MELCO

ANNUAL REPORT 2018

Melco International Development Limited

Incorporated in Hong Kong with limited liability

A Hong Kong Listed Company (Stock Code : 200)

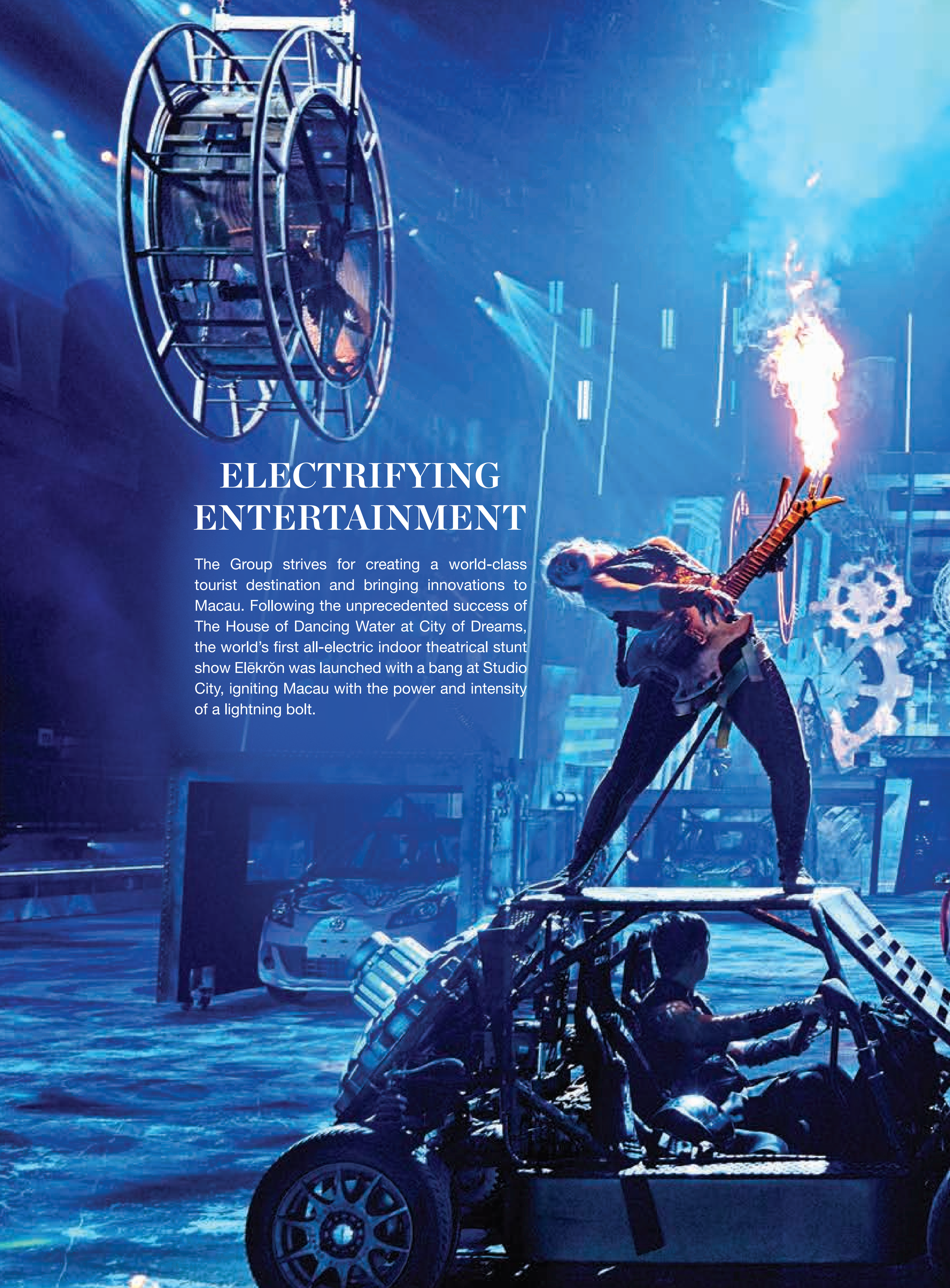
CONTENTS

CCD

A NEW BEGINNING

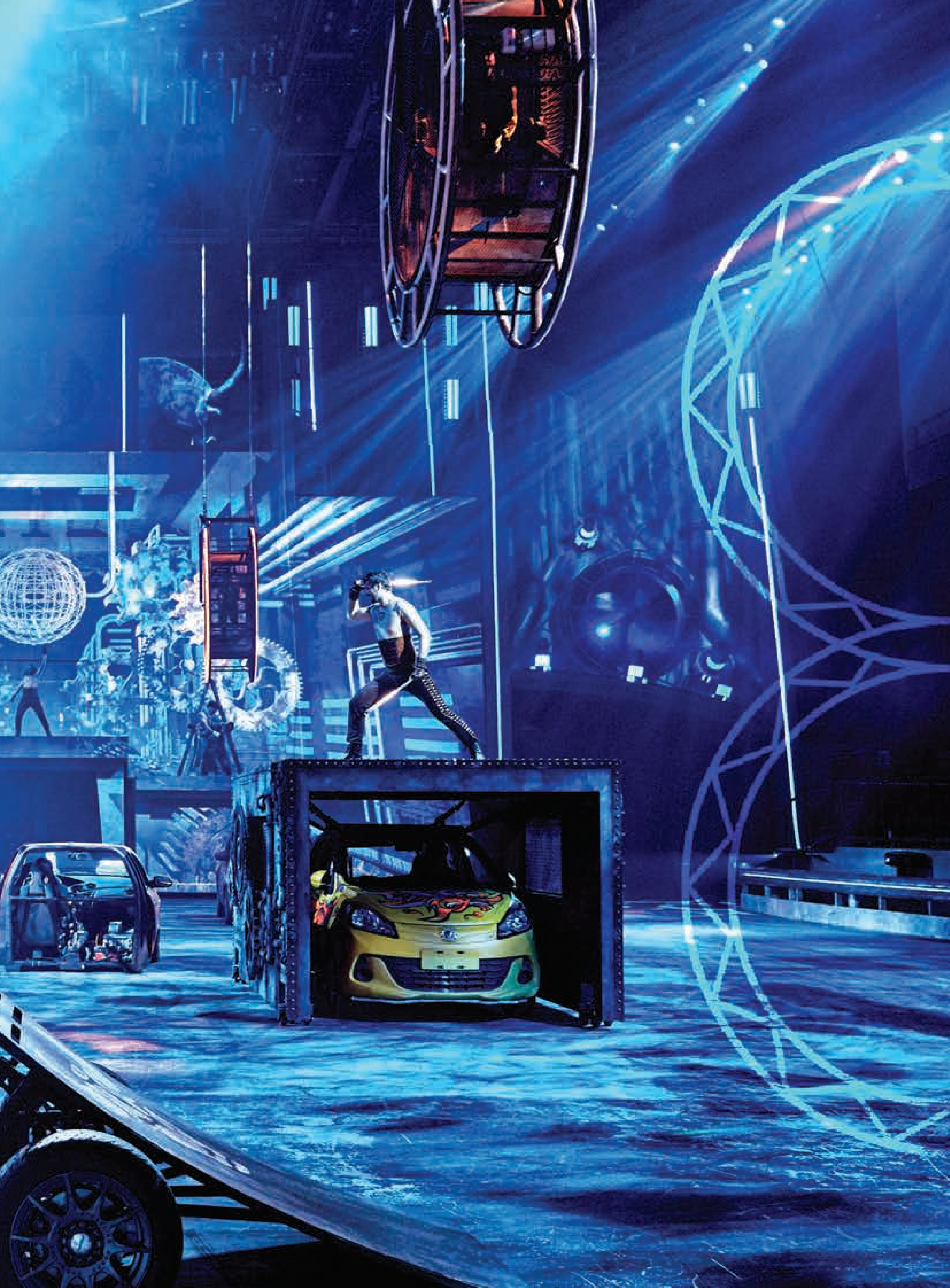
The opening of Morpheus marks a new beginning for City of Dreams. This US$1.1 billion iconic building sets a new benchmark for ultra-luxury hospitality in Macau, exemplifying the Group's position as a pioneer and innovator in premium travel, leisure and entertainment. It offers sophisticated travellers the most remarkable experiences that go beyond gaming and raise the bar in global luxury hospitality.


MORPHEUS



ELECTRIFYING ENTERTAINMENT

The Group strives for creating a world-class tourist destination and bringing innovations to Macau. Following the unprecedented success of The House of Dancing Water at City of Dreams, the world's first all-electric indoor theatrical stunt show Elēkrŏn was launched with a bang at Studio City, igniting Macau with the power and intensity of a lightning bolt.



10 YEARS OF EXCELLENCE

For 10 consecutive years, Altira Macau and Altira Spa have received the Forbes Travel Guide Five-Star recognition. Its signature restaurants Aurora and Tenmasa have also achieved Forbes Travel Guide Five-Star recognition for six and five consecutive years respectively. This is ongoing proof of the Group's commitment to excellence and relentless enthusiasm for creating exceptional and memorable experiences.


MELCO
MELCO VOLUNTEER
RECOGNITION EVENT
新濠義工嘉許典禮2018
The Future is Ours
The Future is Ours

ABOVE AND BEYOND

The Group's Corporate Social Responsibility ("CSR") vision is to contribute to the growth and future of the communities it serves, and inspiring hope and happiness in people all over the world. During the year, the Group continued to deliver positive impacts to society through community programmes under its three CSR pillars – Youth Development, Education and Environmental Conservation.

ENTERTAINING POSSIBILITIES ACHIEVING GROWTH

VISION

TO CONTRIBUTE TO THE GROWTH AND FUTURE OF THE COMMUNITIES WE SERVE, INSPIRING HOPE AND HAPPINESS IN PEOPLE ALL OVER THE WORLD.

MISSION

TO BE A DYNAMIC COMPANY THAT LEADS THE FIELD IN LEISURE AND ENTERTAINMENT, WE CONTINUALLY EXPLORE NEW OPPORTUNITIES FOR GROWTH AND DEVELOPMENT THAT CREATE VALUE FOR ALL STAKEHOLDERS.

KEY PERFORMANCE INDICATORS

Key Financial Performance Indicators

NET REVENUES
HK$40.7 billion
Representing a slight decrease of HK$0.5 billion or 1.1%, compared to HK$41.2 billion for the year ended 31 December 2017

ADJUSTED EBITDA
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

PROFIT FOR THE YEAR
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

BASIC EARNINGS PER SHARE
HK$0.34
Compared to basic earnings per share attributable to owners of the Company of HK$0.31 for the year ended 31 December 2017

Melco International Development Limited ("Melco International" or the "Company", together with its subsidiaries collectively referred to as the "Group") achieved strong financial results in 2018 despite a challenging global macroeconomic environment and market conditions.

For the year ended 31 December 2018, with net revenues at approximately HK$40.7 billion, profit for the year increased significantly 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.

The biggest highlight for the year was the grand opening of Morpheus at City of Dreams in Macau. The US$1.1 billion iconic landmark Morpheus exemplifies the Group's position as a pioneer and innovator in premium leisure and entertainment and is expected to be a strong contributor to our revenue stream. Beyond Macau, City of Dreams Manila continued to deliver another solid year underpinned by robust mass gaming revenue growth, while Cyprus Casinos in Limassol and the two satellite casinos in Nicosia and Larnaca have commenced operations in 2018 and elicited favourable responses. These projects are anticipated to fuel our business growth internationally, further positioning us as a leader in the global gaming market.

Non-Financial Key Performance Indicators

During the year, the Group continued its efforts in contributing to the betterment of society through a wide range of activities. The Group has disclosed details on various non-financial key performance indicators, including stakeholder engagement, environmental impact and other community development efforts in its 2018 Environmental, Social and Governance ("ESG") Report.

COMMUNITY ENGAGEMENT

In 2018, the Group engaged in various community programmes to contribute to the growth and future of the communities it serves. The Group worked with its trusted community partners through a combination of employee volunteerism and charitable or in-kind donations or contributions to serve different vulnerable groups in society, promoting social inclusion and integration through a range of activities.

More than *HK$85 million*
in charitable and in-kind donations or contributions in 2018

22,942 employee participants
participated in CSR activities in 2018

ENVIRONMENTAL PROTECTION

As an environmentally responsible company, the Group is committed to creating a more sustainable future for our children and the planet while offering customers new experiences and possibilities. The Group is making substantial progress towards carbon neutrality, energy saving and waste and water reduction at its properties around the world.

Greenhouse Gas ("GHG") Emission

	2016	2017	2018
Total GHG Emission (MtCO_2e)	376,807	343,357	19,781
Emissions Intensity by Gross Floor Area (square feet)	0.030	0.027	0.001

Energy Consumption

	2016	2017	2018
Total Energy Consumption (MWh)	478,260	465,430	505,269
Energy Intensity by Gross Floor Area (square feet)	0.038	0.037	0.036

Waste Footprint

	2016	2017	2018
Waste Disposal (tons)	16,528	16,154	16,337
Waste Intensity by Gross Floor Area (square feet)	0.0013	0.0013	0.0012

CORPORATE PROFILE

A LONG HISTORY AND A BRIGHT FUTURE

Melco International was founded in 1910 and listed on the Hong Kong Stock Exchange in 1927. Under the leadership of Chairman and Chief Executive Officer Mr. Lawrence Ho, Melco International has found new energy and direction as a dynamic company that leads the field in the leisure and entertainment sector. Our Group companies are responding to the changing dynamics with vibrant, imaginative products and services that fulfill the demands and dreams of the increasingly affluent and ambitious young generation.

CONFIDENCE LEADS TO GROWTH, GROWTH LEADS TO CONFIDENCE

Characterizing all Melco International companies is confidence that stems from recent successes in repositioning businesses for long-term growth and the development of unique, proprietary products and services in attaining market leadership.

In 2017, Melco International became the sole majority shareholder of its subsidiary Melco Resorts, a leading developer, owner and operator of casino gaming and entertainment casino resort facilities in Asia. This further bolstered the Company's financial position through incorporation of the full financial contributions of Melco Resorts.

BRILLIANT ACHIEVEMENTS

The accolades that Melco International has received over the past several years proved that our achievements have been widely recognized. The Group is the first entertainment company to receive the "Hong Kong Corporate Governance Excellence Awards 2009" by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University. In 2018, Melco International has been honoured with the "Corporate Governance Asia Annual Recognition Awards" for 13 consecutive years since 2006, and the "Best Investor Relations Company in Hong Kong" for seven consecutive years by Corporate Governance Asia magazine.

Group Chairman and Chief Executive Officer, Mr. Lawrence Ho was granted the "Leadership Gold Award" in the Business Awards of Macau in 2015. He was also awarded "Asia's Best CEO" at the Asia Excellence Awards and won the "Asian Corporate Director Recognition Award" by Corporate Governance Asia magazine both for the seventh time in 2018.

Melco International was a founding signatory of the Hong Kong Corporate Governance Charter launched by The Chamber of Hong Kong Listed Companies. The aim of the Charter is to strengthen and foster a corporate governance culture among listed companies in Hong Kong.

CORPORATE STRUCTURE

MELCO INTERNATIONAL DEVELOPMENT LIMITED
LISTED ON THE STOCK EXCHANGE OF HONG KONG LIMITED (SEHK: 200)

CASINO AND HOSPITALITY BUSINESS

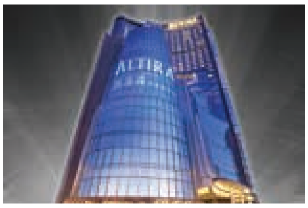
MELCO RESORTS & ENTERTAINMENT LIMITED
LISTED ON THE NASDAQ GLOBAL SELECT MARKET (NASDAQ:MLCO)

INTEGRATED CASINO RESORTS CYPRUS LIMITED

MACAU

City of Dreams, Cotai
Premium Market

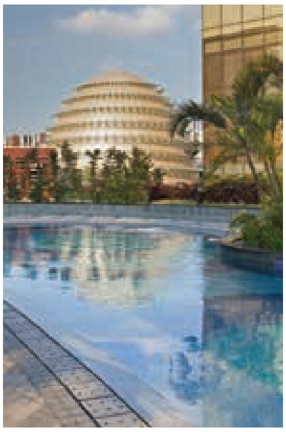
Studio City, Cotai
Mass Market



Altira Macau, Taipa
VIP Market

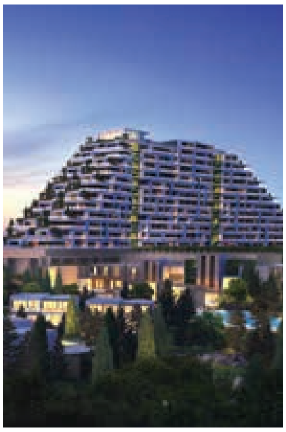
Mocha Clubs, all over Macau
Leisure Grind Market

THE PHILIPPINES



City of Dreams Manila,
Entertainment City, Manila
Mass Market

CYPRUS



City of Dreams
Mediterranean,
Cyprus
(under development)

OTHER BUSINESSES

ENTERTAINMENT GAMING ASIA INC.

Slot machine participation business and social gaming platforms development

ABERDEEN RESTAURANT ENTERPRISES LIMITED (JUMBO KINGDOM)

Catering business

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, 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 a 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 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 of directors, 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 and Chief Executive Officer

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND 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 of the 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 in 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 Paphos and Ayia Napa during 2019. Operations of Cyprus Casinos in Limassol will cease when the City of Dreams Mediterranean integrated casino resort is launched, while the four satellite casinos 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 the Asian premium segment, 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 & Entertainment Limited ("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, 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 significantly 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 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 five-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.

Designed by the late Dame Zaha Hadid, DBE, the US$1.1 billion iconic landmark Morpheus exemplifies the Group's position as a pioneer and innovator in premium leisure and entertainment.

City of Dreams teamed up with acclaimed collaborators to bring Morpheus to life, including legendary chef Alain Ducasse; French pastry chef Pierre Hermé; and interior designer for Morpheus Peter Remedios.

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 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 the 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,

Elēkrŏn is the world's first all-electric indoor theatrical stunt show developed in partnership with globally renowned entertainment architect Stufish.

Following the unprecedented success of The House of Dancing Water at City of Dreams, Elēkrŏn is the latest must-see attraction brought to Macau by the Group.

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

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 opened its doors in June 2018 in Limassol. Comprising 4,600 square metres overall, the gaming area at Cyprus Casinos 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 a 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

City of Dreams presents Asia's first Ferrari Under the Skin exhibition, a testament to the Group's commitment in delivering unique and innovative entertainment concepts.

The Group hosted the celebratory annual gala dinner for Michelin Guide Hong Kong Macau for the third consecutive year in 2018, featuring six acclaimed chefs from 2 and 3-Michelin-starred restaurants and the legendary pastry chef Pierre Hermé.

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 Cyprus Casinos 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

The launch of Cyprus Casinos in Limassol and the two satellite casinos in Nicosia and Larnaca has elicited favourable responses since they opened their doors in 2018.

City of Dreams Mediterranean, the first integrated resort in Cyprus, is scheduled to open in 2021. Upon completion, it will become Europe's largest and premier integrated destination resort.

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 of 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 Caring Company for 14 consecutive years.

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 recognition 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 FTG 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.

Committed to delivering the most exquisite dining experiences, the Group achieved a record-breaking milestone with ten Michelin stars among six of its signature restaurants by the Michelin Guide Hong Kong Macau 2019.

Altira Macau offers luxurious hospitality experience with its internationally acclaimed services. Its hotel and spa have been honoured the Forbes Travel Guide Five-Star recognition for 10 consecutive years.

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, the Group reported a reduction of net revenue as a result of the Group's adoption of the new revenue standard issued by the Hong Kong Institute of Certified Public Accountants (the "New Revenue Standard"), which resulted in a higher commissions being reported as a reduction of net revenues. 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. Net revenues for the year ended 31 December 2018 prepared under the previous basis of accounting were HK$43.9 billion, representing 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.

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

Melco Resorts, for which the Group owns 54.88%, contributed a majority of the financial results for the Group.

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

According to the 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 a result of Melco Resorts' adoption of a new revenue recognition standard issued by the Financial Accounting Standards Board, which resulted in a higher commissions being reported as a reduction of net revenues. 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 under 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%.

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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 under the cooperative arrangement (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 annual report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.

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

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.

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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 annual report may not be comparable to other similarly titled measures of other companies operating in the gaming or other business sectors.

Nüwa at City of Dreams is the only FTG Quintuple Five-Star Winner in the world, with FTG Five-Star awarded to its hotel, spa and three restaurants.

Zensa Spa at Studio City was awarded the FTG Five-Star recognition for the first time in 2019 and was named "World's Most Luxurious Spa" by the Guide in 2018.

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

The ultimate French culinary experience provided by Alain Ducasse at Morpheus attained two Michelin stars in the 2019 Michelin Guide Hong Kong Macau in less than six months since its opening.

Just two months after its grand opening, Morpheus at City of Dreams has been hailed as one of the "World's Greatest Places 2018" by TIME magazine, as the only Macau entry on the list.

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 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 the 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.

For further details of our indebtedness, please refer to note 34 to the consolidated financial statements contained herein, which includes information regarding the type of debt facilities used, the maturity profile of debt, the currency and interest rate structure, the charge on our assets and the nature and extent of any restrictions on our ability, and the ability of our subsidiaries, to transfer funds as cash dividends, loans or advances.

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.

City of Dreams Manila provides an unparalleled entertainment experience for the Philippine market and continues to set the reference for the Group's robust capacity to execute on its international vision.

With its exceptional facilities and services, Nüwa Manila was awarded FTG Five-Star recognition in 2019, which also named it one of the "World's Most Luxurious Hotels".

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 FTG 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.

MANAGEMENT PROFILE

DIRECTORS

Mr. HO, Lawrence Yau Lung (aged 42)
Executive Director (Chairman and Chief Executive Officer)

Mr. Ho has been the Chairman and Chief Executive Officer of the Company since March 2006. Before that, he was the group managing director of the Company after he completed a general offer for shares of the Company in 2001. He is also the chairman of the Executive Committee, Finance Committee and Regulatory Compliance Committee of the Company and a director of various subsidiaries of the Company. Mr. Ho is currently the chairman and chief executive officer of Melco Resorts & Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States, that holds one of the six Macau gaming concessions and subconcessions and develops, owns and operates casino gaming and entertainment resort facilities in Asia. He is also a director of Studio City International Holdings Limited, a company listed on the New York Stock Exchange. He is also the chairman and director of Maple Peak Investments Inc., a company listed on the TSX Venture Exchange in Canada. Mr. Ho is a director of Lasting Legend Ltd. and Better Joy Overseas Ltd., both of which are substantial shareholders of the Company.

As a member of the National Committee of the Chinese People's Political Consultative Conference, Mr. Ho also serves on numerous boards and committees of privately held companies in Hong Kong, Macau and mainland China. He is a vice chairman of All-China Federation of Industry and Commerce; a member of the Board of Directors and a Vice Patron of The Community Chest of Hong Kong; member of All China Youth Federation; member of Macau Basic Law Promotion Association; chairman of Macau International Volunteers Association; member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong; honorary lifetime director of The Chinese General Chamber of Commerce of Hong Kong; honorary patron of The Canadian Chamber of Commerce in Macao; honorary president of Association of Property Agents and Real Estate Developers of Macau and director Executive of Macao Chamber of Commerce.

In 2017, Mr. Ho was awarded the Medal of Merit-Tourism by the Macau SAR government for his significant contributions to tourism in the territory. In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor honored him as the "Best CEO" in 2005. He was also granted the "5th China Enterprise Award for Creative Businessmen" by the China Marketing Association and China Enterprise News, "Leader of Tomorrow" by Hong Kong Tatler and the "Directors of the Year Award" by the Hong Kong Institute of Directors in 2005.

As a socially-responsible young entrepreneur in Hong Kong, Mr. Ho was selected as one of the "Ten Outstanding Young Persons Selection 2006", organised by Junior Chamber International Hong Kong. In 2007, he was elected as a finalist in the "Best Chairman" category in the "Stevie International Business Awards" and one of the "100 Most Influential People across Asia Pacific" by Asiamoney magazine. In 2008, he was granted the "China Charity Award" by the Ministry of Civil Affairs of the People's Republic of China. And in 2009, Mr. Ho was selected as one of the "China Top Ten Financial and Intelligent Persons" judged by a panel led by the Beijing Cultural Development Study Institute and Fortune Times, and was named "Young Entrepreneur of the Year" at Hong Kong's first Asia Pacific Entrepreneurship Awards.

Mr. Ho was selected by FinanceAsia magazine as one of the "Best CEOs in Hong Kong" for the fifth time in 2014 and was granted the "Leadership Gold Award" in the Business Awards of Macau in 2015. Mr. Ho was honoured as one of the recipients of the "Asian Corporate Director Recognition Awards" by Corporate Governance Asia magazine for seven consecutive years since 2012, and was awarded "Asia's Best CEO" at the Asian Excellence Awards for the seventh time in 2018.

Mr. Ho graduated with a Bachelor of Arts degree in commerce from the University of Toronto, Canada in June 1999 and was awarded the Honorary Doctor of Business Administration degree by Edinburgh Napier University, Scotland in July 2009 for his contribution to business, education and the community in Hong Kong, Macau and China.

Mr. Evan Andrew WINKLER (aged 44)
Executive Director (President and Managing Director)

Mr. Winkler joined the Company as Managing Director in August 2016 and in May 2018, he assumed the role of President and Managing Director of the Company. Mr. Winkler is also a member of the Executive Committee, Regulatory Compliance Committee and Finance Committee and director of various subsidiaries of the Company. He is currently a non-executive director of Melco Resorts & Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States, and a director of Studio City International Holdings Limited, a company listed on the New York Stock Exchange in the United States.

Before joining the Company, Mr. Winkler served as a managing director at Moelis & Company, a global investment bank. Prior to that, he was a managing director and co-head of technology, media and telecommunications M&A at UBS Investment Bank. Mr. Winkler has extensive experience in providing senior level advisory services on mergers and acquisitions and other corporate finance initiatives, having spent nearly two decades working on Wall Street. He holds a bachelor degree in Economics from the University of Chicago.

Mr. CHUNG Yuk Man, Clarence (aged 56)
Executive Director

Mr. Chung has been an Executive Director of the Company since May 2006. He is also a member of the Executive Committee and Finance Committee of the Company and a director of various subsidiaries of the Company. He is currently a non-executive director of Melco Resorts & Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States, the chairman and president of Melco Resorts and Entertainment (Philippines) Corporation, a company listed on the Philippine Stock Exchange and a director of Studio City International Holdings Limited, a company listed on the New York Stock Exchange. Mr. Chung has more than 25 years of experience in the financial industry in various capacities as a chief financial officer, an investment banker and a merger and acquisition specialist. He was named one of the “Asian Gaming 50” by Inside Asian Gaming magazine for multiple years.

Mr. Chung obtained a master degree in business administration from the Kellogg School of Management at Northwestern University and The Hong Kong University of Science and Technology; and a bachelor degree in business administration from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Mr. TSUI Che Yin, Frank (aged 61)
Non-executive Director

Mr. Tsui has been re-designated as Non-executive Director in July 2017. Before his re-designation, he served as Executive Director from November 2001 to June 2017. He is currently a director of Mountain China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, an independent non-executive director of Jinhui Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, and a non-executive director of Jinhui Shipping and Transportation Limited, a company listed on the Oslo Stock Exchange. He was previously the chairman and non-executive director of MelcoLot Limited (now known as Loto Interactive Limited), a company listed on the Hong Kong Stock Exchange. Mr. Tsui has more than 30 years of experience in investment and banking industries and held senior management positions at various international financial institutions. Mr. Tsui was formerly the President of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited.

Mr. Tsui graduated with a bachelor’s and a master’s degree in business administration from The Chinese University of Hong Kong and with a law degree from the University of London. He also holds a doctoral degree in Business Administration from The University of Newcastle, Australia. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities and Investment Institute.

Mr. NG Ching Wo (aged 68)
Non-executive Director

Mr. Ng has been a Non-executive Director of the Company since September 2004. He is also the chairman of the Corporate Governance Committee and a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Ng is a senior partner of King & Wood Mallesons. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng’s practice focused primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer.

Mr. CHOW Kwong Fai, Edward, J.P. (aged 66)
Independent Non-executive Director

Mr. Chow has been an Independent Non-executive Director of the Company since June 2015. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Chow is currently an independent non-executive director of CMB Wing Lung Bank Limited and chairman of its audit committee. He is also an independent non-executive director and chairman of the audit committee of Redco Properties Group Limited and China Aircraft Leasing Group Holdings Limited, companies listed on the Hong Kong Stock Exchange. He was previously the chairman of CIG Yangtze Ports PLC and an independent non-executive director of COSCO Pacific Limited and China Merchants Bank Co., Ltd., all of which are companies listed on the Hong Kong Stock Exchange.

Mr. Chow holds an honours bachelor's degree in business studies from Middlesex University in the United Kingdom and is a fellow and council member of The Institute of Chartered Accountants in England and Wales, former chairman of its Commercial Board and a past president of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Before elected president, he chaired the HKICPA's Corporate Governance Committee and Professional Accountants in Business Committee. He was a Deputy Chairman of The Hong Kong Institute of Directors, the Chairman of the Professional Accountants in Business Committee of the International Federation of Accountants, an expert advisor of the Accounting Standards Committee of the Ministry of Finance, the People's Republic of China and a member of the Standing Committee of the Eleventh Zhejiang Province Committee of the Chinese People's Political Consultative Conference. Mr. Chow is currently a core member of the OECD/World Bank Asian Corporate Governance Roundtable, an advisor of the Business and Professionals Federation of Hong Kong, a non-executive director of the Urban Renewal Authority and chairman of its finance committee and a court and council member of The University of Hong Kong and chairman of its audit committee. Prior to entering the commercial sector, Mr. Chow spent 11 years working for two major accounting firms, Deloitte Haskins & Sells and Price Waterhouse (as they were then known), respectively in London and Hong Kong.

Dr. TYEN Kan Hee, Anthony (aged 63)
Independent Non-executive Director

Dr. Tyen has been an Independent Non-executive Director of the Company since June 2010. He is also the chairman of the Audit Committee and Nomination Committee and a member of the Remuneration Committee and Corporate Governance Committee of the Company. Dr. Tyen is currently also an independent non-executive director of China Baofeng (International) Limited (formerly known as Mastercraft International Holdings Limited) and Ourgame International Holdings Limited, companies listed on the Hong Kong Stock Exchange. He was previously an independent non-executive director of four Hong Kong listed companies, namely, Value Convergence Holdings Limited, Recruit Holdings Limited, ASR Logistics Holdings Limited and Summit Ascent Holdings Limited (resigned in October 2018). He was also an independent director of the Company's subsidiary, Entertainment Gaming Asia Inc., a company delisted and removed from trading on the NASDAQ Capital Market in the United States in June 2017 (resigned in July 2017), as well as Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange in Canada (resigned in November 2017).

Dr. Tyen holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from The Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Dr. Tyen is also a fellow member of The Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Directors. He is currently a practicing certified public accountant in Hong Kong and has over 40 years' experience in auditing, accounting, management and company secretarial practice.

Ms. Karuna Evelyne SHINSHO (aged 51)
Independent Non-executive Director

Ms. Shinsho has been an Independent Non-executive Director of the Company since August 2018. She is also a member of the Remuneration Committee of the Company. Ms. Shinsho has extensive experience in the media industry in Japan, USA, Singapore and Hong Kong. From 1989 to 2001, she worked for NHK Television, Japan and New York, Asia Business News, Singapore and CNN International, Hong Kong, then in 2004 for Australian Broadcasting Corporation, Singapore, as an anchor and/or reporter. She was named "Highly Commended News Presenter/Anchor" at the Asian TV Awards in 1999.

Ms. Shinsho obtained a Master of Arts degree in International Affairs with a regional concentration in East Asia from the School of International and Public Affairs, Columbia University in New York and a Bachelor of Arts degree (cum laude) in Political Science from the Institute of Comparative Culture, Sophia University in Japan.

SENIOR MANAGEMENT

Mr. Geoffrey Stuart DAVIS, CFA (aged 50)
Chief Financial Officer

Mr. Davis has been the Chief Financial Officer of the Company since December 2017, overseeing the Group's finance and treasury functions. He was appointed to his current role as an executive vice president and the chief financial officer of Melco Resorts & Entertainment Limited ("Melco Resorts"), a company listed on the NASDAQ Global Select Market in the United States, in April 2011, a director of Melco Resorts and Entertainment (Philippines) Corporation, a company listed on the Philippine Stock Exchange in January 2018 and a director of Studio City International Holdings Limited, a company listed on the New York Stock Exchange, in October 2018. Prior to that, he served as the deputy chief financial officer of Melco Resorts from August 2010 to March 2011 and senior vice president, corporate finance of Melco Resorts from 2007, when he joined Melco Resorts. Mr. Davis was a research analyst for Citigroup Investment Research, where he covered the U.S. gaming industry from 2001 to 2007. From 1996 to 2000, he held a number of executive positions with Park Place Entertainment, the largest gaming company in the world at the time, and Hilton Hotels Corporation. Mr. Davis has been a CFA charter holder since 2000 and obtained a bachelor of arts degree from Brown University in 1991.

Mr. LEUNG Hoi Wai, Vincent (aged 45)
Group General Counsel

Mr. Leung is the Group General Counsel and he also serves as the Company Secretary of the Company. Mr. Leung oversees the legal, corporate secretarial and compliance matters of the Group. He joined the Group in May 2015. Prior to joining the Group, he was a senior counsel of Hutchison Whampoa Limited (currently CK Hutchison Holdings Limited) and Hutchison Port Holdings Trust, a multinational conglomerate and a business trust listed in Hong Kong and Singapore respectively, and practised law with the Hong Kong office of Linklaters, a leading international law firm. Mr. Leung is qualified as a solicitor in Hong Kong and England and Wales with almost 20 years of experience in the legal profession specializing in corporate finance, infrastructure projects, listing and compliance matters, as well as cross-border mergers and acquisitions. He holds a postgraduate certificate in laws and a bachelor of laws degree, both from The University of Hong Kong.

Mr. LAW Kwok Fai, Alan (aged 57)
Group Internal Audit Director

Mr. Law joined the Group in 2007. Mr. Law has more than 30 years of experience in public accountancy, financial management and operational risk management. He held management positions in multinational companies including KPMG, Peninsula Hotels Group, Standard Chartered Bank and Citigroup. Prior to joining the Group, he was the Quality Assurance Head of Citigroup Hong Kong for 10 years. Mr. Law obtained his Master Degree of Business Administration from the University of Warwick. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. 2018 HIGHLIGHTS

ENVIRONMENT

- Launched two new goals: committed to achieving **carbon neutral** and **zero waste** resorts by 2030
- Received **Green Key Environmental Management Awards** at four of our integrated resort properties: **Morpheus, Nüwa, The Countdown** at City of Dreams and **Studio City**
- Studio City received the **CEM Energy Saving Excellence Award**
- **Installed solar photovoltaic panels** at City of Dreams and Studio City with the capacity to generate nearly 7.7 million kWh of energy per year
- Between 2016 and 2018 we **reduced energy consumption in our existing operations by an average of 10%** across our resorts
- **Sourced 100% of our electricity from renewables in 2018**, via purchase of Energy Attribute Certificates ("EACs") issued by the International Renewable Energy Certificate Standard ("I-REC Standard") and other renewable energy instruments, helping to **reduce our absolute market-based emissions by 95%** since 2016
- Became **first and only** hospitality group and integrated resort operator globally to become a signatory to The New Plastics Economy Global Commitment, led by the Ellen MacArthur Foundation in collaboration with UN Environment
- Received **"Class of Excellence" ranking from Wastewi$e** for 10 consecutive years from 2009-2018 for our offices in Hong Kong

SOCIAL

- **Responsible Gaming:**
  - More than 69,000 Responsible Gaming training seats have been filled by employees since 2009
  - Melco Resorts was named **Socially Responsible Operator of the Year** at 12th International Gaming Awards
  - Melco Resorts received **Gaming Operator of the Year, Australia & Asia** award at the 2018 International Gaming Awards
- **People**
  - Melco Resort's service excellence was recognized by the **Hotelier Awards Greater China**
  - 38% of senior leadership level are female, and close to 40% of general management are female
  - OSHA **Lost-Time Injury Frequency Rate ("LTIFR") was 3.2, down from 3.7 in 2017** and 4.0 in 2016
- **Society & Community**
  - More than HK$85 million in charitable and in-kind donations or contributions in 2018
  - 22,942 employee participants participated in CSR activities in 2018, and **107,631 since 2007**
  - Recognized by Hong Kong Council of Social Service as a **Caring Company** for 14 consecutive years

GOVERNANCE

- Strengthened our enterprise risk management approach and **developed formal ESG risk management and internal control framework** (the "ESG Framework")
- Launched **new Sustainability & CSR Vision, Strategy and Manifesto** called 'Above and Beyond'
- 98% of required employees of the Group completed 'Do the Right Thing' Training on ethics and anti-corruption policies and practices
- Corporate Governance Asia magazine recognized **Mr. Ho, Lawrence Yau Lung as Asian Corporate Director of the Year** (7th consecutive year)
- Received **Asian Excellence Award by Corporate Governance Asia magazine for Asia's Best CEO and CFO** (Investor Relations)
- Honored **with Asian Excellence Award by Corporate Governance Asia magazine for Best IR Company** (6th consecutive year)
- Received **BDO ESG Awards – Certificate of Merit for Best in ESG Awards** (Large Market Capitalization category)

2. ABOUT THIS REPORT

Reporting Standards and Scope

Melco International Development Limited ("Melco International" or the "Company", together with its subsidiaries collectively referred to as the "Group") is pleased to present its Environmental, Social and Governance ("ESG") Report (this "Report"), which has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In certain areas our reporting goes beyond the requirements in the ESG Reporting Guide. In order to allow readers to have an in-depth understanding of the Group's operations, we have, whenever feasible, covered material topics in a more comprehensive manner with reference to the GRI Sustainability Reporting Standards (the "GRI Standards"). Principles that have informed our reporting approach include:

Principles	The Group's Response in this Report
Materiality	An overview has been conducted in this Report regarding our process of stakeholder engagement, how we determined our material topic areas, what those topics are, and how we are addressing them.
Quantitative	Information is presented with quantitative measures, whenever feasible, including information on the standards, methodologies, assumptions used and provision of comparative data.
Balance	This Report identifies and elaborates both the achievements and challenges faced by the Group.
Consistency	This Report uses consistent methodologies when comparing current and past KPIs unless improvements in methodology are identified.
Stakeholder inclusiveness	This Report responds to the expectations and interests that care the most by our stakeholders.
Sustainability context	Our ESG performance is presented in a wider context of sustainability issues in this Report.
Completeness	All aspects of information needed by our stakeholders to assess our economic and ESG performance are covered in this Report.

To reflect the businesses which have a considerable impact on the Group's ESG performance, this Report primarily covers our corporate offices and our core gaming and hospitality arm, Melco Resorts & Entertainment Limited ("Melco Resorts"), with particular focus on the five properties, namely City of Dreams, City of Dreams Manila, Studio City, Altira Macau and Mocha Clubs. Environmental performance data only reflects the impacts of Melco Resorts, while other performance data includes our gaming facilities in Cyprus and Aberdeen Restaurant Enterprises Limited ("Jumbo Kingdom"). The environmental footprint of our new Cyprus operation has not been included this year as the scale is not significant to date. The highlights and metrics shared in this Report reflect performance during the period 1 January 2018 to 31 December 2018 and we provide multi-year data where relevant. Financial information, unless otherwise stated, is presented in Hong Kong dollars.

A detailed ESG Reporting Guide Content Index is presented at the end of this Report to help stakeholders navigate to relevant ESG topics, disclosures and key performance indicators ("KPIs") with ease. Additional ESG performance information is profiled in the Melco Resorts and Entertainment 2018 Sustainability & CSR Report (https://www.melco-resorts.com/en/sustainability.html). Supplementary financial data and corporate governance details can be located in other sections of our annual report.

Stakeholder Engagement and Materiality Assessment

From staff and investors, to communities, academia, government and non-governmental organizations, we regularly engage with internal and external stakeholders about a wide range of ESG topics through our day-to-day operations. We listen and work hard to be responsive to their needs and concerns.

To update our materiality assessment in 2018, we worked with an independent consultant who guided us through a three-step process to determine our priority ESG impact areas:

Step 1: Identification

To identify potential material topics:

- Peer benchmarking: The ESG disclosures of local peers were reviewed to identify industry practices.
- Industry research: Researched industry trends, standards and best practices, and evolving scientific knowledge.
- Stakeholder engagement: Interviewed senior managers and experts across the business, and reviewed concerns of investors, employees and regulators.

Step 2: Prioritization

To prioritize potential material topics:

- Took inputs from Step 1 and analysed using our enterprise risk thresholds and criteria to assess the level of materiality of each ESG topic to our business.
- Developed rationale to support ranking of each topic.

