# Melco International Development Limited

*(Incorporated in Hong Kong with limited liability)*
Website: www.melco-group.com
(Stock Code: 200)

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of Melco International Development Limited (the "Company" or "Melco International") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 as follows:

**FINANCIAL HIGHLIGHTS**

1. Net revenues[(1)] were HK$40.7 billion, which represented a slight decrease of HK$0.5 billion or 1.1%, compared to HK$41.2 billion for the year ended 31 December 2017. While the Group experienced better performance in all gaming segments, this was more than offset by higher commissions, which are being reported as a reduction of revenue as a result of the Group's adoption of New Revenue Standard from 1 January 2018.

2. Adjusted EBITDA[(2)] was HK$10.9 billion, representing an increase of HK$1.0 billion or 10.7%, compared to HK$9.8 billion for the year ended 31 December 2017.

3. Profit after tax was HK$1.6 billion, representing an increase of HK$0.5 billion or 50.6%, compared to HK$1.1 billion for the year ended 31 December 2017.

4. Basic earnings per share attributable to owners of the Company was HK$0.34 for the year ended 31 December 2018 compared to basic earnings per share attributable to owners of the Company of HK$0.31 for the year ended 31 December 2017.

5. Net asset value per share attributable to owners of the Company was HK$10.7 as of 31 December 2018, as compared to HK$12.4 as of 31 December 2017. The decrease was primarily due to the dividends paid as well as shares repurchased by Melco Resorts in 2018.

6. The Board has recommended the payment of a final dividend of HK2.35 cents per share, totalling approximately HK$35.7 million, for the year ended 31 December 2018, subject to approval by the shareholders of the Company. The proposed dividend is expected to be paid on 5 July 2019.

(1) *The Group has adopted the New Revenue Standard on 1 January 2018 under the modified retrospective method. Results for the periods beginning on or after 1 January 2018 are presented under the New Revenue Standard, while prior year amounts are not adjusted and continue to be reported in accordance with the previous basis.*

(2) *Adjusted EBITDA is the profit for the year before deduction of finance costs, income tax, depreciation and amortization, pre-opening costs, development costs, property charges and other, share-based compensation expenses, payments to the Philippine Parties, land rent to Belle Corporation, corporate expenses, interest income, other income, gains and losses and loss/gain on disposal of subsidiaries. Adjusted EBITDA is used by management as the primary measure of the Group's operating performance and to compare our operating performance with that of our competitors. However, Adjusted EBITDA presented in this announcement may not be comparable to other similarly titled measures of other companies operating in the gaming and other business sectors.*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2018*

| | *Notes* | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Net revenues | 4 | **40,724,673** | 41,180,086 |
| Other income, gains and losses | | **75,201** | 332,564 |
| Gaming tax and license fees | | **(18,594,419)** | (17,303,171) |
| Employee benefits expenses | | **(6,892,961)** | (6,572,118) |
| Depreciation and amortization | | **(5,163,392)** | (4,919,602) |
| (Loss)/gain on disposal of subsidiaries | 5 | **(34,111)** | 161,228 |
| Other expenses | | **(6,136,541)** | (9,059,634) |
| Finance costs | | **(2,417,089)** | (2,688,898) |
| Share of profits and losses of associates | | **737** | (904) |
| PROFIT BEFORE TAX | | **1,562,098** | 1,129,551 |
| Income tax | 6 | **38,070** | (67,017) |
| PROFIT FOR THE YEAR | | **1,600,168** | 1,062,534 |

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| *Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:* | | |
| Available-for-sale investments: | | |
| Changes in fair value | **–** | (13,905) |
| Reclassification adjustment for losses to profit or loss upon disposal of investments | **–** | 10,052 |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **(247,242)** | (6,642) |
| Reclassification of exchange reserve upon disposal of interest in a subsidiary | **–** | 813 |
| | **(247,242)** | (9,682) |
| *Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:* | | |
| Actuarial gain/(loss) arising from defined benefit obligations | **2,157** | (502) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(245,085)** | (10,184) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **1,355,083** | 1,052,350 |

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Owners of the Company | | **522,571** | 474,136 |
| Non-controlling interests | | **1,077,597** | 588,398 |
| | | **1,600,168** | 1,062,534 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **405,242** | 471,433 |
| Non-controlling interests | | **949,841** | 580,917 |
| | | **1,355,083** | 1,052,350 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | 8 | | |
| Basic | | **HK$0.34** | HK$0.31 |
| Diluted | | **HK$0.33** | HK$0.30 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2018*

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **48,069,934** | 47,994,966 |
| Investment properties | | **310,000** | 274,000 |
| Land use rights | | **5,387,867** | 5,553,924 |
| Gaming license and subconcession | | **3,813,886** | 4,902,889 |
| Goodwill | | **5,299,451** | 5,299,451 |
| Trademarks | | **16,992,458** | 16,992,458 |
| Other intangible assets | | **225,068** | 14,533 |
| Investment in a joint venture | | **–** | – |
| Investments in associates | | **13,869** | 14,946 |
| Trade receivables | 9 | **41** | 28,970 |
| Prepayments, deposits and other receivables | | **1,478,875** | 1,440,006 |
| Other financial assets | | **205,381** | 192,512 |
| Deferred tax assets | | **23,431** | 543 |
| **Total non-current assets** | | **81,820,261** | 82,709,198 |
| **CURRENT ASSETS** | | | |
| Land use rights | | **166,057** | 166,057 |
| Inventories | | **323,279** | 273,989 |
| Trade receivables | 9 | **1,899,851** | 1,247,940 |
| Prepayments, deposits and other receivables | | **789,348** | 702,308 |
| Tax recoverable | | **160** | 156 |
| Other financial assets | | **1,094,507** | 1,053,586 |
| Bank deposits with original maturities over three months | | **40,000** | 348,741 |
| Cash and bank balances | | **11,892,778** | 11,768,251 |
| **Total current assets** | | **16,205,980** | 15,561,028 |

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | 10 | **198,341** | 127,720 |
| Other payables, accruals and deposits received | | **13,359,787** | 12,617,523 |
| Tax payable | | **51,227** | 36,848 |
| Interest-bearing borrowings | | **3,537,301** | 2,003,109 |
| Obligations under finance leases | | **271,434** | 259,754 |
| **Total current liabilities** | | **17,418,090** | 15,044,954 |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(1,212,110)** | 516,074 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **80,608,151** | 83,225,272 |
| **NON-CURRENT LIABILITIES** | | | |
| Other payables, accruals and deposits received | | **231,984** | 384,636 |
| Interest-bearing borrowings | | **35,264,619** | 32,463,626 |
| Obligations under finance leases | | **1,984,308** | 2,068,669 |
| Deferred tax liabilities | | **2,424,214** | 2,456,295 |
| **Total non-current liabilities** | | **39,905,125** | 37,373,226 |
| **Net assets** | | **40,703,026** | 45,852,046 |
| **EQUITY** | | | |
| Share capital | | **5,660,190** | 5,624,135 |
| Reserves | | **10,572,040** | 13,364,752 |
| Equity attributable to owners of the Company | | **16,232,230** | 18,988,887 |
| Non-controlling interests | | **24,470,796** | 26,863,159 |
| **Total equity** | | **40,703,026** | 45,852,046 |

## NOTES

### 1. CORPORATE AND GROUP INFORMATION

Melco International Development Limited (the “Company”) is a public company with limited liability incorporated in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”) as an investment holding company. The address of the registered office of the Company is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The Company’s shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The Company together with its subsidiaries (collectively referred to as the “Group”) is a developer, owner and operator of international network of casino gaming and entertainment casino resorts. The Group operates its gaming business primarily through Melco Resorts & Entertainment Limited (“Melco Resorts”), a subsidiary of the Group, with its American depositary shares (“ADSs”) listed on the NASDAQ Global Select Market in the United States of America (the “U.S.”). Melco Resorts currently operates Altira Macau, a casino hotel located at Taipa, the Macau Special Administrative Region of the People’s Republic of China (“Macau”), City of Dreams, an integrated urban casino resort located at Cotai, Macau and Grand Dragon Casino (formerly known as Taipa Square Casino), a casino located at Taipa, Macau. Melco Resorts’ business also includes the Mocha Clubs, which comprise the non-casino based operations of electronic gaming machines in Macau. The Group, through its subsidiaries, including Studio City International Holdings Limited (“Studio City International Holdings”), which completed its initial public offering with its ADSs listed on the New York Stock Exchange in October 2018, also majority owns and operates Studio City, a cinematically-themed integrated entertainment, retail and gaming resort in Cotai, Macau. In the Philippines, a majority-owned subsidiary of the Company operates and manages City of Dreams Manila, a casino, hotel, retail and entertainment integrated resort in the Entertainment City complex in Manila. In the Republic of Cyprus (“Cyprus”), the Group, through its majority-owned subsidiaries, ICR Cyprus Holdings Limited (“ICR”) and its subsidiaries (collectively referred to as “ICR Group”), is also developing the City of Dreams Mediterranean, the first integrated casino resort in Limassol, Cyprus together with the operation of four satellite casinos in Cyprus. In June 2018, a temporary casino in Limassol commenced its operations and will continue to operate until the opening of the integrated casino resort. In December 2018, two of the satellite casinos commenced operations, with the remaining two satellite casinos and the integrated casino resort currently under construction/development in Cyprus.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial instruments which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2018, the Group had net current liabilities of HK$1,212,110,000. After considering the Group's cash flow forecasts, available unutilized credit facilities and borrowings refinanced after year end as disclosed in the section "Liquidity, Financial Resources and Capital Structure" of this preliminary announcement, the directors of the Company believe the Group will have sufficient liquidity to meet its financial obligations as they fall due in the following 12 months. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The financial information relating to the years ended 31 December 2018 and 2017 that are included in this preliminary announcement of annual results of 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course.

The Company's auditors have reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the year, there have been a number of new standards and new amendments to standards that have come into effect, which the Group has adopted at their respective effective dates. The adoption of these new standards and new amendments to standards had no significant financial impact on the results of operations and financial position of the Group, except for the adoption of HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*.

### HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers ("New Revenue Standard"). Under the New Revenue Standard, revenues are recognized at amounts that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers. The principles in the New Revenue Standard provide a more structured approach to measuring and recognizing revenue.

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

- Under the New Revenue Standard, the retail value of complimentary goods and services (including rooms, catering service, and other services) that are provided to casino guests as incentives related to gaming play are netted against casino revenues in primarily all cases rather than netted against revenues related to the respective goods or services. The complimentary goods and services are measured based on stand-alone selling prices. These changes primarily result in a decrease in casino revenues and an increase in the revenues related to the respective goods or services.

