensation – equity-settled | 11 and 18 | **₱19,345** | ₱14,960 |
| Management fee expenses | 11 | **12,075** | 20,129 |
| Legal and other professional fees | | **2,860** | 11,516 |
| Share-based compensation – cash-settled | 18 | **1,958** | 21,264 |
| Provisions for input VAT | | **687** | 1,011 |
| Taxes and licenses | | **85** | 229 |
| Operating and other expenses | | **175** | 1,431 |
| | | **₱37,185** | ₱70,540 |

## 11. Related Party Transactions

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

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

| | Amount of Transactions Year Ended December 31, 2021 | 2020 | Amounts Due From Related Parties[1] December 31, 2021 | 2020 | Amounts Due To Related Parties[2] December 31, 2021 | 2020 |
|---|---|---|---|---|---|---|
| **Intermediate holding companies** | | | | | | |
| Melco | | | | | | |
| Management fee income[3] | **₱30,706** | ₱41,904 | **₱–** | ₱– | **₱–** | ₱– |
| Management fee expenses | **12,075** | 20,129 | **–** | – | **–** | – |
| Share-based compensation – equity-settled[4] | **19,345** | 14,960 | **–** | – | **–** | – |
| Amount due from Melco | **–** | – | **53,414** | 60,944 | **–** | – |
| Amount due to other intermediate holding company | **₱–** | ₱– | **–** | – | **2,418** | – |
| **Immediate holding company** | | | | | | |
| MCO Europe | | | | | | |
| Dividends declared | **₱1,437,382** | ₱– | **–** | – | **–** | – |
| Amount due to MCO Europe | **–** | – | **₱–** | ₱– | **₱1,293,644** | ₱– |

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

11. **Related Party Transactions** – continued

| | **Amount of Transactions** | | **Amounts Due From Related Parties**(1) | | **Amounts Due To Related Parties**(2) | |
|---|---|---|---|---|---|---|
| | **Year Ended December 31,** | | **December 31,** | | **December 31,** | |
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **A stockholder** | | | | | | |
| MPHIL | | | | | | |
| Dividends declared | **₱47,965** | ₱– | **₱–** | ₱– | **₱–** | ₱– |
| Amount due to MPHIL | **–** | – | **–** | – | **47,965** | – |
| **Subsidiaries** | | | | | | |
| MPHIL Holdings No. 1 | | | | | | |
| Dividend income | **₱1,802,697** | ₱– | **–** | – | **–** | – |
| Amount due to MPHIL Holdings No. 1 | **–** | – | **–** | – | **5,727** | 5,728 |
| Amount due from MPHIL Holdings No. 2 | **₱–** | ₱– | **584** | 583 | **–** | – |
| Amount due to Melco Resorts Leisure | **₱–** | ₱– | **–** | – | **62,403** | 60,177 |
| **Affiliated companies** | | | | | | |
| Amounts due to Melco International's subsidiaries (other than other intermediate holding company, MCO Europe, MPHIL, MPHIL Holdings No. 1 and Melco Resorts Leisure) | **₱–** | ₱– | **–** | – | **18,581** | 19,731 |
| | | | **₱53,998** | ₱61,527 | **₱1,430,738** | ₱85,636 |

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, 2021 and 2020.
(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 18) to certain directors of the Parent Company. Further information on the share-based compensation arrangements is included in Note 18.

### Directors' Remuneration

For the years ended December 31, 2021 and 2020, the remuneration of certain directors of the Parent Company was borne by Melco.

### Compensation of Key Management Personnel

For the years ended December 31, 2021 and 2020, the compensation of key management personnel of MRP was borne by Melco and Melco Resorts Leisure.