Step 3: Validation

To finalize the list of material issues, the outcomes of Steps 1 and 2 were brought forward for discussion and validation with key members of the senior leadership team. The outcome of the assessment was the following list of priority ESG topic areas which we have formed the focus areas of this Report.

Priority ESG topic areas by scope and boundary			
Priority topic area	**Scope of topic**	**Topic boundary**	
		Impacts occur inside the Group	**Impacts occur outside the Group**
Ethics & Integrity	• Corporate & ESG governance • Ethics code outlining expected behaviours, practices and training, includes anti-corruption • Data security & customer privacy • Regulatory compliance • Risk management & emerging issues tracking	✓	✓
Community Engagement & Investment	• Community engagement & investment programmes • Philanthropy & volunteerism • Culture & heritage • Disaster response	✓	✓
Diversity & Inclusion	• Diverse workforce & leadership team	✓	
Energy & Climate Change	• GHG emissions reduction • Energy consumption – renewable & non-renewable	✓	✓
Material Use & Waste	• Materials use efficiency • Sustainable sourcing • Non-hazardous solid waste • Food waste & plastic waste	✓	✓
Responsible Gaming	• Technology & process • Community engagement • Employee education	✓	✓
Safety	• Guest health & wellbeing • Employee health safety & wellness	✓	
Sustainable Economic Growth	• Increasing shareholder value while maximizing other stakeholder benefits	✓	✓
Talent Attraction & Retention	• Competition for talent • Local hiring • Employee training & development • Work life balance • Indirect economic impact	✓	
Water Use	• Water recycling and reuse • Wastewater effluents • Reducing/reusing & recycling water • Wastewater complies with regulatory limits	✓	

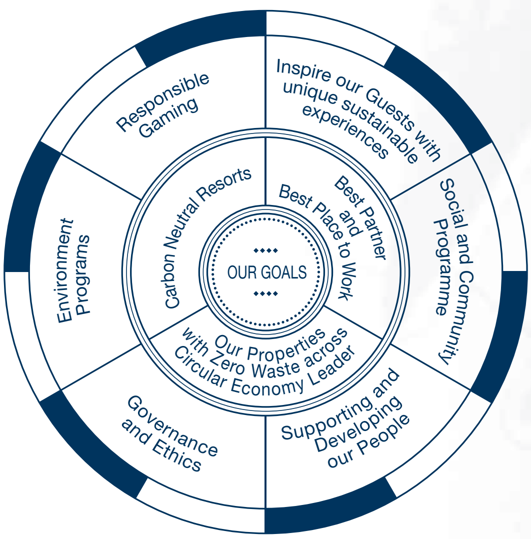
Each priority topic area presents both risks and opportunities. Employees have taken responsibility for each of these risks and opportunities and have developed measures to mitigate the risks and maximize the opportunities. These risks are not just ESG risks, but business risks. So they are considered by us and are included in our overall risk register and priorities, which are periodically reported to our Audit Committee, and to our management.

3. ESG VISION & STRATEGY

Our Vision: Above & Beyond

The outcomes of the materiality assessment were also used to inform our new vision and strategy. Our vision is to change the game in our industry and in the places we operate, by bringing the power of innovation, entertainment and play to some of the challenges that face the world in the 21st Century.

To achieve our vision, we are bringing together our social and environmental achievements and ambitions in a new strategy we call Above & Beyond that will guide our actions to 2030. Above & Beyond sets new goals, including eliminating the impact of our resorts on the climate by 2030 and taking a lead on circular economy approaches to global push to clean up plastic waste. It further commits us to ensure that we are the best community partner, and fostering a best-in-class place to work. Through these actions we will inspire our guests and show that a sustainable future is a better future. Above & Beyond will accelerate our ESG strategy across the board so that we become a sustainability benchmark for our industry and beyond.



OUR APPROACH

SOCIAL AND COMMUNITY PROGRAMS

Social and community issues are built into business strategy and drive partnerships and collaboration on a wide range of community projects. Philanthropy and volunteering are also a big part of how we support communities where we operate.

SUPPORTING AND DEVELOPING OUR PEOPLE:

People and culture drive success, so we create a culture of excellence by hiring for potential and investing in training. We compete for the best on reputation, career opportunities, and a great working environment, always aiming to be employer of choice.

GOVERNANCE AND ETHICS:

Chairman & CEO Mr. Ho, Lawrence Yau Lung takes overall lead on CSR, and we have steering committees for responsible gaming, environmental sustainability and CSR. We track emerging issues through our materiality process, and drive behavior with our code of business conduct and ethics.

ENVIRONMENTAL INITIATIVES:

Taking care of our environmental impacts means an ambitious programme on renewable energy, and a growing focus on materials, waste, water and sustainable procurement.

RESPONSIBLE GAMING:

Our award-winning work on responsible gaming includes industry-leading technology, comprehensive training programs, cooperation with regulators, and commitment from the very top.

Our Goals for 2030

Above & Beyond sets out our ambitions and strategy under four goals:

1. **Inspiring our guests experiences by showing them a sustainable future is a better future:** Guests arrive at our resorts expecting to be entertained and to experience best-in-class luxury. Our goal is to ensure sustainability enhances that experience, through our dedication to inspirational innovation.

2. **Achieving carbon neutral resorts:** Tackling climate change is a top priority, so we have set the goal of achieving carbon neutrality in our operations. We have implemented reduction targets across a range of emission sources to achieve our goal.

3. **Being the best partner and best place to work:** Ensuring that we are an employer of choice and a force for good in the community lies at the heart of our philosophy. The same focus will drive us to be the best partner and place to work.

4. **Achieving zero waste across our resorts and contributing to circular economy leadership in Asia:** We will work to eliminate waste in our operations through reducing the use of materials, reusing or recycling waste that otherwise would be sent to landfill, and exploring options for energy recovery. We will also pursue waste management initiatives that support the circular economy around all our resorts in Asia and beyond.

4. CORPORATE GOVERNANCE

ESG Risk Management and Internal Controls

Risk management

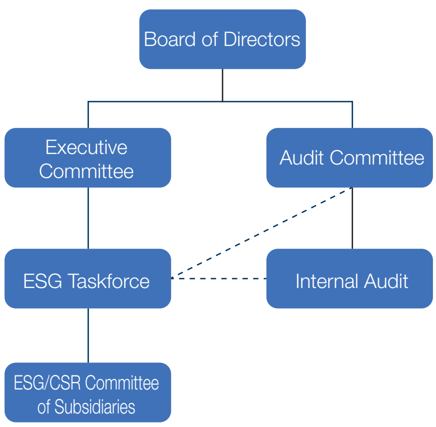
Risk is inherent in our business. Supervised by the Audit Committee and the Board, the risk management of the Company combines a top-down strategic view with a bottom-up operational process. In 2018, we strengthened our ESG risk management by developing an ESG risk management and internal control policy (the "ESG Policy") in which an ESG Framework was created and applied. This ESG Framework provides directions to management personnel in applying a consistent risk management system in which the significant ESG risk issues are identified, considered and addressed, to ensure:

- the Group's ESG risk management and internal control system being appropriate and effective;
- the Company's compliance with the Listing Rules as amended from time to time; and
- the Group to operate on a sustainable basis by maintaining and enhancing the Group's economic, environmental, social, community contributions and commitments in the long term.

The ESG taskforce established by the Board (the "ESG Taskforce") is responsible for performing the review on the ESG risk management and internal control systems and reporting the result to the Executive Committee and the Audit Committee of the Company. The ESG Taskforce has conducted a review of the appropriateness and effectiveness of the Group's ESG risk management and internal control systems and confirmed to the Board that the systems are effective.

ESG governance

Our ESG governance is structured as follows, with each functional group having well defined responsibilities to ensure that we are appropriately identifying and assessing potential ESG risks, developing measures and strategies to manage or mitigate significant risks, and ensuring we are disclosing on our progress and performance in a transparent manner to key stakeholders.



Functional Groups	Key Responsibilities
Board of Directors	• Reviews and approves the ESG Policy and the ESG Framework on an ongoing basis. • Ensures the appropriateness and effectiveness of the Group's ESG risk management and internal control system.
Executive Committee	• Oversees the implementation of the ESG Policy and the ESG Framework.
Audit Committee	• Considers major investigation findings on ESG risk management and internal control matters. • Discusses ESG Framework with the ESG Taskforce and senior management to ensure the establishment and maintenance of an effective and appropriate ESG risk management and internal control system.
ESG Taskforce	• Assists the Board and the Audit Committee in overseeing the ESG risk management and internal control system. • Establishes regular communication channels with ESG/CSR committees of major subsidiaries to ensure they commit enough resources in carrying out ESG responsibilities at Group level. • Reviews and/or approves the ESG risk assessment matrix as submitted by the ESG/CSR committees of major subsidiaries. • Prepares annual ESG report on the Group's activities, including qualitative and quantitative performance.
ESG/CSR Committees of Subsidiaries	• Develop ESG strategies, leads on reporting of ESG activities and assessment of ESG risk management and internal control systems. • Support implementation of the Group's ESG Framework and ESG Policy. • Identify ESG risks associated with business activities within own business lines, and impact and likelihood; identify, manage and evaluate the effectiveness and appropriateness of control that are in place to mitigate such ESG risks. • Implement ESG risk mitigation plans to remedy the ESG risks in which the systems implemented and assessed as ineffective or inappropriate.

To learn more about how our major subsidiaries have structured their ESG governance, please refer to the Melco Resorts and Entertainment 2018 Sustainability & CSR Report (https://www.melco-resorts.com/en/sustainability.html).

5. ETHICS

Integrity

"Credibility" is one of the Group's core values. We cultivate a corporate culture of integrity and ensure our employees uphold the highest standards of business ethics in their daily operations. We have comprehensive codes of business conduct and ethics at both the Company and subsidiary levels.

At the Company level, we require each of our directors, officers, employees to certify their acknowledgement of and compliance with the Code of Business Conduct and Ethics (the "Code") when they join the Company. When there is an update to the Company's Code, we require certification of the same from all directors, officers and employees upon circulating the new version to all.

The Company's Code includes, but is not limited to, the following aspects:

- prevention of bribery and anti-money laundering sections to make sure that all directors, officers and employees are fully aware of the laws regarding anti-corruption and anti-money laundering;
- gift and entertainment section to set maximum limit of directors, officers and employees accepting non-cash gifts (HK$2,000) and cash gifts (HK$500). If the gifts exceed the said limits, approval of business unit head is required;
- presence in gaming area section to prohibit all directors, officers and employees from gambling at any gaming facility operated by the Group and to prohibit all current directors, officers and employees from holding any loyalty club membership issued by any companies within the Group; and
- confidentiality section to make sure that all directors, officers and employees will maintain confidentiality of the non-public information entrusted to them by the Company, suppliers and clients.

Our operating subsidiaries also have their standalone code of business conduct and ethics. Their new employees are required to attend a corporate governance orientation, where their code of business conduct and ethics is clearly outlined. Annual trainings on anti-bribery and anti-corruption are also provided for management and staff in key business functions of our operating subsidiaries.

Programme and training on anti-corruption

To further strengthen the corporate culture, we launched the Ethical Business Practices Programme (the "Programme") which sets out the standards and requirements for compliance with anti-corruption laws in the jurisdictions where the gaming facilities operate. The Nominating and Corporate Governance Committee of Melco Resorts has the responsibility for reviewing and amending various corporate governance policies, and for ensuring its ongoing effectiveness supported by internal audits and its Chief Risk Officer.

Three initiatives help employees of our operating subsidiaries understand their responsibilities under their code of business conduct and ethics and the Programme: 1) briefings for new hires and annual re-certification for all others – employees must acknowledge they received these documents and sign a Certificate of Compliance to indicate they understand and agree to the content; 2) Do The Right Thing ("DTRT") training provides a refresher for management and employees in key business functions that carry a higher risk of bribery and corruption, such as procurement and contract approvals; and 3) annual certification under the Programme requires key personnel such as directors and senior executives to confirm and acknowledge their understanding of the Programme and their reporting obligations under the Programme.

We take this seriously. In 2018, more than 2,800 employees were required to complete DTRT training. 98% of them have completed the training and remaining employees are expected to complete the training soon. We also communicate with local government and partners regarding our ethics and particularly our anti-corruption policies and procedures.

* Data only includes our gaming and hospitality operations in Macau and Manila. The DTRT Training is relevant for employees in business functions that carry a higher risk of bribery and corruption, such as procurement and contract approvals. The small non-completion rate is due to employees obtaining an exemption, employees resigning within the probationary period, and new hires who are waiting to attend the induction.

Whistle-blowing mechanism

We have established a whistle-blowing mechanism to ensure that a channel to report any misconduct or fraud actions is available to all employees of the Group. An email channel is provided in the Company's Code and the email will be directed automatically to the Company's Audit Committee Chairman, the Group General Counsel and the Group Internal Audit Director concurrently.

Corporate policies on complaints handling and whistle-blowing are also in place at the Company and subsidiary levels. Melco International's employees can report cases on (i) suspected violations of Company policies; (ii) intentional error or suspected fraud in the preparation, review or audit of Company's financial information; and (iii) suspected theft or fraudulent activities. Moreover, Melco Resorts' employees can report any wrong-doing via the whistle-blowing hotline managed by an external party whereas employees of the rest of the Group can report the same through a dedicated email account which selected independent management members can directly access. All information reported to the external party is recorded anonymously and all complaints are reviewed by selected independent management members. Details of our whistle-blowing channels are available on our intranet and posted at key areas of our offices.

Data Privacy and Security

The Group's high standards apply to all parts of our business, including data security. Our global information security management system meets the requirements of ISO 27001, with our Macau operations holding this certification since 2009. This is supported by our Cybersecurity and Data and Information Security policies. Our "layered" security approach means we have controls at each layer with regular risk assessments and audits to check processes and protocols. To ensure our systems follow the best practice, we engage external experts to provide guidance when needed.

To protect data privacy, we meet or exceed the requirements of the data privacy regulations in the jurisdictions in which we operate, including the Macau Personal Data Protection Act. Data Protection Officers in all our main operating locations work to implement our data privacy policies and ISMS along with any additional local requirements.

We had no data breaches of significance and did not receive any substantiated complaints in 2018.

Staff training & awareness

Our employees have an important role in information security and data protection. Information security is included in our Code, and guidelines on data protection have been issued in their region. We provide training on cybersecurity when employees start to help them identify hacking emails. We continually run phishing campaigns to improve awareness and identify if additional training is needed.

6. RESPONSIBLE GAMING

As a pioneer in raising awareness of responsible gaming ("RG") to staff and the public in Macau, we have developed the Responsible Gaming Policy to minimize the harm associated with gambling disorder in 2010. The purpose of the Responsible Gaming Policy is to:

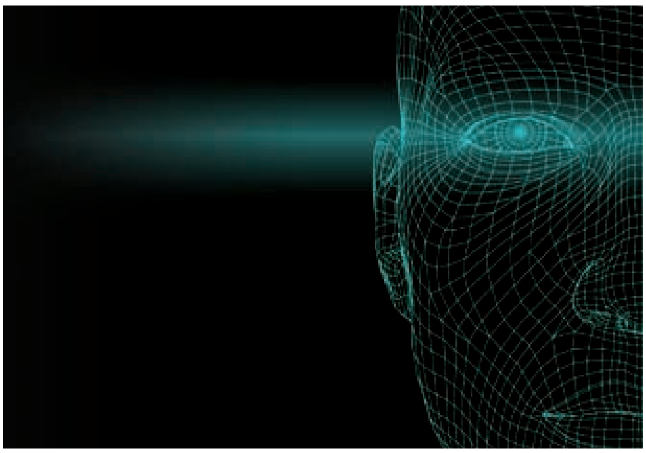
- manage potential harm associated with gambling by creating a responsible gambling environment;
- educate and inform guests, communities, and employees about the potential harm associated with gambling;
- create an awareness of the significant benefits that will arise where guests, communities and employees assist us in endeavours to minimize the potential harm associated with gambling; and
- ensure that we comply with legal obligations relating to gambling disorder.

Our System For Success

Our global RG strategy is divided into three focus areas to ensure that a comprehensive framework is implemented throughout the Group: Technology & process, Community awareness & engagement, and Employee education.

Technology & process

In 2016, Melco Resorts became the first operator in Asia to deploy real-time facial recognition security systems at all entrances to gaming areas in Macau, assisting self-exclusion by problem gamers. The effectiveness and accuracy of the state-of-the-art technology enables us to identify restricted individuals - including problem gamblers - and prevent them from entering the gaming areas. In 2018 it led to a 2,100% increase in the number of detections for all persons of interest.



Community awareness & engagement

We comply with the Macau Government's request for operators to display RG information to tourists, but go further with work to raise awareness and support the local community in Macau. In 2018 we partnered with a local production company in Macau to produce a television commercial raising awareness of RG that was aired on Teledifusão de Macau during primetime viewing hours. We also launched a series of Women and Responsible Gaming workshops in 2018 that support women in the communities where we operate with information on RG. To encourage participation, the RG curriculum is interwoven with lifestyle topics such as flower arrangement, gift wrapping, cooking, etc.

Employee education

Our RG training programme adopts a proactive and systematic approach, with progressive levels of knowledge attainment. We take RG training seriously and its implementation aligns with our philosophy that RG is everyone's job – gaming, non-gaming, management and non-management. More than 69,000 RG training seats have been filled by employees since 2009. In 2018, over 600 management level employees participated in a Leadership Forum dedicated to Responsible Gaming with key government and RG educational experts as guest speakers.

Our efforts have been recognized as we were named Socially Responsible Operator of the Year at the 12th International Gaming Awards.

7. OUR PEOPLE

Our people and our culture are key drivers of our success and the way we create the highest-quality guest experiences each day in our resorts. We are committed to being an employer that people choose to work for and to stay with. It is our belief that if we care for our employees, they will take care of our guests.

A Diverse Workplace

As an equal opportunity employer, we believe that building a stable workforce and cultivating a harmonious workplace starts with embracing diversity. Therefore, we ensure equal opportunities in every 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 irrelevant by local labour laws. At the end of 2018, the Group had a total of 22,228 full-time employees of which 10,535 were male employees and 11,693 were female employees.

Our Global Workforce (2016-2018)

Total Employees:
Female: 47% Male: 53%

	2016	2017	2018
Macau Properties*	**15,171**	**14,079**	**15,099**
Female	7,345	6,873	7,352
Male	7,826	7,206	7,747
Corporate and Centralized Services**	**731**	**655**	**695**
Female	324	296	305
Male	407	359	390
Manila Property***	**4,365**	**4,894**	**5,638**
Female	1,996	2,332	2,552
Male	2,369	2,562	3,086
Cyprus Properties****			**657**
Female	–	–	283
Male	–	–	374
Jumbo Kingdom	**164**	**159**	**139**
Female	53	55	43
Male	111	104	96

* Including City of Dreams, Studio City, Altira Macau and Mocha Clubs

** Including Hong Kong, Macau, Beijing, Tokyo and Osaka

*** City of Dreams Manila

**** Including Cyprus Casinos and two satellite casinos in Nicosia and Larnaca

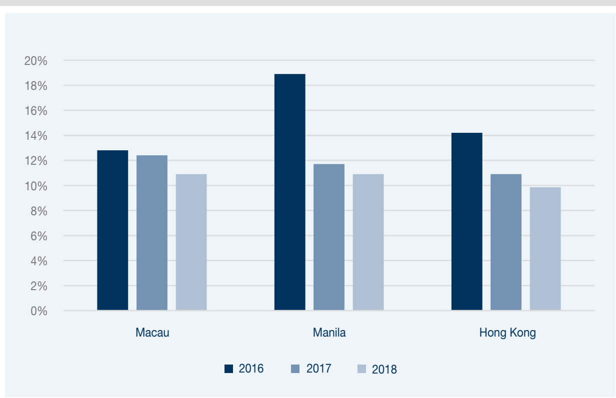
In 2018, 47% of our total employees were female. We are continually looking for ways to develop female leaders; this focus is evident in the representation of women in leadership positions.

- Eight women are represented across the four boards of listed companies in the Group;
- 25% of individuals on the Melco Resorts' Corporate Executive Committee are female;
- 38% of senior leadership are female; and
- Close to 40% of general management are women.

Employment

In order to retain a loyal workforce, competitive compensation packages are provided to our employees based on job responsibilities, performance and their contributions as well as their professional and managerial competencies. Employees undergo annual appraisals and are rewarded appropriately according to their performance and contributions to the Group's development, as outlined in the applicable remuneration policy. When there are vacant positions, we also give priority to qualified internal candidates prior to recruiting from external sources, whenever possible. In 2018, 40% of vacancies were filled by internal employees. At the end of 2018, the employee turnover rate of the Group was 10.9%, down from 12.2% in 2017 and 14.1% in 2016.

Turnover by Region (2016-2018)



* Averages were weighted based on number of employees per location. This average does not include data from Cyprus as it was its first year of operation.

Training and Development

We want employees to feel that they can grow their careers with us. Enriching the knowledge and skills of our employees is crucial to sustainable business development as we depend on our employees' professionalism and expertise to deliver quality services to our customers and drive business growth.

Building a culture of service excellence

We work hard to build a culture of excellence through a highly structured training system and programme aligned with our brand service standards. Elements include:

- mandatory orientation at Melco Resorts that all employees must attend before they begin in their respective departments;
- "My first 90 Days" integration programme, customized for every department, which is a structured process to ensure necessary knowledge, skills and expectations are well understood;
- customized consumer brand & service training to ensure colleagues understand our consumer brand – "what it represents, what it means to me, and what do I need to do";
- our core service standards which emphasize a consistent approach to foundation service behaviours; and
- "Forbes" standards training to increase awareness of what it takes to meet Forbes Five-star standards.

Our Training and Development Sponsorship Policy guides our dedication in supporting the enhancement of other technical skills and competencies. The training needs of individual staff are often determined through the annual performance review process, of which 99.2% of entitled employees across the Group received performance reviews in 2018.

Learning Academy

Our Learning Academy embraces life-long learning. Since its inception in 2009, 5,325 courses have been offered across our properties in Macau and Hong Kong and more than 518,000 seats have been filled by our employees. It provides a curriculum across multi-functional tracks, including technical – gaming & non-gaming, sales and marketing, legal, service, language, finance, computer application, HR, leadership and lifestyle.

Foundation Acceleration Programme

Our Foundation Acceleration Programme ("FAP") is designed to enhance our employees' understanding of business perspectives beyond their own jobs. It is a placement programme which can involve short or long-term assignments, or just a glimpse into areas or skills outside current roles and experience. Examples of FAP placements vary. Longer examples include dealers working in hotel operations for six months or a Hotel Front Office Manager spending a year rotating through a variety of cross-functional roles from Contact Centre, Reservations, Revenue Management, Food and Beverage, to Marketing and Public Relations.

Average training hours per employee by gender in 2018*	
Male employees	Female employees
8.5 hours	7.0 hours

* Averages were weighted based on number of employees per location. This average represents data from Macau, Manila and our corporate offices.

A Caring Workplace

Communicating and listening to our employees

We have put a variety of formal and informal mechanisms in place to ensure our employees have many ways to give us feedback. These include: employee surveys; focus groups across various business functions and properties; "Meet management" sessions where property presidents engage with approximately 50 employees at a time to share business updates and invite perspectives from the team; leadership forums on a range of topics; performance appraisals; "Talk to management" feature of our MelcoToday employee mobile app; and Employee communications channels (newsletters, mobile app, social media, etc.).

Hardship assistance

When our employees face extraordinary circumstances- such as medical problems or natural disasters, the Group and employees come together to support one another and alleviate hardships through donations.

Heart-of-House

As a provider of premium luxury service, our Chairman and CEO believes that if we care for our employees, they will take care of our guests. We invest in the design our "Heart-of-House", what is typically called "back of house". Our Heart-of-House philosophy is to promote employee health and well-being while at work through:

- employee dining rooms that offer an extensive selection of healthy and nutritious international cuisine;
- quiet relaxation rooms that are outfitted with massage chairs, hammocks and TVs;
- stylish and comfortable break areas for relaxation;
- onsite healthcare at our medical centres;
- Learning Academy training centres that offers courses for all levels of career and skills development; and
- employee concierge desk.

Keeping Our Employees and Guests Safe

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 at the Group. Our safety culture is led by senior leadership, but all employees and contractors are expected to take responsibility for their own safety, the safety of those around them and to constantly promote a safe and healthy work environment.

We conduct frequent training and monitoring, covering applicable topics in accordance with our Occupational Safety and Health ("OSH") Policy and the OHSAS 18001 Standard. There are OSH Committees at each of our operating properties and they meet once a month and discuss safety management issues. OSH Committee responsibilities include:

- reviewing OSH performance trends and follow up on major OSH incidents and accidents;
- supporting OSH promotion and awareness activities, and assisting with the implementation of OSH education and training Programmes;
- coordinating OSH auditing and inspection activities; and
- providing feedback to management on employee OSH issues and concerns, and implement measures to reduce accidents.

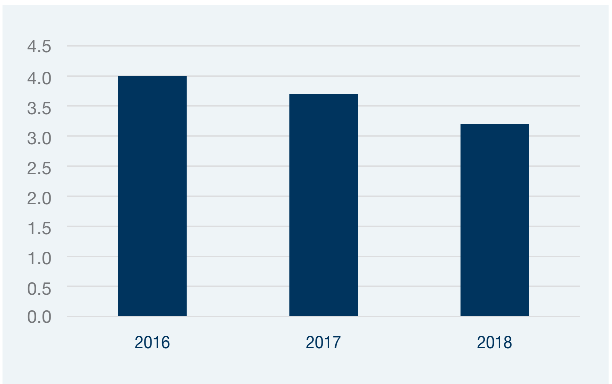
All new hires of our operating properties receive OSH induction training and existing staff receive OSH refresher training each year. Contractors are also required to go through an OSH orientation session.

We adopt a holistic approach to safety in all public areas of our integrated resorts. External risk engineers perform quarterly assessments of key public areas such as hotel rooms, entertainment attractions, all guest elevators, main entrances/exits of the integrated resorts to ensure these areas satisfy international safety standards. We also maintain Emergency Response Teams at each property and collaborate with local emergency response teams on site-specific plans.

We focus on prevention and strive for continuous improvement on all health and safety indicators as measured by standard industry metrics and established goals. In 2018, our LTIFR was 3.2, down from 3.7 in 2017 and 4.0 in 2016. We had no fatalities in 2018.

Internal investigations are conducted for every reported workplace accident. Once an accident has been reported, the Accident Form is shared with the OSH Committees, which are responsible for conducting follow up investigations. Relevant corrective actions are to be taken to prevent the occurrence of similar accidents. Our Hazard and Near Miss Reporting Programme also prevents accidents by reporting and rectifying an unsafe situation before the occurrence of any potential injuries.

Total Recordable Incident Rate (TRIR) 2016-2018



8. SOCIETY AND COMMUNITY

Caring for the community has always been core to our culture as our Group vision is "to contribute to the growth and future of the communities we serve, and inspiring hope and happiness in people all over the world". In 2018, we continued to deliver positive impacts to society through community programmes under our three CSR pillars – Youth Development, Education and Environmental Conservation. Aspiring to build a more harmonious and healthy society, we are proud to work with our trusted community partners to serve different vulnerable groups in society and promote social inclusion and integration through different activities and events.

We do this through a combination of employee volunteerism, and charitable or in-kind donations or contributions. In 2018 we made over HK$85 million charitable and in-kind donations or contributions and had 22,942 employee participants participate in CSR activities. Since 2007 we have had 107,631 of our employees participate in CSR activities, with many participating in more than one activity a year.

Youth Development

Dare to Dream

Our Dare to Dream series creates opportunities for young people in Macau to study with world-class maestros of the arts, including music, cooking, fashion and architecture. In 2018, we launched Dare to Dream Culinary, with a six-month internship with Mr. Alain Ducasse and Mr. Pierre Hermé and Morpheus, City of Dreams, followed by two weeks overseas at the chefs' restaurants in Europe or Asia. 18 students in their 3rd year of a Culinary Arts Management degree programme at the Institute for Tourism Studies, took part in a cooking workshop to win one of the coveted spots. The winners began their internship in January 2019.

Orbis's Paediatric Eyecare Project

We have provided support to the Paediatric Eye Care project in Linyi, Shangdong province operated by Orbis Hong Kong since 2012. 2018 was the third year of a specific initiative to "strengthen the Pediatric Eye Care Network in Linyi, Shandong". Orbis partnered with the Lunan Eye Hospital to build up both surgical and training skills in handling complicated cases for pediatric patients such as cataract, strabismus and refractive errors. Service networks were extended to seven branch medical centers across the Linyi prefecture which has provided local children with access to high quality eye care. In 2018 alone, 8,320 children were medically treated, and 2,746 surgeries were conducted.

Education

Whole Person Development

Development of local people is a top priority for the Group. We focus on Whole Person Development, a holistic approach which embraces a generalist career path beyond a technical or functional-only focus, and where embedded learning programmes transcend classroom training, to include experiences that enhance personal growth; in turn creating a stronger foundation for sustainable success. Our programmes below support development of local people for management roles. In 2008, 38% of managers in Macau came from local communities; in 2018, that figure is over 80%.

Back to school

First launched by us in 2010, the in-house high school diploma programme was conducted in partnership with the Luso-Chinese school Luis Gonzaga Gomes, and the Education and Youth Affairs Bureau. This programme was developed to address the issue of people exiting education early to pursue a job.

"Melco YOU-niversity" programme

Since 2016, we have partnered with Edinburgh Napier University to coordinate the Melco YOU-niversity. Employees who enrol are able to work towards an in-house operated bachelor's degree programme while working. In 2018, we recognized the first 15 graduates from Melco YOU-niversity in an awards ceremony.

Environmental Conservation

Soap for Hope

City of Dreams Manila is the first integrated resort to participate in the "Soap for Hope" programme in the Philippines. This award-winning global programme cooperates with hotels to eliminate soap waste by hygienically reprocessing used soap into new soap bars and donating them to various charitable institutions. In 2018, we reprocessed over 5,000 used soap bars into new soap bars. Our resorts in Macau recently joined the 'Clean the World' Asia initiative, recycling slightly used soaps into as good as new soap bars that are donated to local and regional communities in need. The programme is expected to recycle nearly 2,000 kg of soap.

9. OUR ENVIRONMENT

We are harnessing the power of play to create a more sustainable future for our children and the planet, so providing our guests new experiences and possibilities, luxury, and entertainment in ways that also protect the environment is a top priority. That is why we have set ourselves ambitious environmental goals focused on:

- building and operating carbon neutral resorts;
- achieving zero waste resorts and contributing to the circular economy in Asia; and
- extending our positive impact by sourcing sustainable goods and services.

Through these goals we will show that a sustainable future is the only future and inspire others to do the same.

Carbon Neutral Resorts

We are playing our part in combating climate change by committing to achieving carbon neutrality[1] at all our resorts by 2030. This bold ambition will be built on continuously improving energy efficiency at our existing properties, and investing in renewable energy, innovation and other low- and no-carbon technologies such as electric vehicles.

Carbon neutrality is a demanding goal, but we are building a roadmap to achieve it with four main strategies: 1) reducing our energy consumption with energy efficiency measures; 2) switching from grid electricity to renewable electricity; 3) electrifying our fleet of vehicles over time to reduce the use of fossil fuels; and (4) reducing and offsetting our indirect footprint.

How we are doing

We are making substantial progress towards carbon neutrality across our four integrated resorts in Macau and Manila. Our absolute Scope 1 and 2 emissions have reduced by 95% since 2016, primarily due to the purchase of EACs[2] issued by the I-REC Standard.

1 As defined by The CarbonNeutral Protocol. The global standard for carbon neutral programmes. January 2018 Natural Capital Partners https://assets.naturalcapitalpartners.com/downloads/The_CarbonNeutral_Protocol_Jan_2018.pdf

2 An Energy Attribute Certificate, or EAC, is a certificate that provides information about the environmental attributes of one megawatt hour (MWh) of electricity.

GHG emissions & energy

GHG Emissions (2016-2018)*
In $MtCO_2e$ (metric tonnes carbon dioxide equivalent)

	2016	2017	2018
Scope 1 Emissions	13,581	15,132	19,781
Scope 2 Emissions (Market-based)**	363,226	328,225	–
Total Scope 1 and 2 Emissions	376,807	343,357	19,781
Emissions Intensity by Gross Floor Area*** (in square feet)	0.030	0.027	0.001

* Our GHG Inventory is calculated using an operating control approach. The inventory aligns with the Greenhouse Gas Protocol Corporate Accounting Standard (the "GHG Protocol") published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), and refers to the global warming potential (GPWS of the fifth assessment report (5AR) of the Intergovernmental Panel on Climate Change (IPCC). According to the GHG Protocol, a company's GHG emissions are classified into three "scopes". Scope 1 is emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.

** Scope 2 location-based emissions are reported in the GRI Content Index.

*** Total Gross Floor Area (GFA) is measured in square feet and covers the following properties: City of Dreams, Altira Macau, Studio City, Mocha Clubs, and City of Dreams Manila, as well as our corporate offices.

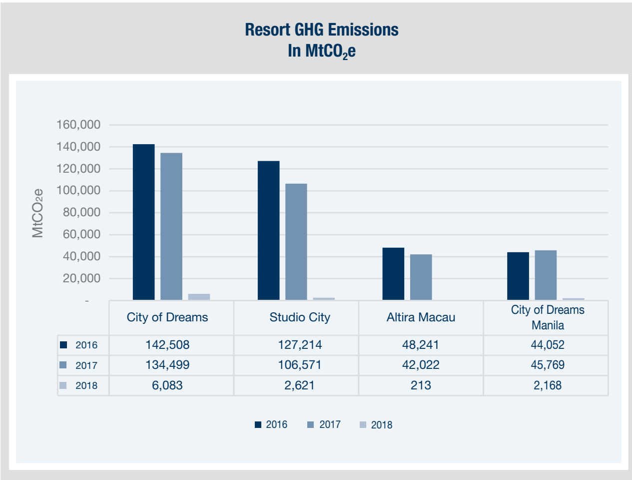
Energy Consumption (2016-2018)
In MWh (Megawatt hours)

	2016	2017	2018
Fuel consumption from nonrenewable sources	55,170	55,765	74,208
Fuel consumption from renewable sources	–	–	–
Electricity consumption from nonrenewable sources	423,089	409,666	–
Electricity consumption from renewable sources	–	–	431,060
Total energy consumption*	478,260	465,430	505,269
Energy Intensity by Gross Floor Area** (in square feet)	0.038	0.037	0.036

* Minor discrepancies in the total sums of individual components are due to rounding.

** Total Gross Floor Area (GFA) is measured in square feet and covers the following properties: City of Dreams, Altira Macau, Studio City, Mocha Clubs, and City of Dreams Manila, as well as our corporate offices.

Resort GHG emissions & energy

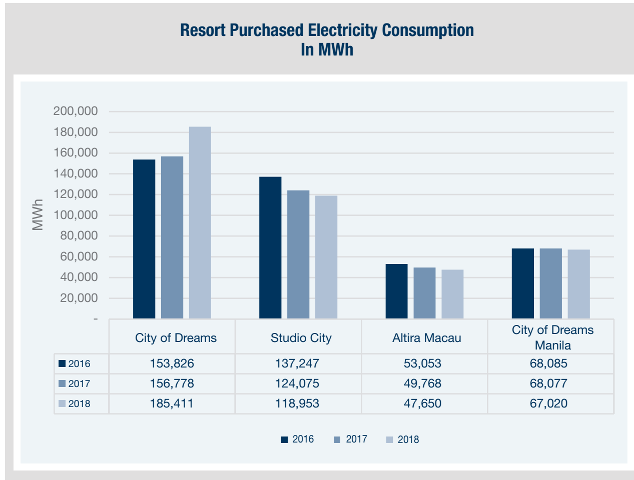


Reducing our energy consumption

Energy efficiency is always our preferred way of reducing our emissions. In 2018, we completed detailed energy audits and created environmental roadmaps at all our resorts. Some initiatives in 2018 included rolling out energy-efficient LED lighting for both exterior and interior illumination, installing photo-sensors in outdoor lights and staff lift lobbies, and optimizing our building management system at City of Dreams Manila to collect data from individual submeters and track energy use and temperature.

Excluding City of Dreams, which expanded significantly with the addition of Morpheus, between 2016 and 2018 we reduced energy consumption at each of our other three resorts by an average of 10%.

We are proud that Studio City received the CEM Energy Saving – Excellence Award in 2018 in recognition of its work to improve energy efficiency. There has been a simultaneous drop in the use of absolute electricity at this resort by 13% since 2016.



Transitioning to renewable energy

Renewable energy is the future. To play our part in accelerating adoption, we are investing in renewable energy markets in the locations where we operate, and in particular leading the way in Macau by implementing the first large scale onsite solar photovoltaic project. In addition to this, we are already procuring 100% of the electricity we use from renewable sources through our purchase of EACs or PowerPlus.

Macau's largest solar array

Close to 30,000 square meters of rooftop space at City of Dreams and Studio City is covered with over 18,000 solar photovoltaic panels. They will have the capacity to generate nearly 7.7 million kWh of energy per year - enough to power 1,500 households. Once fully operational, it will reduce our CO_2 emissions by more than 6,000 tons a year, roughly the same amount 260,000 trees would absorb in one year.

Stimulating the renewable energy market

Using our procurement power is an effective way for us to drive change. That is why 100% of the electricity used at our resorts in 2018 came from renewable sources through purchased EACs issued by the I-REC Standard from renewable energy projects in China and the Philippines. The I-REC Standard allows us to guarantee that our electricity is coming from renewable sources and via credible tracking systems, while also supporting local renewable energy markets.

Electrifying our vehicle fleet

In launching Macau's largest fleet of twenty zero-emission electric buses in September 2018, we celebrated not only reducing greenhouse gas emissions, but also an improvement in air quality and the health of our staff and local communities. The buses operate as guest shuttles between our resorts of City of Dreams, Studio City and Altira Macau. They represent a collaboration with manufacturer Zhengzhou Yutong Bus Company Limited and support broader government commitments for a greener Macau.

Achieving Zero Waste Resorts and Contributing to Circular Economy Leadership in Asia

We don't always think, as we drink from a bottle, straw or takeaway cup, of the impact such a simple act could have. But when that single action is amplified across our operations, its effects can become significant, and become part of a bigger problem of wasted resources and pollution.

That is why our goal is to be a leader in the circular economy movement in Asia, with zero waste resorts by 2030. To the Group, "zero waste" means sending no waste to landfill or incinerating waste without energy recovery.

To achieve zero waste, we will: 1) improve how we use resources, and eliminate waste in our operations, and 2) partner with our supply chain for innovative solutions that eliminate waste and enhance circularity.

This is not a new focus area for us; we received "Class of Excellence" rankings at our Hong Kong offices from Wastewi$e for ten consecutive years from 2009 to 2018 and "Class of Good" for the two previous years. Wastewi$e rankings evaluate three areas: reducing waste, recycling and buying recycled products.

Our Waste Footprint – Non-hazardous

Waste Disposal By Method (2016-2018)
In tons

	2016	2017	2018
Composting	29	32	71
Recycling	627	555	576
Incineration with Energy Recovery*	11,892	11,680	12,423
Incineration	–	2	7
Landfill	3,981	3,885	3,260
Total**	**16,528**	**16,154**	**16,337**
Waste Intensity by Gross Floor Area*** (in square feet)	0.0013	0.0013	0.0012

* Incineration with energy recovery is determined by Macau Authority.

** Minor discrepancies in the total sums of individual components are due to rounding.

*** Total Gross Floor Area (GFA) is measured in square feet and covers the following properties: City of Dreams, Altira Macau, Studio City, Mocha Clubs, and City of Dreams Manila, as well as our corporate offices.

Taking action on plastic waste

In 2018, we started working on a plan to eliminate all problematic and unnecessary plastic items; innovating to ensure that the plastics we do need are reusable, recyclable, or compostable; and reusing, recycling or composting to keep plastic in the economy and out of the environment. Focusing initially on drinking straws, water bottles, and packaging from the in-room amenity packs, we will also be expanding our efforts to all single use plastic amenity items and packaging across our operations.

This work involves colleagues from across the business and a range of new initiatives. Take bottled water as an example. We have installed over 100 water dispensers throughout our properties; we estimate these dispensers have saved over 390,000 half-litre bottles since 2017. At both Manila and Macau, we are 'lightweighting' water bottles by reducing the size and thickness of bottles and caps. Decreasing bottle weights by more than 26% will save close to 100 metric tonnes of plastic annually, addressing approximately 96% of Macau's and 90% of Manila's water bottle procurement[3].