- A portion of commissions paid to gaming promoters, representing the estimated incentives that were returned to customers, were previously reported as reductions in revenues, with the balances of commission expenses reflected as casino expenses. As a result of the adoption of the New Revenue Standard, all commissions paid to gaming promoters are reflected as reductions in casino revenues. This change primarily results in a decrease in casino expenses and a corresponding decrease in casino revenues.

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

**For the year ended 31 December 2018**

| | **Amounts prepared under** | | |
|---|---|---|---|
| | **New Revenue Standard (As reported)** | **Previous basis** | **Increase/ (decrease)** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Net revenues* | | | |
| Casino revenue | 35,247,748 | 41,146,165 | (5,898,417) |
| Entertainment and resort facilities revenue: | | | |
| Rooms | 2,438,042 | 693,765 | 1,744,277 |
| Catering service income | 1,678,301 | 727,973 | 950,328 |
| Entertainment, retail and other | 1,347,004 | 1,279,765 | 67,239 |
| *Other expenses* | | | |
| Gaming promoters' commission and other gaming operations expenses | 656,956 | 3,793,529 | (3,136,573) |

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

**HKFRS 9** ***Financial Instruments***

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has adopted HKFRS 9 from 1 January 2018 and did not restate comparative information in accordance with the transitional provisions in HKFRS 9. The transition adjustments were recognized against the opening balance of equity at 1 January 2018. The impacts from adopting HKFRS 9 relate to the classification and measurement and the impairment requirements are summarized as follows:

*(a)* *Classification and measurement – equity investments*

Upon adoption of HKFRS 9, the Group changes the accounting for equity investments held as available-for-sale and records the unrealized changes in fair value in profit and loss. Under the Group's previous accounting policies, these investments were measured at fair value with unrealized changes in fair value recorded as a component of other comprehensive income – other revaluation reserve. At the adoption date, the Group reclassified the previously accumulated unrealized losses of HK$4,583,000 on these investments from other revaluation reserve to the opening balance of retained profits. The Group anticipates that the adoption of HKFRS 9 will primarily increase the volatility of the Group's other gains or losses as a result of the remeasurement of these equity investments.

*(b)* *Classification and measurement – borrowings*

HKFRS 9 requires a gain or loss arising from modification of a financial liability that does not result in derecognition be immediately recognized in profit or loss. Under the Group's previous accounting policies, such gain or loss was deferred and amortized over the remaining term of the modified liability by adjusting the effective interest rate. The Group has retrospectively applied the accounting treatment as required by HKFRS 9 for the modification of interest-bearing borrowings which has not resulted in derecognition. At the adoption date, the Group recognized a decrease in opening retained profits and non-controlling interests with an aggregated amount of HK$238,045,000 and a corresponding increase in interest-bearing borrowings.

*(c)* *Impairment of financial assets*

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

The impact of transition to HKFRS 9 on the consolidated other revaluation reserve, opening retained profits and non-controlling interests at 1 January 2018 is as follows:

**Other revaluation reserve**

| | *HK$'000* |
|---|---|
| Balance as at 31 December 2017 under HKAS 39 | (4,906) |
| Reclassification of accumulated unrealized losses on equity investments to retained profits | 4,583 |
| Balance as at 1 January 2018 under HKFRS 9 | (323) |

**Retained profits**

| | *HK$'000* |
|---|---|
| Balance as at 31 December 2017 under HKAS 39 | 16,576,179 |
| Reclassification of accumulated unrealized losses on equity investments from other revaluation reserve | (4,583) |
| Change in carrying amount of interest-bearing borrowings measured at amortized cost | (107,820) |
| Balance as at 1 January 2018 under HKFRS 9 | 16,463,776 |

**Non-controlling interests**

| | *HK$'000* |
|---|---|
| Balance as at 31 December 2017 under HKAS 39 | 26,863,159 |
| Change in carrying amount of interest-bearing borrowings measured at amortized cost | (130,225) |
| Balance as at 1 January 2018 under HKFRS 9 | 26,732,934 |

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early adopted any new or amended HKFRSs or interpretation that has been issued but is not yet effective in the consolidated financial statements for the year ended 31 December 2018.

## 3. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has two operating and reportable segments as follows:

(a) the "Casino and Hospitality" segment, which comprises operation of casino and provision of hospitality through Melco Resorts and ICR Group; and

(b) the "Others" segment comprises, principally, other gaming, leisure and entertainment, and property investments.

Management monitors the results of the Group's operating and reportable segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA, which is a non-HKFRS financial measure and the segment results of the Group, is the profit for the year before deduction of finance costs, income tax, depreciation and amortization, pre-opening costs, development costs, property charges and other, share-based compensation expenses, payments to SM Investments Corporation, Belle Corporation and PremiumLeisure and Amusements, Inc. (collectively referred to as the "Philippine Parties"), land rent to Belle Corporation, corporate expenses, interest income, other income, gains and losses and loss/gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Not all companies calculate Adjusted EBITDA in the same manner. As a result, Adjusted EBITDA as presented by the Group may not be directly comparable to other similarly titled measures presented by other companies.

Segment assets exclude those deferred tax assets and other corporate unallocated assets which are managed on a group basis.

Segment liabilities exclude those borrowings, dividend payable, deferred tax liabilities and other corporate unallocated liabilities which are managed on a group basis.

Intersegment sales are transacted with reference to the selling prices used for sales made and services provided to third parties at the prevailing market prices.

**Segment net revenues and results**

**Year ended 31 December 2018**

| | Casino and Hospitality *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Segment net revenues** (note 4): | | | |
| Sales to external customers | **40,633,231** | **91,442** | **40,724,673** |
| Intersegment sales | **61,084** | **167** | **61,251** |
| | **40,694,315** | **91,609** | **40,785,924** |
| Elimination of intersegment sales | | | **(61,251)** |
| Total net revenues | | | **40,724,673** |
| **Adjusted EBITDA** | **10,862,754** | **(2,661)** | **10,860,093** |
| Adjusted items for Adjusted EBITDA: | | | |
| Share-based compensation expenses | | | **(289,817)** |
| Depreciation and amortization | | | **(5,163,392)** |
| Pre-opening costs | | | **(398,232)** |
| Development costs | | | **(183,549)** |
| Property charges and other | | | **(253,102)** |
| Payments to the Philippine Parties | | | **(476,414)** |
| Land rent to Belle Corporation | | | **(23,525)** |
| Loss on disposal of subsidiaries | | | **(34,111)** |
| Interest income | | | **47,140** |
| Other income, gains and losses | | | **(7,939)** |
| Finance costs | | | **(2,417,089)** |
| Corporate expenses | | | **(97,965)** |
| Profit before tax | | | **1,562,098** |

**Year ended 31 December 2017**

| | Casino and Hospitality *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Segment net revenues:** | | | |
| Sales to external customers | 41,071,882 | 108,204 | 41,180,086 |
| Intersegment sales | 23,699 | – | 23,699 |
| | 41,095,581 | 108,204 | 41,203,785 |
| Elimination of intersegment sales | | | (23,699) |
| Total net revenues | | | 41,180,086 |
| **Adjusted EBITDA** | 9,814,492 | (2,947) | 9,811,545 |
| Adjusted items for Adjusted EBITDA: | | | |
| Share-based compensation expenses | | | (392,015) |
| Depreciation and amortization | | | (4,919,602) |
| Pre-opening costs | | | (17,692) |
| Development costs | | | (242,078) |
| Property charges and other | | | (254,379) |
| Payments to the Philippine Parties | | | (401,926) |
| Land rent to Belle Corporation | | | (24,453) |
| Gain on disposal of a subsidiary | | | 161,228 |
| Interest income | | | 36,865 |
| Other income, gains and losses | | | 211,699 |
| Finance costs | | | (2,688,898) |
| Corporate expenses | | | (150,743) |
| Profit before tax | | | 1,129,551 |

**31 December 2018**

| | Casino and Hospitality *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Segment assets** | **97,003,337** | **430,678** | **97,434,015** |
| Corporate and other unallocated assets | | | **592,226** |
| Total assets | | | **98,026,241** |
| **Segment liabilities** | **50,396,815** | **88,246** | **50,485,061** |
| Corporate and other unallocated liabilities | | | **6,838,154** |
| Total liabilities | | | **57,323,215** |

**31 December 2017**

| | Casino and Hospitality *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Segment assets** | 96,042,510 | 1,285,205 | 97,327,715 |
| Corporate and other unallocated assets | | | 942,511 |
| Total assets | | | 98,270,226 |
| **Segment liabilities** | 45,464,050 | 147,379 | 45,611,429 |
| Corporate and other unallocated liabilities | | | 6,806,751 |
| Total liabilities | | | 52,418,180 |

**Information about major customers**

During the years ended 31 December 2018 and 2017, no individual customer contributed over 10% of the total net revenues of the Group.

## 4. NET REVENUES

On 1 January 2018, the Group adopted HKFRS 15, *Revenue from Contracts with Customers*, using the modified retrospective method. The Group's revenues from contracts with customers consist of casino wagers, sales of rooms, catering, entertainment, retail and other goods and services, and electronic gaming machines participation.

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

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

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

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

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

Revenue of electronic gaming machines participation is recognized at a point in time based on the Group's share of net winnings, net of customer incentives and commitment fees as stipulated on the slot agreements between the Group and the gaming venue owner.