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

12. **Income Tax**

The income tax credit for the years ended December 31, 2021 and 2020 consisted of:

| | Year Ended December 31, 2021 | 2020 |
|---|---|---|
| Provision for current income tax | **₱20** | ₱118 |
| Over-provision of income tax in prior year | **(118)** | (271) |
| Deferred tax credit | **–** | (975) |
| | **(₱98)** | (₱1,128) |

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

| | Year Ended December 31, 2021 | 2020 |
|---|---|---|
| Income tax provision (benefit) computed at statutory income tax rate | **₱446,241** | (₱3,480) |
| Income tax effects of: | | |
| Over-provision of income tax in prior year | **(118)** | (271) |
| Change in income tax rate | **20,495** | – |
| Change in unrecognized deferred tax assets | **(55,018)** | (15,266) |
| Change in unrecognized deferred tax assets in prior year | **120** | 788 |
| Expenses not deductible for tax purposes | **286** | 1,213 |
| Expired NOLCO | **38,857** | 15,981 |
| Income not taxable for tax purposes | **(450,674)** | – |
| Interest income subject to final tax | **(287)** | (93) |
| | **(₱98)** | (₱1,128) |

The components of the Parent Company's net deferred tax liability as of December 31, 2021 and 2020 were as follows:

| | December 31, 2021 | 2020 |
|---|---|---|
| Deferred tax asset: | | |
| NOLCO | **₱112** | ₱4,243 |
| Deferred tax liability: | | |
| Unrealized foreign exchange gains, net | **(112)** | (4,243) |
| | **₱–** | ₱– |

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

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

12. **Income Tax** – continued

| | December 31, 2021 | 2020 |
|---|---|---|
| NOLCO | **₱61,708** | ₱112,751 |
| Share-based compensation | **6,345** | 10,222 |
| Others | **20** | 118 |
| | **₱68,073** | ₱123,091 |

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

As of December 31, 2021, the Parent Company's NOLCO before taxable year 2020 which can be carried forward and claimed as deductions from regular taxable income for the next three consecutive taxable years is analyzed as follows:

| Year Incurred | Expiry Year | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2019 | 2022 | **₱173,824** | **₱–** | **₱–** | **₱173,824** |
| 2018 | 2021 | **155,428** | **–** | **(155,428)** | **–** |
| | | **₱329,252** | **₱–** | **(₱155,428)** | **₱173,824** |

As of December 31, 2021, the Parent Company's NOLCO in taxable years 2021 and 2020 which can be carried forward and claimed as deductions from regular taxable income for the next five consecutive taxable years is analyzed as follows:

| Year Incurred | Expiry Year | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2021 | 2026 | **₱12,727** | **₱–** | **₱–** | **₱12,727** |
| 2020 | 2025 | **60,728** | **–** | **–** | **60,728** |
| | | **₱73,455** | **₱–** | **₱–** | **₱73,455** |

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 and took effect on April 11, 2021. CREATE reduced the minimum corporate income tax rate 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.

12. **Income Tax** – continued

In July 2018, MRP received from the BIR a letter of authority ("LOA") for the audit of all internal revenue taxes for 2010 to 2016. In August 2019, MRP received from the BIR a preliminary assessment notice ("PAN") for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the PAN is without merit and filed protest letters with the BIR in September 2019 requesting the cancellation of the PAN. In April 2022, MRP received from the BIR a final assessment notice ("FAN") for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the FAN is without merit and has filed protest letters with the BIR in May 2022 requesting the cancellation of the FAN. There is no reply from the BIR on the protest letters as of the date of this report.

13. **Long-term Debt**

*The Credit Facility*
On October 14, 2015, the Parent Company entered into an on-demand, unsecured credit facility agreement of ₱2,350,000, as amended from time to time (the "Credit Facility") with a lender to finance advances to Melco Resorts Leisure. The available drawdown currency under the Credit Facility is Philippine peso. As of December 31, 2021, the Credit Facility availability period, as amended from time to time, is up to January 31, 2022, and the maturity date of each individual drawdown, as amended from time to time, is 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, 2021, 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.

In January 2022, the Credit Facility availability period was extended to May 1, 2022, with other terms and conditions unchanged.

In April 2022, the Credit Facility availability period was further extended to January 31, 2023, with other terms and conditions unchanged, except (1) the maturity date of each individual drawdown is to be the earlier of: (i) the date which is 360 days from the date of drawdown, and (ii) the date which is 360 days after the end of the availability period; and (2) the available drawdown currencies are Philippine peso and United States dollars ("US$").

As of December 31, 2021 and 2020, the Credit Facility had not yet been drawn and the available borrowing capacity under the Credit Facility was ₱2,350,000.