Taking action on food waste

In Macau, we are composting 200kg of food waste a day, equivalent to 73 tons a year. By composting we can reuse organic waste, reduce associated CO_2 emissions and costs. At City of Dreams Manila, wormeries break down material such as eggshells, vegetable peelings, and gardening clippings, to produce vermiculture. This in turn is used as organic fertilizer on our grounds, reducing the need for chemical fertilizers. Food waste audits at our Heart-of-House canteens at City of Dreams and Studio City helped us identify improvements.

Water

Growing populations and climate change mean that water stress is an increasing issue globally. We are committed to using this precious resource responsibly. We have installed state-of-the-art equipment at our resorts to conserve water. The SYNERGY® system purifies water while reducing chemical use by up to 90%. A sophisticated filtration system for The House of Dancing Water at City of Dreams allows us to reuse pool water indefinitely. At Altira Macau we treat and recycle greywater from guestroom sinks, showers and baths to use as flush water, saving more than half of the freshwater normally required for flushing.

[3] Based on 2017 procurement figures. Weights are estimated using representational bottles from a single, primary supplier.

There are also many smaller scale water efficiency measures installed across our resorts. These include automatic sensors on all faucets, water-saving toilets and showers in hotel guest rooms, and a rainwater recovery system to store rainwater for irrigation. Additionally, we have invested in extensive planting to minimize water loss through wind evaporation from pools and river features. Behavioural change also plays a key role, as we train our colleagues to be water-conscious when cleaning guest rooms and public areas.

These initiatives have resulted in a relatively consistent water consumption profile over the last three years. Our City of Dreams Manila and Studio City resorts have achieved significant decreases in water consumption – over 20% and 9% respectively since 2016.

Water Use (2016-2018)
In m^3

	2016	2017	2018
By Location			
City of Dreams	1,072,140	1,078,463	1,302,178
Studio City	1,026,695	981,723	937,636
Altira Macau	381,596	391,692	413,273
City of Dreams Manila	685,454	597,792	544,561
Corporate offices	5,338	5,615	5,798
Mocha clubs	60,694	61,175	48,603
Japan	–	112	298
By Source			
Municipal Water	3,181,198	3,065,854	3,201,628
Recycled Water	50,718	50,718	50,718
Total*	**3,231,916**	**3,116,572**	**3,252,346**
Water Intensity by Gross Floor Area** (in square feet)	0.256	0.247	0.230

* Minor discrepancies in the total sums of individual components are due to rounding.

** Total Gross Floor Area (GFA) is measured in square feet and covers the following properties: City of Dreams, Altira Macau, Studio City, Mocha Clubs, and City of Dreams Manila, as well as our corporate offices.

10. OUR VALUE CHAIN

Sustainable Supply Chain Management

Sustainable sourcing

We work hand-in-hand with a wide array of suppliers to deliver excellent and quality services to our customers. Our sustainable purchasing means understanding more about the impacts of the goods and services we purchase and changing practices to reduce environmental impacts. It also means investing in local suppliers so that our resorts support the local economy and the communities that depend on it. In 2018, we implemented sustainable sourcing guidelines for three key product categories – cotton, cleaning products, and seafood. Over time, we will add other goods to our sustainable sourcing programme.

Cotton

In 2018, we launched our sustainable cotton sourcing guidelines which endorse and actively support the use of Better Cotton Initiative (“BCI”) cotton and OEKO-TEX® certified cotton products in our resorts. The STANDARD 100 by OEKO-TEX® certification ensures our products have been tested for harmful substances, providing reassurance to our guests that their safety has been put first. By the end of 2018, we had already made considerable strides with OEKO-TEX®:

- In our Macau resorts, over 95% of our bed linens and towels have obtained STANDARD 100 by OEKO-TEX® certification.
- Across all of our operations, over 70% of our bed linens and towels have obtained STANDARD 100 by OEKO-TEX® certification.

Our goal is for 100% of our bed linens and towels to be sourced from OEKO-TEX® certified suppliers by 2030, and 50% of our linens and towels to be from suppliers that support BCI in the same timeframe.

Cleaning products

In 2018, we reviewed all the cleaning products we use and introduced guidelines and a sustainability rating scheme for buyers. The guidelines state our preference for products that reduce environmental and human health impacts while maintaining quality. We encourage buyers to choose products with internationally recognized eco-labels such as Green Key, Green Seal and those that biodegrade easily, while avoiding products that contain certain chemicals that damage the environment and human health. We are also looking to ensure that products are used efficiently. We provide training to colleagues on the proper handling, use, storage, and disposal of cleaning products. In Manila, we have introduced computerized dispensing units to avoid waste. In 2018, Morpheus, Nüwa and The Countdown at City of Dreams and Studio City all received Green Key Awards. By achieving these awards, our workers and guests can be assured that we are continuously working to increase the number of cleaning products that are free of the harmful chemicals listed in the Green Key blacklist.

Seafood

To supply our restaurants and staff dining facilities across our resorts, we procure a large amount of high-quality seafood from around the world. By making a positive choice to purchase seafood products from sustainable fisheries and farms, we can play a role in promoting responsible management of fish stocks and the health or our oceans. To increase the amount of sustainable seafood we purchase, we have implemented sustainable sourcing guidelines that outline our preference for Marine Stewardship Council ("MSC"), Aquaculture Stewardship Council certified seafood, or Best Aquaculture Practices certified seafood. We also highly consider seafood sourced from fishery or aquaculture improvement projects or are listed as recommended or equivalent on reputable seafood rating systems.

To ensure that the MSC-certified seafood products we purchase are traceable throughout each stage of the supply chain and separated from non-certified products, we are working to obtain MSC Chain of Custody ("CoC") certification. We are also providing MSC CoC training to our supply chain and restaurant staff in early 2019 to help them make more sustainable seafood choices. Among other topics, the training will address the principles behind certification, present current MSC CoC suppliers in the region, and culminate with a workshop on sourcing specific species.

In 2018, we worked towards increasing the percentage of seafood we purchase from sustainable sources, and engaged a number of priority suppliers in supporting our efforts. We look forward to reporting our progress once we have completed MSC CoC certification.

Supplier Code of Conduct

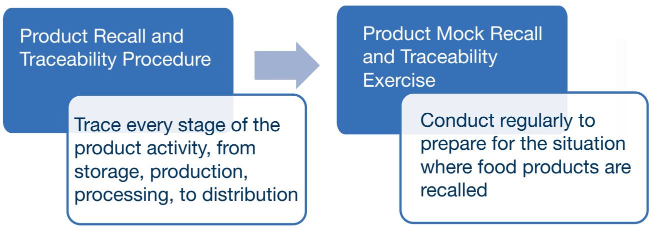
In addition, we have adopted a Supplier Code of Conduct in our Operational Policy Guidebook which served as a guideline to all staff, contractors and suppliers. To ensure suppliers align with our expectations, we regularly review supplier environmental and social performance. Suppliers who repeatedly fail to meet relevant laws and regulations will be terminated in due course.

Customer Care

With an ultimate goal of delivering innovative products and services and delivering higher value to our customers, our primary objective is to offer outstanding customer experiences in the field of leisure, entertainment and hospitality industry by providing quality services and amenities. We have taken extra care in managing advertising and marketing activities, and mitigating and controlling customers' health and safety risks. We ensure that we comply with all applicable laws and regulations when we advertise and deliver marketing materials.

As our hospitality business involves the delivery of excellent services and superior food and beverage options to customers, we have a series of stringent internal protocols in place to manage and alleviate customers' health and safety risks.

Our Food Safety Assurance Process



As one of the elements in the Hazard Analysis and Critical Control Points ("HACCP") Programme, City of Dreams, Altira Macau and Studio City conduct the product mock recall and traceability exercise at least twice a year by the food safety team. The programme is being audited and verified by an external certification body on an annual basis. In cases where the hazards are generated by raw materials, immediate action will be taken to trace products back to vendors, traders, distributors or manufacturers to identify the cause. We are conscious of food safety and both City of Dreams and Altira Macau have been HACCP certified.

The HACCP Committee consists of management representatives of over ten departments and divisions, and meets on a bi-weekly basis to oversee any food safety and hygiene related matters within the organizations. In addition, a quarterly food safety management review is conducted to reflect on the performance of food vendors, including a review of microbiological testing results and food safety related customer feedback.

Soliciting customer feedback

We pride ourselves in improving customer experiences and visitation by leveraging stakeholder feedback across many channels. We collect feedback through focus groups; face-to-face surveys; various online platforms and regularly through our employees. 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.

APPENDIX I – ESG REPORTING GUIDE CONTENT INDEX

Subject Area, Aspects, General Disclosures and KPIs		Section / Remarks	Page Number
A. Environment			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	ESG Vision & Strategy / Our Environment	41-42/ 52-57
KPI A1.1	Types of emissions and respective emissions data	Our Environment	52-54
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Our Environment	53-54
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	Not material to the Group.	/
KPI A1.4	Total non-hazardous waste produced and intensity	Our Environment	56
KPI A1.5	Description of measures to mitigate emissions and results achieved	Our Environment	52-56
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Our Environment	56-57
Aspect A2: Use of Resources			
General Disclosure	Policies on efficient use of resources including energy, water and other raw materials.	ESG Vision & Strategy / Our Environment	41-42/ 52-57
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Our Environment	53-54
KPI A2.2	Water consumption in total and intensity	Our Environment	56-57
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Our Environment	52-53
KPI A2.4	Description of whether there is any issue in sourcing water, water efficiency initiatives and results achieved	Our Environment	56-57
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced	Not material for the Group.	/
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	ESG Vision & Strategy / Our Environment / Society and Community	41-42/ 52-57/ 50-52
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Our Environment	52-57

Subject Area, Aspects, General Disclosures and KPIs		Section / Remarks	Page Number
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Our People	46-50
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Our People	47
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Our People	47
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Our People	49-50
KPI B2.1	Number and rate of work-related fatalities	Our People	49-50
KPI B2.2	Lost days due to work injury	Our People	49-50
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Our People	49-50
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Ethics / Responsible Gaming / Our People	43-45/ 45/46/ 48
KPI B3.2	The average training hours completed per employee by gender and employee category	Our People	48
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Our People We abide by relevant employment ordinances and statutory requirements. No relevant cases of non-compliance were recorded.	46-50

Subject Area, Aspects, General Disclosures and KPIs		Section / Remarks	Page Number
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Our Value Chain	57-59
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Our Value Chain	57-59
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Ethics / Responsible Gaming	44-45/ 45-46
KPI B6.4	Description of quality assurance process and recall procedures	Our Value Chain	59
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Ethics	45
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Ethics	43-45
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Ethics	43-45
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Ethics	43-45
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities' interests	Responsible Gaming / Society and Community	46/50-52
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Responsible Gaming / Society and Community	46/50-52
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Society and Community	50-52

APPENDIX II – GRI CONTENT INDEX

This Report references the following selected GRI Standards that are relevant for our Company.

GRI Disclosure Number	GRI Disclosure Title	Section / Remarks	Page Number
GRI General Standard Disclosures			
Organizational Profile			
GRI 102-1	Name of the organization	About this Report	39
GRI 102-4	Location of operations	About this Report	39/47
GRI 102-7	Scale of the organization	About this Report	47-48
GRI 102-8	Information on employees and other workers	Our People	47-48
GRI 102-9	Supply chain	Our Value Chain	57-59
GRI 102-10	Significant changes to the organization and its supply chain	In 2018, we opened a new gaming operation in Cyprus. Given that the site is not scheduled to open until 2021, environmental and community impacts were insignificant in 2018. We have included some information and data in the social sphere in this Report.	/
GRI 102-11	Precautionary Principle or approach	Corporate Governance Our precautionary approach is reflected in our enterprise risk management approach.	42-43
GRI 102-12	External initiatives	The Group endorses the following voluntary environmental and social charters/standards/sets of guiding principles: • Better Cotton Initiative (BCI) cotton • Foundation for Environmental Education (FEE) • Green Key • Green Hotel Awards organized by Macau Environmental Protection Bureau • GRI Sustainability Reporting Standards • Hazard analysis critical control points (HACCP) Food Safety Certificate Program • ISO14001 Environmental Management System (EMS) • STANDARD 100 by OEKO-TEX® certification • WasteWi$e Label Scheme • New Plastics Economy Global Commitment	/
Ethics & Integrity			
GRI 102-16	Values, principles, standards, and norms of behaviour	Ethics	43-45
GRI 102-17	Mechanisms for advice and concerns about ethics	Ethics	43-45
Strategy			
GRI 102-18	Governance structure	Corporate Governance	42-43
Stakeholder Engagement			
GRI 102-40	List of stakeholders	Our key stakeholders include: Investors, Raters/Rankers, Regional and International Governments, Employees, Communities, Business Partners and Suppliers.	/
GRI 102-42	Identifying and selecting stakeholders	About this Report / Society and Community	39-40/ 50-52
GRI 102-43	Approach to stakeholder engagement	About this Report	39-40

GRI Disclosure Number	GRI Disclosure Title	Section / Remarks	Page Number
GRI 102-46	Defining report content and topic Boundaries	About this Report	39-40
GRI 102-47	List of material topics	About this Report	39-40
Reporting Practice			
GRI 102-48	Restatements of information	We are not restating any baseline data for 2017, but we have adjusted our approach to collecting and disclosing data in 2018 for several key topic areas. We are reporting on turnover by Group, turnover by region, total charitable contributions each year and total number of employees who participate in CSR activities in 2018 to better align with how our core gaming and hospitality arm – Melco Resorts – manages and discloses this information. The scope of our environmental performance data is different for 2018 (energy consumption, greenhouse emissions, waste disposal, water use) as it does not include tenant hotels, tenant shops and restaurants, where we have limited control. We have also adjusted our approach to calculating intensity by Gross Floor Area by using square feet instead of square meters.	/
GRI 102-50	Reporting period	About this Report	39
GRI 102-52	Reporting cycle	We plan to release an annual ESG report.	/
GRI 102-53	Contact point for questions regarding the report	info@melco-group.com	/
GRI 102-55	GRI content index	This GRI Content Index Table	/
GRI Specific Standard Disclosures: Economic			
Topic: Economic Performance			
Topic: Anti Corruption			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Ethics	43-45
GRI 205-2	Communication and training about anti-corruption policies and procedures	Ethics	43-45
GRI Specific Standard Disclosures: Environment			
Topic: Materials			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Environment	55-56
GRI 301-2	Recycled input materials used	Our Environment We currently address sustainable materials by reducing single-use plastics used in the delivery of our services or by extending the life of materials through recycling and reuse, and will look to assess the amount of recycled input use in the near future.	55-56
Topic: Energy			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Environment	52-54
GRI 302-1	Energy consumption within the organization	Our Environment	53-54
GRI 302-3	Energy intensity	Our Environment	53-54

GRI Disclosure Number	GRI Disclosure Title	Section / Remarks	Page Number
Topic: Water			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Environment	56-57
GRI 303-3	Water recycled and reused	Our Environment	56-57
Topic: Emissions			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Environment	52-53
GRI 305-1	Direct (Scope 1) GHG emissions	Our Environment	53-54
GRI 305-2	Energy indirect (Scope 2) GHG emissions	Our Environment We use subregion grid (utility) emission factors for Scope 2 market-based calculations, and use IEA grid emissions factors for Scope 2 location-based calculations. Our Scope 2 location-based emissions in $MtCO_2e$ are as follows: **2016** / **2017** / **2018** 276,400 / 267,539 / 281,698	53-54
GRI 305-4	GHG emissions intensity	Our Environment	53-54
Topic: Effluents and Waste			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Environment	55-56
GRI 306-2	Waste by type and disposal method	Our Environment Because we generate an immaterial amount of hazardous waste, only non-hazardous waste totals are in the tables.	55-56
GRI Specific Standard Disclosures: Social			
Topic: Employment			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our People	46-50
GRI 401-1	New employee hires and employee turnover	Our People	47
Topic: Occupational Health & Safety			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our People	49-50
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Our People Note that we do not currently track or report on our total incident rate by gender. Our H&S policies, programs, and training are targeted at all colleagues.	49-50
Topic: Training and Education			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our People	48-49
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	Our People Note that we report on the type and scope of programs we provide to help employees upgrade their skills. We don't currently offer any programs to facilitate continued employability of employees who leave either through retirement or termination.	48-49

GRI Disclosure Number	GRI Disclosure Title	Section / Remarks	Page Number
Topic: Diversity & Equal Opportunity			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our People	47-48
GRI 405-1	Diversity of governance bodies and employees	Our People Note that we report on percentage of individuals within the organization's governance bodies from a gender perspective, and on our total global workforce by gender. We do not report on diversity by age group as this is not something we are actively managing.	47-48
Topic: Local Communities			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Society and Community	50-52
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	Society and Community All of our operations have community engagement and investment programs in place.	50-52
Topic: Customer Health & Safety			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Our Value Chain	57-59
GRI 416-1	Assessment of the health and safety impacts of product and service categories	Our Value Chain	57-59
GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No incidents of non-compliance with regulations and/or voluntary codes were identified during this reporting period.	/
Topic: Customer Privacy			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Ethics	45
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	We had no data breaches of significance nor did we receive any substantiated complaints in 2018.	/
Topic: Socioeconomic Compliance			
GRI 103-1 to 103-3	Explanation of the material topic and its Boundary	Ethics	43-45
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	No significant fines or non-monetary sanctions for non-compliance occurred during this reporting period.	/

CORPORATE GOVERNANCE REPORT

The maintenance of a high standard of corporate governance has been and remains a top priority of the Group. The Group is committed to promoting and maintaining the highest standard of corporate governance, with the objectives of (i) maintenance of responsible decision making; (ii) improvement in transparency and disclosure of information to shareholders; (iii) continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders; and (iv) improvement in management of risks and the enhancement of performance by the Group. We consider good corporate governance forms the core of a well-managed organisation.

CORPORATE GOVERNANCE PRACTICES

(a) Company's Corporate Governance Code

In 2005, the Company adopted its code on corporate governance (the "Company Code"), which sets out the corporate standards and practices used by the Company in directing and managing its business affairs. The Company Code was prepared and revised from time to time with reference to the principles, code provisions and recommended best practices stipulated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company Code not only formalizes the Company's existing corporate governance principles and practices, it also serves to assimilate practices with benchmarks prescribed by the Hong Kong Stock Exchange, ultimately ensuring that the Company runs a highly transparent operation and is accountable to its shareholders. The Company Code has been posted on the Company's website.

(b) Exceeding compliance requirements

In addition to the code provisions of the CG Code, the Company's corporate governance practices exceed the requirements of the CG Code in a number of aspects:

Code of conduct

To ensure the highest standard of integrity in our business, the Company has a written code of business conduct and ethics (the "Code of Conduct") which sets out the ethical standards of conduct expected of all employees. To strengthen corporate governance, the Code of Conduct was updated in 2018 to prohibit all employees from gambling at any gaming facility operated by the Group and to prohibit all employees from holding any loyalty club membership issued by any companies within the Group.

Briefings on the Code of Conduct are held for new employees during orientation sessions.

Whistle-blowing

The Company considers whistle-blowing channel is a useful means of identifying possible misconduct or fraud risks of a particular operation or function and encourages employees to raise concerns in good faith. The Group has formulated procedures for handling complaints and whistle-blowing at the Company and subsidiaries levels. All complaints and whistle-blowing are directed to the Company's Audit Committee Chairman, the Group General Counsel and the Group Internal Audit Director (the "Whistle-blowing Committee") concurrently for investigations.

Employees of the Company can report cases on (i) suspected violations of the Company policies, especially those related to accounting, internal accounting controls, and auditing matters; (ii) intentional error or suspected fraud in the preparation, review or audit of the Company's financial statements; and (iii) suspected theft or fraudulent activities.

During the year, the Whistle-blowing Committee did not receive any complaints or concerns raised by the employees.

For our principal subsidiary, Melco Resorts & Entertainment Limited ("Melco Resorts"), its employees can report any wrong-doing via the whistle-blowing hotline managed by an external party. All information reported to the external party is recorded anonymously and all complaints are reviewed by selected independent management members.

Price-sensitive/inside information

The Company has adopted a price sensitive information disclosure policy, which sets out the Company's policy in relation to the disclosure of price sensitive/inside information. This policy is updated from time to time to keep up with current regulations and market practices.

(c) Compliance of the Company Code and CG Code

Apart from the deviation mentioned below, the Company has complied with the Company Code and the code provisions of the CG Code during the year ended 31 December 2018.

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 "Board") of directors of the Company (the "Directors"), 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 BOARD OF DIRECTORS

Role of the Board

The Board is entrusted with the overall responsibility for promoting the success of the Company by directing and supervising the Company's business and affairs. The ultimate responsibility for the day-to-day management of the Company is delegated to the Chief Executive Officer, President and Managing Director and management.

Lists of (i) duties and powers delegated by the Board to the Chief Executive Officer and matters reserved for decision of the Board and (ii) division of responsibilities between the Company's Chairman and Chief Executive Officer are clearly established and set out in writing.

Composition of the Board

The Board comprises a total of eight Directors, with 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. The number of Independent Non-executive Directors represents more than one-third of the Board and complies with Rule 3.10A of the Listing Rules.

The Non-executive Directors, all of whom are independent of the management of the Group's business, are professionals with substantial experience in legal, accounting, financial management, business and media. The mix of their skills and business experience is a major contribution to the future development of the Company. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision-making process. In addition, they ensure the Company maintains a high standard of financial and legal reporting and provide checks and balances to safeguard the interests of the shareholders.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the guidelines.

All Directors have formal letters of appointment from the Company, which set out the key terms and conditions of their appointment. Each Non-executive Director was appointed for a term of three years.

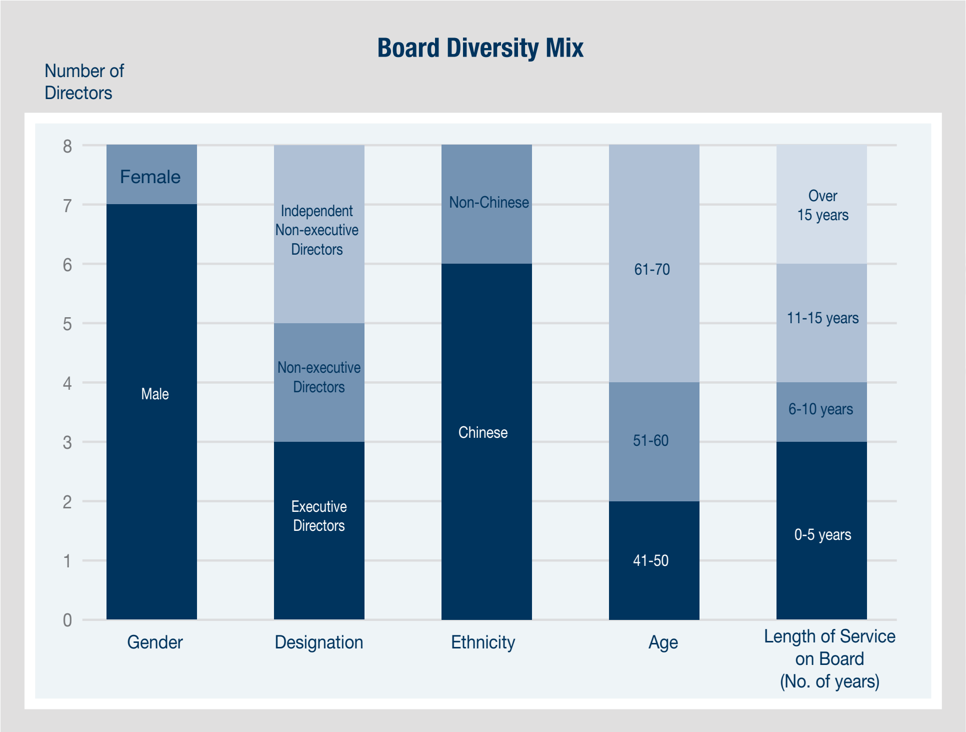
Under the Company's Articles of Association, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. This year, Mr. Evan Andrew Winkler, Mr. Chow Kwong Fai, Edward and Dr. Tyen Kan Hee, Anthony will retire from office by rotation at the forthcoming annual general meeting. Ms. Karuna Evelyne Shinsho, who was appointed during the year to fill the vacancy occasioned by the retirement of Mr. Sham Sui Leung, Daniel, will also retire at the forthcoming annual general meeting (the "AGM").The biographical details of the retiring Directors who will offer themselves for re-election at the AGM will be set out in a circular to assist shareholders to make an informed decision on their re-elections.

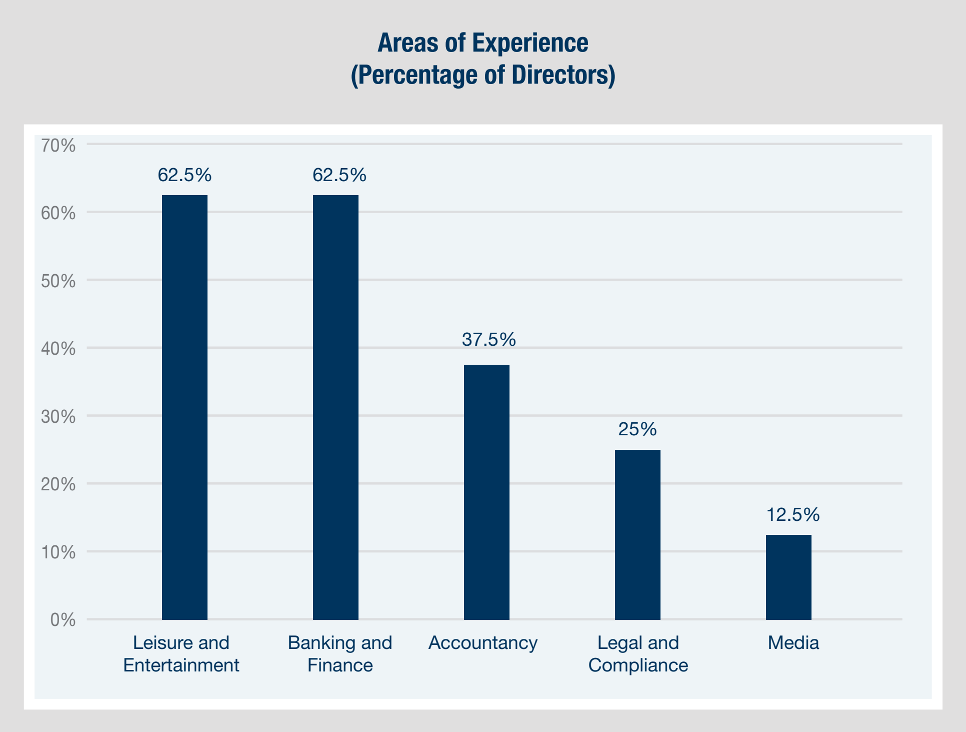
Board Diversity Policy

We believe board diversity enhances decision-making capability, allowing for different perspectives, and that a diverse board has the breadth and depth of skills and experience to steer and oversee the dynamic and emerging business of the Group. We recognize that board diversity is a vital contributing element to the sustainable development and growth of the Group.

The Board adopted a board diversity policy (the "Board Diversity Policy") in August 2013 which sets out the approach by the Company to achieve diversity on the Board. This policy is available on the Company's website. The Company considers diversity can be achieved from different age, gender, cultural and educational background, ethnicity, professional experience, skills and knowledge. Under the Board Diversity Policy, all Board appointments are considered according to objective criteria, having regard to benefits of diversity, and decided on merits. The Nomination Committee is in charge of implementing this policy and reports annually on Board appointment process in the Corporate Governance Report. This year, Ms. Karuna Evelyne Shinsho has been appointed as an Independent Non-Executive Director. Ms. Shinsho is the first female director of the Company with extensive experience in the media industry in Japan, USA, Singapore and Hong Kong. Her appointment enhanced the Board's diversity in gender, background and skills.

The diversity mix of the Board at the date of this report is summarized in the following charts:





Directors' Training

The Company Secretary is responsible for keeping Directors informed of changes in laws and regulations and organizing continuing development programme. Every Director will receive a comprehensive orientation package on appointment.

All Directors have participated in continuous professional development to develop and refresh their skills and knowledge in accordance with Paragraph A.6.5 of the CG Code. During the year, the Company has invited Ernst & Young to provide a seminar to our Directors on the topic of "Updates on the Listing Rules". From time to time, the Company Secretary provides the Directors with information on external training courses and updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements. A summary of training received by Directors during the year of 2018 is set out below:

Board Meetings

The Directors met five times during the year of 2018. In addition, the Chairman met the Non-executive Directors once without the presence of the Executive Directors.

Wherever possible, ample notice of the Board meetings was given, and Board papers were provided in advance to Directors to enable them to prepare for the meetings. The Company Secretary keeps full records of the Board meetings.

	Type of Continuous Professional Development	
	Attending seminars/ workshops/ conferences relevant to the business of the Company or directors' duties	**Reading regulatory updates**
Executive Directors		
Mr. Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*	✓	✓
Mr. Evan Andrew Winkler *(President and Managing Director)*	✓	✓
Mr. Chung Yuk Man, Clarence	✓	✓
Non-executive Directors		
Mr. Tsui Che Yin, Frank	✓	✓
Mr. Ng Ching Wo	✓	✓
Independent Non-executive Directors		
Mr. Chow Kwong Fai, Edward	✓	✓
Dr. Tyen Kan Hee, Anthony	✓	✓
Mr. Sham Sui Leung, Daniel*	✓	✓
Ms. Karuna Evelyne Shinsho**	✓	✓

* Retired as a Director on 7 June 2018.

** Appointed as a Director with effect from 28 August 2018.

Board and Board Committee Attendance

The attendance records of the Directors at Board meetings, Board committee meetings and general meeting during the year ended 31 December 2018 are as follows:

	No. of meetings attended/held					
Name of Director	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	Corporate Governance Committee meeting	Annual general meeting
Executive Directors						
Mr. Ho, Lawrence Yau Lung	5/5	–	–	–	–	1/1
Mr. Evan Andrew Winkler	5/5	–	–	–	–	1/1
Mr. Chung Yuk Man, Clarence	5/5	–	–	–	–	1/1
Non-executive Directors						
Mr. Tsui Che Yin, Frank	5/5	–	–	–	–	1/1
Mr. Ng Ching Wo	4/5	2/3	2/2	2/2	1/2	1/1
Independent Non-executive Directors						
Mr. Chow Kwong Fai, Edward(1)	4/5	1/2	–	2/2	–	0/1
Dr. Tyen Kan Hee, Anthony	5/5	3/3	2/2	2/2	2/2	1/1
Mr. Sham Sui Leung, Daniel(2)	1/1	1/1	1/1	–	1/1	1/1
Ms. Karuna Evelyne Shinsho(3)	2/2	–	–	–	–	–
Average Attendance Rate	**95.56%**	**79.17%**	**100.00%**	**100.00%**	**83.33%**	**87.50%**

Notes:

1. Appointed as a member of the Audit Committee with effect from 7 June 2018 and a member and the chairman of the Remuneration Committee with effect from 28 August 2018.

2. Retired as a Director and ceased to be a member and the chairman of the Remuneration Committee and a member of the Audit Committee and Corporate Governance Committee with effect from the conclusion of the annual general meeting held on 7 June 2018.

3. Appointed as a Director and a member of the Remuneration Committee with effect from 28 August 2018.

Procedure to Enable to Seek Independent Professional Advice

To assist the Directors to discharge their duties to the Company, the Board has established written procedures to enable the Directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any Director for such independent professional advice in 2018.

Securities Dealings by Directors and Employees

The Company has its own code for dealing in the Company's securities by the 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 that they have complied with the required standards set out in the Code of Securities Dealings throughout the year of 2018.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company. In 2018, no claims under the insurance policy were made.

DELEGATION BY THE BOARD

Management Functions

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board has established in writing which issues require decision of the full Board and which can be delegated by the Board to the Chief Executive Officer.

The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans, monitoring the performance of senior management and assuming responsibility for major decisions, significant transactions and corporate governance. The Board also reviews and approves the Company's annual budget and business plans, which serve as important benchmarks in assessing and monitoring the performance of the management.

The management, under the leadership of the Chief Executive Officer and the President and Managing Director, is responsible for implementing the strategies and plans established by the Board. To ensure effective discharge of the Board's responsibilities, the management submits monthly and annual operations reports to the Board. The Directors have full and ready access to the management on the Company's business and operations.

Board Committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated to various committees, which review and make recommendations to the Board on specific areas. Chairmen and members of the committees are set out in the section headed "Corporate Information" on pages 235 to 236 of this annual report.

Each committee has its defined terms of reference and has power to decide on matters within its terms of reference. The Board committees' terms of reference have been posted on the Company's website under the section headed "Corporate Governance".

Each committee is provided with sufficient resources to perform its duties. It may seek independent professional advice at the Company's expense, where necessary.

(1) Executive Committee

The Executive Committee is made up of the Company's Executive Directors and senior management. The Executive Committee operates as a general management committee under the direct authority of the Board to oversee the implementation of the Group's strategic objectives and risk management policy and the Group's business and operations. During the year, the committee met nine times to discuss the Company's business, new projects and makes decisions on matters relating to the management and operations of the Group.

(2) Audit Committee

The Audit Committee is made up of two Independent Non-executive Directors, Dr. Tyen Kan Hee, Anthony (chairman of the committee) and Mr. Chow Kwong Fai, Edward, and a Non-executive Director, Mr. Ng Ching Wo.

The role of the Audit Committee is to (a) monitor external auditor's work, appointment and remuneration, (b) review the Group's financial statements and published reports, (c) provide advice and comments thereon to the Board and (d) review and supervise the financial reporting process and review the internal control and risk management systems of the Group.

The detailed duties and powers of the Audit Committee are set out in the committee's terms of reference, which align with the requirements of the CG Code and the guidelines issued by the Hong Kong Institute of Certified Public Accountants.

The committee met three times during the year and a summary of work done is set out below:

(a) reviewed the annual financial results of 2017 and interim financial results of 2018;

(b) reviewed and approved the 2017 annual report and 2018 interim report;

(c) reviewed the significant findings and recommendations from the internal auditor and external auditor, and monitored their implementations;

(d) reviewed the effectiveness of the internal control systems of the Group;

(e) approved the internal audit plan for 2018;

(f) reviewed the risk management report;

(g) endorsed the amended risk management policy;

(h) endorsed the amended related party transaction policy;

(i) endorsed the establishment of the environmental, social and governance ("ESG") taskforce and the ESG risk management and internal control policy;

(j) approved the provision of tax consultancy services by Ernst & Young Tax Services Limited to the Company and/or its subsidiaries; and

(k) reviewed and considered the auditor's remuneration.

(3) Nomination Committee

The Nomination Committee is made up of two Independent Non-executive Directors, Dr. Tyen Kan Hee, Anthony (chairman of the committee) and Mr. Chow Kwong Fai, Edward, and a Non-executive Director, Mr. Ng Ching Wo.

The committee reviews the Board's size and composition and advises the Board on appointment of new directors. It met twice during the year and a summary of work done is set out below:

(a) reviewed the structure, size, composition and diversity of the Board;

(b) reviewed the board diversity policy;

(c) assessed the independence of Independent Non-executive Directors;

(d) considered and recommended to the Board on the appointment of Ms. Karuna Evelyne Shinsho as an Independent Non-executive Director; and

(e) nominated Board candidates to stand for election by shareholders at the Company's 2018 annual general meeting.

The Company adopted a nomination policy (the "Nomination Policy") which sets out the criteria and process of the nomination and appointment of Directors. The criteria to select candidate for directorship include the candidate's age, skills, competence, experience, expertise, professional and educational qualifications, background and personal qualities, whether the candidate can devote sufficient time and commitment to carry out his/her duties, any potential conflict of interests of the candidate, independence of the candidate (for appointment of Independent Non-executive Directors only) and other factors as the Nomination Committee considers appropriate in assessing the candidate. Nomination of new Directors will be made by the Nomination Committee and is subject to the Board's approval. External consultants may be engaged, if necessary, to access a wider range of potential candidates.

During the year, following the retirement of Mr. Sham Sui Leung, Daniel as an Independent Non-executive Director, the Nomination Committee, after considering nominations of candidates from Board members, nominated Ms. Karuna Evelyne Shinsho to the Board. The nomination was made in accordance with the Nomination Policy and the objective criteria including the age, gender, cultural and educational background, ethnicity, professional experience, skills, knowledge, with due regard for the benefits of diversity, as set out under the Board Diversity Policy. Based upon the recommendation of the Nomination Committee, the Board made decision on the appointment.

(4) Remuneration Committee

The Remuneration Committee is made up of three Independent Non-executive Directors, Mr. Chow Kwong Fai, Edward (chairman of the committee), Dr. Tyen Kan Hee, Anthony and Ms. Karuna Evelyne Shinsho, and a Non-executive Director, Mr. Ng Ching Wo.

The Company has a remuneration policy (the "Remuneration Policy") in place. When considering remuneration of Executive Directors and senior management, the committee considers a number of factors, including salaries paid by comparable companies, job responsibilities, and individual and company performance. Details of emoluments of the Directors, Chief Executive and senior management are set out in notes 12 and 48(b) to the consolidated financial statements.

The committee formulates remuneration policy for Executive Directors and senior management and determines the remuneration packages of Executive Directors and senior management as well as guidelines on salary revision and bonus distribution to the Group's employees (other than the employees of Melco Resorts and its subsidiaries). It met twice during the year and a summary of work done is set out below:

(a) reviewed and approved management's proposal on compensations to certain senior management members in respect of a restructuring plan;

(b) reviewed and approved management's proposal on salary revision of and discretionary bonus distribution to the Group's employees;

(c) reviewed and approved remuneration of Executive Directors and senior management after assessing their performance;

(d) reviewed the remuneration of Non-executive and Independent Non-executive Directors;

(e) reviewed and approved the compensation package of the Chairman and Chief Executive Officer and the President and Managing Director of the Company;

(f) considered and recommended to the Board on grant of share award and share options to the Directors, employees and consultants of the Group; and

(g) considered and recommended to the Board the payment of directors' fee to a newly appointed Director and new chairman and member of the Remuneration Committee.

During the year, there was no new service contract of any Executive Director which requires the Nomination Committee's approval.

Emoluments paid or payable to the senior management (whose profiles are included in "Management Profile" section of this annual report) for the year ended 31 December 2018 fell within the following bands:

Emolument bands (HK$)	Number of individuals
Below HK$15,000,000	2
HK$15,000,001 – HK$30,000,000	–
HK$30,000,001 – HK$45,000,000	1

(5) Corporate Governance Committee

The Corporate Governance Committee is made up of a Non-executive Director, Mr. Ng Ching Wo (chairman of committee), an Independent Non-executive Director, Dr. Tyen Kan Hee, Anthony and a non-voting co-opted member, Mr. Leung Hoi Wai, Vincent.

The committee assists the Board to perform corporate governance functions. The Board has delegated the following corporate governance duties to the Corporate Governance Committee:

(i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

(ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) developing, reviewing and monitoring the Code of Conduct and compliance manual applicable to employees and Directors; and

(v) reviewing the Company's compliance with the code provisions and disclosure in the Corporate Governance Report.

The committee met twice during the year and a summary of work done is set out below:

(a) reviewed the Company's compliance with the Company Code and the CG Code;

(b) reviewed the revised procedures for handling complaints and whistle-blowing;

(c) reviewed the Company's policies and practices on corporate governance and on compliance with legal and regulatory requirements; and

(d) reviewed the training and continuous professional development of Directors and senior management.

(6) Finance Committee

The Finance Committee is made up of the Company's Executive Directors and the Chief Financial Officer (in a non-voting capacity). The Finance Committee holds meetings from time to time to discuss financial matters of the Group. It conducts review on Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets, major acquisitions and investments and their funding requirements.

(7) Regulatory Compliance Committee

The Regulatory Compliance Committee is made up of the Company's Executive Directors and the Group General Counsel (in a non-voting capacity). The Regulatory Compliance Committee holds meetings from time to time to discuss compliance matters of the Group. It reviews and advises on matters relating to regulation of the Company's gaming business and compliance of applicable laws, regulations and Listing Rules.

COMPANY SECRETARY

The Company Secretary supports the Board and Board committees and facilitates good information flow between them and the Company's management. The current Company Secretary is an employee of the Company and reports to the Chairman and Chief Executive Officer. All Directors have access to the Company Secretary's advice and services. Being the primary channel of communications between the Company and the Hong Kong Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Group's corporate governance practices.

During the year, the Company Secretary has complied with the training requirement of the Listing Rules.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of the Group's financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"). These responsibilities include designing, implementing and maintaining the necessary internal control system, ensuring that the Group's financial statements are free from material misstatement, applying the appropriate accounting policies and making reasonable accounting estimates. The responsibilities of external auditor are set out in the Independent Auditor's Report on pages 116 to 121 of this annual report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the fees paid or payable by the Company to its external auditors for providing audit and non-audit services amounted to approximately HK$1.7 million and HK$1.8 million (2017: HK$1.6 million and HK$2.4 million) respectively. The non-audit services mainly included interim review, taxation and advisory services.

In respect of the auditor's remuneration for the audit services paid or payable by the Company and its subsidiaries, respectively, please refer to note 11 to the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group upholds the highest standards of integrity and credibility across all levels of its organization.