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue from contracts with customers** | | |
| Casino revenue | **35,247,748** | 38,394,161 |
| Entertainment and resort facilities revenue: | | |
| Rooms | **2,438,042** | 573,295 |
| Catering service income | **1,678,301** | 720,014 |
| Entertainment, retail and other | **1,347,004** | 1,468,233 |
| Electronic gaming machines participation | **8,264** | 8,793 |
| Lottery business: | | |
| Trading of lottery terminals and parts | **–** | 9,586 |
| Provision of services and solutions for distribution of lottery products | **–** | 396 |
| Others | **518** | 1,158 |
| | **40,719,877** | 41,175,636 |
| **Revenue from other sources** | | |
| Property rental income | **4,796** | 4,450 |
| | **40,724,673** | 41,180,086 |

**Revenue from contracts with customers**

*(i)* *Disaggregated revenue information*

**For the year ended 31 December 2018**

| **Segments** | **Casino and Hospitality** | **Others** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Type of goods or services** | | | |
| Casino gaming | 35,247,748 | – | 35,247,748 |
| Entertainment and resort facilities: | | | |
| Rooms | 2,438,042 | – | 2,438,042 |
| Catering service income | 1,600,437 | 77,864 | 1,678,301 |
| Entertainment, retail and other | 1,347,004 | – | 1,347,004 |
| Electronic gaming machines participation | – | 8,264 | 8,264 |
| Others | – | 518 | 518 |
| Total revenues from contracts with customers | 40,633,231 | 86,646 | 40,719,877 |

| Segments | Casino and Hospitality | Others | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Geographical markets** | | | |
| Macau | 35,570,263 | – | 35,570,263 |
| The Philippines | 4,804,682 | 8,264 | 4,812,946 |
| Cyprus | 258,286 | – | 258,286 |
| Hong Kong | – | 78,382 | 78,382 |
| Total revenues from contracts with customers | 40,633,231 | 86,646 | 40,719,877 |

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

| Segments | Casino and Hospitality | Others | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenue from contracts with customers** | | | |
| Sales to external customers | 40,633,231 | 86,646 | 40,719,877 |
| Intersegment sales | 61,084 | 167 | 61,251 |
| | 40,694,315 | 86,813 | 40,781,128 |
| Elimination of intersegment sales | (61,084) | (167) | (61,251) |
| Total revenues from contracts with customers | 40,633,231 | 86,646 | 40,719,877 |

**Contract and contract related liabilities**

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

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

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

| | **31 December 2018** *HK$'000* | **1 January 2018** *HK$'000* |
|---|---|---|
| Outstanding gaming chips and tokens liabilities | 5,002,012 | 3,614,688 |
| Loyalty program liabilities | 365,958 | 289,411 |
| Customer deposits and ticket sales | 3,080,799 | 3,346,701 |
| Total contract liabilities | 8,448,769 | 7,250,800 |

## 5. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2018

In June 2018, the Group entered into certain agreements with two independent third parties (the "Buyers") to dispose of its entire business and interests in three subsidiaries in Cambodia (the "Cambodian Subsidiaries"). The consideration for disposal of the Cambodian Subsidiaries paid by the Group to the Buyers was approximately HK$27,230,000, which was primarily made in consideration for the Buyers to assume all liabilities arising from the operations of the Cambodian Subsidiaries. Accordingly, the Group had derecognized these liabilities upon completion of the disposal on 29 June 2018.

Information regarding the disposal of the Cambodian Subsidiaries is as follows:

| | **2018** ***HK$'000*** |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | **6,201** |
| Prepayments, deposits and other receivables | **55** |
| Cash and bank balances | **730** |
| Other payables, accruals and deposits received | **(105)** |
| | **6,881** |
| Loss on disposal of subsidiaries | **(34,111)** |
| Total cash consideration paid by the Group | **(27,230)** |

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

| | HK$'000 |
|---|---|
| Cash consideration paid by the Group | (27,230) |
| Cash and bank balances disposed of | (730) |
| Net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries | (27,960) |

Year ended 31 December 2017

On 29 May 2017, the Company entered into an agreement with an independent third party to dispose of its entire interest in MelcoLot Limited ("MelcoLot"), representing approximately 40.65% of the issued share capital of MelcoLot, at a price of HK$0.252 per MelcoLot share for an aggregate consideration of approximately HK$322,236,000. The transaction was completed on 6 June 2017.

Information regarding the disposal of the subsidiary is as follows:

| | 2017<br>HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 198 |
| Structured notes | 100,129 |
| Trade receivables | 7,133 |
| Prepayments, deposits and other receivables | 3,359 |
| Cash and bank balances | 318,233 |
| Trade payables | (6,346) |
| Accruals and other payables | (10,668) |
| Tax payable | (3,263) |
| Non-controlling interests | (248,580) |
| | 160,195 |
| Exchange reserve | 813 |
| | 161,008 |
| Gain on disposal of a subsidiary | 161,228 |
| Total cash consideration received by the Group | 322,236 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

| | 2017 |
|---|---|
| | *HK$'000* |
| Cash consideration received by the Group | 322,236 |
| Cash and bank balances disposed of | (318,233) |
| Net inflow of cash and cash equivalents in respect of the disposal of the subsidiary | 4,003 |

## 6. INCOME TAX

An analysis of the income tax (credit)/charges for the year is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Macau Complementary Tax | **5,305** | 99 |
| Lump sum in lieu of Macau Complementary Tax on dividends | **18,350** | 18,350 |
| Hong Kong Profits Tax | **364** | 19,575 |
| PRC Enterprise Income Tax | **–** | 82 |
| PRC Capital Gains Tax | **–** | 31,980 |
| Other jurisdictions | **6,616** | 903 |
| Sub-total | **30,635** | 70,989 |
| (Over)/underprovision in prior years: | | |
| Macau Complementary Tax | **6,215** | (20,031) |
| Hong Kong Profits Tax | **(18,220)** | 230 |
| Other jurisdictions | **(2,587)** | (3,887) |
| Sub-total | **(14,592)** | (23,688) |
| Deferred tax | **(54,113)** | 19,716 |
| Total | **(38,070)** | 67,017 |

## 7. DIVIDENDS

Dividends recognized as distributions during the year:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 2018 Interim – HK4.5 cents (2017: 2017 Interim of HK2.2 cents) per share | **69,029** | 33,724 |
| 2017 Final – HK4.0 cents (2017: 2016 Final of HK2.0 cents) per share | **61,484** | 30,574 |
| Assured Entitlement Distribution *(note)* | **37,376** | – |
| | **167,889** | 64,298 |

Subsequent to the end of the reporting period, the Board has recommended a final dividend of HK2.35 cents (2017: HK4.0 cents) per share, totaling approximately HK$35,711,000 (2017: HK$61,484,000), for the year ended 31 December 2018, to the shareholders of the Company. The final dividend is subject to shareholders' approval at the forthcoming annual general meeting.

*Note:*

In October 2018, Studio City International Holdings, a subsidiary of the Company, was spin-off and separately listed its ADSs on the New York Stock Exchange (the "Global Offering"). Pursuant to Practice Note 15 of the Listing Rules, in connection with the Global Offering, the Company made an assured entitlement distribution to the shareholders of the Company for a certain portion of the ADSs of Studio City International Holdings, by way of a distribution in specie, or distribution of the ADSs of Studio City International Holdings in kind, and for those shareholders of the Company who were entitled to fractional ADSs, elected to receive cash in lieu of ADSs or were not eligible to receive ADSs to receive cash. ("Assured Entitlement Distribution"). Concurrently with the Global Offering as a separate transaction, the Company had subscribed 800,376 Class A Ordinary Shares of Studio City International Holdings, equivalent to 200,094 ADSs, needed for the distribution in specie. On 2 November 2018, the Company declared the Assured Entitlement Distribution and the distribution of HK$37,376,000 has been recognized as dividend distribution for the year ended 31 December 2018.

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **522,571** | 474,136 |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment in relation to share options and awarded shares issued by the subsidiaries of the Company | **(11,861)** | (5,891) |
| Earnings for the purpose of diluted earnings per share | **510,710** | 468,245 |

| | 2018 | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,529,367** | 1,528,058 |
| Effect of dilutive potential ordinary shares: | | |
| Share options and awarded shares issued by the Company | **7,341** | 15,832 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,536,708** | 1,543,890 |

The number of shares adopted in the calculation of the basic and diluted earnings per share have been derived by excluding the shares of the Company held under trust arrangement for the Company's share award schemes.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and assumed conversion of all dilutive potential ordinary shares, and the profit attributable to the Company as adjusted to reflect the dilution effect of the share options and awarded shares issued by the subsidiaries of the Company. For the years ended 31 December 2018 and 2017, the Company had outstanding share options and awarded shares that would potentially dilute the earnings per share.

## 9. TRADE RECEIVABLES

An aging analysis of trade receivables as at the end of the reporting period, based on the due date, is as follows:

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **1,376,669** | 1,160,968 |
| More than 1 month but within 3 months | **316,695** | 176,433 |
| More than 3 months but within 6 months | **292,183** | 8,922 |
| More than 6 months | **229,760** | 235,394 |
| | **2,215,307** | 1,581,717 |
| Loss allowance for impairment | **(315,415)** | (304,807) |
| | **1,899,892** | 1,276,910 |
| Non-current portion | **(41)** | (28,970) |
| Current portion | **1,899,851** | 1,247,940 |

## 10. TRADE PAYABLES

An aging analysis of trade payables as at the end of the reporting period, based on the due date, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **163,994** | 119,358 |
| More than 1 month but within 3 months | **21,897** | 7,073 |
| More than 3 months but within 6 months | **12,450** | 1,289 |
| | **198,341** | 127,720 |

## 11. MODIFICATION OF SHARE OPTIONS OF THE COMPANY

On 10 April 2018, the Company cancelled the outstanding share options previously granted to one of the directors of the Company and replaced the cancelled share options with new share options and share awards. The share options being cancelled were granted on 1 September 2016, 10 April 2017 and 7 June 2017 under the Company's 2012 Share Option Scheme, including those unvested, or vested but not exercised. A total of 5,946,000 share options (the "Previously Granted Options") were cancelled and replaced by a total of 5,946,000 new share options with an exercise price of HK$23.15 per share option (the "Replacement Options") under 2012 Share Option Scheme and 2,194,000 new share awards (the "Replacement Share Awards") pursuant to the Company's Share Purchase Scheme.

The estimated fair values of the Previously Granted Options, the Replacement Options and the Replacement Share Awards were approximately HK$82,299,000, HK$51,433,000 and HK$50,791,000, respectively on 10 April 2018. The estimated fair values of the Previously Granted Options and the Replacement Options were measured using the Black-Scholes valuation model with the weighted average fair values per share option of HK$13.84 and HK$8.65 respectively. The incremental fair value of approximately HK$19,925,000 has been recognized as share-based compensation expense for the year ended 31 December 2018.

## 12. CHANGE IN OWNERSHIP INTEREST OF THE SUBSIDIARIES

**Melco Resorts**

During the year ended 31 December 2018, Melco Resorts had repurchased 32,190,355 ADSs (equivalent to 96,571,065 ordinary shares) from the open market for an aggregate consideration of approximately US$657 million (equivalent to approximately HK$5,113,955,000) which increased the Group's ownership interest in Melco Resorts. During the year, certain share options and restricted shares under Melco Resorts share incentive plans were exercised and vested, which decreased the Group's ownership interest in Melco Resorts.