## 14. Other Commitment and Guarantee

*Shareholder Loan Facility*
On December 23, 2013, Melco Resorts Leisure, as borrower (the "Borrower"), signed the definitive agreement of the senior secured shareholder loan facility (the "Shareholder Loan Facility") in an aggregate amount of up to US$340,000,000 (equivalent to ₱14,927,765) (the "Shareholder Loan") with MCO Investments as lender (the "Lender"). The Shareholder Loan Facility is a term loan facility denominated in US$. 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.

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

As of December 31, 2021 and 2020, 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 ₱17,263,265 and ₱16,332,020 as of December 31, 2021 and 2020, respectively).

## 15. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

Credit Risk – continued
*Credit Risk Exposures*
The carrying values of the Parent Company's financial assets represent the maximum exposure to credit risk and the Parent Company did not hold any collateral or credit enhancements to cover its credit risk associated with its financial assets as of December 31, 2021 and 2020.

*Credit Quality per Class of Financial Assets*
Cash and cash equivalents are considered as high grade and include deposits made to reputable banks in the Philippines. Amount due from the related party (other than Melco) is considered as high grade as Melco will provide financial support to the related party of the Parent Company to meet in full its financial obligations as they fall due. Amount due from Melco is considered as high grade as Melco is listed on the Nasdaq Global Select Market and is in good liquidity position. The credit risks for these financial assets have not increased significantly since initial recognition and for which the loss allowances are measured at an amount equal to 12-months ECLs.

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

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

The table below summarizes the maturity profile of the Parent Company's financial assets held for liquidity purposes and financial liabilities as of December 31, 2021 and 2020 based on undiscounted contractual cash flows.

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Within 1 Year | 1 – 3 Years | 3 – 5 Years | Over 5 Years | Total |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | **₱1,959,933** | **₱–** | **₱–** | **₱–** | **₱1,959,933** |
| Amounts due from related parties | **53,998** | **–** | **–** | **–** | **53,998** |
| **Financial Liabilities** | | | | | |
| Accrued expenses, other payables and other current liabilities | **₱11,653** | **₱–** | **₱–** | **₱–** | **₱11,653** |
| Amounts due to related parties | **1,430,738** | **–** | **–** | **–** | **1,430,738** |

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

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

Liquidity Risk – continued

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

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

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

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

| | **December 31, 2021** | | | | | |
|---|---|---|---|---|---|---|
| | HK$ (In Unit) | Philippine Peso | US$ (In Unit) | Philippine Peso | MOP (In Unit) | Philippine Peso |
| Monetary Assets | **(23,973)** | **(156)** | **(4,692,204)** | **(238,243)** | **–** | **–** |
| Monetary Liability | **(387,323)** | **(2,522)** | **(32,170)** | **(1,633)** | **(2,923,735)** | **(18,481)** |
| | **(411,296)** | **(2,678)** | **(4,724,374)** | **(239,876)** | **(2,923,735)** | **(18,481)** |

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

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

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

Foreign Exchange Risk – continued
In translating the foreign currency-denominated monetary assets and liability into Philippine peso amounts, the Parent Company used the following rates of exchange as of December 31, 2021 and 2020:

| | December 31, | |
|---|---|---|
| | **2021** | 2020 |
| Philippine peso to 1 unit of foreign currency: | | |
| HK$ | **6.51** | 6.20 |
| US$ | **50.77** | 48.04 |
| MOP | **6.32** | 6.02 |

The sensitivity of the profit (loss) before income tax with regard to the Parent Company's monetary assets and monetary liability in HK$, US$ and MOP translated into Philippine peso with +/-1.0% and +/-0.6% changes in exchange rates for each of the foreign currencies as mentioned above for the years ended December 31, 2021 and 2020, respectively. The changes in currency rates are based on the Parent Company's best estimate of expected changes considering historical trends and experience.