The Board acknowledges its responsibility for establishing and maintaining sound systems of risk management and internal control (including those for ESG-related risks) on an ongoing basis to safeguard the shareholders' investment and the Group's assets. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covers major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment.

To fulfil this responsibility, the Board's Executive Committee is assigned to oversee the implementation of the Group's risk management and internal control policy (the "Risk Management Policy") and ESG risk management and internal control policy (the "ESG Policy") and to monitor the business and operations of business units of the Group. The Board also assigned the Audit Committee to review and supervise the financial reporting process and oversee the risk management and internal control systems (including those for ESG-related risks) of the Group.

Risk Management System

The Group risk management system combines a top-down strategic view with a bottom-up operational process.

A Risk Management Taskforce in overseeing and assessing the Group's risk management framework has been set up under the Executive Committee and the Risk Management Policy has been adopted by the Board. The Risk Management Policy provides a risk assessment framework to identify and evaluate the material business risk, operational risk, financial risk and compliance risk. The Risk Management Taskforce assists the Board and the Audit Committee in overseeing the risk management system, which focuses on the leading and coordination of works during the financial year, including risk identification, risk assessment, risk recommendation, risk management reporting and the establishment of the risk inventory of the Group based on the results of the risk assessment work performed with greatest perceived risks through inquiries with key management personnel.

During the year, the Risk Management Taskforce reviewed the Group's risk management framework and conducted risk assessment on different categories. Results of the work covering areas such as finance, governance, operations, compliance, strategic and planning risks are submitted to the Executive Committee, Audit Committee and the Board for review and discussion. Those risks identified are considered to be in line with the Company's overall risk appetite and objectives.

Our principal subsidiary Melco Resorts, which is separately listed on NASDAQ, has its own risk management system. The risk and compliance department is tasked with overseeing and assessing the risk management framework. The risk management policy, adopted by the Melco Resorts' board, provides a risk management framework to identify, analyse and evaluate the material business risk, operational risk, financial risk, compliance risk and ESG-related risk. The risk and compliance department, led by the Chief Risk Officer (the "CRO"), assists the Melco Resorts' board and audit and risk committee in overseeing the risk management system. On a bi-annual basis, a strategic risk assessment and mitigation report (the "SRAM Report") covering areas such as finance, governance, operations, compliance, strategic and planning risks, is submitted by the CRO to Melco Resorts' audit and risk committee and board of directors for review and discussion. The SRAM Report is also presented to the Company's Risk Management Taskforce for review.

ESG Risk Management

In August 2018, an ESG Taskforce has been set up under the Executive Committee to assist the Board and the Audit Committee in overseeing the Group ESG risk management and internal control systems and the ESG Policy has been adopted by the Board.

The ESG Policy provides a ESG risk management and internal control framework and directions to management personnel in applying a consistent risk management system in which the significant ESG risk issues are identified, considered and addressed to ensure (i) the Group's ESG risk management and internal control systems being appropriate and effective; (ii) the Company's compliance with the Listing Rules as amended from time to time; and (iii) the Group operating on a sustainable basis by maintaining and enhancing the Group's economic, environmental, social, community contributions and commitments in the long term.

To reflect the business which has a material impact on the Group's environmental and social performance, the ESG risk assessment covers the operations of Melco Resorts. In 2018, the Group has engaged an external ESG consultant to (1) conduct independent materiality assessment and confirm material sustainability topics of the core gaming and hospitality operations; (2) prepare the ESG report for the Company to meet with the Listing Rules reporting requirements; and (3) prepare the Melco Resorts Sustainability & Corporate, Social and Responsibility ("CSR") Report in accordance with the GRI Standards and Industry Practice. For energy efficiency, Melco Resorts has also conducted detailed energy audits and created environmental roadmaps at all resorts of the Group.

During the year, the ESG Taskforce or its representatives had frequent communications with the CSR committee and responsible gaming committee of Melco Resorts on the ESG related matters. The ESG Taskforce reviewed the ESG materiality assessment results and the ESG report conducted by the consultant, and conducted an assessment of effectiveness of the Group's ESG risk management and internal control systems. The report of which has been submitted to the Executive Committee, Audit Committee and the Board for review.

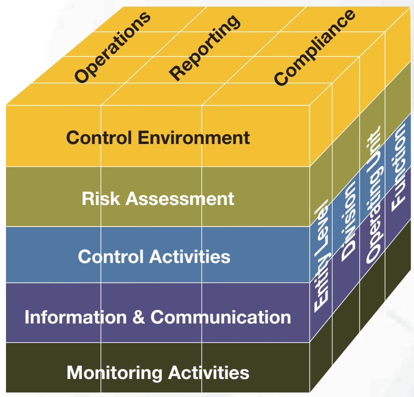
The ESG Taskforce, on behalf of the management, has conducted a review of the appropriateness and effectiveness of the Group's ESG risk management and internal control systems and confirmed to the Board that the systems are effective. Disclosures relating to the material ESG issues identified have been included in the ESG Report (set out on pages 38 to 66 of this annual report) pursuant to the requirements of Appendix 27 to the Listing Rules.

Internal Control System

The Group has an Internal Audit Department which reports directly to the Audit Committee. Internal Audit Department provides the Audit Committee and the Board with useful information and recommendations on the effectiveness of the Group's internal control system. Internal audit reports are submitted to the Audit Committee and the Board for review with recommendations adopted to further enhance the effectiveness of the internal controls.

Internal Audit Department reviews and assesses the effectiveness of the Group's internal control system by adopting a risk-based audit approach based on the Internal Control – 2013 Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Internal Audit Department adopts the COSO 2013 framework and applies the following five components of the integrated framework to conduct the review assessment:



(1) ***Control Environment***

Control environment is a set of standards, processes, and structures that provides the basis for carrying out internal control. The Board and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct. Factors of control environment include ethical values, Board's oversight responsibility and competence of personnel.

(2) ***Risk Assessment***

Risk assessment involves a dynamic and iterative process for identifying and analysing relevant risks to the achievement of the objectives, including risks relating to the changing economic, industry, regulatory, business model and operating conditions, as a basis for determining how such risks should be mitigated and managed.

(3) ***Control Activities***

Control activities are the actions established by policies and procedures which help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels and at various stages within business processes, and over the technology environment.

(4) Information and Communication

Information and communication comprise effective processes and systems to obtain or generate relevant and quality information in support of achievement of the objectives and internal control responsibilities.

(5) Monitoring Activities

Monitoring activities are a set of processes that assesses the adequacy and quality of the internal control system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluation or a combination of two. Internal control deficiencies will be reported in a timely manner to senior management, the Audit Committee, or the Board.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with requirements of Securities and Futures Ordinance (the "SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Audit Committee Supervision

The Audit Committee holds the necessary meetings with the head of Finance Department, the Group Internal Audit Director and the external auditor to review the financial statements and auditor's reports on financial, internal control and risk management matters. The Audit Committee reports to the Board on significant internal control and risk management matters, suspected frauds or irregularities, and alleged infringement of laws, rules and regulations, which come to their attention.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems for 2018 covering all material financial, operational and compliance controls and risk management functions, and considers that the systems are adequate and effective. The Board, through the Audit Committee, has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, and considered that they are adequate.

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene Extraordinary General Meeting and Putting Forward Proposal at Annual General Meeting

Under Section 566 of the Companies Ordinance, shareholders holding not less than 5% of the total voting rights may request the directors to call a meeting. The request must state the general nature of business to be dealt with at the meeting and may include the text of a resolution that is intended to be moved at the meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or in electronic form and must be authenticated by the person(s) making it.

If the directors do not within 21 days from the date of the making of a request (after verification) proceed to convene the general meeting, the shareholders concerned, or any of them representing more than one-half of their voting rights, may themselves convene a general meeting, but any general meeting so convened cannot be held three months after the making of the request.

Under Section 615 of the Companies Ordinance, shareholders may request a company to move a resolution at the annual general meeting. The request must be in writing and made by:

(a) shareholders holding at least 2.5% of the voting rights of shareholders entitled to vote on that resolution; or

(b) not less than 50 shareholders having the right to vote on that resolution.

The written request may be sent to the Company in hard copy or in electronic form and must identify the resolution of which notice is to be given. It must be authenticated by the person(s) making it and be received by the Company not less than six weeks before the annual general meeting to which the request relates, or, if later, the time at which notice is given of that meeting.

Procedures for Nomination of Directors for Election

Under Article 102 of the Company's Articles of Association, shareholders are entitled to elect a person to be a Director at a general meeting. The procedures for nomination of Directors for election are available on the Company's website.

Enquiries to the Board

Shareholders have a right to put enquiries to the Board. All enquiries should be in writing and sent to the Company Secretarial Department or the Corporate Communications Department at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or by email to info@melco-group.com.

COMMUNICATION WITH SHAREHOLDERS

Dividend Policy

The Company has a dividend policy (the "Dividend Policy") in place to allow its shareholders to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities. Pursuant to the Dividend Policy, the Company intends to provide its 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.

Annual General Meeting

The Company considers the annual general meeting an important event, as it provides an opportunity for the Board to communicate with the shareholders. The Company supports the CG Code's principle to encourage shareholders' participation. Questioning by shareholders at the Company's annual general meeting is encouraged and welcomed.

The Board Chairman, Board committees' chairmen (or their delegates) and the Company's auditor attended the 2018 annual general meeting and were on hand to answer questions.

Shareholders' Communication Policy

The Company Secretarial Department and Corporate Communications Department respond to letters, emails and telephone enquiries from shareholders/investors. Shareholders and investors may contact the Company by email to info@melco-group.com or by mail to the Company Secretary at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The website of the Company at www.melco-group.com also provides a medium to make information of the Group available to shareholders. Shareholders may refer to the "Shareholders' Communication Policy" posted on the Company's website for further details.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in submitting to shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments is set out in note 4 to the consolidated financial statements.

BUSINESS REVIEW

General

The business review of the Group for the year ended 31 December 2018, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, is set out in the "Chairman & CEO's Statement" and "Management Discussion and Analysis" on pages 16 to 17 and 18 to 33 respectively of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is set out on pages 12 to 13 and in the Group's Five Years Financial Summary on page 234 of this annual report.

Our ESG Commitment

The board of Directors (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 adopting an ESG risk management and internal control policy (the "ESG 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 resorts, 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 "Class of 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.

Our Compliance with Laws & Regulations

During the financial year ended 31 December 2018, the Group has complied with the requirements under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Details of the Group's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the Listing Rules are provided in the "Corporate Governance Report" on pages 67 to 79 of this annual report.

We complied with relevant laws and regulations that have a significant impact on our Group's business through established internal policies and mechanisms. Regarding anti-money laundering ("AML")/counter-terrorist financing and anti-corruption, we complied with applicable laws in the regions where we operate, including without limitation the Prevention of Bribery Ordinance of Hong Kong (Chapter 201 of the Laws of Hong Kong), the AML Rules and Gaming Operations Special Provisions in Macau and the AML Act in the Philippines. We have a formal anti-corruption policies in place at both the Company and subsidiary levels, which takes into account regulatory requirements and expectations, as well as industry demands, to ensure that regulatory compliance is maintained at the highest monitoring standards. Our comprehensive codes of business conduct and ethics include prevention of bribery and AML sections to make sure that all employees are fully aware of the laws of applicable jurisdictions regarding anti-corruption and AML. We also have an established whistle-blowing mechanism to ensure that a channel to report any misconduct or fraud actions is available to all employees. The Group's ethical approach to business and responsible gaming was recognized through being named Socially Responsible Operator of the Year at 12th International Gaming Awards and receiving the Gaming Operator of the Year, Australia & Asia award at the 2018 International Gaming Awards.

To protect data privacy, we meet or exceed the requirements of the data privacy regulations in the jurisdictions in which we operate, including the Macau Personal Data Protection Act. To safeguard the interests of our employees, the Group has complied with the requirements of the Employment Ordinance, the Minimum Wage Ordinance and ordinances as well as other employment laws and regulations in the regions we operate, relating to disability, sex, family status, race discrimination and occupational safety through established internal policies and/or procedures. Finally, we met or exceeded all local regulations relating to our gaming activities in the relevant jurisdictions.

Our ESG Reporting

Further discussions on the Group's ESG policies and practices, relationships with its employees, shareholders, suppliers and customers and compliance with the laws and regulations are contained in the "Environmental, Social and Governance Report" on pages 38 to 66 of this annual report in compliance with the requirements of the Listing Rules and with reference to the applicable GRI Standards.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 122 to 123 of this annual report.

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

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.

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.

NON-CURRENT ASSETS

Details of movements of non-current assets (including property, plant and equipment, investment properties, land use rights, gaming license and subconcession, goodwill, trademarks and other intangible assets) during the year are set out in notes 17, 18, 19, 20, 21, 22 and 23 respectively, to the consolidated financial statements.

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2018 are set out in note 37 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the consolidated financial statements and reclassified as appropriate, is set out on page 234 of this annual report. This summary does not form part of the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution consisted of capital reserve and retained profits of approximately HK$7,053,000 and HK$3,369,086,000 respectively (2017: HK$7,053,000 and HK$2,936,420,000 respectively). The Company considered it has fulfilled those conditions required for distribution of capital reserve.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the five largest customers accounted for less than 30% of the Group's total turnover and the five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued shares) has any interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors
Mr. Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*
Mr. Evan Andrew Winkler *(President and Managing Director)*
Mr. Chung Yuk Man, Clarence

Non-executive Directors
Mr. Tsui Che Yin, Frank
Mr. Ng Ching Wo

Independent Non-executive Directors
Mr. Chow Kwong Fai, Edward
Mr. Sham Sui Leung, Daniel *(retired at the conclusion of the annual general meeting held on 7 June 2018)*
Dr. Tyen Kan Hee, Anthony
Ms. Karuna Evelyne Shinsho *(appointed on 28 August 2018)*

In accordance with Article 89 of the Company's Articles of Association (the "Articles of Association"), Ms. Karuna Evelyne Shinsho, who was appointed as an Independent Non-executive Director during the year to fill the vacancy occasioned by the retirement of Mr. Sham Sui Leung, Daniel, shall retire at the forthcoming annual general meeting and is eligible to offer herself for re-election.

In accordance with Article 98(A) of the Articles of Association, Mr. Evan Andrew Winkler, Mr. Chow Kwong Fai, Edward and Dr. Tyen Kan Hee, Anthony, being Directors longest in office since their last election, shall retire from office by rotation at the forthcoming annual general meeting and are eligible to offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors concerning his/her independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

Biographical details of the Directors on the date of this report are set out on pages 34 to 37 of this annual report.

DIRECTORS OF SUBSIDIARIES

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.melco-group.com.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that each director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, save for loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his/her office or in relation thereto.

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year. The Company has maintained liability insurance to provide appropriate cover for the Directors and officers of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in the sections headed "Connected Transactions and Continuing Connected Transactions" and "Related Party Transactions" of this report, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

At no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contracts of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes and the share award schemes of the Company as disclosed in the "Share Option Schemes" and "Share Award Schemes" sections of this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short position of each Director and Chief Executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which the Director and Chief Executive of the Company are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Hong Kong Stock Exchange were as follows:

(I) Long positions in the shares and underlying shares of the Company

(a) Ordinary shares of the Company

	Number of ordinary shares held				
Name of Director	Personal interests[2]	Corporate interests[3]	Other interests[4]	Total	Approximate % of total issued shares[1]
Mr. Ho, Lawrence Yau Lung	42,339,132	484,748,077[5]	309,476,187[6]	836,563,396	55.05%
Mr. Evan Andrew Winkler	5,360,000	–	–	5,360,000	0.35%
Mr. Chung Yuk Man, Clarence	3,451,440	–	–	3,451,440	0.23%
Mr. Tsui Che Yin, Frank	7,141,660	–	–	7,141,660	0.47%
Mr. Ng Ching Wo	155,000	–	–	155,000	0.01%
Mr. Chow Kwong Fai, Edward	14,000	–	–	14,000	0.00%

(b) Share options and awarded shares granted by the Company

Name of Director	Number of underlying shares held pursuant to share options[2 & 7]	Number of awarded shares held[2 & 8]	Total	Approximate % of total issued shares[1]
Mr. Ho, Lawrence Yau Lung	1,500,000	2,200,000	3,700,000	0.24%
Mr. Evan Andrew Winkler	5,946,000	–	5,946,000	0.39%
Mr. Chung Yuk Man, Clarence	3,100,000	112,000	3,212,000	0.21%
Mr. Tsui Che Yin, Frank	1,058,000	22,000	1,080,000	0.07%
Mr. Ng Ching Wo	1,190,000	19,000	1,209,000	0.08%
Mr. Chow Kwong Fai, Edward	71,000	13,000	84,000	0.01%
Dr. Tyen Kan Hee, Anthony	686,000	19,000	705,000	0.05%

Notes:

1. As at 31 December 2018, the total number of issued shares of the Company was 1,519,627,055.

2. This represents interests held by the relevant Director as beneficial owner.

3. This represents interests held by the relevant Director through his controlled corporations.

4. This represents interests held by the relevant Director through a discretionary trust of which the relevant Director is one of the beneficiaries.

5. The 484,748,077 shares relate to the 297,851,606 shares, 120,333,024 shares, 50,830,447 shares, 7,294,000 shares, 6,873,000 shares and 1,566,000 shares held by Better Joy Overseas Ltd., Lasting Legend Ltd., Mighty Dragon Developments Limited, The L3G Capital Trust, LH Family Investment Inc. and Maple Peak Investments Inc. respectively, representing approximately 19.60%, 7.92%, 3.34%, 0.48%, 0.45% and 0.10% of the total issued shares of the Company. All of such companies/trust are owned by Mr. Ho, Lawrence Yau Lung, and/or persons and/or trusts associated with Mr. Ho, Lawrence Yau Lung. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the shares held by the aforesaid companies and trust.

6. In addition to the deemed interests as stated in note 5 above, Mr. Ho, Lawrence Yau Lung is also taken to have interests in the 309,476,187 shares held by Great Respect Limited, representing approximately 20.37% of the total issued shares of the Company, by virtue of him being one of the beneficiaries of a discretionary family trust for the purpose of the SFO. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his immediate family members.

7. Details of share options granted to the Directors pursuant to the share option schemes of the Company are set out in the "Share Option Schemes" section of this report.

8. Details of awarded shares granted to the Directors pursuant to the Share Purchase Scheme adopted by the Company on 18 October 2007 are set out in the "Share Award Schemes" section of this report.

(II) Long positions in the shares and underlying shares of associated corporations of the Company

(A) Melco Resorts & Entertainment Limited ("Melco Resorts") *(a listed subsidiary of the Company)*

(a) Ordinary shares of Melco Resorts

	Number of ordinary shares held			
Name of Director	**Personal interests[2]**	**Corporate interests[3]**	**Total**	**Approximate % of total issued shares[1]**
Mr. Ho, Lawrence Yau Lung	8,434,073	757,229,043[4]	765,663,116	51.63%[7]
Mr. Evan Andrew Winkler	8,091	–	8,091	0.00%
Mr. Chung Yuk Man, Clarence	119,383	–	119,383	0.01%

(b) Stock options and restricted shares granted by Melco Resorts

Name of Director	**Number of underlying shares held pursuant to stock options[2 & 5]**	**Number of restricted shares held[2 & 6]**	**Total**	**Approximate % of total issued shares[1]**
Mr. Ho, Lawrence Yau Lung	7,536,981	1,517,970	9,054,951	0.61%
Mr. Evan Andrew Winkler	–	31,710	31,710	0.00%
Mr. Chung Yuk Man, Clarence	138,036	45,969	184,005	0.01%

Notes:

1. As at 31 December 2018, the total number of issued shares of Melco Resorts was 1,482,999,434.
2. This represents interests held by the relevant Director as beneficial owner.
3. This represents interests held by the relevant Director through his controlled corporations.
4. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is taken to be interested in 757,229,043 shares of Melco Resorts which are being held by Melco Leisure and Entertainment Group Limited ("Melco Leisure"), a wholly-owned subsidiary of the Company, as a result of his interest in approximately 55.05% of the total issued shares of the Company.
5. Details of stock options granted to the Directors by Melco Resorts are set out in the "Share Option Schemes" section of this report.
6. Details of restricted shares granted to the Directors by Melco Resorts are set out "Share Award Schemes" section of this report.
7. As at the date of this report, the total number of issued shares of Melco Resorts is 1,401,047,204, and as a result, Mr. Ho, Lawrence Yau Lung has approximately 54.65% interest in the total issued shares of Melco Resorts.

(B) Melco Resorts and Entertainment (Philippines) Corporation ("Melco Resorts Philippines") *(a listed subsidiary of the Company)*

Restricted shares granted by Melco Resorts Philippines

Name of Director	Number of restricted shares held(2 & 3)	Approximate % of total issued shares (1)
Mr. Ho, Lawrence Yau Lung	2,731,273	0.05%
Mr. Chung Yuk Man, Clarence	4,578,655	0.08%

Notes:

1. As at 31 December 2018, the total number of issued shares of Melco Resorts Philippines was 5,687,270,800.
2. This represents interests held by the relevant Director as beneficial owner.
3. Details of restricted shares granted to the Directors by Melco Resorts Philippines are set out in the "Share Award Schemes" section of this report.

(C) Studio City International Holdings Limited ("Studio City International Holdings") *(a listed subsidiary of the Company)*

Ordinary shares of Studio City International Holdings

Name of Director	Number of Class A ordinary shares held(2 & 3)	Approximate % of total issued shares(1)
Mr. Chung Yuk Man, Clarence	3,360	0.00%

Notes:

1. As at 31 December 2018, the total number of issued shares of Studio City International Holdings was 314,329,776 (including 241,818,016 Class A ordinary shares and 72,511,760 Class B ordinary shares).
2. This represents interests held by the relevant Director as beneficial owner.
3. On 2 November 2018, the Company announced the declaration of a distribution in specie of the American depositary share(s) of Studio City International Holdings (each representing four Class A ordinary shares of Studio City International Holdings) (the "Distribution ADSs") to its qualifying shareholders relating to the spin-off and separate listing of Studio City International Holdings on the New York Stock Exchange. On 6 December 2018, Mr. Chung Yuk Man, Clarence elected to receive 840 Distribution ADSs representing 3,360 Class A ordinary shares of Studio City International Holdings and such Distribution ADSs were delivered to him on 3 January 2019.

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive of the Company and their respective associates had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

(I) The Company

On 8 March 2002, the shareholders of the Company adopted a share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme expired on 7 March 2012 and no further options could thereafter be granted. Notwithstanding the expiry of the 2002 Share Option Scheme, the share options which had been granted during the life of the scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Following the expiry of the 2002 Share Option Scheme, the shareholders of the Company adopted a new share option scheme on 30 May 2012 (the "2012 Share Option Scheme"), under which the Directors may, at their discretion, grant to any eligible participants (as defined below) share options to subscribe for the Company's shares, subject to the terms and conditions as stipulated therein.

The following is a summary of the principal terms of the 2002 Share Option Scheme and 2012 Share Option Scheme:

(i) Purpose of the schemes

To provide incentives and rewards to eligible participants who contribute to the success of the Group's operations and to encourage the participants to work towards enhancing value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(ii) Participants of the schemes

(1) Directors of the Company or any of its subsidiaries or associated companies (companies in which the Company directly or indirectly holds not less than 20% and not more than 50% of its shareholding); and (2) executives and employees of and consultants, professional and other advisers to the Company or any of its subsidiaries or associated companies.

(iii) Total number of shares available for issue under the schemes

The total number of shares which may be issued upon exercise of all share options to be granted under the 2002 Share Option Scheme and 2012 Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue on the respective dates of approval of each of the schemes. The 10% limit may be refreshed with the approval of the Company's shareholders.

Following the expiry of the 2002 Share Option Scheme, no further share options could be granted thereunder. As at the date of this annual report, a total of 2,751,700 shares of the Company may be issued upon exercise of all options which had been granted and yet to be exercised under the 2002 Share Option Scheme, representing 0.18% of the shares in issue.

As at the date of this annual report, the total number of shares available for issue under the 2012 Share Option Scheme is 76,084,538 shares and a total of 16,067,000 shares may be issued upon exercise of all options which had been granted and yet to be exercised under the 2012 Share Option Scheme, representing 5.01% and 1.06% respectively of the shares in issue.

(iv) Maximum entitlement of each participant under the schemes

The total number of shares issued and to be issued upon exercise of the share options granted or to be granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by the Company's shareholders in general meeting.

In addition, any share options to a substantial shareholder of the Company and/or an Independent Non-executive Director or any of their respective associates that would result in the total number of shares issued and to be issued upon exercise of all options granted or to be granted to such person in any 12-month period exceeding 0.1% of the shares in issue and with an aggregate value (based on the price of the shares on the date of grant) in excess of HK$5 million is subject to shareholders' approval in general meeting.

(v) The period within which the shares must be taken up under an option

The period during which an option may be exercised is determined by the Board in its absolute discretion, save that such period shall not be longer than 10 years from the date of grant.

(vi) The minimum period for which an option must be held before it can be exercised

As determined by the Board upon the grant of an option.

(vii) The amount payable on acceptance of an option and the period within which payments shall be made

Under the 2002 Share Option Scheme, the acceptance of an offer of the grant of the share options must be made within 14 days from the date of grant and HK$1.00 is payable on acceptance of the grant of an option.

Under the 2012 Share Option Scheme, the acceptance of an offer of the grant of the share options must be made within 28 days from the date of grant and HK$1.00 is payable on acceptance of the grant of an option.

(viii) The basis of determining the exercise price

The exercise price is determined by the Board which shall be at least the highest of (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date when an option is offered; and (ii) a price being the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is offered.

(ix) The remaining life of the schemes

The schemes shall be valid and effective for a period of 10 years from the respective dates of adoption. The 2002 Share Option Scheme which was adopted on 8 March 2002 expired on 7 March 2012. The 2012 Share Option Scheme which was adopted on 30 May 2012 will expire on 29 May 2022.

Movements of share options granted under the schemes during the year ended 31 December 2018 are as follows:

Under the 2002 Share Option Scheme

	Number of share options									
Category of participants	**As at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Reclassified during the year**	**As at 31 December 2018**	**Date of grant**	**Exercise price HK$**	**Exercise period (Note)**
Directors										
Mr. Chung Yuk Man, Clarence	170,000	–	–	–	–	–	170,000	07.04.2010	3.76	5
	330,000	–	–	–	–	–	330,000	27.01.2012	7.10	7
Mr. Ng Ching Wo	91,000	–	–	–	–	–	91,000	03.04.2009	2.99	4
	60,000	–	–	–	–	–	60,000	07.04.2010	3.76	9
	350,000	–	–	–	–	–	350,000	08.04.2011	5.75	6
	210,000	–	–	–	–	–	210,000	27.01.2012	7.10	7
Dr. Tyen Kan Hee, Anthony	350,000	–	(350,000)	–	–	–	–	08.04.2011	5.75	6
	210,000	–	–	–	–	–	210,000	27.01.2012	7.10	7
Sub-total	1,771,000	–	(350,000)	–	–	–	1,421,000			
Employees	22,800	–	(22,800)	–	–	–	–	01.04.2008	10.804	3
	79,000	–	–	–	–	–	79,000	03.04.2009	2.99	4
	106,000	–	–	–	–	–	106,000	07.04.2010	3.76	5
	469,000	–	–	–	–	–	469,000	08.04.2011	5.75	6
	359,700	–	–	–	–	–	359,700	27.01.2012	7.10	7
Sub-total	1,036,500	–	(22,800)	–	–	–	1,013,700			
Others[19]	51,000	–	–	(51,000)		–	–	28.02.2008	11.50	8
	94,300	–	–	(94,300)	–	–	–	01.04.2008	10.804	3
	120,000	–	–	–	–	–	120,000	03.04.2009	2.99	4
	210,000	–	(150,000)	–	–	–	60,000	07.04.2010	3.76	5
	124,000	–	(124,000)	–	–	–	–	08.04.2011	5.75	6
	187,000	–	(50,000)	–	–	–	137,000	27.01.2012	7.10	7
Sub-total	786,300	–	(324,000)	(145,300)	–	–	317,000			
Total	**3,593,800**	**–**	**(696,800)**	**(145,300)**	**–**	**–**	**2,751,700**			

Under the 2012 Share Option Scheme

	Number of share options								
Category of participants	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Reclassified during the year	As at 31 December 2018	Date of grant	Exercise price HK$	Exercise period (Note)
Directors									
Mr. Ho, Lawrence Yau Lung	750,000	–	(750,000)	–	–	–	10.04.2017	15.00	12
	–	1,500,000	–	–	–	1,500,000	10.04.2018	23.15	15
Mr. Evan Andrew Winkler	2,968,000	–	–	(2,968,000)[17]	–	–	01.09.2016	8.69	11
	852,000	–	–	(852,000)[17]	–	–	10.04.2017	15.00	13
	2,126,000	–	–	(2,126,000)[17]	–	–	07.06.2017	20.066	14
	–	5,946,000	–	–	–	5,946,000	10.04.2018	23.15	17
Mr. Chung Yuk Man, Clarence	2,219,000	–	–	–	–	2,219,000	08.04.2016	10.24	10
	237,000	–	–	–	–	237,000	10.04.2017	15.00	13
	–	144,000	–	–	–	144,000	10.04.2018	23.15	16
Mr. Tsui Che Yin, Frank	1,040,000	–	–	–	–	1,040,000	08.04.2016	10.24	10
	–	18,000	–	–	–	18,000	10.04.2018	23.15	16
Mr. Ng Ching Wo	395,000	–	–	–	–	395,000	08.04.2016	10.24	10
	48,000	–	–	–	–	48,000	10.04.2017	15.00	13
	–	36,000	–	–	–	36,000	10.04.2018	23.15	16
Mr. Chow Kwong Fai, Edward	14,000	–	–	–	–	14,000	08.04.2016	10.24	10
	33,000	–	–	–	–	33,000	10.04.2017	15.00	13
	–	24,000	–	–	–	24,000	10.04.2018	23.15	16
Mr. Sham Sui Leung, Daniel*	194,000	–	(97,000)	–	(97,000)	–	08.04.2016	10.24	10
	31,000	–	(11,000)	–	(20,000)	–	10.04.2017	15.00	13
	–	33,000	(9,000)	–	(24,000)	–	10.04.2018	23.15	16
Dr. Tyen Kan Hee, Anthony	392,000	–	–	–	–	392,000	08.04.2016	10.24	10
	48,000	–	–	–	–	48,000	10.04.2017	15.00	13
	–	36,000	–	–	–	36,000	10.04.2018	23.15	16
Sub-total	11,347,000	7,737,000	(867,000)	(5,946,000)	(141,000)	12,130,000			
Employees	3,243,000	–	(22,000)	(1,223,000)[18]	344,000	2,342,000	08.04.2016	10.24	10
	402,000	–	–	(162,000)[18]	174,000	414,000	10.04.2017	15.00	13
	–	504,000	–	–	–	504,000	10.04.2018	23.15	16
Sub-total	3,645,000	504,000	(22,000)	(1,385,000)	518,000	3,260,000			
Others[19]	1,711,000	–	(470,000)	(361,000)[18]	(247,000)	633,000	08.04.2016	10.24	10
	174,000	–	–	–	(154,000)	20,000	10.04.2017	15.00	13
	–	–	–	–	24,000	24,000	10.04.2018	23.15	16
Sub-total	1,885,000	–	(470,000)	(361,000)	(377,000)	677,000			
Total	**16,877,000**	**8,241,000**	**(1,359,000)**	**(7,692,000)**	**–**	**16,067,000**			

* *Mr. Sham Sui Leung, Daniel retired as a director of the Company with effect from the conclusion of the annual general meeting held on 7 June 2018.*

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$23.78.

3. The share options granted on 1 April 2008 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018.

4. The share options granted on 3 April 2009 are divided into 3 tranches exercisable from 3 April 2010, 3 April 2011 and 3 April 2012 respectively to 2 April 2019.

5. The share options granted on 7 April 2010 are divided into 6 tranches exercisable from 7 April 2010, 7 April 2011, 7 April 2012, 7 April 2013, 7 April 2014 and 7 April 2015 respectively to 6 April 2020.

6. The share options granted on 8 April 2011 are divided into 4 tranches exercisable from 5 May 2011, 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021.

7. The share options granted on 27 January 2012 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022.

8. The share options granted on 28 February 2008 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 27 February 2018.

9. The share options granted on 7 April 2010 are divided into 3 tranches exercisable from 7 April 2011, 7 April 2012 and 7 April 2013 respectively to 6 April 2020.

10. The share options granted on 8 April 2016 are divided into 4 tranches exercisable from 8 April 2016, 8 April 2017, 8 April 2018 and 8 April 2019 respectively to 7 April 2026.

11. The share options granted on 1 September 2016 are divided into 2 tranches exercisable from 2 August 2018 and 2 August 2019 respectively to 31 August 2026.

12. The share options granted on 10 April 2017 are divided into 2 tranches exercisable from 10 April 2017 and 10 April 2018 respectively to 9 April 2027.

13. The share options granted on 10 April 2017 are divided into 4 tranches exercisable from 10 April 2017, 10 April 2018, 10 April 2019 and 10 April 2020 respectively to 9 April 2027.

14. The share options granted on 7 June 2017 are divided into 2 tranches exercisable from 2 August 2018 and 2 August 2019 respectively to 6 June 2027.

15. The share options granted on 10 April 2018 are divided into 2 tranches exercisable from 10 April 2018 and 10 April 2019 respectively to 9 April 2028.

16. The share options granted on 10 April 2018 are divided into 4 tranches exercisable from 10 April 2018, 10 April 2019, 10 April 2020 and 10 April 2021 respectively to 9 April 2028.

17. The Board resolved to effect the following on 10 April 2018: (1) to cancel 5,946,000 share options granted to Mr. Evan Andrew Winkler on 1 September 2016, 10 April 2017 and 7 June 2017 respectively (the “Previously Granted Share Options”) under the 2012 Share Option Scheme; and (2) to replace the Previously Granted Share Options by granting to Mr. Evan Andrew Winkler (i) new 5,946,000 share options under the 2012 Share Option Scheme (the “Replacement Share Options”); and (ii) a new share award in respect of 2,194,000 shares (the “Replacement Share Award”) pursuant to the Share Purchase Scheme adopted by the Company on 18 October 2007, subject to the written consent of Mr. Evan Andrew Winkler.

Mr. Evan Andrew Winkler has given his written consent to the above. The Previously Granted Share Options have been replaced by the Replacement Share Options and Replacement Share Award. The Replacement Share Options are exercisable from 10 April 2020 to 9 April 2028. Details of the Replacement Share Award are set out in the "Share Award Schemes" section of this report.

Further details of the above cancellation and replacement grants are set out in the announcement of the Company dated 10 April 2018.

18. During the year, a total of 1,746,000 share options lapsed under the 2012 Share Option Scheme.

19. The category "Others" represents the former directors/employees or consultants of the Group.

On 10 April 2018, the Company granted (1) a total of 2,295,000 share options to the Directors and certain employees of the Company; and (2) 5,946,000 Replacement Share Options to a director of the Company under the 2012 Share Option Scheme. The validity period of the options granted is ten years, from 10 April 2018 to 9 April 2028. The options entitle the grantees to subscribe for a total of 8,241,000 shares of the Company at an exercise price of HK$23.15 per share. The closing price of the shares of the Company immediately before the date on which the options were granted was HK$22.05. The estimated fair value of the 8,241,000 share options granted was approximately HK$69,394,700. The weighted average fair value per option granted during the year was HK$8.42.

The Black-Scholes valuation model has been used to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

Grant date of the share options	**10 April 2018**
Valuation model	Black-Scholes
Exercise price	HK$23.15
Expected volatility	41% – 45%
Expected life	3.1 – 6.1 years
Risk-free rate	1.49% – 1.72%
Expected dividend yield	0.3%
Suboptimal exercise factor	N/A

Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of the Company's ordinary shares trading on the Hong Kong Stock Exchange. Expected life is based upon the vesting term, and expected term adopted by other publicly traded companies. The risk-free interest rate used for each period presented is based on the Hong Kong Government Bond rate at the time of grant for the period equal to the expected term.

(II) Melco Resorts

Melco Resorts adopted a share incentive plan in 2006 (the "Melco Resorts 2006 Share Incentive Plan") and a share incentive plan in 2011 (the "Melco Resorts 2011 Share Incentive Plan"). Under the plans, Melco Resorts may grant either options to purchase Melco Resorts' ordinary shares or restricted shares. The Melco Resorts 2006 Share Incentive Plan has been succeeded by the Melco Resorts 2011 Share Incentive Plan, which will expire in 10 years after 7 December 2011. No further awards may be granted under the Melco Resorts 2006 Share Incentive Plan. All subsequent awards will be issued under the Melco Resorts 2011 Share Incentive Plan. Awards previously granted under the Melco Resorts 2006 Share Incentive Plan shall remain valid subject to the terms and conditions of the Melco Resorts 2006 Share Incentive Plan.

As Melco Resorts is a subsidiary of the Company, its share incentive plan constitutes a share option scheme governed by Chapter 17 of the Listing Rules. In order to comply with the applicable requirements of the Listing Rules, Melco Resorts amended the Melco Resorts 2011 Share Incentive Plan (the "Melco Resorts Amended 2011 Share Incentive Plan") and such plan was approved by both the shareholders of Melco Resorts and the Company, and became effective on 9 December 2016.

Options over new shares of Melco Resorts ("Melco Resorts Shares") are subject to Chapter 17 of the Listing Rules. All other types of awards (being options over Melco Resorts Shares that are not new shares, restricted shares, share appreciation rights, dividend equivalents, share payments, deferred shares and restricted share units) are not subject to Chapter 17 of the Listing Rules.

The following is a summary of the principal terms of the Melco Resorts Amended 2011 Share Incentive Plan:

(i) Purpose of the plan

To promote the success and enhance the value of Melco Resorts, by linking the personal interests of the members of its board, employees and consultants, its parents, its subsidiaries and its related entities to those of Melco Resorts' shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Melco Resorts' shareholders.

(ii) Types of awards

The awards that may be granted under the Melco Resorts Amended 2011 Share Incentive Plan include options, restricted shares, share appreciation rights, dividend equivalents, share payments, deferred shares and restricted share units.

(iii) Participants of the plan

Persons eligible to participate include members of Melco Resorts' board, employees and consultants, any parent or subsidiary or any related entity of Melco Resorts that the board designates as a related entity for the purposes of the plan.

(iv) Total number of Melco Resorts Shares available for issue under the plan

The total number of Melco Resorts Shares which may be issued upon exercise of all stock options to be granted under the Melco Resorts Amended 2011 Share Incentive Plan and any other share incentive plans or other schemes of Melco Resorts must not in aggregate exceed 10% of Melco Resorts Shares in issue on the date of approval of each of the plans. The 10% limit may be refreshed with the approval by the Company's shareholders and Melco Resorts' shareholders.

The maximum number of Melco Resorts Shares which may be issued pursuant to all Melco Resorts awards under the Melco Resorts Amended 2011 Share Incentive Plan is 100,000,000 Melco Resorts Shares. Under the Listing Rules, as at the date of this annual report, the total number of Melco Resorts Shares available for issue under the Melco Resorts Amended 2011 Share Incentive Plan is 136,749,981 Melco Resorts Shares (representing approximately 9.22% of the total number of Melco Resorts Shares in issue).

(v) Maximum entitlement of each participant under the plan

The total number of Melco Resorts Shares issued and to be issued upon exercise of the stock options granted or to be granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the Melco Resorts Shares in issue unless the Company issues circular to the Company's shareholders which complies with the Listing Rules and the same is approved by the Company's shareholders in general meeting.

In addition, any grant of stock options to a substantial shareholder of the Company and/or an Independent Non-executive Director or any of their respective associates that would result in the total number of Melco Resorts Shares issued and to be issued upon exercise of all options granted or to be granted to such person in any 12-month period exceeding 0.1% of the Melco Resorts Shares in issue and with an aggregate value (based on the official closing price of the Melco Resorts Shares as stated in the daily quotation sheets of the NASDAQ Global Select or NASDAQ Global Market on the date of grant) in excess of an amount in United States Dollars which is equivalent to HK$5 million is subject to the approval of the Company's shareholders in general meeting.

(vi) The period within which the Melco Resorts Shares must be taken up under an option

The period during which an option may be exercised is determined by the compensation committee of Melco Resorts (the "Melco Resorts Compensation Committee") in its absolute discretion, save that such period shall not be longer than 10 years from the date of grant.

(vii) The minimum period for which an option must be held before it can be exercised

As determined by the Melco Resorts Compensation Committee upon the grant of an option.

(viii) The amount payable on acceptance of an option and the period within which payments shall be made

As determined by the Melco Resorts Compensation Committee upon the grant of an option.

(ix) The basis of determining the exercise price

The Melco Resorts Compensation Committee may determine the exercise price, grant price or purchase price, if any, of any option.