As a net result of the above transactions, the Group's ownership interest in Melco Resorts has increased from 51.22% on 1 January 2018 to 54.88% on 31 December 2018. The Group recognized a decrease of HK$1,979,923,000 in the Group's special reserve and a decrease of HK$3,119,666,000 in non-controlling interests.

**The Philippine subsidiaries**

In September 2018, Melco Resorts and Entertainment (Philippines) Corporation ("MRP"), a subsidiary of the Group, filed with the Philippine Stock Exchange, Inc. (the "PSE") (i) a tender offer report, as amended from time to time, the tender offer of MCO Investments Limited ("MCO Investments") (the "Bidder"), to acquire up to 1,569,786,768 outstanding common shares of MRP held by the public and other MRP shareholders at the offer price of PHP7.25 per MRP share for the purpose of the voluntary delisting of MRP (the "Tender Offer"); and (ii) a petition for voluntary delisting of MRP from the PSE, as amended from time to time, if at least 95% of the outstanding common shares of MRP were acquired (the "Voluntary Delisting"). In October 2018, the purpose for the Tender Offer was changed from voluntary delisting of MRP to increasing the Bidder's shareholding interest in MRP and such change led to the withdrawal of the petition for Voluntary Delisting by MRP. The Tender Offer period commenced on 31 October 2018 and expired on 29 November 2018 and 1,338,477,668 outstanding common shares of MRP were tendered (the "Tendered Shares") and acquired by MCO Investments at the offer price of PHP7.25 per MRP share for a total amount of PHP9,703,963,000 (equivalent to HK$1,435,080,000) and crossed at the PSE on 10 December 2018. After the completion of the cross transaction of the Tendered Shares, the shares of MRP were suspended for trading on the PSE from 10 December 2018 as a result of the public float of MRP falling below the 10% minimum public ownership requirement of the PSE rules. In addition, during the year ended 31 December 2018, the Group through MCO Investments, purchased 107,475,300 common shares of MRP at a total consideration of PHP779,196,000 (equivalent to HK$115,232,000) from the open market. During the year, certain restricted shares under MRP share incentive plan were vested which decreased the Group's ownership interest in MRP.

As a net result of the above transactions, and aforesaid change in the Group's ownership interest in Melco Resorts, the Group's ownership interest in MRP increased from 37.28% on 1 January 2018 to 53.75% on 31 December 2018. The Group recognized a decrease of HK$601,016,000 in the Group's special reserve and a decrease of HK$949,297,000 in non-controlling interests.

**Studio City International Holdings**

During the year ended 31 December 2018, Studio City International Holdings completed its Global Offering. In connection with its offering, Studio City International Holdings issued (i) 28,750,000 ADSs, representing 115,000,000 Class A ordinary shares, (ii) 800,376 Class A ordinary shares to the Company to effect the Assured Entitlement Distribution (as described in Note 7), pursuant to a concurrent private placement, and (iii) additional 4,312,500 ADSs, representing 17,250,000 Class A ordinary shares, pursuant to the full exercise by the underwriters of the over-allotment option.

As a result of the above transactions, and aforesaid change in the Group's ownership interest in Melco Resorts, the Group's ownership interest in Studio City International Holdings has decreased from 30.73% on 1 January 2018 to 29.93% on 31 December 2018. The Group recognized a decrease of HK$165,809,000 in the Group's special reserve and an increase of HK$1,762,473,000 in non-controlling interests.

## CHAIRMAN & CEO'S STATEMENT

Dear Shareholders,

I am pleased to report that the Group has achieved yet another year of strong performance in 2018, against challenging global macroeconomic environment and market conditions during the past year. Last year, we have achieved substantial success as we continue to deliver world-class leisure and premium entertainment offerings. This achievement has been reflected through our solid results this year, and we are confident that the Group is well-equipped to seize further opportunities in Asia and globally. Our value proposition continues to focus on pioneering excellence in integrated resorts by offering exceptional, innovative and premium leisure and entertainment offerings that go beyond gaming to our customers while doing this in the most sustainable and responsible way to fit local needs in society.

## OPERATING RESULTS

In 2018, with net revenues of approximately HK$40.7 billion, profit for the year surged by 50.6% to approximately HK$1.6 billion. Adjusted EBITDA was HK$10.9 billion in 2018, representing an year-on-year increase of 10.7%. The main factors contributing to the increase in our Adjusted EBITDA over 2018 were the continued robust growth in Macau's gaming market and the better group-wide performance in all gaming segments. These tailwinds were further reinforced by our sustained attention to operating excellence, particularly within the consistently expanding premium-mass segment that attracts outbound travellers from China and Asia. In the Philippines, City of Dreams Manila delivered another solid year underpinned by robust mass gaming revenue growth.

## STRATEGIC DEVELOPMENTS

As customers around the world continue to seek more unique and exquisite experiences when they travel, we expect growing opportunities in meeting these needs through providing integrated resorts that offer the most premium hospitality, leisure, culinary and entertainment options that go beyond gaming.

In 2018, an important milestone for the Group was the launch of Morpheus as the latest addition to City of Dreams, an ultra-luxury hotel that represents yet another stunning world-first contribution the Group has created for Macau. Morpheus is the world's first-ever free-form exoskeleton high-rise architectural structure. Its intriguing and unconventional exterior was designed by legendary architect the late Dame Zaha Hadid, DBE while its interior was designed and curated by globally-renowned designer Peter Remedios.

By bringing together the most premium culinary and leisure offerings, Morpheus further exemplifies the Group's position as a pioneer and innovator in premium travel, leisure and entertainment and signals the Group's ability to keep raising the bar in global luxury hospitality. It represents the Group's drive to enhance the guest experience through a relentless focus on luxury and top-notch quality in order to deliver the most exceptional experiences to guests coming to Macau from all over the world.

Notably, it was also a remarkable year for Studio City. It has successfully completed its initial public offering and listed on the New York Stock Exchange in October 2018. We believe the listing will continue to drive the vision of offering a premium entertainment destination in Asia and support the plan on its further expansion, as well as to establish an independent, long-term funding platform for Studio City.

After expanding our international footprint to the Philippines with City of Dreams Manila in 2015, we have extended our global reach to Cyprus in 2018. City of Dreams Mediterranean, which we hold a 75% interest in a joint venture, with exclusivity for the first 15 years and a 30-year casino-gaming license that started from June 2017, will be the first integrated resort in Cyprus and is scheduled to open in 2021. While we wait for it to open, we have opened Cyprus Casinos (C2) in Limassol and two satellite casinos in Nicosia and Larnaca in 2018.

As we continue to seek global expansion opportunities, Japan continues to be a core focus for us. Japan will be soon embarking on establishing its first integrated resorts and the Japanese market offers tremendous opportunities as a top-tier tourist destination. With our focus on the Asian premium segment, dedication to world-class entertainment offerings, market-leading social safeguards and compliance culture, and our commitment to local partnerships, we believe the Group is in a strong position to help Japan realize the vision for integrated resort development with a unique Japanese touch.

## OUTLOOK

This coming year will be an exciting year for the Group in both Macau and globally. Despite the global economy is under pressure due to an array of uncertainty of geopolitical tensions and economic shifts, I am confident that the recent opening of the Hong Kong-Zhuhai-Macau Bridge and the continual integration of the Greater Bay Area will enable inbound tourism to increase steadily. Our Macau-based properties will also continue to be further improved upon with City of Dreams Phase 3 Development and Studio City Phase 2 Development.

As we approach our Macau gaming license renewal in 2022, we are working closely with the Macau Government accordingly and are optimistic about the renewal process. Globally, we will continue to pursue the opportunity to expand to the Japan market by securing a gaming license in the bidding process and continue to elevate our premium offerings in Manila and Cyprus by working closely with our local partners. With our unwavering focus on excellence and strong corporate culture around accountability, responsibility and innovation, we are well-positioned to continue to attain new heights as we develop globally.

I would like to thank our Board, shareholders, employees and partners for their continuous support over the years. We look forward to further strengthening our leading position and global network, to further exemplify our position as a pioneer and innovator in premium travel, leisure and entertainment.

**Ho, Lawrence Yau Lung**
*Chairman & Chief Executive Officer*

## MANAGEMENT DISCUSSION & ANALYSIS

## SIGNIFICANT EVENTS AND DEVELOPMENTS

Melco International strives to be a pioneer in premium travel, leisure and entertainment by delivering world-class premium leisure and entertainment offerings that go beyond gaming. For us, 2018 was yet another exciting year for local and global expansion.

In our hometown Macau, the grand opening of Morpheus, the new flagship hotel for City of Dreams, in June 2018 was the biggest highlight for this year. This US$1.1 billion new iconic landmark marks the latest addition to the Phase 3 development of City of Dreams which offers the most remarkable experiences to worldwide travellers that go beyond gaming.

In October 2018, Studio City has successfully listed on the New York Stock Exchange, establishing an independent, long-term funding platform for Studio City. It has also been embarking on a series of property upgrades to refine its entertainment offerings and improve accessibility to the resort.

In terms of the Group's global expansion plan, with the official ground-breaking of City of Dreams Mediterranean in June 2018, Melco International has set the stage to transform Cyprus into an international tourist destination. Currently scheduled to open in Limassol in 2021, City of Dreams Mediterranean will be Europe's largest integrated resort, showcasing the Group's renowned seamless array of gaming and non-gaming amenities. While City of Dreams Mediterranean is in development, Cyprus Casinos "C2" Limassol, the first licensed casino in the country, celebrated its opening in June 2018. Two satellite casinos have also commenced operations in 2018 in Nicosia and Larnaca respectively. Two more satellite casinos are set to open in the Paphos and Ayia Napa during 2019. Operations of C2 Limassol will cease when the City of Dreams Mediterranean integrated casino resort is launched, while the four satellite casinos C2 will continue to operate.

In Japan, our key business development target, we expect development of integrated resorts to soon commence in this incredibly exciting tourism destination. With our strong track record in Asian premium, we are very committed to work closely with the government, local partners and the host cities, to support Japan to develop an integrated resort with a unique Japanese touch. Melco Resorts has been dedicating the necessary resources and investments for the development of this potential market, and set up an Osaka office in the first half of 2018, following the opening of its Tokyo office in 2017, to support these efforts.