If the Philippine peso had strengthened against HK$ and MOP, with all other variables held constant, profit before income tax would have increased by ₱27 and ₱185 for the year ended December 31, 2021, respectively, mainly as a result of the translation of HK$ and MOP denominated amounts due to related parties. If the Philippine peso had strengthened against US$, with all other variables held constant, profit before income tax would have increased by ₱2,399 for the year ended December 31, 2021, mainly as a result of the translation of US$ denominated amounts due from related parties. If the Philippine peso had strengthened against HK$ and MOP, with all other variables held constant, loss before income tax would have decreased by ₱13 and ₱106 for the year ended December 31, 2020, respectively, mainly as a result of the translation of HK$ and MOP denominated amounts due to related parties. If the Philippine peso had strengthened against US$, with all other variables held constant, loss before income tax would have decreased by ₱1,219 for the year ended December 31, 2020, mainly as a result of the translation of US$ denominated amounts due from related parties.

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

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

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

Capital Risk Management – continued
The Parent Company considers total equity as its capital which amounted to ₱28,109,788 and ₱27,802,300 as of December 31, 2021 and 2020, respectively.

The Parent Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over total equity. The Parent Company's strategy is to monitor capital and maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios as of December 31, 2021 and 2020 were zero as there were no long-term debts for the Parent Company as of December 31, 2021 and 2020.

16. **Financial Instruments**

Fair Value of Financial Instruments
*Cash and cash equivalents, Amounts due from/to related parties and Accrued expenses, other payables and other current liabilities*
As of December 31, 2021 and 2020, the carrying values approximate their fair values at the reporting dates due to the relatively short-term maturities of the transactions.

Fair Value Hierarchy
The Parent Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

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

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

As of December 31, 2021 and 2020, the Parent Company does not have financial instruments that are carried and measured at fair value. For the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

17. **Notes to Parent Company Statements of Cash Flows**

Major Non-cash Transaction
For the year ended December 31, 2021, dividends declared of ₱1,341,609 and ₱155,391 were funded through amounts due to related parties and accrued expenses, other payables and other current liabilities, respectively (For the year ended December 31, 2020: nil and nil, respectively).

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

17. **Notes to Parent Company Statements of Cash Flows** – continued

Change in Liability arising from a Financing Activity

| | Note | Dividends Payable[1] |
|---|---|---|
| As of January 1, 2021 | | ₱– |
| Dividends declared | 9 | **1,497,000** |
| As of December 31, 2021 | | **₱1,497,000** |

(1) Dividends payable was recognized and included in amounts due to related parties and accrued expenses, other payables and other current liabilities in the Parent Company balance sheet as of December 31, 2021.

18. **Share Incentive Plans**

MRP Share Incentive Plan

The Parent Company adopted a share incentive plan (the "MRP Share Incentive Plan"), effective on June 24, 2013, which has been subsequently amended and restated, for grants of various share-based awards, including but not limited to, options to purchase the Parent Company's common shares, restricted shares, share appreciation rights and other types of awards to eligible directors, employees and consultants of the Parent Company, its subsidiaries and its affiliates. The maximum term of an award is 10 years from the date of grant. The maximum aggregate number of common shares to be available for all awards under the MRP Share Incentive Plan is 442,630,330 shares and with up to 5% of the issued capital stock of the Parent Company from time to time over 10 years. As of December 31, 2021, 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. The acquiescence of such SIP Retirement Arrangements was obtained from the SEC on May 17, 2019. As a result of all eligible participants electing to participate in the SIP Retirement Arrangements, all the Outstanding Awards, including a total of 15,971,173 outstanding share options (including both unvested and vested but unexercised share options) and 29,068,424 outstanding restricted shares under the MRP Share Incentive Plan, were irrevocably cancelled and extinguished pursuant to the SIP Retirement Arrangements on May 31, 2019 (the "SIP Modification").

Under the SIP Retirement Arrangements, the Parent Company will pay the eligible participants a fixed amount in cash ("Settlement Amount") according to the original vesting schedules of the outstanding share options and restricted shares, subject to other terms and conditions. The Settlement Amount of the outstanding restricted shares is ₱7.25 per share, based on the offer price of a voluntary tender offer in 2018 and the Settlement Amount of the outstanding share options was determined using the Black-Scholes valuation model. The weighted average fair value of the outstanding share options at the modification date was ₱4.23 per option.

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

18. **Share Incentive Plans** – continued

MRP Share Incentive Plan – continued
As of December 31, 2021 and 2020, the accrued liability associated with the Outstanding Awards under the SIP Modification was nil and ₱19,111, respectively. No fair value gain or loss on remeasurement of the liability associated with the Outstanding Awards under the SIP Modification was recognized for the years ended December 31, 2021 and 2020.