(x) The remaining life of the plan

The Melco Resorts Amended 2011 Share Incentive Plan will expire on 7 December 2021.

Movements of stock options granted under the plans during the year ended 31 December 2018 are set out below:

(i) Stock options granted to the Directors

	Number of stock options								
Name of Director	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2018	Date of grant	Exercise price US$	Exercise period (Note)
Under the Melco Resorts 2006 Share Incentive Plan									
Mr. Ho, Lawrence Yau Lung	2,898,774	–	(2,898,774)	–	–	–	17.03.2009	0.32	3
	1,446,498	–	–	–	–	1,446,498	23.03.2011	1.75	5
Mr. Chung Yuk Man, Clarence	56,628	–	(56,628)	–	–	–	18.03.2008	3.24	6
	138,036	–	–	–	–	138,036	17.03.2009	0.32	3
Total	**4,539,936**	**–**	**(2,955,402)**	**–**	**–**	**1,584,534**			
Under the Melco Resorts Amended 2011 Share Incentive Plan									
Mr. Ho, Lawrence Yau Lung	474,399	–	–	–	–	474,399	29.03.2012	3.93	7
	362,610	–	–	–	–	362,610	10.05.2013	5.32	8
	320,343	–	–	–	–	320,343	28.03.2014	5.32	9
	690,291	–	–	–	–	690,291	30.03.2015	5.32	10
	1,302,840	–	–	–	–	1,302,840	18.03.2016	5.32	11
	1,470,000	–	–	–	–	1,470,000	31.03.2017	6.18	15
	–	1,470,000	–	–	–	1,470,000	02.04.2018	9.40	21
Total	**4,620,483**	**1,470,000**	**–**	**–**	**–**	**6,090,483**			

(ii) Stock options granted to other eligible participants

	Number of stock options								
	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2018	Date of grant	Exercise price US$	Exercise period (Note)
Under the Melco Resorts 2006 Share Incentive Plan									
Other eligible participants[23]	1,365,891	–	(1,359,906)	(5,985)	–	–	25.11.2008	0.24	13
	172,065	–	(172,065)	–	–	–	25.11.2009	0.66	4
	80,286	–	(24,426)	–	–	55,860	26.05.2010	0.48	14
	771,360	–	(122,286)	–	–	649,074	23.03.2011	1.75	5
Total	**2,389,602**	**–**	**(1,678,683)**	**(5,985)**	**–**	**704,934**			
Under the Melco Resorts Amended 2011 Share Incentive Plan									
Other eligible participants[23]	446,157	–	(135,894)	–	–	310,263	29.03.2012	3.93	7
	446,901	–	(52,902)	–	(22,107)	371,892	10.05.2013	5.32	8
	489,142	–	(51,732)	–	(19,453)	417,957	28.03.2014	5.32	9
	1,126,305	–	(167,982)	–	(63,852)	894,471	30.03.2015	5.32	10
	2,391,408	–	(369,759)	–	(158,004)	1,863,645	18.03.2016	5.32	11
	191,328	–	–	–	–	191,328	23.12.2016	4.79	12
	196,218	–	–	–	(196,218)	–	21.02.2017	5.59	16
	3,415,416	–	–	–	(516,441)	2,898,975	31.03.2017	6.18	15
	88,635	–	–	–	–	88,635	30.05.2017	7.30	17
	34,518	–	–	–	–	34,518	08.09.2017	7.61	18
	–	36,225	–	–	–	36,225	16.03.2018	9.15	19
	–	3,501,810	–	–	(119,136)	3,382,674	29.03.2018	9.66	20
	–	453,894	–	–	–	453,894	23.11.2018	5.66	22
Total	**8,826,028**	**3,991,929**	**(778,269)**	**–**	**(1,095,211)**	**10,944,477**			

Notes:

1. The vesting period of the stock options is from the date of grant until the commencement of the exercise period.

2. In respect of the stock options exercised during the year, the weighted average closing price of the Melco Resorts Shares immediately before the date on which the stock options were exercised was US$8.90.

3. The stock options granted on 17 March 2009 are divided into 4 tranches exercisable from 17 March 2010, 17 March 2011, 17 March 2012 and 17 March 2013 respectively to 16 March 2019.

4. The stock options granted on 25 November 2009 are divided into 4 tranches exercisable from 25 November 2010, 25 November 2011, 25 November 2012 and 25 November 2013 respectively to 17 March 2018.

5. The stock options granted on 23 March 2011 are divided into 3 tranches exercisable from 23 March 2012, 23 March 2013 and 23 March 2014 respectively to 22 March 2021.

6. The stock options granted on 18 March 2008 are divided into 4 tranches exercisable from 18 March 2009, 18 March 2010, 18 March 2011 and 18 March 2012 respectively to 17 March 2018.

7. The stock options granted on 29 March 2012 are divided into 3 tranches exercisable from 29 March 2013, 29 March 2014 and 29 March 2015 respectively to 28 March 2022.

8. The stock options granted on 10 May 2013 are divided into 2 tranches exercisable from 18 March 2018 and 18 March 2019 respectively to 9 May 2023.

9. The stock options granted on 28 March 2014 are divided into 2 tranches exercisable from 18 March 2018 and 18 March 2019 respectively to 27 March 2024.

10. The stock options granted on 30 March 2015 are divided into 2 tranches exercisable from 18 March 2018 and 18 March 2019 respectively to 29 March 2025.

11. The stock options granted on 18 March 2016 are divided into 2 tranches exercisable from 18 March 2018 and 18 March 2019 respectively to 17 March 2026.

12. The stock options granted on 23 December 2016 are exercisable from 26 September 2019 to 22 December 2026.

13. The stock options granted on 25 November 2008 are divided into 2 tranches exercisable from 25 November 2010 and 25 November 2011 respectively to 24 November 2018.

14. The stock options granted on 26 May 2010 are divided into 2 tranches exercisable from 26 May 2012 and 26 May 2013 respectively to 25 May 2020.

15. The stock options granted on 31 March 2017 are exercisable from 30 March 2020 to 30 March 2027.

16. The stock options granted on 21 February 2017 are exercisable from 8 January 2020 to 20 February 2027.

17. The stock options granted on 30 May 2017 are exercisable from 30 May 2020 to 29 May 2027.

18. The stock options granted on 8 September 2017 are exercisable from 8 September 2019 to 7 September 2027.

19. The stock options granted on 16 March 2018 are exercisable from 16 March 2020 to 15 March 2028.

20. The stock options granted on 29 March 2018 are divided into 2 tranches exercisable from 29 March 2020 and 29 March 2021 respectively to 28 March 2028.

21. The stock options granted on 2 April 2018 are divided into 2 tranches exercisable from 2 April 2020 and 2 April 2021 respectively to 1 April 2028.

22. The stock options granted on 23 November 2018 are exercisable from 23 November 2020 to 22 November 2028.

23. The category “Other eligible participants” represents the directors (other than the Directors), employees or consultants of Melco Resorts.

On 16 March 2018, Melco Resorts granted a total of 36,225 stock options to eligible participants under the Melco Resorts Amended 2011 Share Incentive Plan. The validity period of the stock options granted is ten years, from 16 March 2018 to 15 March 2028. The stock options entitle the grantees to subscribe for a total of 36,225 shares of Melco Resorts at an exercise price of US$9.15 per share. The closing price of the shares of Melco Resorts immediately before the date on which the stock options were granted was US$9.28. The estimated fair value of the 36,225 stock options granted was approximately US$107,467.50. The fair value per stock option granted was US$2.97.

On 29 March 2018, Melco Resorts granted a total of 3,501,810 stock options to eligible participants under the Melco Resorts Amended 2011 Share Incentive Plan. The validity period of the stock options granted is ten years, from 29 March 2018 to 28 March 2028. The stock options entitle the grantees to subscribe for a total of 3,501,810 shares of Melco Resorts at an exercise price of US$9.66 per share. The closing price of the shares of Melco Resorts immediately before the date on which the stock options were granted was US$9.38. The estimated fair value of the 3,501,810 stock options granted was approximately US$11,305,009.95. The fair value per stock option granted was US$3.23.

On 2 April 2018, Melco Resorts granted a total of 1,470,000 stock options to eligible participants under the Melco Resorts Amended 2011 Share Incentive Plan. The validity period of the options granted is ten years, from 2 April 2018 to 1 April 2028. The options entitle the grantees to subscribe for a total of 1,470,000 shares of Melco Resorts at an exercise price of US$9.40 per share. The closing price of the shares of Melco Resorts immediately before the date on which the options were granted was US$9.66. The estimated fair value of the 1,470,000 stock options granted was approximately US$4,618,250. The fair value per option granted was US$3.14.

On 23 November 2018, Melco Resorts granted a total of 453,894 stock options to eligible participants under the Melco Resorts Amended 2011 Share Incentive Plan. The validity period of the stock options granted is ten years, from 23 November 2018 to 22 November 2028. The stock options entitle the grantees to subscribe for a total of 453,894 shares of Melco Resorts at an exercise price of US$5.66 per share. The closing price of the shares of Melco Resorts immediately before the date on which the stock options granted was US$5.60. The estimated fair value of the 453,894 stock options granted was approximately US$836,677.94. The fair value per stock option granted was US$1.84.

The Black-Scholes valuation model was used to estimate the fair value of the stock options. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

Grant date of the stock options	**16 March 2018**	**29 March 2018**	**2 April 2018**	**23 November 2018**
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Exercise price	US$9.15	US$9.66	US$9.40	US$5.66
Expected volatility	40%	40%	40%	42%
Expected life	5.1 years	5.6 years	5.6 years	5.1 years
Risk-free rate	2.66%	2.60%	2.59%	2.88%
Expected dividend yield	2.0%	2.0%	2.0%	2.5%

Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of Melco Resorts' ADSs trading on the NASDAQ Global Select Market. Expected life is based upon the vesting term, and expected term adopted by other publicly traded companies. The risk-free interest rate used for each period presented is based on the United States of America Treasury yield curve at the time of grant for the period equal to the expected life.

(III) Melco Resorts Philippines

Melco Resorts Philippines adopted a share incentive plan in 2013 (the "MRP Share Incentive Plan"), which will expire 10 years after 24 June 2013. Under the MRP Share Incentive Plan, Melco Resorts Philippines may grant either options to purchase Melco Resorts Philippines' ordinary shares or restricted shares.

As Melco Resorts Philippines is a subsidiary of the Company, its share incentive plan constitutes a share option scheme governed by Chapter 17 of the Listing Rules. In order to comply with the applicable requirements of the Listing Rules, Melco Resorts Philippines amended the MRP Share Incentive Plan (the "MRP Amended Share Incentive Plan") and such plan was approved by both the shareholders of Melco Resorts Philippines and the Company, and became effective on 15 March 2017.

Options over new shares of Melco Resorts Philippines (the "MRP Shares") are subject to Chapter 17 of the Listing Rules. All other types of awards (being options over MRP Shares that are not new shares, restricted shares, share appreciation rights, dividend equivalents, share payments, deferred shares and restricted share units) are not subject to Chapter 17 of the Listing Rules.

The following is a summary of the principal terms of the MRP Amended Share Incentive Plan:

(i) Purpose of the plan

To promote the success and enhance the value of Melco Resorts Philippines, by linking the personal interests of the members of its board, employees and consultants, its parents, its subsidiaries and its related entities by providing such individuals with an incentive for outstanding performance to generate superior returns to Melco Resorts Philippines' shareholders.

(ii) Types of awards

The awards that may be granted under the MRP Amended Share Incentive Plan include options, restricted shares, share appreciation rights, dividend equivalents, share payments, deferred shares and restricted share units.

(iii) Participants of the plan

Persons eligible to participate include members of Melco Resorts Philippines' directors, employees and consultants as may be determined by the compensation committee of Melco Resorts Philippines ("MRP Compensation Committee").

(iv) Total number of MRP shares available for issue under the plan

The total number of MRP Shares which may be issued upon exercise of all share options to be granted under the MRP Amended Share Incentive Plan and any other share incentive plans or other schemes of Melco Resorts Philippines must not in aggregate exceed 10% of MRP Shares in issue on the date of approval of the plan. The 10% limit may be refreshed with the approval of the Company's shareholders and Melco Resorts Philippines' shareholders.

The maximum aggregate number of MRP Shares which may be issued pursuant to all awards under the plan is 442,630,330 MRP Shares, and in no event the number of MRP Shares which may be issued upon exercise of all outstanding awards granted and yet to be exercised under the plan and any other share incentive plans or other schemes exceed 5% of the MRP Shares in issue from time to time. Under the Listing Rules, as at the date of this annual report, the total number of MRP Shares available for issue under the MRP Amended Share Incentive Plan is 560,398,207 MRP Shares, representing approximately 9.85% of the total number of MRP Shares in issue.

(v) Maximum entitlement of each participant under the plan

The total number of MRP Shares issued and to be issued upon exercise of the share options granted or to be granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the MRP Shares in issue unless the Company issues circular to the Company's shareholders which complies with the Listing Rules, any applicable law and any other exchange rules from time to time and the same is approved by the Company's shareholders in general meeting.

In addition, any grant of share options to a substantial shareholder of the Company and/or an Independent Non-executive Director or any of their respective associates that would result in the total number of MRP Shares issued and to be issued upon exercise of all options granted or to be granted to such person in any 12-month period exceeding 0.1% of the MRP Shares in issue and with an aggregate value (based on the official closing price of the MRP Shares as stated in the daily quotation sheets of The Philippine Stock Exchange, Inc. on the date of grant) in excess of an amount in Peso which is equivalent to HK$5 million is subject to the approval of the Company's shareholders in general meeting.

(vi) ***The period within which the MRP Shares must be taken up under an option***

The period during which an option may be exercised is determined by the MRP Compensation Committee in its absolute discretion, save that such period shall not be longer than 10 years from the date of grant.

(vii) ***The minimum period for which an option must be held before it can be exercised***

As determined by the MRP Compensation Committee upon the grant of an option.

(viii) ***The amount payable on acceptance of an option and the period within which payments shall be made***

As determined by the MRP Compensation Committee upon the grant of an option.

(ix) ***The basis of determining the exercise price***

The MRP Compensation Committee may determine the exercise price, grant price or purchase price, if any, of any option.

(x) ***The remaining life of the plan***

The MRP Amended Share Incentive Plan will expire on 24 June 2023.

Movements of share options granted under the MRP Amended Share Incentive Plan during the year ended 31 December 2018 are set out below:

	Number of share options								
	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2018	Date of grant	Exercise price Peso	Exercise period (Note)
Under the MRP Amended Share Incentive Plan									
Eligible participants[7]	1,127,192	–	–	–	–	1,127,192	28.06.2013	8.30	2
	6,796,532	–	–	–	–	6,796,532	16.11.2015	3.46	3
	1,531,112	–	–	–	–	1,531,112	15.03.2017	5.66	4
	5,612,357	–	–	–	(190,240)	5,422,117	01.08.2017	8.98	5
	–	2,158,552	–	–	–	2,158,552	29.03.2018	7.80	6
Total	**15,067,193**	**2,158,552**	**–**	**–**	**(190,240)**	**17,035,505**			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. The share options granted on 28 June 2013 are divided into 3 tranches exercisable from 4 March 2015, 29 April 2015 and 29 April 2016 respectively to 27 June 2023.

3. The share options granted on 16 November 2015 are divided into 3 tranches exercisable from 16 November 2016, 16 November 2017 and 16 November 2018 respectively to 15 November 2025.

4. The share options granted on 15 March 2017 are exercisable from 29 April 2019 to 14 March 2027.

5. The share options granted on 1 August 2017 are exercisable from 1 August 2020 to 31 July 2027.

6. The share options granted on 29 March 2018 are divided into 2 tranches exercisable from 29 March 2020 and 29 March 2021 respectively to 28 March 2028.

7. The category "Eligible participants" represents the directors (other than the Directors), employees or consultants of Melco Resorts Philippines.

On 29 March 2018, Melco Resorts Philippines granted a total of 2,158,552 share options to eligible participants under the MRP Amended Share Incentive Plan. The validity period of the share options granted is ten years, from 29 March 2018 to 28 March 2028. The share options entitle the grantees to subscribe for a total of 2,158,552 MRP Shares at an exercise price of Peso 7.80 per share. The closing price of the MRP Shares immediately before the date on which the share options were granted was Peso 7.80. The estimated fair value of the 2,158,552 share options granted was approximately Peso 8,396,767. The fair value per share option granted was Peso 3.89.

The Black-Scholes Option valuation model was used to estimate the fair value of the share options. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

Grant date of the share options	**29 March 2018**
Valuation model	Black-Scholes
Exercise price	Peso 7.80
Expected volatility	45%
Expected life	5.6 years
Risk-free rate	5.69 %
Expected dividend yield	0%

Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of Melco Resorts Philippines' common shares trading on The Philippine Stock Exchange, Inc. and the shares of a peer group of publicly traded companies. Expected life is based upon the vesting term, and expected term adopted by Melco Resorts. The risk-free interest rate used for each period presented is based on the Philippine government bond yield at the time of grant for the period equal to the expected life.

SHARE AWARD SCHEMES

(I) The Company

On 18 October 2007, the Company adopted two share incentive award schemes, namely The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") and The Melco Share Award Scheme Trust (the "Share Subscription Scheme"). Certain rules of such schemes were amended on 28 August 2014 and 12 June 2015.

The purpose of the Share Purchase Scheme and the Share Subscription Scheme is to recognize the contributions of the directors, employees and consultants of the Group and provide them with incentives so as to retain them for the continual operation and development of the Group and to attract suitable personnel for the future development of the Group. The shares of the Company to be awarded pursuant to the Share Purchase Scheme and/or the Share Subscription Scheme may be awarded in such manner as the Board may determine from time to time. The shares awarded to the grantees under the Share Purchase Scheme will be settled by the shares of the Company purchased in the market whereas the shares awarded to the grantees under the Share Subscription Scheme will be settled by allotment of new shares of the Company.

A summary of the principal terms of each of the Share Purchase Scheme and Share Subscription Scheme is set out below:

(a) Share Purchase Scheme

The Share Purchase Scheme has a term of 20 years from the date of its adoption until 17 October 2027.

The Board may, subject to the rules relating to the Share Purchase Scheme, from time to time at its absolute discretion select any eligible persons (including any directors, employees, consultants and advisers of any members of the Group) to be a participant in the Share Purchase Scheme. The scheme limit of this scheme is 2% of the issued shares of the Company from time to time (excluding the shares which have already been transferred to employees on vesting).

The Board or the trustee of this scheme (as the case may be) shall either (1) set aside a sum of money or (2) determine a number of shares which it wishes to be the subject of a bonus or award under the Share Purchase Scheme. Where a sum of money has been set aside (or a number of shares has been determined), it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of shares to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside. Within 15 business days of receiving the amount sufficient to purchase that number of shares, the trustee shall apply the same towards the purchase of shares on the Hong Kong Stock Exchange.

No payment shall be made to the trustee of this scheme and no instructions to acquire shares shall be given to the trustee where any member of the Board is in possession of unpublished price sensitive information in relation to the Company or where dealings by Directors are prohibited under the Model Code or any applicable laws and regulations or any internal code of conduct in securities dealing adopted by the Company from time to time.

Vesting of the shares will be conditional on the selected eligible person remaining an eligible person of the Company or a subsidiary of the Company until the vesting date. The Board has the discretion to stipulate such other conditions in respect of a particular eligible person which will apply to the vesting of the shares. Any shares held by the trustee on behalf of the selected eligible person shall vest in accordance with the timetable determined by the Board at its discretion. The trustee has the power to exercise at its discretion all voting rights attached to any shares held.

The Board may by resolution terminate the operation of the Share Purchase Scheme.

Movements of the awarded shares, which were granted pursuant to the terms of the rules and trust deed of the Share Purchase Scheme, during the year ended 31 December 2018 are set out below:

	Number of awarded shares							
Category of participants	As at 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year	Reclassified during the year	As at 31 December 2018	Date of award	Vesting date
Directors								
Mr. Ho, Lawrence Yau Lung	2,200,000	–	(2,200,000)	–	–	–	10.04.2017	10.04.2018
	–	2,200,000	(2,200,000)	–	–	–	10.04.2018	10.04.2018
	–	2,200,000	–	–	–	2,200,000	10.04.2018	10.04.2019
	2,200,000	4,400,000	(4,400,000)	–	–	2,200,000		
Mr. Evan Andrew Winkler	849,000	–	(849,000)	–	–	–	01.09.2016	02.08.2018[1]
	849,000	–	(849,000)	–	–	–	01.09.2016	02.08.2019[1]
	71,000	–	(71,000)	–	–	–	10.04.2017	10.04.2018
	71,000	–	(71,000)	–	–	–	10.04.2017	10.04.2019[1]
	71,000	–	(71,000)	–	–	–	10.04.2017	10.04.2020[1]
	592,000	–	(592,000)	–	–	–	07.06.2017	02.08.2018[1]
	592,000	–	(592,000)	–	–	–	07.06.2017	02.08.2019[1]
	–	2,194,000	(2,194,000)	–	–	–	10.04.2018	10.04.2018[2]
	3,095,000	2,194,000	(5,289,000)	–	–	–		
Mr. Chung Yuk Man, Clarence	32,000	–	(32,000)	–	–	–	08.04.2015	08.04.2018
	37,000	–	(37,000)	–	–	–	08.04.2016	08.04.2018
	37,000	–	–	–	–	37,000	08.04.2016	08.04.2019
	20,000	–	(20,000)	–	–	–	10.04.2017	10.04.2018
	20,000	–	–	–	–	20,000	10.04.2017	10.04.2019
	19,000	–	–	–	–	19,000	10.04.2017	10.04.2020
	–	12,000	(12,000)	–	–	–	10.04.2018	10.04.2018
	–	12,000	–	–	–	12,000	10.04.2018	10.04.2019
	–	12,000	–	–	–	12,000	10.04.2018	10.04.2020
	–	12,000	–	–	–	12,000	10.04.2018	10.04.2021
	165,000	48,000	(101,000)	–	–	112,000		
Mr. Tsui Che Yin, Frank	32,000	–	(32,000)	–	–	–	08.04.2015	08.04.2018
	18,000	–	(18,000)	–	–	–	08.04.2016	08.04.2018
	18,000	–	–	–	–	18,000	08.04.2016	08.04.2019
	–	2,000	(2,000)	–	–	–	10.04.2018	10.04.2018
	–	2,000	–	–	–	2,000	10.04.2018	10.04.2019
	–	1,000	–	–	–	1,000	10.04.2018	10.04.2020
	–	1,000	–	–	–	1,000	10.04.2018	10.04.2021
	68,000	6,000	(52,000)	–	–	22,000		

Category of participants	Number of awarded shares: As at 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year	Reclassified during the year	As at 31 December 2018	Date of award	Vesting date
Mr. Ng Ching Wo	3,000	–	(3,000)	–	–	–	08.04.2015	08.04.2018
	2,000	–	(2,000)	–	–	–	08.04.2016	08.04.2018
	2,000	–	–	–	–	2,000	08.04.2016	08.04.2019
	4,000	–	(4,000)	–	–	–	10.04.2017	10.04.2018
	4,000	–	–	–	–	4,000	10.04.2017	10.04.2019
	4,000	–	–	–	–	4,000	10.04.2017	10.04.2020
	–	3,000	(3,000)	–	–	–	10.04.2018	10.04.2018
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2019
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2020
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2021
	19,000	12,000	(12,000)	–	–	19,000		
Mr. Chow Kwong Fai, Edward	2,000	–	(2,000)	–	–	–	08.04.2016	08.04.2018
	2,000	–	–	–	–	2,000	08.04.2016	08.04.2019
	3,000	–	(3,000)	–	–	–	10.04.2017	10.04.2018
	3,000	–	–	–	–	3,000	10.04.2017	10.04.2019
	2,000	–	–	–	–	2,000	10.04.2017	10.04.2020
	–	2,000	(2,000)	–	–	–	10.04.2018	10.04.2018
	–	2,000	–	–	–	2,000	10.04.2018	10.04.2019
	–	2,000	–	–	–	2,000	10.04.2018	10.04.2020
	–	2,000	–	–	–	2,000	10.04.2018	10.04.2021
	12,000	8,000	(7,000)	–	–	13,000		
Mr. Sham Sui Leung, Daniel*	3,000	–	(3,000)	–	–	–	08.04.2015	08.04.2018
	2,000	–	(2,000)	–	–	–	08.04.2016	08.04.2018
	1,000	–	–	–	(1,000)	–	08.04.2016	08.04.2019
	4,000	–	(4,000)	–	–	–	10.04.2017	10.04.2018
	3,000	–	–	–	(3,000)	–	10.04.2017	10.04.2019
	3,000	–	–	–	(3,000)	–	10.04.2017	10.04.2020
	–	3,000	(3,000)	–	–	–	10.04.2018	10.04.2018
	–	3,000	–	–	(3,000)	–	10.04.2018	10.04.2019
	–	3,000	–	–	(3,000)	–	10.04.2018	10.04.2020
	–	2,000	–	–	(2,000)	–	10.04.2018	10.04.2021
	16,000	11,000	(12,000)	–	(15,000)	–		

Category of participants	As at 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year	Reclassified during the year	As at 31 December 2018	Date of award	Vesting date
	Number of awarded shares							
Dr. Tyen Kan Hee, Anthony	3,000	–	(3,000)	–	–	–	08.04.2015	08.04.2018
	2,000	–	(2,000)	–	–	–	08.04.2016	08.04.2018
	2,000	–	–	–	–	2,000	08.04.2016	08.04.2019
	4,000	–	(4,000)	–	–	–	10.04.2017	10.04.2018
	4,000	–	–	–	–	4,000	10.04.2017	10.04.2019
	4,000	–	–	–	–	4,000	10.04.2017	10.04.2020
	–	3,000	(3,000)	–	–	–	10.04.2018	10.04.2018
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2019
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2020
	–	3,000	–	–	–	3,000	10.04.2018	10.04.2021
	19,000	12,000	(12,000)	–	–	19,000		
Sub-total	5,594,000	6,691,000	(9,885,000)	–	(15,000)	2,385,000		
Employees	60,700	–	(31,200)	(29,500)	–	–	08.04.2015	08.04.2018
	54,000	–	(38,750)	(15,250)	–	–	08.04.2016	08.04.2018
	61,000	–	–	(24,250)	13,000	49,750	08.04.2016	08.04.2019
	38,000	–	(20,000)	(18,000)	–	–	10.04.2017	10.04.2018
	38,000	–	–	(18,000)	14,000	34,000	10.04.2017	10.04.2019
	37,000	–	–	(18,000)	14,000	33,000	10.04.2017	10.04.2020
	–	46,000	(46,000)	–	–	–	10.04.2018	10.04.2018
	–	43,000	–	–	–	43,000	10.04.2018	10.04.2019
	–	40,000	–	–	–	40,000	10.04.2018	10.04.2020
	–	39,000	–	–	–	39,000	10.04.2018	10.04.2021
Sub-total	288,700	168,000	(135,950)	(123,000)	41,000	238,750		
Consultants	38,000	–	(38,000)	–	–	–	08.04.2015	08.04.2018
	20,000	–	(20,000)	–	–	–	08.04.2016	08.04.2018
	18,000	–	–	(3,000)	(12,000)	3,000	08.04.2016	08.04.2019
	15,000	–	(15,000)	–	–	–	10.04.2017	10.04.2018
	14,000	–	–	–	(11,000)	3,000	10.04.2017	10.04.2019
	14,000	–	–	–	(11,000)	3,000	10.04.2017	10.04.2020
	–	–	–	–	3,000	3,000	10.04.2018	10.04.2019
	–	–	–	–	3,000	3,000	10.04.2018	10.04.2020
	–	–	–	–	2,000	2,000	10.04.2018	10.04.2021
Sub-total	119,000	–	(73,000)	(3,000)	(26,000)	17,000		
Total	**6,001,700**	**6,859,000**	**(10,093,950)**	**(126,000)**	**-**	**2,640,750**		

* *Mr. Sham Sui Leung, Daniel retired as a director of the Company with effect from the conclusion of the annual general meeting held on 7 June 2018.*

Notes:

1. The vesting dates of these awarded shares were modified from 2 August 2018, 2 August 2019, 10 April 2019 and 10 April 2020 to 10 April 2018 with effect from 10 April 2018. These awarded shares are subject to a lock-up period from 10 April 2018 to 1 January 2020 within which Mr. Evan Andrew Winkler shall not dispose of the vested awarded shares.

2. The 2,194,000 awarded shares, being the Replacement Share Award, are subject to a lock-up period from 10 April 2018 to 1 January 2020 within which Mr. Evan Andrew Winkler shall not dispose of the vested awarded shares.

(b) ***Share Subscription Scheme***

The Share Subscription Scheme has a term of 20 years from the date of its adoption until 17 October 2027.

The Board may, from time to time at its absolute discretion select any eligible persons (including any directors, employees, consultants and advisers of any members of the Group) to be a participant of the Share Subscription Scheme. The scheme limit of this scheme is 2% of the issued shares of the Company from time to time (excluding the shares which have already been transferred to the eligible persons on vesting). The maximum number of shares which may be awarded to a director and an eligible person (other than a director of the Company or its subsidiaries), are 0.2% and 0.05% of the issued shares from time to time, respectively.

The Board or the trustee of this scheme (as the case may be) shall at its discretion either (i) determine a notional cash amount or (ii) determine a number of shares (the "Number of Awarded Shares") which it wishes to be the subject of an award under the Share Subscription Scheme. Where a notional cash amount has been determined by the Board, the Board shall determine the maximum number of shares (the "Relevant Number of Shares"), rounded down to the nearest whole number which could be purchased with such notional cash amount on the Hong Kong Stock Exchange at the market price prevailing on the date of the award. The Company shall pay (or cause to be paid) an amount equal to the subscription price determined by the Board of either (i) the Relevant Number of Shares (where the Board has determined a notional cash amount) or (ii) the Number of Awarded Shares (where the Board has determined such number) to the trustee (or as it shall direct) from the Group's resources as soon as practicable in accordance with the rules relating to the Share Subscription Scheme.

No payment shall be made and no instructions to subscribe for shares shall be given to the trustee of this scheme where any member of the Board is in possession of unpublished price sensitive information in relation to the Company or where dealings by Directors are prohibited under the Model Code or any applicable laws and regulations or any internal code of conduct in securities dealing adopted by the Company from time to time.

Vesting of the shares will be conditional on the selected eligible person remaining an eligible person of the Company or a subsidiary of the Company until the vesting date. The Board has the discretion to stipulate such other conditions in respect of a particular eligible person which will apply to the vesting of the shares. Any shares held by the trustee on behalf of the selected eligible person shall vest in accordance with the timetable determined by the Board at its discretion. The trustee has the power to exercise at its discretion all voting rights attached to any shares held.

The Board may by resolution terminate the operation of the Share Subscription Scheme.

No award was granted or outstanding under the Share Subscription Scheme during the year ended 31 December 2018.

(II) Melco Resorts

Movements of the restricted shares, which were granted under the Melco Resorts Amended 2011 Share Incentive Plan during the year ended 31 December 2018 are set out below:

(i) Restricted shares granted to the Directors

Name of Director	As at 1 January 2018	Awarded during the year	Vested during the year	Cancelled during the year	As at 31 December 2018	Date of award	Vesting date
	Number of restricted shares						
Mr. Ho, Lawrence Yau Lung	345,144	–	(345,144)	–	–	30.03.2015	30.03.2018
	217,140	–	(217,140)	–	–	18.03.2016	18.03.2018
	217,140	–	–	–	217,140	18.03.2016	18.03.2019
	631,470	–	–	–	631,470	31.03.2017	30.03.2020
	137,979	–	–	–	137,979	08.09.2017	08.09.2019
	–	265,689	–	–	265,689	29.03.2018	29.03.2020
	–	265,692	–	–	265,692	29.03.2018	29.03.2021
	1,548,873	531,381	(562,284)	–	1,517,970		
Mr. Evan Andrew Winkler	8,091	–	(8,091)	–	–	31.03.2017	30.03.2018
	8,091	–	–	–	8,091	31.03.2017	30.03.2019
	8,091	–	–	–	8,091	31.03.2017	30.03.2020
	–	5,175	–	–	5,175	29.03.2018	29.03.2019
	–	5,175	–	–	5,175	29.03.2018	29.03.2020
	–	5,178	–	–	5,178	29.03.2018	29.03.2021
	24,273	15,528	(8,091)	–	31,710		
Mr. Chung Yuk Man, Clarence	5,523	–	(5,523)	–	–	30.03.2015	30.03.2018
	6,948	–	(6,948)	–	–	18.03.2016	18.03.2018
	6,948	–	–	–	6,948	18.03.2016	18.03.2019
	8,091	–	(8,091)	–	–	31.03.2017	30.03.2018
	8,091	–	–	–	8,091	31.03.2017	30.03.2019
	8,091	–	–	–	8,091	31.03.2017	30.03.2020
	–	7,311	–	–	7,311	16.03.2018	16.03.2020
	–	5,175	–	–	5,175	29.03.2018	29.03.2019
	–	5,175	–	–	5,175	29.03.2018	29.03.2020
	–	5,178	–	–	5,178	29.03.2018	29.03.2021
	43,692	22,839	(20,562)	–	45,969		
Total	**1,616,838**	**569,748**	**(590,937)**	**–**	**1,595,649**		

(ii) *Restricted shares granted to other eligible participants*

	Number of restricted shares						
	As at 1 January 2018	Awarded during the year	Vested during the year	Cancelled during the year	As at 31 December 2018	Date of award	Vesting date
Other eligible participants[Note]	11,093	–	(11,093)	–	–	28.03.2014	04.01.2018
	19,122	–	(19,122)	–	–	30.03.2015	04.01.2018
	600,084	–	(590,406)	(9,678)	–	30.03.2015	30.03.2018
	24,060	–	(24,060)	–	–	18.03.2016	04.01.2018
	917,508	–	(891,207)	(26,301)	–	18.03.2016	18.03.2018
	917,508	–	–	(86,553)	830,955	18.03.2016	18.03.2019
	95,664	–	–	–	95,664	23.12.2016	26.12.2019
	98,109	–	–	–	98,109	21.02.2017	08.01.2020
	32,364	–	(32,364)	–	–	31.03.2017	30.03.2018
	32,364	–	–	–	32,364	31.03.2017	30.03.2019
	1,384,869	–	–	(183,477)	1,201,392	31.03.2017	30.03.2020
	34,248	–	–	–	34,248	30.05.2017	30.05.2020
	81,057	–	–	–	81,057	08.09.2017	08.09.2019
	–	20,352	–	–	20,352	16.03.2018	16.03.2020
	–	15,525	–	–	15,525	29.03.2018	29.03.2019
	–	600,042	–	(19,887)	580,155	29.03.2018	29.03.2020
	–	600,615	–	(19,905)	580,710	29.03.2018	29.03.2021
	–	72,894	–	–	72,894	23.11.2018	23.11.2020
Total	**4,248,050**	**1,309,428**	**(1,568,252)**	**(345,801)**	**3,643,425**		

Note: The category "Other eligible participants" represents the directors (other than the Directors), employees or consultants of Melco Resorts.

(III) Melco Resorts Philippines

Movements of the restricted shares, which were granted under the MRP Share Incentive Plan during the year ended 31 December 2018, are set out below:

(i) *Restricted shares granted to the Directors*

	Number of restricted shares						
Name of Director	As at 1 January 2018	Awarded during the year	Vested during the year	Cancelled during the year	As at 31 December 2018	Date of award	Vesting date
Mr. Ho, Lawrence Yau Lung	2,731,273	–	(2,731,273)	–	–	30.09.2016	30.09.2018
	2,731,273	–	–	–	2,731,273	30.09.2016	30.09.2019
	5,462,546	–	(2,731,273)	–	2,731,273		
Mr. Chung Yuk Man, Clarence	1,173,385	–	(1,173,385)	–	–	29.09.2015	29.09.2018
	1,820,848	–	(1,820,848)	–	–	30.09.2016	30.09.2018
	1,820,849	–	–	–	1,820,849	30.09.2016	30.09.2019
	374,922	–	(374,922)	–	–	01.08.2017	01.08.2018
	374,922	–	–	–	374,922	01.08.2017	01.08.2019
	374,922	–	–	–	374,922	01.08.2017	01.08.2020
	–	669,320	–	–	669,320	29.03.2018	29.03.2019
	–	669,321	–	–	669,321	29.03.2018	29.03.2020
	–	669,321	–	–	669,321	29.03.2018	29.03.2021
	5,939,848	2,007,962	(3,369,155)	–	4,578,655		
Total	**11,402,394**	**2,007,962**	**(6,100,428)**	**-**	**7,309,928**		

(ii) Restricted shares granted to other eligible participants

	Number of restricted shares						
	As at 1 January 2018	Awarded during the year	Vested during the year	Cancelled during the year	As at 31 December 2018	Date of award	Vesting period
Other eligible participants[Note]	1,699,134	–	(1,699,134)	–	–	16.11.2015	16.11.2018
	14,685,592	–	(12,144,449)	(2,541,143)	–	30.09.2016	30.09.2018
	14,685,637	–	–	(2,541,159)	12,144,478	30.09.2016	30.09.2019
	1,674,485	–	–	–	1,674,485	15.03.2017	24.04.2019
	562,382	–	(562,382)	–	–	01.08.2017	01.08.2018
	562,382	–	–	–	562,382	01.08.2017	01.08.2019
	3,374,357	–	–	(95,490)	3,278,867	01.08.2017	01.08.2020
	–	669,320	–	–	669,320	29.03.2018	29.03.2019
	–	1,207,553	–	–	1,207,553	29.03.2018	29.03.2020
	–	1,207,559	–	–	1,207,559	29.03.2018	29.03.2021
	–	463,362	–	–	463,362	06.06.2018	06.06.2019
	–	463,363	–	–	463,363	06.06.2018	06.06.2020
	–	463,363	–	–	463,363	06.06.2018	06.06.2021
Total	**37,243,969**	**4,474,520**	**(14,405,965)**	**(5,177,792)**	**22,134,732**		

Note: The category of "Other eligible participants" represents the directors (other than the Directors), employees or consultants of Melco Resorts Philippines.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ho, Lawrence Yau Lung has effective beneficial interests in Shun Tak Holdings Limited ("STHL"), Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") and SJM Holdings Limited ("SJM") of not more than 3%. These interests are held through a number of intermediary companies in which Mr. Ho, Lawrence Yau Lung has interest. STHL, STDM and SJM are involved in hotel and/or casino business, which competes with the business of the Company's subsidiary, Melco Resorts, in Macau. Mr. Ho, Lawrence Yau Lung is not a director of STHL, STDM and SJM and has no involvement with, and does not exercise any control or influence on, management and operation of STHL, STDM and SJM.

Save as disclosed above, during the year, no Director has been interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business which is required to be disclosed pursuant to the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the Group entered into the following connected transactions and continuing connected transactions, which are subject to announcement and reporting requirements but are exempt from shareholders' approval requirements under Chapter 14A of the Listing Rules:

(I) Connected Transactions

(1) Grant of Restricted Shares to a Director by Melco Resorts

On 29 March 2018, Melco Resorts granted restricted shares in respect of 177,127 American depositary shares ("Melco Resorts ADSs", each of which is equivalent to three Melco Resorts Shares) (equivalent to 531,381 Melco Resorts Shares) (the "Restricted Shares") to Mr. Ho, Lawrence Yau Lung under its share incentive plan. The Restricted Shares granted represented approximately 0.04% of Melco Resorts' issued share capital as of 29 March 2018 and will be allotted and issued to Mr. Ho in two tranches, as to 265,689 Melco Resorts Shares and 265,692 Melco Resorts Shares on 29 March 2020 and 29 March 2021, respectively.

Based on the closing price of US$28.98 per Melco Resorts ADS as quoted on the NASDAQ Global Select Market on 29 March 2018, the market value of the Restricted Shares granted to Mr. Ho, Lawrence Yau Lung was approximately US$5.133 million.

The purpose of the aforesaid grant of Restricted Shares to Mr. Ho, Lawrence Yau Lung is to recognize his contribution to the success and development of the Melco Resorts Group and to incentivize and motivate him to continue to strive for the future development of Melco Resorts and its subsidiaries (the "Melco Resorts Group") and its business.

Mr. Ho, Lawrence Yau Lung is a substantial shareholder, the Chairman and Chief Executive Officer of the Company. He is also the Chairman and Chief Executive Officer of Melco Resorts. As such, Mr. Ho is a connected person of the Company under the Listing Rules.

Further details of the above connected transaction are set out in the announcement of the Company dated 3 April 2018.