## BUSINESS REVIEW

### Integrated Gaming and Entertainment Resorts

Melco International operates its gaming business primarily through its subsidiary Melco Resorts & Entertainment Limited ("Melco Resorts"), a developer, owner and operator of casino gaming and entertainment casino resort facilities in Asia, in which the Group holds an ownership interest of approximately 54.88% as of 31 December 2018.

Melco Resorts currently operates Altira Macau, a casino hotel located at Taipa, Macau; City of Dreams, an integrated urban casino resort located in Cotai, Macau; and Mocha Clubs, the largest non-casino based operations of electronic gaming machines in Macau. Furthermore, it has a majority ownership and operates Studio City, a cinematically-themed integrated entertainment, retail and gaming resort located in Cotai, Macau. A Philippine subsidiary of Melco Resorts currently operates and manages City of Dreams Manila, a casino, hotel, retail and entertainment integrated resort in the Entertainment City complex in Manila.

Despite the ongoing challenges in the Macau gaming market, Melco International managed to achieve positive operating and financial results in 2018. With net revenues at approximately HK$40.7 billion, profit for the year increased significant by 50.6% to HK$1.6 billion, while adjusted EBITDA grew 10.7% to HK$10.9 billion. The increase was mainly attributable to the better group-wide performance in all gaming segments.

***City of Dreams***

City of Dreams in Macau is Melco Resorts' flagship integrated resort, a premium-focused property targeting high-end customers and rolling chip players from regional markets across Asia. The property operated on average 476 gaming tables and 724 gaming machines in 2018. City of Dreams is currently being upgraded through its Phase 3 development, which includes extensive renovation on the mass gaming floor with newly designed gaming space that were unveiled in June 2018 and the significantly upgraded VIP gaming spaces on the second floor of City of Dreams.

Morpheus is the latest addition to the City of Dreams. Named after the god of dreams in Greek Mythology, this new, ultra-luxury hotel in Macau celebrated its grand opening in June 2018. Morpheus is the world's first ever free-form exoskeleton high-rise architectural structure, designed by legendary architect the late Dame Zaha Hadid, DBE. It represents another stunning world first contribution the Group has created in Macau, characterized by an unprecedented level of attention to detail and designed with the premium guest experience in mind. Morpheus offers guests world-class experiences that exceed 5-star hotel standards. Along with approximately 770 guest rooms, suites and villas, Morpheus also features an executive lounge, a sky pool situated 130 metres above ground, world-class culinary delights from award-winning and legendary chefs Alain Ducasse and Pierre Hermé, the world's most fashion-forward brands and retail options, a curated art installation space featuring internationally renowned artists, as well as an in-house Spa Butler concept.

Building on the synergies created by its spectacular gaming and non-gaming entertainment offerings, including the world's largest water extravaganza – The House of Dancing Water, and a strong retail preposition and restaurant offerings, City of Dreams has consistently strengthened its position as the leading premium-mass market leisure destination in Macau.

After the opening of Morpheus, Nüwa will be undergoing renovation soon, with the rolling refurbishment of the hotel anticipated to conclude in 2020. The Countdown hotel will also be redeveloped in the second half of 2019 and will be rebranded Libertine, a funky rebel branded hotel with guestrooms that are luxurious while being ultra-cool.

Each of these hotels in City of Dreams will continue to offer guests premium and luxury experiences while retaining its own distinctive style and design and maintaining the same focus on quality and attention to detail.

***Studio City***

Studio City, the Hollywood-inspired, cinematically-themed integrated entertainment, retail and gaming resort, is designed to be the most diversified entertainment offering in Macau. The property operated on average 292 gaming tables and 957 gaming machines in 2018.

Studio City has been embarking on a series of property upgrades to refine its entertainment offerings and improve accessibility to the resort. Highlights include the recent launch of 'Elēkrŏn', the world's first all-electric indoor theatrical stunt show developed in partnership with globally renowned entertainment architect Stufish; and the pop-up 'Legend Heroes VR Park' opened in January 2019, which paved way for the opening of the permanent venue later in the year. In addition, the 'Flip Out' Trampoline Park is expected to open in the first half of 2019. Looking ahead, Studio City will be going through a Phase 2 expansion designed to further elevate the hotel to offer a significant point of differentiation from all other Macau resorts.

Studio City has listed on the New York Stock Exchange in October 2018 to establish an independent and long-term funding platform.

***Altira Macau***

Altira Macau is a casino and hotel designed to cater to Asian rolling chip customers sourced primarily through gaming promoters. Located in Taipa, it offers an oasis of sophistication with spectacular panoramic views of the Macau Peninsula. Through delivering impeccable services customized to each guest, both Altira Macau and Altira Spa have attained the highest Forbes Travel Guide Five-Star recognition for ten consecutive years in 2019. Altira Macau operated on average 104 gaming tables and 129 gaming machines operated as a Mocha Club at Altira Macau in 2018.

*Mocha Clubs*

Mocha Clubs comprises the largest non-casino based operations of electronic gaming machines in Macau. As a pioneer in Macau's electronic gaming industry, Mocha Clubs has brought a series of innovative and top quality electronic gaming machines from around the world to offer a contemporary entertainment mix to broader visitors. Mocha Clubs operated eight clubs with an average of approximately 1,336 gaming machines (including approximately 129 gaming machines at Altira Macau) in 2018.

*City of Dreams Manila*

Beyond Macau, City of Dreams Manila, strategically located at the gateway of Entertainment City, provides an unparalleled entertainment and hospitality experience for the Philippine market and continues to set the reference for the Group's robust capacity to execute on its international vision. The dynamic property boasts the ultimate in entertainment, hotel, retail, dining and lifestyle experiences with aggregated gaming space, including VIP and mass-market gaming facilities with an average of approximately 1,708 slot machines, 221 electronic gaming tables and 300 gaming tables in 2018.

*City of Dreams Mediterranean and Cyprus Casinos (C2)*

Melco International holds a 75% interest in a joint venture company which is developing the integrated casino resort project in Cyprus, with a 30-year casino-gaming license commencing from June 2017 of which the first 15 years are exclusive.

City of Dreams Mediterranean, the first integrated resort in Cyprus, is scheduled to open in 2021 and will transform Cyprus into a must-visit tourism destination. It is currently expected to attract 300,000 tourists annually in its first year of operation. Upon completion, it will become Europe's largest and premier integrated destination resort. Its 7,500-square-metre gaming area comprises over 100 tables and over 1,000 state-of-the-art slot machines, a five-star 500-room hotel with luxury villas, 11 world-class international restaurants and cafeterias, expansive recreation and wellness facilities, high-end brand name luxury retail, a 1,500-seat outdoor amphitheatre and 9,600-square-metre of meetings, incentives, conventions and exhibitions (MICE) facilities and Expo Centre. The integrated resort will further elevate Cyprus to become a top global leisure and business travel destination in the region and internationally.

In advance of the opening of City of Dreams Mediterranean, Cyprus Casinos (C2) opened its doors in June 2018 in Limassol. Comprising 4,600 square metres overall, the gaming area at C2 is a spacious 1,300 square metres and features 33 tables and 258 slot machines. Two satellite casinos were launched in Nicosia and Larnaca in December 2018, while two more are scheduled to commence operations in Paphos and Ayia Napa in 2019.

## OUTLOOK

In 2018, the Group continues to focus on improving the quality of our services and entertainment offerings as well as upgrading the infrastructure of our properties, with the goal to better cater to customers in Macau and around the world. The Group is confident that the latest US$1.1 billion iconic hotel Morpheus can further solidify the Group's position as a pioneer and innovator in premium travel, leisure and entertainment.

Overall for the Macau gaming industry, it is expected to receive a boost in revenue through exciting developments around Macau, including the opening of the Hong Kong-Zhuhai-Macau Bridge, building-out of Cotai and the ongoing development of Hengqin Island, which will further expand Macau's appeal as a tourist destination. Upcoming transportation infrastructure projects such as the rollout of the Light Rail Transit system throughout Macau will further improve the connectivity in the city. These developments are set to further boost tourist volumes and foot traffic throughout Macau, especially mainland China's growing volumes of tourists and overnight visitors around the Asia Pacific region.

We remain cautiously optimistic in managing the potential downside risks in the coming years. We will closely manage against these risks with proactive strategy approach supported by our experienced management team. We have plans in place as we anticipate our gaming license renewal in 2022 and we are committed to engage with the Macau government throughout this process. We will also carefully observe and prepare any counter measures for scenarios that might impact the volume of inbound tourists in Macau.

Our long-term growth strategy for Macau remains to focus on the premium-mass and mass segments, which we believe will drive sustainable growth and profit for our industry. We will continue to invest in balancing our exposure to both VIP and mass gaming patrons and to further grow a diversified portfolio to attract the broader tourism market through our non-gaming entertainment and leisure offers. To better cater to our target market segments, the Group is overseeing exciting developments across our properties that will further boost our competitiveness to offer differentiated and premium services to our guests.

The completion of City of Dreams Phase 3 will be a key focus. With the launch of Morpheus, our City of Dreams portfolio now includes the premium and ultra-luxurious Zaha Hadid-designed concept hotel Morpheus in addition to the chic, classic Chinese Nüwa, and the upcoming hotel Libertine, the funky rebel, which will start development in the second half of 2019. This combined portfolio of hotels will provide a set of differentiated accommodation options that offer our guests unique and tailored experiences, with each hotel offering its own distinctive style while maintaining an overall focus on quality, attention to detail and top-notch service. These latest developments at City of Dreams will solidify our leadership in both the premium-mass and mass segments, positioning us to offer customers Macau's most fully integrated and modern gaming and entertainment experience.

At Studio City, we will continue to undertake a series of property upgrades designed to further refine our entertainment offerings to attract a broader tourism segment that includes families and next generation tourists. Earlier in January 2019, we have introduced the world's first all-electric indoor theatrical stunt show 'Elēkrŏn', and opened the pop-up 'Legend Heroes VR Park', paving the way for the opening of the 50,000 square feet permanent venue later in the year. The 'Flip Out' Trampoline Park will also be unveiled at Studio City in the next few months. Looking further out, the Phase 2 development of Studio City is expected to have two hotel towers, a water park, a cineplex and additional gaming space.

Internationally, we remain bullish on our exposure to an expanding network of global operations and business development opportunities beyond Macau. In the Philippines, the market has continued to deliver healthy and stable growth along with robust financial performance. Given the fast-growing trajectory of Southeast Asian tourism along with continued upgrades in the Philippine transportation infrastructure projects, the Group anticipates continued growth in this market since it is expected that regional and global tourist arrivals, overnight visitors from ASEAN countries and overall gaming activity at our resort in Manila will be further boosted.