*Share Options*

There were no share options granted under the MRP Share Incentive Plan for the years ended December 31, 2021 and 2020.

A summary of the share options activity under the MRP Share Incentive Plan as of December 31, 2021, and changes for the years ended December 31, 2021 and 2020 are presented as follows:

| | Number of Share Options |
|---|---|
| **Cash-settled** | |
| Outstanding as of January 1, 2020 | 7,383,408 |
| Vested | (6,357,751) |
| Outstanding as of December 31, 2020 | 1,025,657 |
| Vested | **(1,025,657)** |
| Outstanding as of December 31, 2021 | **–** |

*Restricted Shares*

There were no restricted shares granted under the MRP Share Incentive Plan for the years ended December 31, 2021 and 2020.

A summary of the restricted shares activity under the MRP Share Incentive Plan as of December 31, 2021, and changes for the years ended December 31, 2021 and 2020 are presented as follows:

| | Number of Restricted Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| **Cash-settled** | | |
| Unvested as of January 1, 2020 | 8,235,686 | ₱8.08 |
| Vested | (5,922,184) | 8.35 |
| Unvested as of December 31, 2020 | 2,313,502 | 7.37 |
| Vested | **(2,313,502)** | **7.37** |
| Unvested as of December 31, 2021 | **–** | **₱–** |

18. **Share Incentive Plans** – continued

Melco Share Incentive Plan
For the years ended December 31, 2021 and 2020, certain share-based awards under Melco's share incentive plan adopted on December 7, 2011 (the "Melco 2011 Share Incentive Plan"), which had been subsequently amended and restated, were granted by Melco to eligible directors of the Parent Company.

The Melco 2011 Share Incentive Plan expired ten years after December 7, 2011. In view of the impending expiry of the Melco 2011 Share Incentive Plan, Melco adopted a new 2021 share incentive plan (the "Melco 2021 Share Incentive Plan", together with Melco 2011 Share Incentive Plan be referred as "Melco Share Incentive Plan") which was effective on December 6, 2021 (also the termination date of the Melco 2011 Share Incentive Plan). Upon the termination of the Melco 2011 Share Incentive Plan, no further awards can be granted under the Melco 2011 Share Incentive Plan but the provisions of such plan shall remain in full force and effect in all other respects for any awards granted prior to the date of the termination of such plan.

*Share Options*

For the years ended December 31, 2021 and 2020, the exercise prices for share options granted under the Melco Share Incentive Plan were determined at the market closing prices of Melco's ADS trading on the Nasdaq Global Select Market on the dates of grant. These share options became exercisable over vesting periods of two to 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 used for each period presented 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 the share options at the date of grant were charged to the accompanying Parent Company statements of comprehensive income over the vesting period, with a corresponding increase in share-based compensation reserve as a contribution from Melco.

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

18. **Share Incentive Plans** – continued

Melco Share Incentive Plan – continued

*Share Options* – continued

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

| | **Year Ended December 31,** | |
|---|---|---|
| | **2021** | 2020 |
| Expected dividend yield | **2.50%** | 3.10% |
| Expected stock price volatility | **45.50%** | 43.50% |
| Risk-free interest rate | **1.01%** | 0.43% |
| Expected average term (years) | **5.6** | 5.6 |
| Weighted average share price per share (US$) | **6.89** | 4.13 |
| Weighted average exercise price per share (US$) | **6.89** | 4.13 |
| Weighted average fair value per share option (US$) | **2.31** | 1.21 |

A summary of the share options activity under the Melco Share Incentive Plan as of December 31, 2021, and changes for the years ended December 31, 2021 and 2020 are presented as follows:

| | Number of Share Options | Weighted Average Exercise Price per Share US$ |
|---|---|---|
| **Equity-settled** | | |
| Outstanding as of January 1, 2020 | – | – |
| Granted | 61,236 | 4.13 |
| Outstanding as of December 31, 2020 | 61,236 | 4.13 |
| Granted | **28,560** | **6.89** |
| Outstanding as of December 31, 2021 | **89,796** | **5.01** |
| Exercisable as of December 31, 2021 | **–** | **–** |