(2) Spin-off and separate listing of Studio City International Holdings

In October 2018, certain agreements were entered by and between Studio City International Holdings and/or other subsidiaries of the Company (on one hand) and New Cotai LLC ("New Cotai") and/or its affiliates (on the other hand) in respect of a pre-IPO reorganization (the "Pre-IPO Reorganization") undertaken by Studio City International Holdings in relation to the initial public offerings of its American depositary shares ("Studio City ADSs") and the spin-off and separate listing of the Studio City ADSs on the New York Stock Exchange (the "Global Offering") and the purchase by certain affiliates of New Cotai of 10,220,000 Studio City ADSs (representing 40,880,000 Studio City Class A Shares) at a final offer price of US$12.5 per Studio City ADS in connection with the Global Offering (the "New Cotai Placement").

New Cotai was a substantial shareholder holding 40% interest of Studio City International Holdings immediately prior to the Global Offering and was therefore a connected person of the Company under the Listing Rules.

Further details of the above connected transaction are set out in the announcement of the Company dated 18 October 2018.

(II) Continuing Connected Transactions

Renewal of Purchase of Ferry Tickets from Shun Tak-China Travel Ship Management Limited

On 7 October 2016, Melco Resorts Services Limited ("MRSL"), a subsidiary of the Company, and Shun Tak-China Travel Ship Management Limited ("STCTSML") had entered into a ferry ticket sales framework agreement (the "Previous Ferry Ticket Sales Framework Agreement") for a term of three years commencing from 7 October 2016 and expiring on 31 December 2018 relating to the purchases from time to time by the Group of ferry tickets to and from Macau (the "Ferry Tickets") from STCTSML.

The aggregate amount of the transactions under the Previous Ferry Ticket Sales Framework Agreement was subject to annual caps for period from 7 October 2016 to 31 December 2018. Annual caps of HK$8,000,000, HK$41,000,000 and HK$45,000,000 were set for the period from 7 October 2016 to 31 December 2016, for the year ended 31 December 2017 and 31 December 2018, respectively.

As the Previous Ferry Ticket Sales Framework Agreement would expire on 31 December 2018, on 14 December 2018, MRSL (for itself and on behalf of the Group) entered into a new ferry ticket sales framework agreement (the "New Ferry Ticket Sales Framework Agreement") with STCTSML relating to the purchases from time to time of the Ferry Tickets from STCTSML for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021.

The Company, through its subsidiary Melco Resorts, is engaged in the gaming and hospitality business in Macau. As part of the privileges offered to eligible customers, the Melco Resorts Group set up ticket terminals in its hotels and gaming areas allowing its eligible customers to directly redeem and print complimentary ferry ticketing services on site. On top of accommodating customers' preferences and needs, the price payable by the Group for Ferry Tickets pursuant to the New Ferry Ticket Sales Framework Agreement and any implementation agreements in relation thereto is determined in accordance with the then prevailing market prices with bulk purchase discount (net of departure tax and any fees) at which Ferry Tickets are offered to the general public by Shun Tak-China Travel Shipping Investments Limited (and its subsidiaries including STCTSML). As such, the Company considers that the entering into of the New Ferry Ticket Sales Framework Agreement and any related implementation agreements is beneficial to the Group.

MRSL is a subsidiary of Melco Resorts which in turn is a subsidiary of the Company. Mr. Ho, Lawrence Yau Lung is a substantial shareholder of the Company, the Chairman and Chief Executive Officer of the Company. STCTSML is a majority-controlled company of certain family members of Mr. Ho, Lawrence Yau Lung. STCTSML is, therefore, an associate of Mr. Ho, Lawrence Yau Lung and a connected person of the Company under the Listing Rules.

The aggregate amount of the transactions under the New Ferry Ticket Sales Framework Agreement is subject to annual caps for three years ending 31 December 2021. Annual caps of HK$34,200,000, HK$37,800,000 and HK$42,000,000 were set for the years ending 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Details of the New Ferry Ticket Sales Framework Agreement and the annual caps set for each of the three years ending 31 December 2021 are set out in the announcement of the Company dated 14 December 2018.

For the year ended 31 December 2018, the total amount of fee paid by Melco Resorts Group to STCTSML under the Previous Ferry Ticket Sales Framework Agreement was approximately HK$35,876,000 (the "Continuing Connected Transactions"), which is within the annual cap of HK$45,000,000 set for the year ended 31 December 2018 thereunder.

All the Independent Non-executive Directors have reviewed the Continuing Connected Transactions and confirmed that they have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the Previous Ferry Ticket Sales Framework Agreement on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Company in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2018, which do not constitute connected transactions under the Listing Rules, are disclosed in note 48 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the following persons/corporations had interests in five per cent or more of the issued shares of the Company as recorded in the register required to be kept under Section 336 of the SFO. Details of the interests in the shares and underlying shares of the Company as notified to the Company are set out below:

Long positions in the shares and underlying shares of the Company

Name	Capacity	No. of shares held	No. of underlying shares held	Approximate % of total issued shares	Note(s)
Better Joy Overseas Ltd.	Beneficial owner	297,851,606	–	19.60%	2
Lasting Legend Ltd.	Beneficial owner	120,333,024	–	7.92%	2
Great Respect Limited	Beneficial owner	309,476,187	–	20.37%	4
Vistra Trust (BVI) Limited	Trustee	309,476,187	–	20.37%	4
	Trustee	418,184,630	–	27.52%	5
Mr. Ho, Lawrence Yau Lung	Beneficial owner	42,339,132	3,700,000	3.03%	7
	Interest of controlled corporations	484,748,077	–	31.90%	3
	Others	309,476,187	–	20.37%	4
Ms. Lo Sau Yan, Sharen	Interest of spouse	836,563,396	3,700,000	55.29%	6, 7
Southeastern Asset Management, Inc.	Investment manager	169,454,077	–	11.15%	–
The Capital Group Companies, Inc.	Interest of controlled corporation	92,250,000	–	6.07%	8

Notes:

1. As at 31 December 2018, the total number of issued shares of the Company was 1,519,627,055.

2. The 297,851,606 shares held by Better Joy Overseas Ltd. and the 120,333,024 shares held by Lasting Legend Ltd. also represent the corporate interests of Mr. Ho, Lawrence Yau Lung in the Company.

3. The 484,748,077 shares relate to the 297,851,606 shares, 120,333,024 shares, 50,830,447 shares, 7,294,000 shares, 6,873,000 shares and 1,566,000 shares held by Better Joy Overseas Ltd., Lasting Legend Ltd., Mighty Dragon Developments Limited, The L3G Capital Trust, LH Family Investment Inc. and Maple Peak Investments Inc. respectively, representing approximately 19.60%, 7.92%, 3.34%, 0.48%, 0.45% and 0.10% of the total issued shares of the Company. All of such companies/trust are owned by Mr. Ho, Lawrence Yau Lung, and/or persons and/or trusts associated with Mr. Ho, Lawrence Yau Lung. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the shares held by the aforesaid companies and trust.

4. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his immediate family members (including his father, Dr. Ho Hung Sun, Stanley). Vistra Trust (BVI) Limited is the trustee of the aforesaid discretionary family trust. Mr. Ho, Lawrence Yau Lung is taken to have interests in the shares held by Great Respect Limited by virtue of him being one of the beneficiaries of the discretionary family trust for the purpose of the SFO.

5. The 418,184,630 shares relate to the same block of shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. referred to in note 2 above.

6. Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho, Lawrence Yau Lung and was deemed to be interested in the shares of the Company through the interest of her spouse, Mr. Ho, Lawrence Yau Lung, under the SFO.

7. Regarding the interests of Mr. Ho, Lawrence Yau Lung in the underlying shares of the Company (in respect of the share options and awarded shares granted by the Company), please refer to the section "Directors' interests in shares, underlying shares and debentures" in this report.

8. The Capital Group Companies, Inc. was deemed to be interested in 92,250,000 shares which were beneficially owned by its wholly-owned subsidiary Capital Research and Management Company.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other interests or short position in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION 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 Hong Kong Stock Exchange. 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** HK$	**Lowest price paid per share** HK$	**Aggregate consideration paid (before expenses)** 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into during the year or subsisted at the end of the year.

EQUITY-LINKED AGREEMENTS

Other than the share option schemes as disclosed in the "Share Options Schemes" section of this report, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 67 to 79 of this annual report.

EMOLUMENT POLICY

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market standards. Particulars of the emoluments of Directors on a named basis for the year are set out in note 12 to the consolidated financial statements.

The Company has adopted a share option scheme and share award schemes as an incentive to Directors and employees. Details of the schemes are set out in the "Share Option Schemes" and "Share Award Schemes" sections of this report and in note 38 to the consolidated financial statements.

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 one 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.

DONATIONS AND CONTRIBUTIONS

During the year, donations and contributions by the Group for charitable and other purposes amounted to approximately HK$85,264,800.

AUDITOR

Deloitte Touche Tohmatsu ("Deloitte") resigned as the auditor of the Company with effect from 25 July 2017. On the same day, Ernst & Young ("EY") was appointed as the new auditor of the Company to fill the casual vacancy arising from the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company. At the annual general meeting of the Company held on 7 June 2018, EY was re-appointed as auditor of the Company.

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by EY, who will retire and, being eligible, offer themselves for re-appointment at the 2019 annual general meeting.

On behalf of the Board

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the members of Melco International Development Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Melco International Development Limited (the "Company") and its subsidiaries (the "Group") set out on pages 122 to 233, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
Referring to note 28 to the Group's consolidated financial statements, an impairment of trade receivables was recognised to reduce the Group's trade receivables based on the expected credit loss ("ECL") approach under HKFRS 9 *Financial Instruments*. The Group has made ECL allowance for trade receivables of HK$315 million as at 31 December 2018. The Group is exposed to credit risk with its gaming promotors. Any significant adverse changes in the business environment, collection trends in the gaming industry and financial condition of these gaming promoters may impact the recoverability of the trade receivables. Changes in a region's economy or legal system can also provide a significant change in estimate between periods. Further disclosures are included in notes 3 and 28 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the controls over the Group's assessment of the collectability and expected credit losses of trade receivables. In addition, we evaluated whether the expected credit loss impairment model was calculated in accordance with HKFRS 9 *Financial Instruments*. We also checked and tested the data used in the Group's expected credit loss impairment model, such as historical collection analysis, aging profile, security in front monies and/or deposits, and other background information in order to assess the adequacy of the provision made by the management for trade receivables. We also assessed whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and trademarks	
Referring to note 24 to the Group's consolidated financial statements for impairment testing on goodwill and trademarks, the Group carried goodwill and trademarks in the amounts of approximately HK$5,299 million and approximately HK$16,992 million, respectively, as at 31 December 2018, which arose from the acquisition of obtaining control over Melco Resorts & Entertainment Limited in 2016. Management performs impairment test annually at the end of each financial year, and the recoverable amounts of the Group's cash-generating units ("CGUs") or group of CGUs as at 31 December 2018 were determined by a value-in-use calculation. We identified impairment of goodwill and trademarks as a key audit matter because the impairment test and assessment were largely based on management's expectations and estimates of future results of CGUs in the casino and hospitality operations of the Group. The assumptions used in impairment test were based on management's estimates of variables such as budgeted revenue, gross margin, discount and growth rates. Further disclosures are included in notes 3 and 24 to the consolidated financial statements.	We obtained an understanding of the process and testing of the internal controls over the annual impairment assessment including the preparation of the cash flow forecasts, setting of reasonable and supportable assumptions and inputs to the models used to estimate the recoverable amounts. We evaluated the reasonableness of the inputs and assumptions used to determine the cash flow forecast against historical performance, economic and industry indicators, publicly available information and the Group's strategic plans. We also involved our valuation specialists to assess the appropriateness of the discount rates and methodologies used; and re-performed the underlying calculations used in the Group's assessment and performed sensitivity testing of the inputs used.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Transfer of construction in progress to depreciable property, plant and equipment accounts	
Referring to note 17 to the Group's consolidated financial statements, an amount of approximately HK$8,563 million was transferred from the construction in progress account into the respective components of property, plant and equipment upon completion of the construction of a new hotel in Macau in June 2018. The construction in progress amount carried at the end of the reporting period represented mainly the construction cost of other resorts of the Group which are still under construction. We identified the transfer of the relevant costs upon the completion of the new hotel from construction in progress into different components of property, plant and equipment as a key audit matter because of (i) the material amounts involved; and (ii) the significant judgment made in the determination of the components of property, plant and equipment for the transfer-in from construction in progress. Further disclosures are included in notes 2.4 and 17 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the controls over the accounting process of construction in progress. We evaluated management's classification of the construction in progress amount into the appropriate components of property, plant and equipment, we assessed management's determination of the economic useful lives for different asset components and checked the depreciation calculation for arithmetical accuracy.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Paul Kai Lung, Go.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Net revenues	5	40,724,673	41,180,086
Other income, gains and losses	6	75,201	332,564
Gaming tax and license fees	7	(18,594,419)	(17,303,171)
Employee benefits expenses	8	(6,892,961)	(6,572,118)
Depreciation and amortization		(5,163,392)	(4,919,602)
(Loss)/gain on disposal of subsidiaries	40	(34,111)	161,228
Other expenses	9	(6,136,541)	(9,059,634)
Finance costs	10	(2,417,089)	(2,688,898)
Share of profits and losses of associates		737	(904)
PROFIT BEFORE TAX	11	1,562,098	1,129,551
Income tax	14	38,070	(67,017)
PROFIT FOR THE YEAR		1,600,168	1,062,534

	Note	2018 HK$'000	2017 HK$'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
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	16		
Basic		HK$0.34	HK$0.31
Diluted		HK$0.33	HK$0.30

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	48,069,934	47,994,966
Investment properties	18	310,000	274,000
Land use rights	19	5,387,867	5,553,924
Gaming license and subconcession	20	3,813,886	4,902,889
Goodwill	21	5,299,451	5,299,451
Trademarks	22	16,992,458	16,992,458
Other intangible assets	23	225,068	14,533
Investment in a joint venture	25	–	–
Investments in associates	26	13,869	14,946
Trade receivables	28	41	28,970
Prepayments, deposits and other receivables	29	1,478,875	1,440,006
Other financial assets	31	205,381	192,512
Deferred tax assets	36	23,431	543
Total non-current assets		81,820,261	82,709,198
CURRENT ASSETS			
Land use rights	19	166,057	166,057
Inventories	27	323,279	273,989
Trade receivables	28	1,899,851	1,247,940
Prepayments, deposits and other receivables	29	789,348	702,308
Tax recoverable		160	156
Other financial assets	31	1,094,507	1,053,586
Bank deposits with original maturities over three months	30	40,000	348,741
Cash and bank balances	30	11,892,778	11,768,251
Total current assets		16,205,980	15,561,028
CURRENT LIABILITIES			
Trade payables	32	198,341	127,720
Other payables, accruals and deposits received	33	13,359,787	12,617,523
Tax payable		51,227	36,848
Interest-bearing borrowings	34	3,537,301	2,003,109
Obligations under finance leases	35	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

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Other payables, accruals and deposits received	33	231,984	384,636
Interest-bearing borrowings	34	35,264,619	32,463,626
Obligations under finance leases	35	1,984,308	2,068,669
Deferred tax liabilities	36	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	37	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

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 122 to 233 were approved and authorized for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Ho, Lawrence Yau Lung
Director

Evan Andrew Winkler
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital HK$'000 (note 37)	Capital reserve HK$'000 (note a)	Special reserve HK$'000 (note b)	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000 (note c)	Exchange reserve HK$'000	Share option reserve HK$'000	Shares held under share award schemes HK$'000	Share award reserve HK$'000	Retained profits HK$'000 (note d)	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	5,437,303	7,053	311,307	5,796	(5,093)	(30,552)	232,497	(138,466)	22,554	16,505,347	22,347,746	34,695,747	57,043,493
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(3,703)	–	–	–	–	(3,703)	(2,939)	(6,642)
Reclassification of exchange reserve upon disposal of interest in a subsidiary *(note 40)*	–	–	–	–	–	813	–	–	–	–	813	–	813
Reclassification adjustment relating to disposal of available-for-sale investments	–	–	–	–	10,052	–	–	–	–	–	10,052	–	10,052
Change in fair value of available-for-sale investments	–	–	–	–	(9,542)	–	–	–	–	–	(9,542)	(4,363)	(13,905)
Actuarial loss arising from defined benefit obligations	–	–	–	–	(323)	–	–	–	–	–	(323)	(179)	(502)
Other comprehensive income/(loss) for the year	–	–	–	–	187	(2,890)	–	–	–	–	(2,703)	(7,481)	(10,184)
Profit for the year	–	–	–	–	–	–	–	–	–	474,136	474,136	588,398	1,062,534
Total comprehensive income/(loss) for the year	–	–	–	–	187	(2,890)	–	–	–	474,136	471,433	580,917	1,052,350
Exercise of share options	186,832	–	–	–	–	–	(75,898)	–	–	–	110,934	–	110,934
Recognition of equity-settled share-based payments	–	–	–	–	–	–	15,540	–	85,113	–	100,653	284,211	384,864
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	(2,772)	–	–	2,772	–	–	–
Shares vested under the share award schemes	–	–	–	–	–	–	–	61,842	(59,770)	(2,072)	–	–	–
Purchase of shares for unvested shares under the share award schemes *(note 37)*	–	–	–	–	–	–	–	(91,562)	–	–	(91,562)	–	(91,562)
Dividends paid *(note 15)*	–	–	–	–	–	–	–	–	–	(64,298)	(64,298)	–	(64,298)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,088,487)	(3,088,487)
Share of special reserve of an associate	–	–	(2,135)	–	–	–	–	–	–	–	(2,135)	–	(2,135)
Acquisition of partial interests in subsidiaries	–	–	(3,495,880)	–	–	–	–	–	–	–	(3,495,880)	(5,784,510)	(9,280,390)
Privatization of a subsidiary	–	–	(16,085)	–	–	–	(615)	–	–	–	(16,700)	(76,290)	(92,990)
Disposal of a subsidiary	–	–	–	–	–	–	(31,598)	–	–	31,598	–	(248,580)	(248,580)
Repurchase of shares *(note 37)*	–	–	–	–	–	–	–	–	–	(371,304)	(371,304)	–	(371,304)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	500,151	500,151
	186,832	–	(3,514,100)	–	–	–	(95,343)	(29,720)	25,343	(403,304)	(3,830,292)	(8,413,505)	(12,243,797)
At 31 December 2017	5,624,135	7,053*	(3,202,793)*	5,796*	(4,906)*	(33,442)*	137,154*	(168,186)*	47,897*	16,576,179*	18,988,887	26,863,159	45,852,046

	Attributable to owners of the Company												
	Share capital HK$'000 (note 37)	Capital reserve HK$'000 (note a)	Special reserve HK$'000 (note b)	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000 (note c)	Exchange reserve HK$'000	Share option reserve HK$'000	Shares held under share award schemes HK$'000	Share award reserve HK$'000	Retained profits HK$'000 (note d)	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	5,624,135	7,053	(3,202,793)	5,796	(4,906)	(33,442)	137,154	(168,186)	47,897	16,576,179	18,988,887	26,863,159	45,852,046
Change in accounting policy *(note 2.2)*	–	–	–	–	4,583	–	–	–	–	(112,403)	(107,820)	(130,225)	(238,045)
Restated total equity at the beginning of the financial year	5,624,135	7,053	(3,202,793)	5,796	(323)	(33,442)	137,154	(168,186)	47,897	16,463,776	18,881,067	26,732,934	45,614,001
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(118,555)	–	–	–	–	(118,555)	(128,687)	(247,242)
Actuarial gain arising from defined benefit obligations	–	–	–	–	1,226	–	–	–	–	–	1,226	931	2,157
Other comprehensive income/(loss) for the year	–	–	–	–	1,226	(118,555)	–	–	–	–	(117,329)	(127,756)	(245,085)
Profit for the year	–	–	–	–	–	–	–	–	–	522,571	522,571	1,077,597	1,600,168
Total comprehensive income/(loss) for the year	–	–	–	–	1,226	(118,555)	–	–	–	522,571	405,242	949,841	1,355,083
Exercise of share options	36,055	–	–	–	–	–	(14,510)	–	–	–	21,545	–	21,545
Recognition of equity-settled share-based payments	–	–	–	–	–	–	30,944	–	145,062	–	176,006	107,129	283,135
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	(5,821)	–	–	5,821	–	–	–
Shares vested under the share award schemes	–	–	–	–	–	–	–	155,476	(151,301)	(4,175)	–	–	–
Dividends paid *(note 15)*	–	–	–	–	–	–	–	–	–	(167,889)	(167,889)	–	(167,889)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(1,012,618)	(1,012,618)
Share of special reserve of an associate	–	–	(1,814)	–	–	–	–	–	–	–	(1,814)	–	(1,814)
Changes in ownership interest of subsidiaries *(notes 42)*	–	–	(2,746,748)	–	–	–	–	–	–	–	(2,746,748)	(2,306,490)	(5,053,238)
Repurchase of shares *(note 37)*	–	–	–	–	–	–	–	–	–	(335,179)	(335,179)	–	(335,179)
	36,055	–	(2,748,562)	–	–	–	10,613	155,476	(6,239)	(501,422)	(3,054,079)	(3,211,979)	(6,266,058)
At 31 December 2018	5,660,190	7,053*	(5,951,355)*	5,796*	903*	(151,997)*	147,767*	(12,710)*	41,658*	16,484,925*	16,232,230	24,470,796	40,703,026

* These reserve accounts comprise the consolidated reserves of HK$10,572,040,000 (2017: HK$13,364,752,000) in the consolidated statement of financial position.

The accompanying notes are an integral part of the consolidated financial statements.

Notes:

(a) Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is no outstanding debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and is irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

(b) The special reserve represents (1) the difference between the consideration paid and the aggregate of goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in a former subsidiary, which subsequently became an associate of the Group acquired in previous years; (2) the difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid to acquire additional interest in a subsidiary; (3) the difference by which the non-controlling interests were adjusted and the fair value of consideration received in relation to the disposal of a partial interest of a subsidiary; (4) the deemed disposal of a partial interest in a subsidiary in relation to the exercise of share options by non-controlling interests; (5) share of net asset changes of a former associate in relation to the issuance of shares and sales of treasury shares of one of its subsidiaries; (6) share of net asset changes of a former associate resulting from the share repurchase and cancellation by a former associate, which increased the Group's effective ownership therein; (7) share of net asset changes of a subsidiary resulting from the share repurchase by the subsidiary, which increased the Group's effective ownership therein; (8) share of net asset changes of a joint venture in relation to the deemed contribution from shareholders as a result of the provision of a non-interest-bearing loan to the joint venture; (9) share of special reserve of an associate and (10) the difference between the cash consideration and net assets acquired for privatization of a subsidiary.

(c) Other revaluation reserve as at 1 January 2017 and 31 December 2017 mainly represented the fair value change of available-for-sale investments held by the Group of HK$5,093,000 and HK$4,583,000, respectively. Following the adoption of Hong Kong Financial Reporting Standard 9 *Financial Instruments* at 1 January 2018 as detailed in note 2.2, 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.

(d) All subsidiaries of the Group incorporated in Macau are required to set aside a minimum of 10% to 25% of the entity's profit after tax to the legal reserve until the balance of the legal reserve reaches a level equivalent to 25% to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the subsidiaries' statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of the legal reserve is recorded in the subsidiaries' financial statements in the year in which it is approved by the board of directors of the relevant subsidiaries. As of 31 December 2018, the aggregate balance of the reserves amounted to HK$245,240,000 (2017: HK$242,806,000).

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,562,098	1,129,551
Adjustments for:			
Share of profits and losses of associates		(737)	904
Finance costs	10	2,417,089	2,688,898
Gain on fair value change of investment properties	6	(36,000)	(84,000)
Share-based compensation	8	289,817	392,015
Depreciation of property, plant and equipment	11	3,902,279	3,666,857
Amortization of intangible assets	11	1,261,113	1,252,745
Loss on disposal of property, plant and equipment	6	11,876	44,096
Impairment losses on property, plant and equipment	17	–	188,880
Interest income	6	(47,140)	(36,865)
Loss allowance on receivables, net	9	31,893	112,799
Loss on fair value change of financial assets at fair value through profit or loss	6	866	–
Loss on fair value change of held-for-trading investments	6	–	15
Loss on disposal of held-for-trading investments	6	–	4
Loss on disposal of available-for-sale investments	6	–	10,052
Loss/(gain) on disposal of subsidiaries	40	34,111	(161,228)
		9,427,265	9,204,723
Increase in inventories		(49,318)	(18,265)
Increase in trade receivables, prepayments, deposits and other receivables		(532,371)	(43,995)
Increase in an amount due from a joint venture		–	(55)
Increase in amounts due to/(from) related companies		15	42,669
Increase in trade payables, other payables and accruals		1,378,897	1,377,697
Cash generated from operations		10,224,488	10,562,774
Income tax paid, net of refunds		(2,139)	(49,346)
Net cash from operating activities		10,222,349	10,513,428

	Note	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Withdrawal of bank deposits with original maturities over three months		725,985	3,571,960
Proceeds from disposal of property, plant and equipment		6,281	8,203
Proceeds from disposal of financial assets at fair value through profit or loss		311,299	–
Proceeds from disposal of available-for-sale investments		–	28,948
Proceeds from disposal of held-for-trading investment		–	7
Repayment from loan to an associate		8,304	6,613
Placement of bank deposits with original maturities over three months		(416,951)	(758,799)
Increase in restricted cash		(42,290)	(192,858)
Payment for security deposit		(12,076)	–
Payment and deposit for property, plant and equipment		(5,320,739)	(3,860,248)
Purchase of other intangible assets		(219,029)	(1,654)
Purchase of financial assets at fair value through profit or loss		(350,476)	–
Purchase of available-for-sale investments		–	(708,168)
Net (outflow)/inflow of cash from disposal of subsidiaries	40	(27,960)	4,003
Interest received		47,193	42,276
Net cash used in investing activities		(5,290,459)	(1,859,717)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest-bearing borrowings		(6,271,196)	(6,978,043)
Interest paid		(1,892,238)	(2,212,797)
Payments of obligations under finance leases		(261,294)	(254,873)
Dividend paid		(131,709)	(64,382)
Dividend paid to non-controlling shareholders		(1,012,618)	(3,088,487)
Purchase of shares for the share award schemes		–	(91,562)
Acquisition of partial interests in subsidiaries		(1,550,313)	(8,479,050)
Privatization of a subsidiary		–	(94,903)
Proceeds from interest-bearing borrowings		10,115,338	10,912,423
Proceeds from exercise of share options		60,879	110,934
Repurchase of shares		(335,179)	(371,304)
Repurchase of Melco Resorts' shares		(5,113,955)	–
Net proceeds from issuance of shares by a subsidiary		1,643,020	–
Net cash used in financing activities		(4,749,265)	(10,612,044)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		182,625	(1,958,333)
Cash and cash equivalents at beginning of year		11,768,251	13,727,720
Effect of foreign exchange rate changes, net		(58,098)	(1,136)
CASH AND CASH EQUIVALENTS AT END OF YEAR		11,892,778	11,768,251
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		11,892,778	11,768,251

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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 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.

The principal activities of the Group are divided into two operating and reportable segments, namely (i) the Casino and Hospitality segment; and (ii) the Others segment. See note 4 for additional information about the Group's segments.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Proportion of ownership interest and voting rights held by the Company Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017
Melco Resorts	Cayman Islands	Investment holding	Ordinary shares - United States dollar ("US$") 14,829,994 (2017: US$14,784,292)	–	–	54.88%	51.22%
COD Resorts Limited	Macau	Integrated entertainment resort development and related operations	Quota capital - Macau Pataca ("MOP") 1,050,000	–	–	54.88%	51.22%
MCO Cotai Investments Limited (formerly known as MCE Cotai Investments Limited)	Cayman Islands	Investment holding	Ordinary share - US$0.01	–	–	54.88%	51.22%
MCO (Philippines) Investments Limited	The British Virgin Islands ("BVI")	Investment holding	Ordinary share - US$1	–	–	54.88%	51.22%
MCO Holdings Limited	Cayman Islands	Investment holding	Ordinary share - US$0.01	–	–	54.88%	51.22%
MCO International Limited	Cayman Islands	Investment holding	Ordinary shares – US$4	–	–	54.88%	51.22%
MCO Investments Limited ("MCO Investments")	Cayman Islands	Investment holding	Ordinary shares – US$2.02	–	–	54.88%	51.22%
MCO Nominee One Limited	Cayman Islands	Investment holding	Ordinary share - US$0.01	–	–	54.88%	51.22%
Melco Resorts (Macau) Limited ("Melco Resorts Macau")	Macau	Casino operations and investment holding	Ordinary shares - Class A shares: MOP282,800,000 Class B shares: MOP727,200,000	–	–	54.88%	51.22%
Melco Resorts and Entertainment (Philippines) Corporation ("MRP")	The Philippines	Investment holding	Common shares - the Philippine Peso ("PHP") 5,687,270,800 (2017: PHP5,666,764,407)	–	–	53.75%	37.28%
Melco Resorts Finance Limited ("Melco Resorts Finance")	Cayman Islands	Financing	Ordinary shares - US$12.02	–	–	54.88%	51.22%

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Proportion of ownership interest and voting rights held by the Company Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017
Melco Resorts Leisure (PHP) Corporation ("Melco Resorts Leisure")	The Philippines	Integrated casino and entertainment resort development and related operations	Common shares - PHP2,281,894,500	–	–	53.75%	37.28%
MPHIL Holdings No. 1 Corporation	The Philippines	Investment holding	Common shares - PHP2,281,894,500	–	–	53.75%	37.28%
MPHIL Holdings No. 2 Corporation	The Philippines	Investment holding	Common shares - PHP2,281,894,500	–	–	53.75%	37.28%
MSC Cotai Limited	BVI	Investment holding	Ordinary share - US$24,181.80	–	–	29.93%	30.73%
SCP Holdings Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%
SCP One Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%
SCP Two Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%
Studio City Company Limited ("Studio City Company")	BVI	Financing	Ordinary shares - US$3	–	–	29.93%	30.73%
Studio City Developments Limited	Macau	Integrated entertainment resort development	Quota capital - MOP6,001,000	–	–	29.93%	30.73%
Studio City Entertainment Limited	Macau	Management service provider	Quota capital - MOP101,000	–	–	29.93%	30.73%
Studio City Finance Limited ("Studio City Finance")	BVI	Financing	Ordinary shares - US$3	–	–	29.93%	30.73%
Studio City Holdings Four Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%
Studio City Holdings Limited	BVI	Investment holding	Ordinary share - US$1	–	–	29.93%	30.73%
Studio City Holdings Three Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%
Studio City Holdings Two Limited	BVI	Investment holding	Ordinary share - US$1 A share* - US$1	–	–	29.93%	30.73%

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Proportion of ownership interest and voting rights held by the Company Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017
Studio City International Holdings	Cayman Islands (2017: BVI)	Investment holding	Ordinary shares - US$31,432.98 (2017: US$18,127.94)	0.24%	–	29.70%	30.73%
Studio City Investments Limited	BVI	Investment holding	Ordinary shares - US$3	–	–	29.93%	30.73%
ICR	Cyprus	Investment holding	Ordinary shares - Euro ("EUR") 1,000,000	75%	75%	–	–
Integrated Casino Resorts Cyprus Limited	Cyprus	Operation of an integrated casino resort and four satellite casinos	Ordinary shares - EUR11,000	–	–	75%	75%
ICR Cyprus Resort Development Co Limited	Cyprus	Development, construction, equipment ownership and supervision of an integrated casino resort and four satellite casinos	Ordinary shares - EUR11,000	–	–	75%	75%
Melco Leisure and Entertainment Group Limited	BVI	Investment holding	Ordinary share - US$1	100%	100%	–	–
Aberdeen Restaurant Enterprises Limited	Hong Kong	Restaurant operations and property investment	Ordinary shares - Class A shares: Hong Kong dollar ("HK$") 8,060,000 Class B shares: HK$17,015,000	–	–	86.68%	86.68%
Melco Services Limited	BVI	Provision of management and network support services to group companies	Ordinary share - US$1	100%	100%	–	–
Melco Finance Limited	BVI	Financing	Ordinary share - US$1	–	–	100%	100%
Entertainment Gaming Asia Inc. ("EGT")	U.S.	Leasing of electronic gaming machines in the Philippines and development and operation of social gaming platforms	Common shares - US$14,464	–	–	100%	100%
Melco Investment Resources Limited	BVI	Financing	Ordinary share - US$1	100%	100%	–	–

* A share has no voting right.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Melco Resorts Finance, Studio City Finance and Studio City Company, subsidiaries of the Company, had issued debt securities of HK$7,848,614,000, HK$9,397,834,000 and HK$3,301,490,000, respectively at the end of the year, as disclosed in note 34, in which the Group has no interest.

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 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 (note 34) and borrowings refinanced after year end as disclosed in the subsequent events (note 52), 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) other components of equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*, the adoption of the above new and revised standards had no significant financial effect on these consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising 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 standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The disclosures are included in note 5 to the consolidated financial statements. As a result of the application of the New Revenue Standard, the Group has changed the accounting policy with respect to revenue recognition as further disclosed in note 2.4 to the consolidated financial statements.

On 1 January 2018, the Group has adopted the New Revenue Standard using the modified retrospective method of adoption to those contracts not yet completed as of 1 January 2018. Amounts for the period 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 previous basis.

The major changes as a result of the adoption of the New Revenue Standard are as follows:

– Under the New Revenue Standard, the complimentary goods and services (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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 *Revenue from Contracts with Customers* (continued)

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) HK$'000	Previous basis HK$'000	Increase/ (decrease) 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.

Furthermore, there is no impact on other comprehensive income or on the Group's operating, investing and financing cash flows for the year ended 31 December 2018 or on the Group's financial position as of 31 December 2018.

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* 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 or 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 *Financial Instruments* (continued)

(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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 *Financial Instruments* (continued)

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 HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to the following standards: – HKFRS 3 *Business Combinations*[1] – HKFRS 11 *Joint Arrangements*[1] – HKAS 12 *Income Taxes*[1] – HKAS 23 *Borrowing Costs*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 *Investment Property*, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019 using the modified retrospective method without restating comparative information. In addition, the Group plans to apply HKFRS 16 to contracts that were previously identified as leases under HKAS 17 and to measure the right-of-use asset at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments, at the date of initial application. Furthermore, the Group intends to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of the initial application. While the Group is currently assessing the quantitative impact HKFRS 16 will have on its consolidated financial statements and related disclosures, the Group expects the most significant changes will be related to the recognition of right-of-use assets and lease liabilities for operating leases on the Group's consolidated statement of financial position, with no material impact to net income or cash flows. As disclosed in note 45(a) to the consolidated financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$846,701,000. Upon adoption of HKFRS 16, certain amounts included therein will be discounted using the incremental borrowing rates at 1 January 2019 and the discounted amounts will be recognized as new right-of-use assets and lease liabilities.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognizing losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGUs"), or groups CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value-in-use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Estimated useful lives are as follows:

Freehold land	Not depreciated
Buildings	4 to 40 years
Gaming equipment	3 to 5 years
Restaurant vessels, ferries and pontoons	10 to 20 years
Leasehold improvements	Over the shorter of the lease terms or 3 to 10 years
Furniture, fixtures and equipment	2 to 15 years
Machinery and equipment	3 to 5 years
Transportation	3 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in properties (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The estimated useful lives for internal-use software are 4 to 15 years.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new software is capitalized when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the estimated terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 since 1 January 2018.

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

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

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

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

Financial assets at amortized cost (debt instruments)
The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value included in other income, gains and losses in the profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in profit or loss. The loss arising from impairment is recognized in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the other revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, gains and losses in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the other revaluation reserve to profit or loss in other income, gains and losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

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

General approach

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

The Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed using a provision matrix that is based on the Group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions forecasts and forward-looking information that is available without undue cost or effort.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables and interest-bearing borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Shares held under share award schemes

Own equity instruments which are reacquired and held by the Company or the Group are recognized directly in equity at cost. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out, weighted average and specific identification methods. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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.

(a) Casino revenues

Gross casino revenues are measured by the aggregate net difference between gaming wins and losses. The Group accounts for its casino wagering transactions on a portfolio basis versus an individual basis as all wagers have similar characteristics. Commissions 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(b) Entertainment and resort facilities revenue

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 or events are held. Service taxes and other applicable taxes collected by the Group are excluded from revenues. Advance deposits on rooms and advance tickets sales are recorded as customer deposits until services are provided to the customers. Revenues from contracts with multiple goods or services provided by the Group are allocated to each good or services based on its relative standalone selling price.

(c) Electronic gaming machines participation

The Group earns revenue from electronic gaming machine participation by providing the gaming venue owner with electronic gaming machines and casino management systems which would track game performance and provide statistics on installed electronic gaming machines owned and provided by the Group. 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.

Revenue from other sources

(a) Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(b) Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably; and

(c) Rental income is recognized on a time proportion basis over the lease terms.

Revenue recognition (applicable before 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Revenues are recognized net of certain sales incentives which are required to be recorded as a reduction of revenue; consequently, the Group's casino revenues are reduced by discounts, commissions and points earned in customer loyalty programs, such as the player's club loyalty program;

(b) Casino revenues are measured by the aggregate net difference between gaming wins and losses less accruals for the anticipated payouts of progressive slot jackpots, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018) (continued)

(c) Rooms, catering service, entertainment, retail and other revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer;

(d) Revenue from the provision of services and solutions for distribution of lottery products is recognized when the right to receive the income, which is calculated on a commission basis, has been established upon the sale of the lottery products by the lottery retail and other outlets;

(e) Revenue from the sale of goods is recognized when the goods, including lottery terminals and parts, and gaming chips and plaques are delivered and titles have passed;

(f) The Group earns revenue from electronic gaming machine participation by providing the gaming venue owner with electronic gaming machines and casino management systems which would track game performance and provide statistics on installed electronic gaming machines owned and provided by the Group. Revenue is recognized based on the contractual terms of the slot agreements between the Group and the gaming venue owner and is based on the Group's share of net winnings, net of customer incentives and commitment fees;

(g) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

(h) Dividend income from investments is recognized when the shareholders' rights to receive payment have been established; and

(i) Rental income is recognized on a time proportion basis over the lease terms.

Point-loyalty programs (applicable before 1 January 2018)

The Group operates different loyalty programs in certain of its properties to encourage repeat business mainly from loyal slot machine customers and table games patrons. Members earn points primarily based on gaming activity and such points can be redeemed for free play and other free goods and services. The Group recognized the award points as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are initially recognized as deferred income at their fair value. Revenue from the award points is recognized when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed.

Contract and contract-related liabilities (applicable from 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

Share options/share awards granted to employees

The Group operates share option and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes valuation model, further details of which are given in note 38 to the consolidated financial statements.

The cost of equity-settled transactions is recognized in employee benefits expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and awarded shares is reflected as additional share dilution in the computation of earnings per share.

Share options/share awards granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case they are measured by reference at the fair value of the equity instrument granted measured at the date the counterparty renders the service. The fair values of the services received are recognized as expenses, with a corresponding increase in equity, when the counterparties render services, unless the services qualify for recognition as assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Short-term and other long-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

These consolidated financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Useful lives of trademarks

Certain trademarks of the Group were acquired through the deemed acquisition of Melco Resorts on 9 May 2016 which have legal lives of 7 to 10 years and are renewable for the same consecutive period upon expiry at minimal cost. The directors of the Company are of the opinion that the Group will renew the trademarks continuously and has the ability to do so. Such trademarks are considered by the management of the Group to have indefinite useful lives because they are expected to contribute to net cash inflows and will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group applies HKFRS 9 simplified approach in calculating ECLs for its trade receivables. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns and adjusted for factors specific to the debtors, general economic conditions forecasts and forward-looking information that is available without undue cost or effort. Should there be any change in such estimates, it could have a material effect to the carrying amount of trade receivables.

The information about the ECLs on the Group's trade receivables is disclosed in note 28.

Assessment of economic useful lives

Property, plant and equipment and other intangible assets (other than gaming license and subconcession, goodwill and trademarks) are depreciated or amortized over their economic useful lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as technological progress, changes in market demand, expected usage and physical wear and tear. Useful lives are periodically reviewed for continued appropriateness. Due to the long lives of the assets, changes to the estimates used can result in variations in their carrying values.

The carrying amounts of property, plant and equipment and other intangible assets (other than gaming license and subconcession, goodwill and trademarks) as at 31 December 2018 were HK$48,069,934,000 (2017: HK$47,994,966,000) and HK$225,068,000 (2017: HK$14,533,000), respectively.

Impairment of goodwill and trademarks

Determining whether goodwill and trademarks are impaired requires an estimation of the recoverable amounts of the CGUs or group of CGUs to which goodwill and trademarks have been allocated, which are the higher of the value-in-use and fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs or group of CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances result in a downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2018, the carrying amounts of goodwill and trademarks were HK$5,299,451,000 (2017: HK$5,299,451,000) and HK$16,992,458,000 (2017: HK$16,992,458,000), respectively. Details of the recoverable amount calculation are disclosed in note 24.

4. 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.