For Cyprus, the launch of C2 and the satellite casinos has elicited favourable responses since they were launched in 2018. With the strong support from the Cypriot government and positive word-of-mouth by patrons in the region, we anticipate a continued uptick in customer growth and we are confident that the project will further position us as a leader in the global market.

Japan continues to be our core focus. Following the passage of the Integrated Resorts Implementation Bill in July 2018, we are very focused and dedicated to becoming an international integrated resort operator in the country. Japan will be hosting a series of exciting, upcoming events that will further see a boost in tourism, including the 2019 Rugby World Cup in Japan, 2020 Summer Olympics in Tokyo and 2025 World Expo in Osaka. As such, we believe the tourism industry in Japan will continue to see steady growth in the coming years and this will bring huge potential to its burgeoning integrated resort market. To this end, we have been working diligently to engage the Japan market for the past 10 years and will continue to engage with the national and local governments, communities and local companies for potential partnerships and collaborations. We have had our Tokyo and Osaka offices in place along with a local leadership team and are now fully engaged to explore local partnerships and to further build up our local presence. With our focus on the Asian premium segment, dedication for high quality assets and world-class entertainment offerings, we believe the Group is in a strong position to be a partner to Japan's journey in its integrated resort development with a unique Japanese touch.

Looking ahead, we believe that our diversified revenue streams across market segments and geographies with distinctive high-quality hotel brands will lay a strong foundation to the Group's near and long-term success and development. Our corporate DNA is always to do better and to create a category of hospitality, leisure and entertainment that constantly exceeds expectations, that is done in the most sustainable and responsible way to our local communities and that integrates new innovations that further promotes excellence in the operations of integrated resorts. We believe we are well positioned to continue to be a pioneer and innovator in premium travel, leisure and entertainment in Macau and internationally. With growing global demand for premium and tailored travel experiences, for both gaming as well as non-gaming entertainment and leisure offerings, our dedicated management team, solid corporate governance, strong property portfolio are well placed to continue to deliver solid financial growth.

## ACHIEVEMENT AND AWARDS

Melco International strives to operate with the high standards in corporate governance and corporate social responsibility, both of which are integral to our commitment to strengthen the Group's leading position as a global leisure, entertainment, luxury integrated resorts operator. Our efforts have continued to be widely acknowledged in 2018.

### Corporate Governance

The strong management team has received prestigious leadership awards from the business and investor community in recognition for our good corporate governance practices. Among them is the Asian Excellence Awards by Corporate Governance Asia magazine, where Mr. Ho, Lawrence Yau Lung, Group Chairman and Chief Executive Officer, was honoured as "Asia's Best CEO" for the seventh time in 2018. Alongside, he has also won the "Asian Corporate Director Recognition Award" by Corporate Governance Asia magazine for the seventh consecutive year in 2018.

In addition, the Group has received "Corporate Governance Asia Annual Recognition Award – Icon on Corporate Governance" by Corporate Governance Asia magazine for 13 consecutive years from 2006 to 2018. It is an ongoing proof of our commitment to adopting the best corporate governance practices throughout our business operations.

These accolades serve as a testament to the Group's continued dedication to ensuring accountability, fairness and transparency in its relationships with all stakeholders.

## Corporate Social Responsibility

Melco International continues to be steadfastly committed to be a responsible partner to our employees and local communities. Our efforts and strong commitment to sustainability and social impact have also been recognized by industry-wide awards.

In recognition of our efforts in corporate social responsibility, Melco International has received the Certificate of Merit in the "Best in ESG Awards – Large Market Capitalization" category in BDO ESG Awards 2019. In addition, it has received Class of Excellence in Wastewi$e Label from Hong Kong Awards for Environmental Excellence for the 10th time in 2018. Its continued contribution towards the community was recognized by Hong Kong Council of Social Service as a "10 Years Plus Caring Company" for the fourth consecutive year, and this is the 14th year that Melco International has received the Council's Caring Company logo.

## Business Operations

Melco International continues to provide its customers with the most outstanding mix of hospitality, leisure, culinary and entertainment experiences throughout its business operations locally and internationally.

Melco Resorts has been awarded Gaming Operator of the Year, Australia/Asia at the International Gaming Awards 2018. It received the judging panel's accolade for achievements in bringing vision, originality and vitality to the gaming sector, each of which are closely aligned with its mission to deliver one-of-a-kind, world-class integrated resort concepts to international gamers and tourists.

The Group has attained record-breaking 85 stars across all its properties in the 2019 Forbes Travel Guide (FTG), highest for any integrated resort operator in Asia with a collective total of 13 FTG Five-Star and five FTG Four-Star awards across all our properties. This is a true testament to our impeccable services and distinguished products on offer.

Altira Macau and Altira Spa have been honoured with FTG Five-Star recognition for ten consecutive years from 2010 to 2019, while its Mediterranean cuisine Aurora and its Japanese tempura specialist Tenmasa have both earned FTG Five-Star recognition for the sixth and fifth consecutive year, respectively, in 2019. Nüwa at City of Dreams, Macau remains the first and only property in Asia to receive FTG Five-Star across its entire portfolio of hotel, spa (Nüwa Spa) and dining facilities (Jade Dragon, The Tasting Room and Shinji by Kanesaka). Notably, Nüwa and Nüwa Spa were also named one of the "2018 World's Most Luxurious Hotels" and "2018 World's Most Luxurious Spas" by Forbes Travel Guide. Studio City is honoured for the first time as a triple category FTG Five-Star property (Studio City's Star Tower, Zensa Spa and Pearl Dragon). Nüwa at City of Dreams Manila was also awarded Forbes Travel Guide Five-Star recognition in 2019.

Just a few months after its grand opening, Morpheus has been hailed as one of the "World's Greatest Places" in 2018 by TIME magazine, as the only Macau entry on the list. It has also won the Most Valuable Brand Gold Award in the 2018 Business Awards of Macau, and ArchDaily's 2019 Building of the Year Award in the Hospitality Architecture category.

The Group's world-class restaurants continue to garner global recognition for its culinary offerings. The Group currently has the world's highest number of Michelin-starred restaurants for any integrated resort operator globally by the Michelin Guide Hong Kong Macau 2019. In particular, Jade Dragon is honoured as Macau's only three Michelin-starred Cantonese restaurant and Alain Ducasse at Morpheus attained two stars in less than just six months after its opening. Our restaurants that have received prestigious Michelin-grade culinary accolades include: Jade Dragon (three stars), The Tasting Room (two stars), Alain Ducasse at Morpheus (two stars), Shinji by Kanesaka (one star), Pearl Dragon (one star) and Ying (one star). Yí, Voyages by Alain Ducasse at Morpheus, Aurora, Tenmasa, and Bi Ying are also being recommended by the Michelin Guide Hong Kong Macau 2019. Furthermore, Jade Dragon has made into the 2019 Asia's 50 Best Restaurants List for the third consecutive year.

All these accolades demonstrate industry-wide recognition from the community for our steadfast commitment to excellence in all aspects of our business, ranging from corporate governance, operational performance to every detail of our customer experience. We make it our top priority to continue this level of excellence in the Group and continue to maintain a market leading position going forward.

## FINANCIAL REVIEW

### RESULTS

| *HK$' million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| Net revenues | **40,724.7** | 41,180.1 | -1.1% |
| Adjusted EBITDA | **10,860.1** | 9,811.5 | 10.7% |
| Profit attributable to owners of the Company | **522.6** | 474.1 | 10.2% |
| Basic earnings per share (HK$) | **0.34** | 0.31 | 10.1% |

### FINANCIAL POSITION

| *HK$' million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| Total assets | **98,026.2** | 98,270.2 | -0.2% |
| Total liabilities | **57,323.2** | 52,418.2 | 9.4% |
| Shareholders' equity | **16,232.2** | 18,988.9 | -14.5% |
| Net asset value per share attributable to owners of the Company (HK$) | **10.7** | 12.4 | -13.6% |
| Gearing ratio (%) | **39.6%** | 35.1% | N/A |

### Net revenues

Net revenues of the Group slightly decreased by 1.1% from HK$41.2 billion for the year ended 31 December 2017 to HK$40.7 billion for the year ended 31 December 2018. While the Group experienced better performance in all gaming segments, this was more than offset by higher commissions, which are being reported as a reduction of revenue as a result of the Group's adoption of new revenue standard issued by the Hong Kong Institute of Certified Public Accountants (the "New Revenue Standard") from 1 January 2018. The Group has adopted the New Revenue Standard on 1 January 2018 under the modified retrospective method. Results for the periods beginning on or after 1 January 2018 are presented under the New Revenue Standard, while prior year amounts are not adjusted and continue to be reported in accordance with the previous basis. Under the previous basis, before the adoption of the New Revenue Standard, net revenues for the year ended 31 December 2018 would have been HK$43.9 billion, which would have represented an increase of 6.5% from the HK$41.2 billion for the comparable period in 2017.

| *HK$' million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| Casino revenue | **35,247.8** | 38,394.2 | -8.2% |
| Entertainment and resort facilities revenue: | | | |
| Rooms | **2,438.0** | 573.3 | 325.3% |
| Catering service income | **1,678.3** | 720.0 | 133.1% |
| Entertainment, retail and other | **1,347.0** | 1,468.2 | -8.3% |
| Electronic gaming machines participation | **8.3** | 8.8 | -6.0% |
| Lottery business: | | | |
| Trading of lottery terminals and parts | **–** | 9.6 | -100% |
| Provision of services and solutions for distribution of lottery products | **–** | 0.4 | -100% |
| Others | **0.5** | 1.1 | -55.3% |
| | **40,719.9** | 41,175.6 | -1.1% |
| **Revenue from other sources** | | | |
| Property rental income | **4.8** | 4.5 | 7.8% |
| | **40,724.7** | 41,180.1 | -1.1% |

**Adjusted EBITDA** [1]

Adjusted EBITDA for the year ended 31 December 2018 increased by 10.7% to HK$10.9 billion, compared to HK$9.8 billion for the year ended 31 December 2017. The improvement in Adjusted EBITDA was mainly attributable to better group-wide performance in all gaming segments.

**Profit Attributable to owners of the Company**

Profit attributable to owners of the Company increased by 10.2% from HK$474.1 million for the year ended 31 December 2017 to HK$522.6 million for the year ended 31 December 2018. The increase was mainly attributable to better group-wide performance in all gaming segments.