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

18. **Share Incentive Plans** – continued

Melco Share Incentive Plan – continued

*Share Options* – continued

The range of exercise prices and the weighted average remaining contractual terms of the above equity-settled share options outstanding as at the dates indicated are as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| Exercise Price per Share (US$) | Number of Share Options Outstanding | Weighted Average Remaining Contractual Term (Years) | Number of Share Options Outstanding | Weighted Average Remaining Contractual Term (Years) |
| 4.13 | **61,236** | **8.25** | 61,236 | 9.25 |
| 6.89 | **28,560** | **9.27** | – | – |
| | **89,796** | **8.58** | 61,236 | 9.25 |

*Restricted Shares*

The grant date fair values for restricted shares granted under the Melco Share Incentive Plan for the years ended December 31, 2021 and 2020 were determined with reference to the market closing prices of Melco's ADS trading on the Nasdaq Global Select Market on the dates of grant and were charged to the accompanying Parent Company statements of comprehensive income over the vesting period, with a corresponding increase in share-based compensation reserve as a contribution from Melco. These restricted shares have vesting periods of three months to three years.

A summary of the restricted shares activity under the Melco Share Incentive Plan as of December 31, 2021, and changes for the years ended December 31, 2021 and 2020 are presented as follows:

| | Number of Restricted Shares | Weighted Average Grant Date Fair Value US$ |
|---|---|---|
| **Equity-settled** | | |
| Unvested as of January 1, 2020 | – | – |
| Granted | 151,515 | 4.13 |
| Transfer to Melco | (54,438) | 4.13 |
| Unvested as of December 31, 2020 | 97,077 | 4.13 |
| Granted | **59,679** | **6.55** |
| Vested | **(31,182)** | **4.26** |
| Unvested as of December 31, 2021 | **125,574** | **5.25** |

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

18. **Share Incentive Plans** – continued

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

| | Year Ended December 31, | |
|---|---|---|
| | **2021** | 2020 |
| MRP Share Incentive Plan | **₱1,958** | ₱21,264 |
| Melco Share Incentive Plan | **19,345** | 14,960 |
| Total share-based compensation | **₱21,303** | ₱36,224 |

19. **Subsequent Events**

In January 2022, the Credit Facility availability period was extended to May 1, 2022, with other terms and conditions unchanged.

In April 2022, the Credit Facility availability period was further extended to January 31, 2023, with changes in certain terms and conditions as disclosed in Note 13.

20. **Supplementary Tax Information under RR No. 15-2010**

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

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

VAT

For the year ended December 31, 2021, the Parent Company did not have any income or reimbursements subject to output VAT.

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

| | |
|---|---|
| Input VAT for 2021 per filed VAT returns: | |
| Balance as of January 1 | **₱19,648** |
| Services lodged under other accounts | **736** |
| Balance as of December 31 | **₱20,384** |

Other Taxes and Licenses in 2021

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

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

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

Other Taxes and Licenses in 2021 – continued

| | Year Ended December 31, 2021 | | |
|---|---|---|---|
| | Official Receipt Number | Date Paid | Amount |
| Documentary stamp tax | Various | Various | **₱21** |
| Others | Various | Various | **64** |
| | | | **₱85** |

Withholding Taxes
Withholding taxes were deducted by the Parent Company on various expenses and dividends declared for the year ended December 31, 2021.

| | Year Ended December 31, 2021 | | |
|---|---|---|---|
| | Official Receipt Number | Date Paid | Amount |
| Tax on compensation and benefits | Various | Various | **₱295,600** |
| Final withholding tax | 412200046560292 | March 2, 2022 | **145,818** |
| | | | **₱441,418** |

Tax Assessments and Cases
In July 2018, MRP received from the BIR a LOA for the audit of all internal revenue taxes for 2010 to 2016. In August 2019, MRP received from the BIR a PAN for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the PAN is without merit and filed protest letters with the BIR in September 2019 requesting the cancellation of the PAN. In April 2022, MRP received from the BIR a FAN for the audit of all internal revenue taxes including VAT for 2010 to 2016. MRP believes that the legal basis of the FAN is without merit and has filed protest letters with the BIR in May 2022 requesting the cancellation of the FAN. There is no reply from the BIR on the protest letters as of the date of this report.