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(1) *Adjusted EBITDA is the profit for the year before deduction of finance costs, income tax, depreciation and amortization, pre-opening costs, development costs, property charges and other, share-based compensation expenses, payments to the Philippine Parties, land rent to Belle Corporation, corporate expenses, interest income, other income, gains and losses and loss/gain on disposal of subsidiaries. Adjusted EBITDA is used by management as the primary measure of the Group's operating performance and to compare our operating performance with that of our competitors. However, Adjusted EBITDA presented in this announcement may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.*

**Basic Earnings Per Share**

Basic earnings per share increased from HK$0.31 per share for the year ended 31 December 2017 to HK$0.34 per share for the year ended 31 December 2018. The increase was mainly attributable to better group-wide performance in all gaming segments.

**Financial and Operational Performance**

As at 31 December 2018, the Group's ownership interest of approximately 54.88% in Melco Resorts contributed a majority performance of the Group.

The performance of Melco Resorts during the year is described below:

According to the unaudited financial results of Melco Resorts prepared in accordance with the U.S. generally accepted accounting principles, it recorded a net revenue of US$5.2 billion for the year ended 31 December 2018, versus US$5.3 billion for the year ended 31 December 2017. The decrease in net revenue was primarily attributable to higher commissions reported as a reduction in revenue upon Melco Resorts' adoption of a new revenue recognition standard issued by the Financial Accounting Standards Board. Melco Resorts adopted such new revenue standard on 1 January 2018 under the modified retrospective method. Results for the periods beginning on or after 1 January 2018 are presented under the new revenue standard, while prior year amounts are not adjusted and continue to be reported with the previous basis. Under the previous basis, before the adoption of the new revenue standard, net revenue for 2018 would have been US$5.6 billion, which would have represented an increase of approximately 5% from the US$5.3 billion for 2017.

Operating income for 2018 was US$626.8 million, compared with operating income of US$607.6 million for 2017, representing an increase of 3%.

The Adjusted Property EBITDA[(2)] for the year ended 31 December 2018 was US$1,477.9 million, as compared to Adjusted Property EBITDA of US$1,422.8 million in 2017. The 4% year-on-year improvement in Adjusted Property EBITDA was mainly attributable to better group-wide performance in all gaming segments.

Net income attributable to Melco Resorts for 2018 was US$351.5 million, compared with a net income attributable to Melco Resorts of US$347.0 million for 2017.

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(2) *Adjusted Property EBITDA is earnings before interest, taxes, depreciation and amortization, pre-opening costs, development costs, property charges and other, share-based compensation, payments to the Philippine Parties, land rent to Belle Corporation, corporate and other expenses and other non-operating income and expenses. Adjusted Property EBITDA is used by management as the primary measure of the Melco Resorts' operating performance and to compare our operating performance with that of our competitors. However, Adjusted Property EBITDA presented in this announcement may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.*

***City of Dreams***

For the year ended 31 December 2018, net revenue at City of Dreams was US$2,543.7 million versus US$2,666.3 million in 2017. City of Dreams generated Adjusted Property EBITDA of US$756.4 million in 2018, representing a decrease of 6% compared to US$804.9 million in 2017.

*Gaming Performance*

| *US$'million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **VIP Gaming** | | | |
| Rolling chip volume | **45,359.2** | 47,427.1 | -4.4% |
| Win rate | **2.9%** | 3.0% | N/A |
| **Mass Market** | | | |
| Table drop | **5,010.1** | 4,504.0 | 11.2% |
| Hold percentage | **30.3%** | 32.4% | N/A |
| **Gaming Machine** | | | |
| Handle | **4,291.6** | 4,067.5 | 5.5% |
| Win rate | **4.5%** | 3.7% | N/A |

*Non-Gaming Performance*

Total non-gaming revenue at City of Dreams in 2018 was US$348.1 million, compared with US$305.6 million in 2017.

***Altira Macau***

For the year ended 31 December 2018, net revenue at Altira Macau was US$471.3 million compared to US$446.1 million in 2017. Altira Macau generated Adjusted Property EBITDA of US$55.5 million in 2018 compared with Adjusted Property EBITDA of US$20.7 million in 2017.

*Gaming Performance*

| *US$'million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **VIP Gaming** | | | |
| Rolling chip volume | **22,368.8** | 17,216.9 | 29.9% |
| Win rate | **3.0%** | 3.1% | N/A |
| **Mass Market** | | | |
| Table drop | **529.1** | 429.2 | 23.3% |
| Hold percentage | **19.3%** | 17.5% | N/A |
| **Gaming Machine** | | | |
| Handle | **119.6** | 47.6 | 151.2% |
| Win rate | **5.4%** | 6.0% | N/A |

*Non-Gaming Performance*

Total non-gaming revenue at Altira Macau in 2018 was US$27.5 million, compared with US$26.5 million in 2017.

***Mocha Clubs***

Net revenue from Mocha Clubs totaled US$113.4 million in 2018 as compared to US$121.3 million in 2017. Mocha Clubs generated US$21.5 million of Adjusted Property EBITDA in 2018 compared with Adjusted Property EBITDA of US$26.6 million in 2017.

| *US$'million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **Gaming Machine** | | | |
| Handle | **2,483.9** | 2,446.3 | 1.5% |
| Win rate | **4.6%** | 4.8% | N/A |

***Studio City***

For the year ended 31 December 2018, net revenue at Studio City was US$1,368.4 million compared to US$1,363.4 million in 2017. Studio City generated Adjusted Property EBITDA of US$375.3 million in 2018 compared with Adjusted Property EBITDA of US$335.6 million in 2017.

*Gaming Performance*

| *US$'million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **VIP Gaming** | | | |
| Rolling chip volume | **21,236.9** | 19,003.9 | 11.8% |
| Win rate | **3.0%** | 3.2% | N/A |
| **Mass Market** | | | |
| Table drop | **3,272.9** | 2,913.0 | 12.4% |
| Hold percentage | **26.5%** | 26.1% | N/A |
| **Gaming Machine** | | | |
| Handle | **2,479.9** | 2,120.5 | 16.9% |
| Win rate | **3.4%** | 3.7% | N/A |

*Non-Gaming Performance*

Total non-gaming revenue at Studio City in 2018 was US$189.0 million, compared with US$203.4 million in 2017.

***City of Dreams Manila***

For the year ended 31 December 2018, net revenue at City of Dreams Manila was US$612.9 million compared to US$649.3 million in 2017. City of Dreams Manila generated Adjusted Property EBITDA of US$269.2 million in 2018 compared with US$235.0 million in 2017.

*Gaming Performance*

| *US$'million* | **2018** | 2017 | YoY% |
|---|---|---|---|
| **VIP Gaming** | | | |
| Rolling chip volume | **11,097.5** | 11,509.7 | -3.6% |
| Win rate | **3.2%** | 3.1% | N/A |
| **Mass Market** | | | |
| Table drop | **787.3** | 686.9 | 14.6% |
| Hold percentage | **31.7%** | 29.6% | N/A |
| **Gaming Machine** | | | |
| Handle | **3,545.4** | 3,039.5 | 16.6% |
| Win rate | **5.5%** | 5.8% | N/A |

*Non-Gaming Performance*

Total non-gaming revenue at City of Dreams Manila in 2018 was US$117.1 million, compared with US$116.3 million in 2017.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Capital Resources

The Group finances its business operations and investments with internal resources, cash revenues generated from operating activities, and bank and other borrowings.

The Group continues to manage its financial position carefully and maintains conservative policies in cash and financial management. As at 31 December 2018, the Group's bank balances and cash (including bank deposits with original maturities over three months) amounted to HK$11,932.8 million (2017: HK$12,117.0 million) and investments in mutual funds that mainly invest in bonds and fixed interest securities amounted to HK$717.4 million (2017: HK$699.2 million).

As at 31 December 2018, certain bank credit facilities amounting to HK$2,555.7 million (2017: HK$12,683.1 million) were available for future drawdown, subject to satisfaction of certain conditions precedent.

Major changes in our indebtedness during the year ended and subsequent to 31 December 2018 are summarized below:

During the year ended 31 December 2018, the Group partially drew down HK$10.1 billion from certain revolving credit facilities to fund the full repayments of an unsecured bond of HK$760 million and a secured bank loan of HK$546 million at their maturities and for general corporate use. As at 31 December 2018, certain bank credit facilities amounting to HK$2.6 billion were available for future drawdown, subject to satisfaction of certain conditions precedent.

During the year ended 31 December 2018, the Group fully redeemed the Philippine Peso15 billion 5% senior notes due 2019 in an aggregate outstanding principal amount of Philippine Peso7.5 billion (equivalent to approximately HK$1.1 billion), together with accrued interest.

On 31 December 2018, the Group utilized proceeds from the global offering from a subsidiary of the Group to partially redeem the US$825 million 8.5% senior notes due 2020 (the “2020 Senior Notes”) issued by a subsidiary of the Company in an aggregate principal amount of US$400 million (equivalent to approximately HK$3.1 billion), together with accrued interest.

On 22 January 2019, the Group initiated a conditional tender offer (the “Conditional Tender Offer”) to purchase the outstanding 2020 Senior Notes in an aggregate principal amount of US$425.0 million (equivalent to approximately HK$3.3 billion) with accrued interest. The Conditional Tender Offer expired on 4 February 2019 with an US$216.5 million (equivalent to approximately HK$1.7 billion) aggregate principal amount of the notes tendered.

On 11 February 2019, the Group issued US$600.0 million (equivalent to approximately HK$4.7 billion) in an aggregate principal amount of 7.25% senior notes due 2024. The net proceeds were used to fund the Conditional Tender Offer, and to redeem the remaining outstanding 2020 Senior Notes in an aggregate principal amount of US$208.5 million (equivalent to HK$1.6 billion) with accrued interest on 13 March 2019.

The availability period of an unsecured credit facility amount to Philippine Peso2.35 billion (equivalent to HK$349.1 million) was extended from 29 May 2018 to 31 May 2019. This credit facility is available for future drawdown, subject to satisfaction of certain conditions precedent.

### Gearing Ratio

The gearing ratio, expressed as a percentage of total interest-bearing borrowings divided by total assets, was at 39.6% as at 31 December 2018 (2017: 35.1%)

**Pledge of Assets**

As at 31 December 2018, borrowings amounting to HK$30,953.3 million (2017: HK$26,078.4 million) were secured by the following assets of the Group:

(i) certain property, plant and equipment;

(ii) investment properties;

(iii) certain land and all present and future buildings on and fixtures to such land, and land use rights (or equivalent);

(iv) certain bank deposits;

(v) chattels, receivables and other assets including certain inter-group loans; and

(vi) issued shares of certain subsidiaries of the Group.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2018.

## FINANCIAL RISK

**Foreign exchange risk**

The Group's principal operations are primarily conducted and recorded in Hong Kong dollar ("HK$"), Macau Patacas ("MOP"), United States dollar ("US$"), Philippine Peso ("Peso") and Euro ("Eur"). The financial statements of foreign operations are translated into HK$ which is the Group's functional and presentation currency. The majority of the Group's revenues are denominated in HK$, while operating expenses are denominated predominantly in MOP, HK$, Peso and Eur. In addition, a significant portion of our indebtedness and certain expenses are denominated in US$.

The HK$ is pegged to the US$ within a narrow range and the MOP is in turn pegged to the HK$, and the exchange rates between these currencies have remained relatively stable over the past several years. Accordingly, the Group does not expect fluctuations in the values of these currencies to have a material impact on the operations. The Group holds bank balances, receivables, deposits and investments in mutual funds denominated in foreign currencies, such as Peso, Eur, New Taiwan dollar and Renminbi ("RMB"), and consequently exposure to exchange rate fluctuations may arise and may be affected by, among other things, changes in political and economic conditions.

The Group does not currently engage in the hedging transactions with respect to foreign exchange exposure of the revenues and expenses in the day-to-day operations during the period under review. Instead, the Group maintains a certain amount of the operating funds in the same currencies in which the Group has obligations, thereby reducing the exposure to currency fluctuations. However, the Group occasionally enters into foreign exchange transactions as part of financing transactions and capital expenditure programs.

### Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to bank balances, restricted cash and borrowings which carried interest at floating rates. The Group attempts to manage interest rate risk by managing the mix of long-term fixed rate borrowings and variable rate borrowings and mitigate the effects of fluctuations in cash flows.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves by using different available financing options. The Company will also provide the required equity capital to new projects coming ahead should it be deemed appropriate.

## HUMAN RESOURCES

### Headcount and Employees' Information

The total number of the Group's employees was 22,228 as of 31 December 2018 (2017: 19,844). Among these employees, 404 are located in Hong Kong and the rest of 21,824 are located respectively in the Philippines, Japan, Cyprus, Macau and the PRC. The related staff costs for the year ended 31 December 2018, including directors' emoluments and share-based compensation expenses amounted to HK$6,893.0 million (2017: HK$6,572.1 million).

### Human Resources

Melco International believes that the key to success lies in its people. The Group strives to create an environment that makes employees proud to be part of it. All employees are given equal opportunities for advancement and personal growth. The Group believes through growing its business, it will be able to create opportunities and deliver value to its people. Thus, the Group encourages its employees to do their best at work and grow with the Group. Melco International builds employees' loyalty through recognition, involvement and participation. Melco International's people policy, systems and practices are directly aligned with the Group's mission and values which contribute to its success. It is based on three key areas:

### *Recruitment*

Melco International is an equal opportunities employer, and it recruits talented people with the necessary professional competencies, desirable personal qualities and commitment to the Group. The Group hires the right people to shape its future. It identifies and validates talent through different recruitment exercises and regularly reviews its recruitment policy and assessment criteria.

### *Performance and Rewards*

Melco International demands and appreciates high performance. Its reward principle is primarily performance based, and it rewards its people competitively and based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

### *Learning & Development*

Melco International provides training for employees to develop the skills required to satisfy business needs, which would improve performance, deliver value and enhance personal growth. The Group adopts a systematic approach in designing its training programs with a special focus on individual and corporate needs. Training objectives and the desired outcomes are first established and the subsequent results from any training are continually reviewed.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### Our ESG Commitment

The Board is responsible for the Group's Environmental, Social and Governance ("ESG") strategy and reporting, which include, with the assistance of the ESG Taskforce established by the Board, evaluating and determining the Company's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. In 2018, we strengthened our ESG risk management by developing an ESG Risk Management and Internal Control Policy in which an ESG framework was created and applied. Moreover, the Company has established regular communication channels with the ESG/CSR committees of our major subsidiaries to ensure they commit sufficient resources in carrying out their ESG responsibilities.

We strengthened our ESG commitments in 2018 with the launch of a new strategy called Above & Beyond that will guide actions into 2030 and set a strong sustainability benchmark for the industry.

### Our ESG Performance and Goals

We set ambitious 2030 environmental goals in the areas of building and operating carbon neutral resorts, contributing to the circular economy in Asia, with zero waste across our properties, and extending our positive impact by sourcing sustainable goods and services. In addition to new 2030 goals, we made significant progress in key areas of environmental performance in 2018. Four of our hotels received the Green Key Award, meeting the highest environmental management standards set by the Foundation for Environmental Education and Studio City received the CEM Energy Saving Excellence Award in 2018. We also received "Excellence" rankings from Wastewi$e for 10 consecutive years from 2009-2018 recognizing the waste reduction efforts in our Hong Kong offices. These awards recognized our achievements from installing Macau's largest onsite solar photovoltaic array, to sourcing 100% of our electricity from renewables in 2018, to using decomposer technology at City of Dreams to handle 200kg of food waste daily. We are also working hard to strengthen our sustainable sourcing efforts by tackling high impact procurement categories, such as cotton, chemicals, and seafood.

The Group is committed to being an employer that people choose to work for and to stay with. As an equal opportunity employer, we ensure equal opportunities in each area, including compensation and benefits, recruitment, promotion and transfer, and training and development. We do not tolerate any kind of discrimination based on race, religion, gender, marital status, age, national origin, or any other considerations deemed relevant by local labour laws.

Regarding our suppliers, we have robust procurement policies and procedures and the highest ethical standards are employed when engaging suppliers or service providers. Regarding our customers, the Group prides itself in improving customer experiences and visitation by leveraging stakeholder feedback across many channels. We attained a record-breaking 85 stars at 2019 Forbes Travel Guide and Forbes 5-Star and Michelin experiences, which is attributed to knowing our guests' needs and desires, and constantly exceeding their expectations. Regarding communities, all of our major operations have community engagement and investment programs in place. Ensuring the safety of our employees, contractors and guests by integrating health and safety considerations into all aspects of our business is a top priority for the Group.

## FINAL DIVIDEND

Pursuant to the dividend policy announced by the Company on 28 March 2014 (the "Dividend Policy"), it is the Company's intention to provide shareholders with semi-annual dividends in an aggregate amount per year of approximately 20% of the Company's annual consolidated net income attributable to the shareholders. The Dividend Policy also allows the Company to declare special dividends from time to time.

For the year ended 31 December 2018, the Group recorded a profit attributable to shareholders of HK$522.6 million. The Board has recommended the payment of a final dividend of HK2.35 cents per share (2017: HK4.0 cents per share) for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on Friday, 21 June 2019. The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting. The proposed dividend is expected to be paid on Friday, 5 July 2019.

## CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Thursday, 13 June 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 10 June 2019 to Thursday, 13 June 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 June 2019.

## CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The proposed final dividend for the year ended 31 December 2018 is subject to the approval of shareholders at the forthcoming annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 19 June 2019 to Friday, 21 June 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. The last day for dealing in the Company's shares cum entitlements to the proposed final dividend will be Friday, 14 June 2019. In order to be eligible for the above proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 June 2019.

## CORPORATE GOVERNANCE CODE

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018, apart from the deviation mentioned below.

Under Paragraph A.2.1 of the CG Code, the roles of chairman and chief executive officer of a listed company should be separate and performed by different individuals. However, in view of the current composition of the Board, the in-depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector, his extensive business network and connections in that sector, and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer until such time as the Board considers that such roles should be assumed by different persons.

The Company sets up the following Board committees to ensure maintenance of a high corporate governance standard:

(i) Executive Committee
(ii) Audit Committee
(iii) Remuneration Committee
(iv) Nomination Committee
(v) Corporate Governance Committee
(vi) Finance Committee
(vii) Regulatory Compliance Committee

Terms of reference of the aforesaid committees have been posted on the Company's website at www.melco-group.com under the "Corporate Governance" section.

## SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Company has its own code for dealing in the Company's securities by Directors and relevant employees, who are likely to be in possession of inside information in relation to the securities of the Company (the "Code of Securities Dealings") on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. We have received confirmation from all directors of the Company that they have complied with the required standards set out in the Code of Securities Dealings throughout the year of 2018.

## AUDIT COMMITTEE

The Company has an Audit Committee, which was established for the purpose of reviewing and providing supervision over the Group's financial reporting process and overseeing the Group's risk management and internal control systems.

The Audit Committee, made up of a Non-executive Director and two Independent Non-executive Directors, met three times during the year. At the meetings, the Audit Committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with management the auditing, risk management, internal control and financial reporting matters.

The Group's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee and audited by the independent auditor of the Group, Ernst & Young.

## SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company repurchased a total of 18,587,000 shares of the Company at an aggregate consideration of approximately HK$334,318,000 (before expenses) on the Stock Exchange of Hong Kong. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases during the year are as follows:

| Month of share repurchase | Number of shares repurchased | Highest price paid per share | Lowest price paid per share | Aggregate consideration paid (before expenses) |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| April | 4,224,000 | 28.20 | 25.30 | 114,713,000 |
| November | 14,363,000 | 15.72 | 12.72 | 219,605,000 |
| Total | 18,587,000 | | | 334,318,000 |

The repurchases were made with a view to enhancing the earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE COMPANY AND THE HONG KONG STOCK EXCHANGE

This announcement is published on the Company's website (www.melco-group.com) and the Hong Kong Stock Exchange's website (www.hkexnews.hk). The 2018 annual report will be despatched to the shareholders of the Company and will be made available on the websites of the Company and the Hong Kong Stock Exchange in due course in accordance with the Listing Rules.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Ho, Lawrence Yau Lung (Chairman and Chief Executive Officer), Mr. Evan Andrew Winkler (President and Managing Director) and Mr. Chung Yuk Man, Clarence; two Non-executive Directors, namely Mr. Tsui Che Yin, Frank and Mr. Ng Ching Wo; and three Independent Non-executive Directors, namely Mr. Chow Kwong Fai, Edward, Dr. Tyen Kan Hee, Anthony and Ms. Karuna Evelyne Shinsho.

By Order of the Board of
**Melco International Development Limited**
**Ho, Lawrence Yau Lung**
*Chairman and Chief Executive Officer*

Hong Kong, 29 March 2019