4. SEGMENT INFORMATION (continued)

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 the Philippine Parties (as defined in note 44), 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 5):			
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

4. SEGMENT INFORMATION (continued)

Segment net revenues and results (continued)
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

4. SEGMENT INFORMATION (continued)

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

Year ended 31 December 2018

	Casino and Hospitality HK$'000	Others HK$'000	Total HK$'000
Capital expenditures	4,200,545	1,300	4,201,845

Year ended 31 December 2017

	Casino and Hospitality HK$'000	Others HK$'000	Total HK$'000
Capital expenditures	4,270,275	504,928	4,775,203

Geographical information

The Group's operations are mainly located in Macau, Hong Kong, the Philippines and Cyprus. Information about the Group's net revenues is presented based on the locations of the operations of the relevant group entities. Information about the Group's non-current segment assets is presented based on the locations of the assets and for investments in associates and joint venture, by location of their head office.

	Net revenues from external customers		Non-current segment assets	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Macau	35,570,263	36,020,512	76,278,233	76,705,140
Hong Kong	83,178	89,429	491,252	420,568
The Philippines	4,812,946	5,060,163	3,559,136	4,744,575
Cyprus	258,286	–	962,358	500,123
Japan	–	–	285,020	–
The People's Republic of China (the "PRC")	–	9,982	–	–
Total	40,724,673	41,180,086	81,575,999	82,370,406

4. SEGMENT INFORMATION (continued)

Net revenues from major products and services

The Group's net revenues from major products and services are disclosed in note 5.

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.

5. NET REVENUES

	2018 HK$'000	2017 HK$'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 HK$'000	Others HK$'000	Total 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 revenue from contracts with customers	40,633,231	86,646	40,719,877

5. NET REVENUES (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Casino and Hospitality HK$'000	Others HK$'000	Total 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 revenue 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 HK$'000	Others HK$'000	Total 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 revenue from contracts with customers	40,633,231	86,646	40,719,877

5. NET REVENUES (continued)

Revenue from contracts with customers (continued)

(ii) 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 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 revenue within one year of being purchased, earned, or deposited and are recorded within other payables, accruals and deposits received on the consolidated statements 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 the Loyalty Programs and additional deposits made by customers.

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

	31 December 2018 HK$'000	1 January 2018 HK$'000	Increase/ (decrease) HK$'000
Outstanding gaming chips and tokens liabilities	5,002,012	3,614,688	1,387,324
Loyalty program liabilities	365,958	289,411	76,547
Customer deposits and ticket sales	3,080,799	3,346,701	(265,902)
	8,448,769	7,250,800	1,197,969

6. OTHER INCOME, GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Interest income on bank deposits	47,140	35,605
Interest income on structure notes	–	1,260
Service fees from the provision of consultancy services	13,000	13,000
Service fees from associates	1,302	1,353
Service fees from a related company	–	238
Gain on fair value change of investment properties	36,000	84,000
Loss on disposal of property, plant and equipment	(11,876)	(44,096)
Loss on fair value change of financial assets at fair value through profit or loss	(866)	–
Loss on disposal of held-for-trading investments	–	(4)
Loss on fair value change of held-for-trading investments	–	(15)
Loss on disposal of available-for-sale investments	–	(10,052)
Insurance recovery	25,791	95,800
Foreign exchange (loss)/gain, net	(71,231)	110,261
Others	35,941	45,214
	75,201	332,564

7. GAMING TAX AND LICENSE FEES

According to the gaming subconcession agreement for the gaming business in Macau as disclosed in note 20, the Group is required to pay to the Macau government a 35% gaming tax on gross revenues of the gaming operation in Macau. The Group is also required to pay an additional 4% of gross gaming revenues as public development and social related contributions. The Group also makes certain variable and fixed payments to the Macau government based on the number and type of gaming tables and gaming machines in operation.

According to the gaming license for the gaming business in the Philippines as disclosed in note 20, Licensees under the Regular License (as defined in note 44) are required to pay license fees to the Philippine Amusement and Gaming Corporation ("PAGCOR") ranging from 15% to 25% of its gross gaming revenues of the gaming operation in the Philippines on a monthly basis starting from the date the casino commences operations. Such license fees include the 5% franchise tax on actual gross gaming revenues generated by the casino. The Group is also subject to fees based on 5% of certain non-gaming revenue and 2% of casino revenues generated from non-junket operation tables as further discussed in note 47.

On 26 June 2017, the Cyprus government granted a gaming license (the "Cyprus License") to a company, which is majority owned by the Group and ICR as of 31 December 2018 (the "Cyprus Subsidiary"), to develop, operate and maintain an integrated casino resort in Limassol, Cyprus and up to four satellite casino premises in Cyprus, for a term of 30 years with exclusive right in the first 15 years of the term. The Cyprus Subsidiary is required to pay casino tax at the rate of 15% of the gross gaming revenues generated by the Cyprus Subsidiary on a monthly basis and shall not be increased during the period of exclusivity of the Cyprus License and an annual license fee for the temporary casino and integrated casino resort to the Cyprus government of EUR2,500,000 (equivalent to HK$22,396,000) for the first four years, and EUR5,000,000 (equivalent to HK$44,792,000) for the next four years. Upon the completion of the eight years and thereafter every four years during the term of the Cyprus License, the Cyprus government may review the annual license fee, with a minimum of EUR5,000,000 (equivalent to HK$44,792,000) and any increase in the annual license fee may not exceed 20% of the annual license fee paid during the previous four-year period. In addition, the Cyprus Subsidiary is required to pay annual license fees for two operating satellite casinos in Nicosia and Larnaca to the Cyprus government at an aggregated amount of EUR1,500,000 (equivalent to HK$13,437,000).

8. EMPLOYEE BENEFITS EXPENSES

	2018 HK$'000	2017 HK$'000
Wages, salaries and staff welfare	4,952,069	4,658,819
Discretionary bonus	998,281	1,022,369
Pension costs – defined contribution plans	185,647	172,536
Share-based compensation	289,817	392,015
Others	467,147	326,379
Total employee benefits expenses including directors' emoluments	6,892,961	6,572,118

9. OTHER EXPENSES

	2018 HK$'000	2017 HK$'000
Advertising and promotions	954,018	657,027
Costs of inventories	795,509	633,378
Repairs and maintenance	718,150	449,580
Gaming promoters' commission and other gaming operations expenses	656,956	4,009,460
Utilities and fuel	603,776	552,828
Payments to the Philippine Parties	476,414	401,926
Rental expenses	426,866	370,823
Legal and professional fees	277,148	204,197
Operating supplies	173,024	398,529
Bad debt recovery	(52,564)	–
Loss allowance on receivables, net	31,893	112,799
Impairment losses on property, plant and equipment	–	188,880
Others	1,075,351	1,080,207
	6,136,541	9,059,634

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
– interest-bearing borrowings	2,058,673	1,991,675
– obligations under finance leases	301,786	307,436
Amortization of debt financing costs	158,065	213,321
Other financing costs	40,725	50,690
Loss on modification or extinguishment of debts	27,126	429,650
	2,586,375	2,992,772
Less: capitalized in construction in progress ("CIP") (note)	(169,286)	(303,874)
	2,417,089	2,688,898

Note: Borrowing costs capitalized during the year are calculated by applying a capitalization rate of 4.86% (2017: 4.96%) to expenditure on qualifying assets.

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Depreciation of property, plant and equipment	17	3,902,279	3,666,857
Amortization of gaming license and subconcession	20	1,089,003	1,089,003
Amortization of land use rights	19	166,057	166,057
Amortization of other intangible assets	23	8,494	2,985
Less: capitalized in CIP		(2,441)	(5,300)
		5,163,392	4,919,602
Gross rental income from investment properties	5	(4,796)	(4,450)
Less: direct operating expenses incurred for investment properties that generated rental during the year		295	422
		(4,501)	(4,028)
Auditor's remuneration			
– Audit services to the Company		1,696	1,606
– Audit services to the subsidiaries		13,621	14,649
Total auditor's remuneration#		15,317	16,255

Included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and Chief Executive's emoluments

The emoluments paid or payable to each of the nine (2017: eight) directors were as follows:

2018

	Mr. Ho, Lawrence Yau Lung HK$'000 (Note b)	Mr. Evan Andrew Winkler HK$'000 (Note b)	Mr. Chung Yuk Man, Clarence HK$'000 (Note b)	Mr. Tsui Che Yin, Frank HK$'000 (Note d)	Mr. Ng Ching Wo HK$'000 (Note d)	Mr. Chow Kwong Fai, Edward HK$'000 (Note e)	Mr. Sham Sui Leung, Daniel HK$'000 (Notes e & f)	Dr. Tyen Kan Hee, Anthony HK$'000 (Note e)	Ms. Karuna Evelyne Shinsho HK$'000 (Notes e & g)	Total HK$'000
Fees	–	–	–	200	420	311	164	420	83	1,598
Other emoluments:										
Salaries and other benefits	29,318	12,389	9,919	–	–	–	–	–	–	51,626
Discretionary bonus (Note a)	22,030	12,567	1,907	–	–	–	–	–	–	36,504
Pension costs – defined contribution plans	121	49	32	–	–	–	–	–	–	202
Share-based compensation	155,349	56,688	5,696	767	555	327	318	554	–	220,254
Total emoluments	206,818	81,693	17,554	967	975	638	482	974	83	310,184

2017

	Mr. Ho, Lawrence Yau Lung HK$'000 (Note b)	Mr. Evan Andrew Winkler HK$'000 (Note b)	Mr. Chung Yuk Man, Clarence HK$'000 (Note b)	Mr. Tsui Che Yin, Frank HK$'000 (Notes c & d)	Mr. Ng Ching Wo HK$'000 (Note d)	Mr. Chow Kwong Fai, Edward HK$'000 (Note e)	Mr. Sham Sui Leung, Daniel HK$'000 (Note e)	Dr. Tyen Kan Hee, Anthony HK$'000 (Note e)	Total HK$'000
Fees	–	–	–	100	420	258	380	420	1,578
Other emoluments:									
Salaries and other benefits	79,565	11,572	8,134	2,350	–	–	–	210	101,831
Discretionary bonus (Note a)	–	9,944	2,505	1,947	–	–	–	–	14,396
Pension costs – defined contribution plans	19	–	19	10	–	–	–	–	48
Share-based compensation	120,060	32,858	7,032	1,992	603	247	623	701	164,116
Total emoluments	199,644	54,374	17,690	6,399	1,023	505	1,003	1,331	281,969

Notes:

(a) The discretionary bonus is determined based on the Group's financial performance for the years ended 31 December 2018 and 2017.

(b) The individuals represent the Executive Directors of the Company and certain subsidiaries of the Company. The Executive Directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

(c) Mr. Tsui Che Yin, Frank had been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 July 2017.

(d) The individuals represent Non-executive Directors of the Company. The Non-executive Directors' emoluments shown above were for their services as directors of the Company.

(e) The individuals represent the Independent Non-executive Directors of the Company. The Independent Non-executive Directors' emoluments shown above were for their services as directors of the Company.

(f) Mr. Sham Sui Leung, Daniel retired as Independent Non-executive Director of the Company with effect from 7 June 2018.

(g) Ms. Karuna Evelyne Shinsho has been appointed as Independent Non-executive Director of the Company with effect from 28 August 2018.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Directors' and Chief Executive's emoluments (continued)

Mr. Ho, Lawrence Yau Lung is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Except for one director who waived emoluments of approximately HK$1,200,000 (2017: HK$1,200,000), no other directors waived any emoluments in the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, 7,737,000 share options under the share option scheme of the Company, 1,470,000 share options under the share incentive plan of Melco Resorts, 6,691,000 awarded shares under the share award scheme of the Company, 569,748 awarded shares under the share incentive plan of Melco Resorts and 2,007,962 awarded shares under the share incentive plan of MRP (2017: 4,886,000, 1,470,000, 6,004,000, 817,995 and 1,124,766, respectively) were granted to the directors of the Company in respect of their services provided to the Group. Further details are set out in note 38.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2017: two) directors, details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor the Chief Executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	24,866	22,951
Discretionary bonus	17,078	23,006
Pension costs – defined contribution plans	2,156	1,425
Share-based compensation	30,216	16,388
	74,316	63,770

The number of the highest paid employees (excluding directors and the Chief Executive) whose remuneration fell within the following bands are as follows:

	Number of employees 2018	2017
HK$17,500,001 to HK$18,000,000	1	–
HK$18,000,001 to HK$18,500,000	–	1
HK$20,500,001 to HK$21,000,000	1	1
HK$24,500,001 to HK$25,000,000	–	1
HK$35,500,001 to HK$40,000,000	1	–
	3	3

During both years, all highest paid employees (excluding directors and the Chief Executive) were granted share options and awarded shares, in respect of their services to the Group under the long term incentive schemes set out in note 38.

14. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

Macau Complementary Tax has been provided at the rate of 12% on the estimated taxable income earned in or derived from Macau during the year, if applicable. Melco Resorts Macau, the holder of the gaming subconcession in Macau, has been exempted from Macau Complementary Tax on profits generated by gaming operations until 2021 pursuant to the approval notices issued by the Macau government. One of the Group's subsidiaries in Macau has also been exempted from Macau Complementary Tax on profits generated from income received from Melco Resorts Macau until 2021, to the extent that such income is derived from Studio City gaming operations and has been subject to gaming tax pursuant to a notice issued by the Macau government. The exemption coincides with Melco Resorts Macau's exemption from Macau Complementary Tax. The non-gaming profits and dividend distributions of such subsidiary to its shareholders continue to be subject to Macau Complementary Tax. Melco Resorts Macau's non-gaming profits also remain subject to the Macau Complementary Tax and Melco Resorts Macau casino revenues remain subject to the Macau special gaming tax and other levies in accordance with its gaming subconcession agreement.

In January 2014, Melco Resorts Macau entered into an agreement with the Macau government that provided for an annual payment of MOP22,400,000 (equivalent to HK$21,748,000), effective retroactively from 2012 through 2016 coinciding with the 5-year tax holiday, as payments in lieu of Macau Complementary Tax otherwise due by the shareholders of Melco Resorts Macau on dividend distributions from gaming profits. In August 2017, Melco Resorts Macau received an extension of the agreement for an additional five years applicable to tax years from 2017 through 2021. The extension agreement provides for an annual payment of MOP18,900,000 (equivalent to HK$18,350,000). Such annual payment is required regardless of whether dividends are actually distributed or whether Melco Resorts Macau has distributable profits in the relevant year.

The casino operations of Melco Resorts Leisure, the operator of City of Dreams Manila, were previously subject to Philippine Corporate Income Tax at the rate of 30% on the taxable income earned in or derived from the Philippines during the year, based on Revenue Memorandum Circular No. 33-2013 issued by the Bureau of Internal Revenue ("BIR") in April 2013. On 10 August 2016, the Supreme Court of the Philippines (the "SC") found in the case of Bloomberry Resorts and Hotels, Inc. vs. the BIR, G. R. No. 212530 that all contractees and licensees of the PAGCOR, should be exempt from tax, including Philippine Corporate Income Tax due on income from the casino operations, upon payment of the 5% franchise tax. The BIR subsequently filed a Motion for Reconsideration of the said decision, which was denied by the SC with finality in its resolution dated 28 November 2016. Based on the SC decision, management believes Melco Resorts Leisure's gaming operations should be exempt from Philippine Corporate Income Tax, among other taxes, provided the license fees which are inclusive of the 5% franchise tax under the terms of PAGCOR charter, are paid.

The corporate tax rate in Cyprus is 12.5%. However, no provision for Cyprus corporate tax has been made as the Group has no estimated assessable profit for the years ended 31 December 2018 and 2017.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

During the year ended 31 December 2017, the Company disposed of a subsidiary and according to the sale and purchase agreement, the Company is responsible for the taxes in relation to the Public Notice No. 7 issued by the State Administration of Taxation of the PRC. A Capital Gains Tax provision of approximately HK$31,980,000 has been made in the prior year. Particulars regarding the disposal of the subsidiaries are disclosed in note 40.

During the year ended 31 December 2018, the Company disposed of its entire business and interests in three subsidiaries in Cambodia and deferred tax liabilities of approximately HK$39,294,000 has been written back in the current year. Particulars regarding the disposal of the subsidiaries are disclosed in note 40.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

14. INCOME TAX (continued)

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

	2018 HK$'000	2017 HK$'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 (note 36)	(54,113)	19,716
Total	(38,070)	67,017

The income tax expense for the year is reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	1,562,098	1,129,551
Tax at the Macau Complementary Tax rate of 12% (2017: 12%)	187,452	135,546
Effect of different tax rates in other jurisdictions	29,707	(2,152)
Tax effect of tax exemption granted by the Macau government and the Philippine government	(1,233,542)	(996,964)
Tax effect of income not taxable for income tax purposes	(114,478)	(223,070)
Tax effect of expenses not deductible for income tax purpose	353,460	367,189
Tax effect of tax losses not recognized	683,065	546,253
Utilization of tax losses previously not recognized	(2,848)	–
Tax effect of temporary difference not recognized	55,444	213,465
Lump sum in lieu of Macau Complementary tax on dividends	18,350	18,350
Overprovision in prior years	(14,592)	(23,688)
Tax effect of share of results of associates and joint venture	(88)	108
Capital gain tax on disposal of the PRC subsidiary	–	31,980
Income tax (credit)/expense for the year	(38,070)	67,017

15. DIVIDENDS

Dividends recognized as distributions during the year:

	2018 HK$'000	2017 HK$'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 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.

16. 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 HK$'000	2017 HK$'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 '000	2017 '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

16. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (continued)

The number of shares adopted in the calculation of the basic and diluted earnings per share has 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 shares.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Gaming equipment HK$'000	Restaurant vessels, ferries and pontoons HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Machinery and equipment HK$'000	Transportation HK$'000	CIP HK$'000	Total HK$'000
Cost:										
At 1 January 2017	–	36,252,879	791,466	76,327	3,754,945	3,283,873	6,979	450,139	5,048,804	49,665,412
Exchange adjustments	–	(4,068)	(705)	–	(4,617)	(1,526)	102	24	(113)	(10,903)
Additions	500,123	100,151	87,493	4,409	707,580	424,125	–	81,996	–	1,905,877
Capitalized construction costs	–	–	–	–	–	–	–	–	2,970,318	2,970,318
Disposal of a subsidiary	–	–	–	–	–	(86)	(3,906)	(193)	–	(4,185)
Reclassification	–	(2,694)	(1,044)	–	12,477	6,643	–	–	(15,382)	–
Disposals and write-off	–	–	(9,284)	(100)	(78,842)	(38,764)	–	(1,169)	–	(128,159)
At 31 December 2017	500,123	36,346,268	867,926	80,636	4,391,543	3,674,265	3,175	530,797	8,003,627	54,398,360
Exchange adjustments	(22,351)	(86,308)	(21,504)	–	(101,843)	(52,353)	–	(716)	(8,303)	(293,378)
Additions	188,438	122,292	276,054	–	1,388,329	1,058,508	–	48,640	1,120,177	4,202,438
Disposal of subsidiaries	–	–	–	–	(138)	(53)	–	–	(10,363)	(10,554)
Reclassification	–	8,563,358	970	–	(4,778)	3,992	–	(184)	(8,563,358)	–
Disposals and write-off	–	–	(24,838)	(44)	(118,183)	(89,037)	–	(990)	–	(233,092)
At 31 December 2018	666,210	44,945,610	1,098,608	80,592	5,554,930	4,595,322	3,175	577,547	541,780	58,063,774
Accumulated depreciation and impairment:										
At 1 January 2017	–	1,153,351	181,813	74,023	481,496	674,247	6,819	47,897	4,163	2,623,809
Exchange adjustments	–	542	526	–	1,212	1,262	100	51	–	3,693
Provided for the year	–	1,742,461	250,030	1,024	692,481	912,614	13	68,234	–	3,666,857
Impairment losses recognized in profit or loss	–	108,587	–	–	33,318	46,975	–	–	–	188,880
Disposal of a subsidiary	–	–	–	–	–	(40)	(3,757)	(190)	–	(3,987)
Eliminated on disposals and write-off	–	–	(6,919)	(100)	(37,264)	(31,140)	–	(435)	–	(75,858)
At 31 December 2017	–	3,004,941	425,450	74,947	1,171,243	1,603,918	3,175	115,557	4,163	6,403,394
Exchange adjustments	–	(14,072)	(11,629)	–	(31,560)	(34,898)	–	(386)	–	(92,545)
Provided for the year	–	1,925,695	238,394	867	781,553	879,359	–	76,411	–	3,902,279
Disposal of subsidiaries	–	–	–	–	(138)	(52)	–	–	(4,163)	(4,353)
Eliminated on disposals and write-off	–	–	(21,401)	(43)	(116,830)	(75,671)	–	(990)	–	(214,935)
At 31 December 2018	–	4,916,564	630,814	75,771	1,804,268	2,372,656	3,175	190,592	–	9,993,840
Carrying values:										
At 31 December 2018	666,210	40,029,046	467,794	4,821	3,750,662	2,222,666	–	386,955	541,780	48,069,934
At 31 December 2017	500,123	33,341,327	442,476	5,689	3,220,300	2,070,347	–	415,240	7,999,464	47,994,966

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amount of property, plant and equipment pledged to secure against the Group's interest-bearing borrowings as at 31 December 2018 was HK$43,260,122,000 (2017: HK$43,167,140,000) (note 34).

The net carrying amount of the Group's property, plant and equipment held under finance leases mainly included in buildings as at 31 December 2018 was HK$1,529,568,000 (2017: HK$1,722,273,000) (note 35).

During the year ended 31 December 2017, total impairment losses amounted to HK$188,880,000 were recognized against buildings, leasehold improvements and furniture, fixtures and equipment which belong to the Casino and Hospitality segment due to reconfigurations and renovations at Group's operating properties. The recoverable amounts of those impaired buildings, leasehold improvements and furniture, fixtures and equipment were based on value-in-use amounted to HK$18,197,109,000, HK$932,000 and HK$15,361,000, respectively. No impairment loss is recognized during the year ended 31 December 2018.

18. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At 1 January	274,000	190,000
Net increase in fair value recognized in profit or loss	36,000	84,000
At 31 December	310,000	274,000
Unrealized gain on fair value change of investment properties included in other income, gains and losses (note 6)	36,000	84,000

All of the Group's investment properties are rented out under operating leases to earn rentals or for capital appreciation purposes, measured using the fair value model and are classified and accounted for as investment properties. All of the Group's investment properties have been pledged to secure against the Group's interest-bearing borrowings (note 34).

Fair value measurements and valuation processes

In estimating the fair value of investment properties, the Group engages independent professionally qualified valuers, who had appropriate recent experience in the relevant location to perform the valuation. The management works closely with the valuers to establish the appropriate valuation technique and inputs. The valuation technique is determined based on the availability and validity of the assumptions and inputs when performing the valuation and applying professional judgment. The fair value as at 31 December 2018 was determined based on the direct comparison method (2017: income capitalization method).

The direct comparison method makes reference to market transactions of similar properties in similar locations to arrive at the fair value as at the date of valuation and discounted by the bulk discount rate which approximates to 35%. The bulk discount rate is derived from analyzing the sales transactions of similar properties in the vicinity and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. Also, the bulk discount rate has being taken into account the restriction on the terms that the car parking spaces have to be disposed as a whole lot rather than on an individual unit basis.

Income capitalization method is by making reference to the rental income of the subject property and discounted by the market yield expected by the investors for this type of properties. The market yield is derived from analyzing the sales transactions and rental of similar properties in the vicinity and adjusted to take into account the market expectation from property investors to reflect factors specific to the investment properties. The bulk discount rate, which approximates to 30% to reflect the fact that the car parking spaces have to be disposed of in the market as a whole lot rather than on an individual unit basis.

18. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes (continued)
In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation technique and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 3 fair value measurement

Description	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Fair value 2018 HK$'000	Fair value 2017 HK$'000
Car parking spaces	Direct comparison method			310,000	N/A
	(1) Unit sale rate	Unit sale rate, taking into account the time, location, nature of the car parking spaces between the comparable and the property, of sales amount ranging from HK$460,000 to HK$2,000,000 per car parking space.	An increase in the unit sale rate used would result in an increase in fair value, and vice versa		
	(2) Bulk discount rate	Bulk discount rate approximates to 35% of the fair value of the car parking spaces has been used for valuation.	An increase in the discount rate used would result in a decrease in fair value, and vice versa.		
	Income capitalization method			N/A	274,000
	(1) Monthly rental income	Monthly rental income, taking into account the average monthly rental of HK$566,000.	An increase in the monthly rental income used would result in an increase in fair value, and vice versa		
	(2) Bulk discount rate	Bulk discount rate approximates to 30% of the fair value of the car parking spaces has been used for valuation.	An increase in the discount rate used would result in a decrease in fair value, and vice versa.		

19. LAND USE RIGHTS

	2018 HK$'000	2017 HK$'000
Cost:		
At 1 January and 31 December	5,996,744	5,996,744
Accumulated amortization:		
At 1 January	(276,763)	(110,706)
Charge for the year	(166,057)	(166,057)
At 31 December	(442,820)	(276,763)
Net carrying values	5,553,924	5,719,981
Current portion	(166,057)	(166,057)
Non-current portion	5,387,867	5,553,924

Land use rights are amortized over the estimated terms of the land use rights of approximately 31 to 40 years on a straight-line basis.

As at 31 December 2018 and 2017, the land use rights are pledged to secure against the Group's interest-bearing borrowings (note 34).

20. GAMING LICENSE AND SUBCONCESSION

	2018 HK$'000	2017 HK$'000
Cost:		
At 1 January and 31 December	6,702,315	6,702,315
Accumulated amortization:		
At 1 January	(1,799,426)	(710,423)
Charge for the year	(1,089,003)	(1,089,003)
At 31 December	(2,888,429)	(1,799,426)
Net carrying values	3,813,886	4,902,889

Gaming license and subconcession comprise (i) the gaming subconcession granted by the Macau government to Melco Resorts Macau on 8 September 2006 for the gaming business in Macau; and (ii) the Regular License (as defined in note 44) issued by PAGCOR on 29 April 2015 for the gaming business in the Philippines. The gaming subconcession in Macau and the gaming license in the Philippines are amortized on a straight-line basis over the term of the gaming subconcession and the license agreements which expire in 2022 and 2033, respectively.

21. GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January and 31 December	5,299,451	5,299,451

Particulars regarding impairment testing on goodwill are disclosed in note 24.

22. TRADEMARKS

	2018 HK$'000	2017 HK$'000
Cost:		
At 1 January and 31 December	16,992,458	16,992,458

The trademarks have legal lives of 7 to 10 years and are renewable for the same consecutive period upon expiry at minimal cost. These trademarks are considered by the management of the Group to have indefinite useful lives because they are expected to contribute to net cash inflows and will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars regarding impairment testing of trademarks are disclosed in note 24.

23. OTHER INTANGIBLE ASSETS

	Club memberships HK$'000	Internal-use software HK$'000	Total HK$'000
Cost:			
At 1 January 2017	5,700	11,420	17,120
Additions	–	1,654	1,654
At 31 December 2017 and at 1 January 2018	5,700	13,074	18,774
Additions	–	219,029	219,029
At 31 December 2018	5,700	232,103	237,803
Accumulated amortization:			
At 1 January 2017	–	1,256	1,256
Charge for the year	–	2,985	2,985
At 31 December 2017 and at 1 January 2018	–	4,241	4,241
Charge for the year	–	8,494	8,494
At 31 December 2018	–	12,735	12,735
Carrying values:			
At 31 December 2018	5,700	219,368	225,068
At 31 December 2017	5,700	8,833	14,533

23. OTHER INTANGIBLE ASSETS (continued)

The club memberships have indefinite useful lives because the memberships have no expiry dates and the internal-use software which have finite useful lives of 4 to 15 years are amortized on a straight-line basis.

During the years ended 31 December 2018 and 2017, the management of the Group determined that there is no impairment in other intangible assets.

24. IMPAIRMENT TESTING ON GOODWILL AND TRADEMARKS

(a) Goodwill

The Group obtained the control over Melco Resorts upon the completion of deemed acquisition in 2016. This transaction had been accounted for using the acquisition method of accounting. Goodwill acquired in a business combination was allocated, at acquisition date, to a group of CGUs under Melco Resorts that was expected to benefit from that business combination. As at 31 December 2018, the carrying amount of the goodwill was HK$5,299,451,000 (2017: HK$5,299,451,000).

For the purpose of impairment testing on goodwill, the recoverable amount of the group of CGUs has been determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 11.22% (2017: 8.86%). The discount rate used is pre-tax and reflects specific risks relating to the group of CGUs. The cash flows beyond the five-year period are extrapolated with implied growth rates ranging from 2% to 10% (2017: 0% to 8%).

(b) Trademarks

For the purpose of impairment testing, trademarks as set out in note 22, have been allocated to four individual CGUs operating in the "Casino and Hospitality" segment. The carrying amounts of trademarks as at 31 December 2018 allocated to these units are as follows:

	2018 HK$'000	2017 HK$'000
City of Dreams	11,184,643	11,184,643
Studio City	5,088,329	5,088,329
City of Dreams Manila	455,473	455,473
Mocha Clubs	264,013	264,013
	16,992,458	16,992,458

The basis of the recoverable amounts of the above CGUs and their key underlying assumptions are summarized below:

The recoverable amount of each of the CGUs as above has been determined on the basis of value-in-use calculations. Their recoverable amounts are based on certain similar key assumptions. All value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow projections beyond the five-year period are extrapolated with implied growth rates from 2% to 10% (2017: 0% to 8%). The rates used to discount the forecast cash flows from City of Dreams, Studio City, City of Dreams Manila and Mocha Clubs are 12.07%, 10.14%, 17.30% and 12.07% (2017: 9.82%, 9.43%, 15.74% and 9.82%), respectively. The discount rates used are pre-tax and reflected specific risks relating to the CGUs.

24. IMPAIRMENT TESTING ON GOODWILL AND TRADEMARKS (continued)

(b) Trademarks (continued)

Cash flow projections during the budget period for CGUs or group of CGUs are based on management's estimation of cash inflows/outflows including gross revenue, gross margin, operating expenses and working capital requirements during the budget period. The assumptions and estimations are based on the CGU's past performance, management's expectations of the market development and the success of the cost cutting strategy implemented by the Group. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs or group of CGUs to exceed the recoverable amounts of the CGUs or group of CGUs.

During the years ended 31 December 2018 and 2017, management determined that there is no impairment of its CGUs or group of CGUs containing goodwill and trademarks.

25. INVESTMENT IN A JOINT VENTURE

Details of the Group's investment in a joint venture are as follows:

	2018 HK$'000	2017 HK$'000
Cost of unlisted investment	–	–

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of entity	Place of incorporation/ operation	Proportion of ownership interest and voting rights held by the Group 2018	2017	Principal activities
Power Way Group Limited ("Power Way") (note)	British Virgin Islands/ Hong Kong	67.03%	67.03%	Inactive

Note:

Pursuant to certain terms and conditions in the shareholders' agreement, the relevant activities of Power Way require approval of the Group together with the remaining shareholder of Power Way and, accordingly, Power Way is accounted for as a joint venture of the Group.

Information of the joint venture held at the year end that is not material

	2018 HK$'000	2017 HK$'000
The Group's share of profits for the year	–	–
The Group's share of other comprehensive income for the year	–	–
The Group's share of total comprehensive income for the year	–	–
Unrecognized share of profits of the joint venture for the year	–	19
Cumulative unrecognized share of losses of the joint venture	(41)	(41)

26. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of investments in associates		
Listed in Canada	339,601	339,601
Unlisted	18,181	18,598
Net changes in investments in associates	54,370	54,370
Impairment losses recognized	(320,695)	(320,695)
Share of changes in net assets and exchange reserves	3,664	5,478
Share of post-acquisition results, net of dividends received	(81,252)	(82,406)
	13,869	14,946
Fair value of a listed investment (note a)	6,692	7,246
Carrying amount of investment in an associate with shares listed	–	–

Details of each of the Group's associates at the end of the reporting period are as follows:

Name	Place of incorporation/ operation	Proportion of ownership interest and voting rights held by the Group 2018	2017	Principal activities
Mountain China Resorts (Holding) Limited ("MCR") (note a)	Canada/ the PRC	16.69%	16.69%	Operating of ski resorts
Oriental Regent Limited ("Oriental Regent") (note b)	Hong Kong	5.00%	5.00%	Investment holding

Notes:

(a) The shares of MCR are listed on TSX Venture Exchange of Canada (the "Canada Stock Exchange"). Fair value of such listed investment was determined at the market price of listed shares as of the year end on the Canada Stock Exchange (Level 1 fair value measurement). The Group is entitled to appoint one director to the board of MCR provided that any part of the loans to the associate (note 31(d)) remains outstanding in accordance with the terms of the agreement signed with MCR in April 2010. Accordingly, MCR continued to be an associate of the Group as at 31 December 2018 and 2017.

(b) The Group, through New Crescent Investments Limited ("New Crescent"), a wholly-owned subsidiary of the Group, indirectly owns 5% equity interest in Oriental Regent. Oriental Regent is engaged in a gaming and resort business in the Russia Federation. Pursuant to certain terms and conditions of an investment agreement (the "Investment Agreement") entered by New Crescent and the remaining shareholders of Oriental Regent in 2013 and immediately before 14 April 2016, the relevant activities of Oriental Regent required unanimous approval of all of the members of the board of Oriental Regent or the unanimous consent of the shareholders of Oriental Regent, and New Crescent has the right to appoint one director of Oriental Regent, accordingly, Oriental Regent was accounted for as a joint venture of the Group. On 14 April 2016, the Investment Agreement was amended to remove the requirement of unanimous approval of all of the members of the board of Oriental Regent or the unanimous consent of the shareholders of Oriental Regent on the relevant activities of Oriental Regent, accordingly, the Group's investment in Oriental Regent was no longer accounted for as a joint venture and it has become an associate of the Group. Since then, the Group is still entitled to appoint one director to the board of Oriental Regent, which governs the financial and operating policy decisions of Oriental Regent.

26. INVESTMENTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material

	2018 HK$'000	2017 HK$'000
The Group's share of profits/(losses) for the year	737	(904)
The Group's share of other comprehensive income for the year	–	–
The Group's share of total comprehensive income/(losses) for the year	737	(904)
Aggregate carrying amount of the Group's investments in associates	13,869	14,946
Unrecognized share of profits/(losses) of the associates for the year	52,960	(9,474)
Cumulative unrecognized share of losses of the associates	(433,374)	(486,334)

27. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	216,011	173,593
Food and beverages	107,268	100,396
	323,279	273,989

28. TRADE RECEIVABLES

In relation to the gaming operations from the Casino and Hospitality segment, the Group grants unsecured credit lines to gaming promoters based on pre-approved credit limits. The Group typically issues markers to gaming promoters with a credit period of 30 days. There are some gaming promoters for whom credit is granted on a revolving basis based on the Group's monthly credit risk assessment of these gaming promoters.

Credit lines granted to all gaming promoters are subject to monthly review and settlement procedures. For certain approved casino customers, the Group typically allows a credit period of 14 to 28 days on issuance of markers following investigations of creditworthiness. An extended repayment term of typically 90 days may be offered to casino customers with large gaming losses and established credit history.

The Group currently has a legally enforceable right to offset the commissions payable and front money deposits against the casino receivables where it intends to settle on a net basis. As of 31 December 2018, the gross amounts of casino receivables are HK$3,786,454,000 (2017: HK$3,040,314,000) and the aggregated amounts of the commissions payable and front money deposits are HK$1,642,645,000 (2017: HK$1,525,994,000).

The Group's trade receivables related to the rooms, catering service, entertainment and retail from the Casino and Hospitality segment and Others segment are largely operated on cash on delivery or due immediately on the date of billing, except for those well-established customers to whom credit terms of 30 days (2017: 30 days) would be granted.

The Group allows credit period of 15 days (2017: 15 days) to its trade customers related to the electronic gaming machines participation from Others segment.

28. TRADE RECEIVABLES (continued)

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

	2018 HK$'000	2017 HK$'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

Movement in the loss allowance for impairment of trade receivables

	2018 HK$'000	2017 HK$'000
At 1 January	304,807	219,097
Loss allowance for impairment, net	33,135	96,074
Write-off	(22,527)	(10,364)
At 31 December	315,415	304,807

For the year ended 31 December 2018, loss allowance for impairment of trade receivables of HK$33,135,000 (2017: HK$96,074,000) was recognized in profit or loss and included in the Casino and Hospitality segment.

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount HK$'000	Expected credit losses HK$'000
Current	–	1,130,333	–
Past due:			
Within 1 month	0.8%	246,336	2,000
More than 1 month but within 3 months	8.9%	316,695	28,160
More than 3 months but within 6 months	27.3%	292,183	79,673
More than 6 months	89.5%	229,760	205,582
	14.2%	2,215,307	315,415

28. TRADE RECEIVABLES (continued)

Movement in the loss allowance for impairment of trade receivables (continued)

Comparative information under HKAS 39 for the year ended 31 December 2017

Included in the allowance for doubtful debts, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was individually impaired trade receivables amounting to HK$304,807,000 which management considered the outstanding balances from these gaming promoters or customers were uncollectible.

An aging analysis of trade receivables as at 31 December 2017 which were past due but not impaired, is as follows:

	2017 HK$'000
Within 1 month	154,772
More than 1 month but within 3 months	113,438
More than 3 months but within 6 months	4,435
More than 6 months	38,830
Total	311,475

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Current assets		
Prepayments and other assets	495,579	264,846
Deposits	41,927	37,697
Other receivables (note)	251,842	399,765
	789,348	702,308
Non-current assets		
Long-term prepayments and other assets	938,218	1,217,822
Rental, utilities and other deposits	118,705	114,942
Deposits for acquisition of property, plant and equipment	403,952	101,832
Other receivables (note)	18,000	5,410
	1,478,875	1,440,006

Note: For the year ended 31 December 2018, reversal of impairment loss on other receivables of HK$1,242,000 (2017: allowance for doubtful debts of HK$16,725,000) was recognized in profit or loss and included in the Casino and Hospitality segment.

30. CASH AND BANK BALANCES AND BANK DEPOSITS WITH ORIGINAL MATURITIES OVER THREE MONTHS

Cash and bank balances comprise cash held by the Group and short-term bank deposits, with original maturities of three months or less, carry prevailing deposit interest rate.

31. OTHER FINANCIAL ASSETS

	Notes	2018 HK$'000	2017 HK$'000
Current assets			
Financial assets at fair value through profit or loss	(a)	717,356	–
Available-for-sale investments	(a)	–	699,222
Amount due from a related company	(b)	–	112
Restricted cash	(c)	377,151	354,252
		1,094,507	1,053,586
Non-current assets			
Amount due from an associate	(d)	38,645	46,949
Restricted cash	(c)	166,736	145,563
		205,381	192,512

Notes:

(a) Following the adoption of HKFRS 9 at 1 January 2018 as detailed in note 2.2, the Group reclassified the investments from available-for-sale investments to financial assets at fair value through profit or loss on 1 January 2018. As at 31 December 2018 and 31 December 2017, the amount represented investments in mutual funds that mainly invest in bonds and fixed interest securities which are considered as marketable equity securities. During the year ended 31 December 2018, the Group purchased additional units of the same mutual funds amounting to HK$39,177,000. The fair values of the investments as at 31 December 2018 amounting to HK$717,356,000 (2017: HK$699,222,000). For the year ended 31 December 2018, a decrease in fair value of HK$866,000 was recognized in profit or loss. For the year ended 31 December 2017, a decrease in fair value of HK$8,946,000 was recognized in other comprehensive income.

(b) Amount due from a related company was unsecured, non-interest-bearing and repayable on demand. The related company was a non-controlling interest entity of a subsidiary of the Company.

(c) The current portion of restricted cash represents cash deposited into bank accounts which are restricted as to withdrawal and use and the Group expects these funds will be released or utilized in accordance with the terms of the respective agreements within the next 12 months, while the non-current portion of restricted cash represents funds that will not be released or utilized within the next 12 months.

Restricted cash mainly consists of (i) bank accounts that are restricted for withdrawals and for payment of project costs or debt servicing associated with interest-bearing borrowings; and (ii) collateral bank accounts associated with interest-bearing borrowings.

(d) Amount due from an associate is unsecured, non-interest-bearing and repayable on 15 July 2020.

32. 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 HK$'000	2017 HK$'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

The trade payables are non-interest bearing and are normally settled on credit terms of 30 to 45 days.

33. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Notes	2018 HK$'000	2017 HK$'000
Current liabilities			
Outstanding gaming chips and tokens liabilities	5	5,002,012	3,614,688
Loyalty program liability	5	365,958	289,411
Customer deposits and ticket sales	5	3,080,799	3,346,701
Gaming tax and license fee payables		1,751,763	1,466,695
Accrued employee benefits expenses		1,151,619	1,143,970
Construction costs payable		214,992	1,122,655
Accrued operating expenses		963,976	838,857
Accrued gaming promoter commission and other gaming related accruals		103,543	177,359
Payable for acquisition of property, plant and equipment		494,951	351,697
Interest payable		129,294	150,213
Dividend payable		37,221	1,056
Amounts due to related companies	(a)	63,659	114,221
		13,359,787	12,617,523
Non-current liabilities			
Deferred rental income		137,251	142,432
Deposits received		34,414	58,393
Accrued employee benefits expenses		46,364	41,491
Other liabilities		13,955	135,172
Amounts due to related companies	(a)	–	7,148
		231,984	384,636

Note:

(a) Except for the amounts due to related companies as of 31 December 2017 of HK$7,148,000 classified as non-current liabilities which were unsecured, non-interest-bearing and repayable after one year, other amounts due to related companies are unsecured, non-interest-bearing and repayable on demand. The related companies are a joint venture and a subsidiary of MECOM Power and Construction Limited ("MECOM") which Mr. Ho, Lawrence Yau Lung, a Director, Chairman and Chief Executive Officer of the Company, has shareholding interest of approximately 20%.

34. INTEREST-BEARING BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured notes (note (i))	12,699,324	16,773,980
Secured bank loans (note (ii))	18,253,982	9,304,418
Unsecured notes (note (iii))	7,848,614	7,628,337
Unsecured bond (note (iv))	–	760,000
	38,801,920	34,466,735
Non-current portion	(35,264,619)	(32,463,626)
Current portion	3,537,301	2,003,109
Analyzed into:		
Borrowings repayable:		
Within one year or on demand	3,563,011	2,040,367
In the second year	12,658,947	4,710,926
In the third to fifth years, inclusive	14,853,484	20,401,910
After five years	7,831,527	7,780,000
	38,906,969	34,933,203
Less: debt financing costs and original issue premiums	(105,049)	(466,468)
	38,801,920	34,466,735

Following the adoption of HKFRS 9 *Financial Instruments* at 1 January 2018 as detailed in note 2.2, the Group recognized a decrease in opening retained profits and non-controlling interests with an aggregate amount of HK$238,045,000 and a corresponding increase in interest-bearing borrowings.

The interest rate exposure of the Group's interest-bearing borrowings is as follows:

	2018 HK$'000	2017 HK$'000
Fixed-rate borrowings	20,547,938	25,162,317
Variable-rate borrowings	18,253,982	9,304,418
	38,801,920	34,466,735

The carrying amounts of the Group's interest-bearing borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	11,546,541	4,654,481
US$	27,255,379	28,649,745
PHP	–	1,162,509
	38,801,920	34,466,735

During the year ended 31 December 2018, the Group obtained new interest-bearing borrowings of HK$10,115,338,000 (2017: HK$10,912,423,000) and repaid interest-bearing borrowings of HK$6,271,196,000 (2017: HK$6,978,043,000).

34. INTEREST-BEARING BORROWINGS (continued)

Notes:

(i) The secured notes bear interest rates ranging from 5.875% to 8.5% per annum and are payable semi-annually in arrears. The secured notes are denominated in US$ or PHP and due from 2019 to 2021. The secured notes are guaranteed by certain subsidiaries of the Group.

Certain indentures or agreements governing the secured notes, as the case may be, contain covenants that, subject to certain exceptions and conditions, limit the ability of respective borrowing groups to, among other things: (i) incur or guarantee additional indebtedness and issue certain preferred stock; (ii) make specified restricted payments and investments; (iii) issue or sell capital stock; (iv) transfer, lease or sell assets; (v) create or incur certain liens; (vi) impair the security interests in the collateral; (vii) enter into agreements that restrict the ability of the restricted subsidiaries of relevant borrowing groups to pay dividends, transfer assets or make intercompany loans; (viii) change the nature of the business of the relevant group; (ix) enter into transactions with shareholders or affiliates; and (x) effect a consolidation or merger. The indentures or agreements governing the secured notes also contain conditions and events of default customary for such financings.

On 9 October 2017 and 31 August 2018, the Group partially redeemed PHP15,000,000,000 5% senior notes due 2019 in an aggregate principal amount of PHP7,500,000,000 (equivalent to HK$1,126,500,000) and PHP5,500,000,000 (equivalent to HK$800,800,000) respectively. On 28 December 2018, the Group further redeemed in full the remaining portion of the PHP15,000,000,000 5% senior notes due 2019 in an aggregate principal amount of PHP2,000,000,000 (equivalent to HK$297,076,000), together with accrued interest. Accordingly, the Group recorded losses on extinguishment of debt of HK$1,783,000 and HK$7,305,000 during the years ended 31 December 2018 and 2017, respectively.

On 31 December 2018, the Group used the entirety of the net proceeds from the Global Offering of Studio City International Holdings to partially redeem the US$825,000,000 8.5% senior note due 2020 in an aggregate principal amount of US$400,000,000 (equivalent to HK$3,132,611,000), together with accrued interest. The Group recorded a loss on extinguishment of debt of HK$25,343,000 during the year ended 31 December 2018, in connection with this redemption. Subsequent to 31 December 2018, the Group fully redeemed the remaining portion of the US$825,000,000 8.5% senior notes in an aggregate amount of US$425,000,000 (equivalent to HK$3,328,400,000). Further details are disclosed in Note 52.

(ii) The secured bank loans bear interest at Hong Kong Interbank Offered Rate ("HIBOR") or London Interbank Offered Rate ("LIBOR") plus applicable margin ranging from 1.25% to 4.00% per annum. The secured bank loans are denominated in HK$ or US$ and are repayable in instalments or at maturity from 2019 to 2022. Certain of the secured bank loans consisted of term loan facilities and revolving credit facilities as described below. As at 31 December 2018, secured bank loans amounted to HK$2,206,658,000 (2017: HK$12,317,000,000) were available for future drawdown, subject to satisfaction of certain conditions precedent. The secured bank loans are guaranteed by certain subsidiaries of the Group.

On 8 February 2017, the Group obtained a banking facility amounting to US$1,000,000,000 (equivalent to HK$7,780,000,000), consisted of a term loan facility of US$700,000,000 (equivalent to HK$5,446,000,000) and a revolving credit facility of US$300,000,000 (equivalent to HK$2,334,000,000). In February 2017, the Group drew down the term loan facility of US$700,000,000 (equivalent to HK$5,446,000,000) to finance part of the consideration of the acquisition of 13.4% additional interest in Melco Resorts. In 2018, the Group drew down the aforesaid revolving credit facility of US$203,000,000 (equivalent to HK$1,579,336,000) to fund the full repayments of the unsecured bond of HK$760,000,000 (as described below) and one of the secured bank loans of HK$546,000,000 at their maturities and for general corporate purposes.

Certain agreements governing the secured bank loans, as the case may be, contain covenants that, subject to certain exceptions and conditions, limit the ability of respective borrowing groups to, among other things: (i) incur or guarantee additional indebtedness and issue certain preferred stock; (ii) make specified restricted payments and investments; (iii) issue or sell capital stock; (iv) transfer, lease or sell assets; (v) create or incur certain liens; (vi) impair the security interests in the collateral; (vii) enter into agreements that restrict the ability of the restricted subsidiaries of relevant borrowing groups to pay dividends, transfer assets or make intercompany loans; (viii) change the nature of the business of the relevant group; (ix) enter into transactions with shareholders or affiliates; and (x) effect a consolidation or merger. The agreements governing the secured bank loans also contain conditions and events of default customary for such financings. Certain secured bank loans also contain financial covenants including leverage ratios, gearing ratios, interest cover ratio and minimum net assets requirements.

34. INTEREST-BEARING BORROWINGS (continued)

Notes: (continued)

(iii) On 6 June 2017, the Group issued US$650,000,000 (equivalent to HK$5,057,000,000) of 4.875% senior notes due 2025 and priced at 100% (the "First 2017 Unsecured Notes"); and on 3 July 2017, the Group further issued US$350,000,000 (equivalent to HK$2,723,000,000) of 4.875% senior notes due 2025 and priced at 100.75% (the "Second 2017 Unsecured Notes" and together with the First 2017 Unsecured Notes, collectively referred to as the "2017 Unsecured Notes"). The 2017 Unsecured Notes mature on 6 June 2025 and the interest on the 2017 Unsecured Notes is accrued at a rate of 4.875% per annum and is payable semi-annually in arrears.

On 14 June 2017, the Group used the net proceeds from the offering of the First 2017 Unsecured Notes, along with the proceeds in the amount of US$350,000,000 (equivalent to HK$2,723,000,000) from a partial drawdown of a revolving credit facility under an existing credit facility (the "Drawn Revolving Credit Facility") and cash on hand to fund the full redemption of the unsecured notes in an aggregate principal amount of US$1,000,000,000 (equivalent to HK$7,780,000,000); and on 10 July 2017, the Group used the net proceeds from the offering of the Second 2017 Unsecured Notes to fund the full repayment of the Drawn Revolving Credit Facility. Accordingly, the Group recorded a loss on extinguishment of debt of HK$400,613,000 and a loss on modification of debt of HK$21,732,000 during the year ended 31 December 2017.

The indenture governing the 2017 Unsecured Notes contains certain covenants that, subject to certain exceptions and conditions, limit the ability of the issuer of the 2017 Unsecured Notes to, among other things, effect a consolidation or merger or sell assets. The indenture governing the 2017 Unsecured Notes also contains conditions and events of default customary for such financings.

(iv) As of 31 December 2017, the unsecured bond bore interest rate at 4.15% per annum and was payable quarterly in arrears. The unsecured bond was denominated in HK$ with a maturity date of 5 March 2018 and guaranteed by the Company. In 2018, the unsecured bond was fully repaid which was funded by a partial drawdown of a revolving credit facility of secured bank loans.

(v) As of 31 December 2018, an unsecured credit facility amounted to PHP2,350,000,000 (equivalent to HK$349,064,000) (2017: PHP2,350,000,000 (equivalent to HK$366,130,000)) was available for future drawdown, subject to satisfaction of certain conditions precedent. The availability period of this facility was extended from 29 May 2018 to 31 May 2019.

(vi) Borrowings amounting to HK$30,953,306,000 (2017: HK$26,078,398,000) as at 31 December 2018 are secured by the following assets of the Group:

(i) certain property, plant and equipment (note 17);

(ii) investment properties (note 18);

(iii) certain land and all present and future buildings on and fixtures to such land, and land use rights (or equivalent) (note 19);

(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.

35. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK$'000	2017 HK$'000
Analyzed for reporting purposes as:		
Current liabilities	271,434	259,754
Non-current liabilities	1,984,308	2,068,669
	2,255,742	2,328,423

On 13 March 2013, a lease agreement, as amended from time to time (the "MRP Lease Agreement") for lease of certain of the building structures for City of Dreams Manila and is expected to expire on 11 July 2033, became effective.

In addition to the MRP Lease Agreement, the Group has entered into other lease agreements with third parties for the lease of certain property, plant and equipment under finance lease (note 17).

No arrangements had been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Obligations under finance leases payable:				
Within one year	291,660	279,166	271,434	259,754
In the second year	321,063	305,892	261,218	248,915
In the third to fifth years, inclusive	1,087,407	1,088,156	678,906	677,074
After five years	3,654,440	4,223,493	1,044,184	1,142,680
Total minimum finance lease payments	5,354,570	5,896,707	2,255,742	2,328,423
Less: future finance charges	(3,098,828)	(3,568,284)	–	–
Total net finance lease payments	2,255,742	2,328,423	2,255,742	2,328,423
Current portion			(271,434)	(259,754)
Non-current portion			1,984,308	2,068,669

The carrying amounts of the Group's finance lease obligations are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
PHP	2,255,374	2,327,276
HK$	368	1,147
	2,255,742	2,328,423

36. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	23,431	543
Deferred tax liabilities	(2,424,214)	(2,456,295)
	(2,400,783)	(2,455,752)

The following are the major deferred tax (liabilities) and assets recognized and movements thereon during the current and prior years:

	Fair value adjustment on property, plant and equipment, land use rights, gaming license and subconcession and trademarks HK$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	(2,388,213)	(57,506)	8,149	1,640	(2,435,930)
Credit/(charge) to profit or loss for the year (note 14)	12,232	8,441	84	(40,473)	(19,716)
Exchange adjustments	–	(106)	–	–	(106)
At 31 December 2017 and 1 January 2018	(2,375,981)	(49,171)	8,233	(38,833)	(2,455,752)
Credit/(charge) to profit or loss for the year (note 14)	12,234	(20,174)	23,220	38,833	54,113
Exchange adjustments	3	726	127	–	856
At 31 December 2018	(2,363,744)	(68,619)	31,580	–	(2,400,783)

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$10,232,804,000 (2017: HK$10,046,199,000). A deferred tax asset has been recognized in respect of HK$189,513,000 (2017: HK$49,874,000) of tax losses to the extent that it is probable that future taxable temporary differences will be available against which the temporary differences can be utilized. No deferred tax asset has been recognized in respect of the remaining tax losses of HK$10,043,291,000 (2017: HK$9,996,325,000) due to the unpredictability of future profit streams.

Included in unrecognized tax losses are losses of HK$6,467,074,000 (2017: HK$6,349,499,000) that are allowed to be carried forward and utilized against the taxable profit which shall not exceed 3 to 10 years (2017: 3 years). Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$761,657,000 (2017: HK$982,055,000) in respect of the decelerated accounting depreciation. No deferred tax asset has been recognized in relation to this deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

37. SHARE CAPITAL

Shares

	Number of ordinary shares		Amount	
	2018	2017	2018	2017
			HK$'000	HK$'000
Issued and fully paid:				
At 1 January	1,536,158,255	1,543,784,555	5,624,135	5,437,303
Repurchase of shares	(18,587,000)	(20,480,000)	–	–
Exercise of share options	2,055,800	12,853,700	36,055	186,832
At 31 December	1,519,627,055	1,536,158,255	5,660,190	5,624,135

The shares issued during the year rank pari passu in all respects with the then existing shares.

During the year ended 31 December 2018, the Company repurchased a total of 18,587,000 (2017: 20,480,000) shares of the Company at an aggregate consideration of approximately HK$334,318,000 (2017: HK$370,350,000) (before expenses) on the Hong Kong Stock Exchange. The repurchase was made with a view to enhancing the earnings per share of the Company. All the repurchased shares were subsequently cancelled.

Particulars of the repurchase during the year are as follows:

Months of share repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid HK$
April	4,224,000	28.20	25.30	114,713,300
November	14,363,000	15.72	12.72	219,604,561
Total	18,587,000			334,317,861

During the year ended 31 December 2017, the trustee of the Share Purchase Scheme as defined in note 38 under the Company's share award scheme purchased 5,058,000 ordinary shares of the Company on the Hong Kong Stock Exchange for an aggregate consideration of approximately HK$91,562,000 which were for future vesting of unvested shares under the Company's Share Purchase Scheme. There is no purchase of shares by the trustee during the year ended 31 December 2018.

As at 31 December 2018, 784,835 (2017: 10,923,785) and 75,000 (2017: 75,000) issued shares of the Company were held by the Company's Share Purchase Scheme and Share Subscription Scheme as defined in note 38 under the Company's share award scheme, respectively.

38. LONG TERM INCENTIVE SCHEMES

(I) The Company

Share option schemes

The Company operates two share option schemes, one adopted by the Company on 8 March 2002 (the "2002 Share Option Scheme") and a new one adopted by the Company on 30 May 2012 (the "2012 Share Option Scheme") following the expiry of the 2002 Share Option Scheme on 7 March 2012, for grants of options, subject to certain criteria as defined in the share option schemes, to eligible participants including directors, employees and consultants of the Group and its affiliates to purchase the Company's ordinary shares. The purpose of the share option schemes is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations and to encourage them to work towards enhancing value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The 2002 Share Option Scheme and the 2012 Share Option Scheme both have a term of 10 years. Following the expiry of the 2002 Share Option Scheme as mentioned above, no further share options can be granted thereunder but the share options which had been granted during the life of the 2002 Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue. The maximum term of a share option is 10 years from the date of the grant. The maximum aggregate number of ordinary shares to be available for share options to be granted under the 2002 Share Option Scheme and the 2012 Share Option Scheme is up to 10% of the Company's ordinary shares in issue on the respective dates of approval of each of the schemes, the 10% limit may be refreshed with the Company's shareholders approval. As at 31 December 2018, the total number of shares available for issue under the 2012 Share Option Scheme is 76,084,538 shares and a total of 16,067,000 shares may be issued upon exercise of all options which had been granted and yet to be exercised under the 2012 Share Option Scheme, representing 5.01% and 1.06% respectively of the shares in issue.

The exercise price of a share option grant is determined at the higher of (i) the closing price of the Company's ordinary shares trading on the Hong Kong Stock Exchange on the date of grant; and (ii) the average closing prices of the Company's shares trading on the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant. The outstanding share options generally vest over vesting period of 2 to 3 years.

On 10 April 2018, the Company granted a total of 2,295,000 share options under the 2012 Share Option Scheme to certain directors and employees of the Company. On the same date, the Company also cancelled the outstanding share options previously granted to one of the directors 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 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 incremental fair value of approximately HK$19,925,000 has been recognized as share-based compensation expense during the year ended 31 December 2018.

The Company uses the Black-Scholes valuation model to determine the estimated fair value for each share option granted and/or modified, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of the Company's ordinary shares trading on the Hong Kong Stock Exchange. Expected life is based upon the vesting term, and expected life adopted by other publicly traded companies. The risk-free interest rate used for each period presented is based on the Hong Kong Government Bond rate at the time of grant for the period equal to the expected life.

38. LONG TERM INCENTIVE SCHEMES (continued)

(I) The Company (continued)

Share option schemes (continued)

The fair values of share options granted and/or modified under the 2012 Share Option Scheme were estimated on the dates of grant and/or modification using the following assumptions:

	Grant and/or modification date of the share options			
	Replacement Options and new options granted on 10 April 2018	Previously Granted Options modified on 10 April 2018	7 June 2017	10 April 2017
Share price at date of grant of share options	HK$23.15	HK$23.15	HK$19.90	HK$15.00
Exercise price	HK$23.15	HK$8.69 - HK$20.07	HK$20.07	HK$15.00
Expected volatility	41%-45%	42%-45%	41%-42%	40%-44%
Expected life	3.10 – 6.10 years	3.05 – 7.76 years	4.25 – 5.25 years	3.10 – 6.10 years
Risk-free rate	1.49%-1.72%	1.49%-1.79%	0.83%-0.92%	1.10%-1.30%
Expected dividend yield	0.3%	0.3%	0.4%	0.4%
Weighted average fair value of share options at date of grant	HK$8.42	HK$13.84	HK$6.89	HK$5.23

During the year ended 31 December 2017, HK$22,776,000 was reversed in "Share option reserves" and included under "Reserves" on the face of consolidated statement of financial position due to the termination of employees of the Company during 2017, which their share options were cancelled in 2018.

(a) 2002 Share Option Scheme

Movements of the share options granted under the 2002 Share Option Scheme are set out below:

	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January 2017	10,075,900	6.27
Exercised	(6,481,200)	6.45
Lapsed	(900)	10.80
Outstanding at 31 December 2017 and 1 January 2018	3,593,800	5.96
Exercised	(696,800)	5.58
Lapsed	(145,300)	11.05
Outstanding at 31 December 2018	2,751,700	5.79
Exercisable at 31 December 2018	2,751,700	5.79
Exercisable at 31 December 2017	3,593,800	5.96

The weighted average share price at the date of exercise was HK$22.71 (2017: HK$20.69) during the year ended 31 December 2018.

38. LONG TERM INCENTIVE SCHEMES (continued)

(I) The Company (continued)

Share option schemes (continued)

(a) 2002 Share Option Scheme (continued)

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

	2018		2017	
Range of exercise prices	Number of share options outstanding	Weighted average remaining contractual life	Number of share options outstanding	Weighted average remaining contractual life
HK$		(years)		(years)
2.01 – 3.00	290,000	0.25	290,000	1.25
3.01 – 4.00	396,000	1.27	546,000	2.27
5.01 – 6.00	819,000	2.27	1,293,000	3.27
7.01 – 8.00	1,246,700	3.07	1,296,700	4.08
10.01 – 11.00	–	–	117,100	0.25
11.01 – 12.00	–	–	51,000	0.16
	2,751,700		3,593,800	

(b) 2012 Share Option Scheme

Movements of the share options granted under the 2012 Share Option Scheme are set out below:

	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January 2017	18,253,000	9.99
Granted	5,516,000	16.95
Exercised	(6,372,500)	10.85
Lapsed	(519,500)	10.24
Outstanding at 31 December 2017 and 1 January 2018	16,877,000	11.93
Granted	2,295,000	23.15
Granted under modification	5,946,000	23.15
Exercised	(1,359,000)	12.99
Cancelled under modification	(5,946,000)	13.66
Lapsed	(1,746,000)	10.68
Outstanding at 31 December 2018	16,067,000	17.09
Exercisable at 31 December 2018	6,189,750	12.51
Exercisable at 31 December 2017	3,277,500	10.84

The weighted average share price at the date of exercise was HK$24.51 (2017: HK$20.05) during the year ended 31 December 2018.

38. LONG TERM INCENTIVE SCHEMES (continued)

(I) The Company (continued)

Share option schemes (continued)

(b) 2012 Share Option Scheme (continued)

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

	2018		2017	
Range of exercise prices	Number of share options outstanding	Weighted average remaining contractual life	Number of share options outstanding	Weighted average remaining contractual life
HK$		(years)		(years)
8.01 – 9.00	–	–	2,968,000	8.67
10.01 – 11.00	7,035,000	7.27	9,208,000	8.27
14.01 – 15.00	800,000	8.28	2,575,000	9.28
20.01 – 21.00	–	–	2,126,000	9.44
23.01 – 24.00	8,232,000	9.28	–	–
	16,067,000		16,877,000	

Share award schemes

On 18 October 2007, the Company adopted two share incentive award schemes, which have been subsequently amended, namely The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") and The Melco Share Award Scheme Trust (the "Share Subscription Scheme") under trust arrangement pursuant to the trust deed, for grants of shares award, subject to certain criteria as defined in the share incentive award schemes, to eligible participants including directors, employees, and consultants of the Group. The purpose of the Share Purchase Scheme and the Share Subscription Scheme is to recognize the contributions of the eligible participants and provide them with incentives so as to retain them for the continual operation and development of the Group and to attract suitable personnel for the future development of the Group. The shares awarded to the grantees under the Share Purchase Scheme will be settled by the shares of the Company purchased in the market by an independent trustee whereas the shares awarded to the grantees under the Share Subscription Scheme will be settled by allotment and issuance of new shares of the Company to an independent trustee. Such shares will be held in trust for the award holders until the vesting criteria and conditions have been satisfied. The Share Purchase Scheme and the Share Subscription Scheme both have a term of 20 years and the scheme limit under each of the scheme is 2% of the issued shares of the Company from time to time (excluding the shares which have already been transferred to the eligible participants on vesting).

On 10 April 2018, the Company granted a total of 4,665,000 awarded shares to certain directors and employees of the Company. On the same date, the Company also granted 2,194,000 Replacement Share Awards to a director for the modification of share options described in aforesaid share option schemes of the Company.

The grant date fair value of the awarded shares is the share price of the ordinary shares of the Company at the respective dates of award.

During the year ended 31 December 2017, HK$1,645,000 was reversed in "Share award reserves" included under "Reserves" on the face of consolidated statement of financial position due to the termination of employees of the Company during 2017, which their share awards were cancelled in 2018.

38. LONG TERM INCENTIVE SCHEMES (continued)

(I) The Company (continued)

Share award schemes (continued)

(a) Share Purchase Scheme

Movements of the awarded shares granted under the Share Purchase Scheme are set out below:

	Number of awarded shares	Weighted average grant date fair value HK$
Unvested at 1 January 2017	4,497,800	9.86
Granted	6,214,000	15.93
Vested	(4,678,400)	12.69
Lapsed	(31,700)	12.09
Unvested at 31 December 2017 and 1 January 2018	6,001,700	13.93
Granted	4,665,000	23.15
Granted under modification	2,194,000	9.08
Vested	(10,093,950)	14.99
Lapsed	(126,000)	13.13
Unvested at 31 December 2018	2,640,750	22.18

(b) Share Subscription Scheme

No award was granted or unvested under the Share Subscription Scheme during the years ended 31 December 2018 and 2017.

(II) Melco Resorts

Melco Resorts share incentive plans

Melco Resorts operates two share incentive plans, one adopted by Melco Resorts in 2006 (the “Melco Resorts 2006 Share Incentive Plan”), as amended, and succeeded by a new one adopted by Melco Resorts on 7 December 2011 (the “Melco Resorts 2011 Share Incentive Plan”), which has been subsequently amended and restated, for grants of various share-based awards, including but not limited to, options, restricted shares, share appreciation rights and other types of awards, subject to certain criteria as defined in the share incentive plans, to eligible participants including directors, employees and consultants of Melco Resorts and its subsidiaries and affiliates (including the Company). The purpose of the share incentive plans is to provide incentives and rewards to eligible participants who contribute to the success of Melco Resorts’ operations and to encourage them to work towards enhancing value of Melco Resorts and its shares for the benefit of Melco Resorts and its shareholders as a whole.

The Melco Resorts 2006 Share Incentive Plan and the Melco Resorts 2011 Share Incentive Plan both have a term of 10 years. Following the succession by the Melco Resorts 2011 Share Incentive Plan as mentioned above, no further awards can be granted thereunder the Melco Resorts 2006 Share Incentive Plan but the awards which had been granted during the life of the Melco Resorts 2006 Share Incentive Plan shall continue to be valid and exercisable in accordance with their terms of issue. The maximum term of an award is 10 years from the date of the grant. The maximum aggregate number of ordinary shares to be available for all awards to be granted under the Melco Resorts 2011 Share Incentive Plan is 100,000,000 over 10 years, which could be raised up to 10% of the Melco Resorts’ ordinary shares in issue upon shareholders’ approval of Melco Resorts, and shareholders’ approval of Melco International (if required). As at 31 December 2018, the total number of shares available for issue under the Melco Resorts 2011 Share Incentive Plan is 66,681,053 Melco Resorts’ ordinary shares (representing approximately 4.50% of the Melco Resorts’ ordinary shares in issue).

38. LONG TERM INCENTIVE SCHEMES (continued)

(II) Melco Resorts (continued)

Melco Resorts share incentive plans (continued)

The exercise price of a share option grant is determined at the market closing price of Melco Resorts' ADS trading on the NASDAQ Global Select Market on the date of grant. The outstanding share options generally vest over vesting periods of 2 to 3 years.

Melco Resorts uses the Black-Scholes valuation model to determine the estimated fair value for each share option granted, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of Melco Resorts' ADS trading on the NASDAQ Global Select Market. Expected life is based upon the vesting term or the historical expected life of publicly traded companies. The risk-free interest rate used for each period presented is based on the United States of America Treasury yield curve at the time of grant for the period equal to the expected life.

The fair values of the restricted shares are determined with reference to the market closing prices of Melco Resorts' ADS trading on the NASDAQ Global Select Market on the dates of grant.

The fair values of share options granted under the Melco Resorts 2011 Share Incentive Plan were estimated on the dates of grant using the following assumptions:

	Grant date of the share options			
	23 November 2018	2 April 2018	29 March 2018	16 March 2018
Share price at date of grant of share options	US$5.66	US$9.40	US$9.66	US$9.15
Exercise price	US$5.66	US$9.40	US$9.66	US$9.15
Expected volatility	42%	40%	40%	40%
Expected life	5.1 years	5.6 years	5.6 years	5.1 years
Risk-free rate	2.88%	2.59%	2.60%	2.66%
Expected dividend yield	2.5%	2.0%	2.0%	2.0%
Fair value of share options at the date of grant	US$1.84	US$3.14	US$3.23	US$2.97

	Grant date of the share options			
	8 September 2017	30 May 2017	31 March 2017	21 February 2017
Share price at date of grant of share options	US$7.61	US$7.30	US$6.18	US$5.59
Exercise price	US$7.61	US$7.30	US$6.18	US$5.59
Expected volatility	41%	47%	48%	48%
Expected life	5.1 years	6.1 years	6.1 years	5.98 years
Risk-free rate	1.65%	1.90%	2.1%	2.1%
Expected dividend yield	2.0%	2.0%	2.0%	2.0%
Fair value of share options at the date of grant	US$2.41	US$2.82	US$2.45	US$2.20

38. LONG TERM INCENTIVE SCHEMES (continued)

(II) Melco Resorts (continued)

Melco Resorts share incentive plans (continued)

Share options

(a) Melco Resorts 2006 Share Incentive Plan

Movements of the share options granted under the Melco Resorts 2006 Share Incentive Plan during the years ended 31 December 2018 and 2017 are set out below:

	Number of share options	Weighted average exercise price US$
Outstanding at 1 January 2017	9,913,794	1.58
Outstanding at 19 January 2017[(1)]	9,913,794	1.14
Exercised	(891,423)	1.13
Outstanding at 30 March 2017	9,022,371	1.14
Outstanding at 31 March 2017[(1)]	9,022,371	0.81
Exercised	(2,092,833)	0.88
Outstanding at 31 December 2017 and 1 January 2018	6,929,538	0.80
Exercised	(4,634,085)	0.38
Forfeited or expired	(5,985)	0.24
Outstanding at 31 December 2018	2,289,468	1.64
Exercisable at 31 December 2018	2,289,468	1.64
Exercisable at 31 December 2017	6,929,538	0.80

The weighted average share price at the date of exercise was US$8.42 (2017: US$6.98) during the year ended 31 December 2018.

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

	2018		2017	
Range of exercise prices US$	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
0.01 – 1.00	193,896	0.55	4,655,052	1.10
1.01 – 2.00	2,095,572	2.23	2,217,858	3.23
3.01 – 4.00	–	–	56,628	0.21
	2,289,468		6,929,538	

38. LONG TERM INCENTIVE SCHEMES (continued)

(II) Melco Resorts (continued)

Melco Resorts Share Incentive Plans (continued)

Share options (continued)

(b) Melco Resorts 2011 Share Incentive Plan

Movements of the share options granted under the Melco Resorts 2011 Share Incentive Plan during the years ended 31 December 2018 and 2017 are set out below:

	Number of share options	Weighted average exercise price US$
Outstanding at 1 January 2017	10,852,351	5.61
Forfeited or expired	(8,682)	5.76
Outstanding at 18 January 2017	10,843,669	5.61
Outstanding at 19 January 2017 [(1)]	10,843,669	5.17
Granted	5,257,389	6.16
Exercised	(379,299)	4.26
Forfeited or expired	(347,811)	5.32
Outstanding at 30 March 2017	15,373,948	5.52
Outstanding at 31 March 2017 [(1)]	15,373,948	5.50
Granted	123,153	7.39
Exercised	(147,912)	3.93
Forfeited or expired	(1,902,678)	5.40
Outstanding at 31 December 2017 and 1 January 2018	13,446,511	5.55
Granted	5,461,929	9.25
Exercised	(778,269)	5.07
Forfeited or expired	(1,095,211)	6.25
Outstanding at 31 December 2018	17,034,960	6.72
Exercisable at 31 December 2018	3,663,867	5.02
Exercisable at 31 December 2017	920,556	3.93

38. LONG TERM INCENTIVE SCHEMES (continued)

(II) Melco Resorts (continued)

Melco Resorts Share Incentive Plans (continued)

Share options (continued)

(b) Melco Resorts 2011 Share Incentive Plan (continued)

The weighted average share price at the date of exercise was US$9.88 (2017: US$6.53) during the year ended 31 December 2018.

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

	2018		2017	
Range of exercise prices US$	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
3.01 – 4.00	784,662	3.24	920,556	4.24
4.01 – 5.00	734,502	4.36	191,328	8.98
5.01 – 6.00	738,300	5.24	7,326,058	7.47
6.01 – 7.00	1,584,762	6.25	4,885,416	9.25
7.01 – 8.00	3,357,813	7.26	123,153	9.49
8.01 – 9.00	4,492,128	8.26	–	–
9.01 – 10.00	5,342,793	9.30	–	–
	17,034,960		13,446,511	

Note:

(1) The exercise prices of all outstanding share options under the Melco Resorts 2006 Share Incentive Plan and the Melco Resorts 2011 Share Incentive Plan as of 19 January 2017 have been reduced by approximately US$0.4404 per share as a result of the declaration of a special dividend in January 2017. The exercise prices of all outstanding share options under the Melco Resorts 2006 Share Incentive Plan and certain share options under the Melco Resorts 2011 Share Incentive Plan as of 31 March 2017 had been reduced by approximately US$0.3293 per share reflecting the effect of the prior special dividend. The adjustments to the option exercise prices were made as required by the Melco Resorts 2006 Share Incentive Plan and the Melco Resorts 2011 Share Incentive Plan. Such adjustments were accounted for as modification of the affected share options requiring a comparison of the fair values of the modified share options with the respective fair values of the original share options immediately before the modification under the applicable accounting standards and the associated incremental compensation cost was not significant.

38. LONG TERM INCENTIVE SCHEMES (continued)

(II) Melco Resorts (continued)

Melco Resorts Share Incentive Plans (continued)

Restricted shares

Movements of the restricted shares granted under the Melco Resorts 2011 Share Incentive Plan during the years ended 31 December 2018 and 2017 are set out below:

	Number of restricted shares	Weighted average grant date fair value US$
Unvested at 1 January 2017	4,891,097	6.91
Granted	2,550,606	6.30
Vested	(950,320)	9.72
Forfeited	(626,495)	6.46
Unvested at 31 December 2017 and 1 January 2018	5,864,888	6.24
Granted	1,879,176	9.50
Vested	(2,159,189)	6.46
Forfeited	(345,801)	6.46
Unvested at 31 December 2018	5,239,074	7.30

(III) MRP

MRP share incentive plan

MRP adopted a share incentive plan on 24 June 2013 (the "MRP Share Incentive Plan"), which has been subsequently amended and restated, for grants of various share-based awards, including but not limited to, options, restricted shares, share appreciation rights and other types of awards, subject to certain criteria as defined in the MRP Share Incentive Plan, to eligible participants including directors, employees and consultants of MRP and its subsidiaries and affiliates (including the Company). The purpose of the share incentive plans is to provide incentives and rewards to eligible participants who contribute to the success of MRP's operations and to encourage them to work towards enhancing value of MRP and its shares for the benefit of MRP and its shareholders as a whole.

The MRP Share Incentive Plan has a term of 10 years. The maximum term of an award is 10 years from the date of the grant. The maximum aggregate number of common shares to be available for all awards to be granted under the MRP Share Incentive Plan is 442,630,330 shares and up to 5% of MRP's common shares in issue from time to time over 10 years. As at 31 December 2018, the total number of shares available for issue under the MRP Share Incentive Plan is 151,992,134 MRP's common shares (representing approximately 2.67% of the MRP's common shares in issue).

The exercise price of a share option grant is determined with reference to the market closing prices of MRP's common shares trading on the Philippine Stock Exchange, Inc. (the "PSE") on the dates of grant. The outstanding share options generally vest over vesting periods of 2 to 3 years.

38. LONG TERM INCENTIVE SCHEMES (continued)

(III) MRP (continued)

MRP share incentive plan (continued)

MRP uses the Black-Scholes valuation model to determine the estimated fair value for each share option granted, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Dividend yield is based on the estimate of annual dividends expected to be paid at the time of grant. Expected volatility is based on the historical volatility of MRP's common shares trading on the PSE and a peer group of publicly traded companies. Expected life is based upon the vesting term or the historical expected life of Melco Resorts. The risk-free interest rate used for each period presented is based on the Philippine government bond yield at the time of grant for the period equal to the expected life.

The fair values of the restricted shares are determined with reference to the market closing prices of MRP's common shares trading on the PSE on the dates of grant.

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

	Grant date of the share options		
	29 March 2018	1 August 2017	15 March 2017
Share price at date of grant of share options	PHP7.80	PHP8.98	PHP5.66
Exercise price	PHP7.80	PHP8.98	PHP5.66
Expected volatility	45%	45%	45%
Expected life	5.6 years	6.1 years	5.2 years
Risk-free rate	5.69%	4.52%	4.28%
Expected dividend yield	0%	0%	0%
Fair value of share options at the date of grant	PHP3.89	PHP4.49	PHP2.62

Share options

Movements of stock options granted under the MRP Share Incentive Plan during the years ended 31 December 2018 and 2017 are set out below:

	Number of shares options	Weighted average exercise price PHP
Outstanding at 1 January 2017	12,374,710	5.72
Granted	7,143,469	8.27
Exercised	(1,040,485)	8.30
Forfeited or expired	(3,410,501)	8.59
Outstanding at 31 December 2017 and 1 January 2018	15,067,193	6.10
Granted	2,158,552	7.80
Forfeited or expired	(190,240)	8.98
Outstanding at 31 December 2018	17,035,505	6.28
Exercisable at 31 December 2018	7,923,724	4.15
Exercisable at 31 December 2017	4,525,458	4.67

The weighted average share price at the date of exercise was PHP8.6 during the year ended 31 December 2017. No share options were exercised for the year ended 31 December 2018.

38. LONG TERM INCENTIVE SCHEMES (continued)

(III) MRP (continued)

MRP share incentive plan (continued)

Share options (continued)

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

	2018		2017	
Range of exercise prices PHP	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
3.01 – 4.00	6,796,532	6.88	6,796,532	7.88
5.01 – 6.00	1,531,112	8.21	1,531,112	9.21
7.01 – 8.00	2,158,552	9.25	–	–
8.01 – 9.00	6,549,309	7.88	6,739,549	8.90
	17,035,505		15,067,193	

During the year ended 31 December 2017, HK$1,702,000 was reversed in "Non-controlling interests" on the face of the consolidated statement of financial position due to the termination of employees of the Company during 2017, which their share options of MRP were cancelled in 2018.

Restricted shares

Movements of the restricted shares granted under the MRP Share Incentive Plan during the years ended 31 December 2018 and 2017 are set out below:

	Number of restricted shares	Weighted average grant date fair value PHP
Unvested at 1 January 2017	49,255,708	4.57
Granted	7,298,372	8.22
Vested	(2,826,644)	8.02
Forfeited	(5,081,073)	4.45
Unvested at 31 December 2017 and 1 January 2018	48,646,363	4.91
Granted	6,482,482	7.34
Vested	(20,506,393)	4.49
Forfeited	(5,177,792)	4.46
Unvested at 31 December 2018	29,444,660	5.82

39. RETIREMENT BENEFIT SCHEMES

The Group has obligations to make the required contributions with respect to the below defined contribution retirement benefits schemes.

The Group operates defined contribution fund schemes, which allow eligible employees to participate in defined contribution plans (the "Defined Contribution Fund Schemes"). The Group either contributes a fixed percentage of the eligible employees' relevant income, a fixed amount or an amount which matches the contributions of the employees up to a certain percentage of relevant income to the Defined Contribution Fund Schemes. The Group's contributions to the Defined Contribution Fund Schemes are vested with employees in accordance to a vesting schedule, achieving full vesting ranging from 4 to 10 years from the date of employment depending on the countries where the Group's entities operate. The Defined Contribution Fund Schemes were established under trusts with the fund assets being held separately from those of the Group by independent trustees.

Employees employed by the Group in Macau, the Philippines and Cyprus are members of government-managed social security fund schemes (the "Social Security Fund Schemes"), which are operated by the respective governments. The Group is required to pay a monthly fixed contribution or certain percentage of the employees' relevant income and meet the minimum mandatory requirements of the respective Social Security Fund Schemes to fund the benefits.

Forfeited contributions totaling HK$813,000 (2017: HK$12,805,000) were utilized during the year leaving HK$23,034,000 (2017: HK$6,831,000) available at year end to reduce future contributions.

During the year ended 31 December 2018, the Group's contributions into the defined contribution retirement benefits schemes were HK$185,647,000 (2017: HK$172,536,000).

40. 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)

40. DISPOSAL OF SUBSIDIARIES (continued)

Year ended 31 December 2018 (continued)

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 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

40. DISPOSAL OF SUBSIDIARIES (continued)

Year ended 31 December 2017 (continued)

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

41. ACQUISITION OF PARTIAL INTEREST IN A SUBSIDIARY

On 14 December 2016, the Group entered into an agreement to acquire an additional interest of 13.42% of Melco Resorts at a consideration of US$1,188,000,000 (equivalent to approximately HK$9,242,640,000) less the aggregate amount of the special dividend announced by Melco Resorts on 12 January 2017 paid in respect of the shares acquired on or around 10 February 2017, of US$87,199,200 (equivalent to approximately HK$678,410,000). The Group obtained a banking facility amounting to US$1,000,000,000 (equivalent to HK$7,780,000,000) and had drawn down US$700,000,000 (equivalent to HK$5,446,000,000) to finance part of the consideration of the acquisition.

As a result of the acquisition which was completed on 16 February 2017, the Group's ownership interest in Melco Resorts has increased from 37.89% to 51.31%. An amount of HK$5,784,510,000 (being the proportionate share of the carrying amount of the net assets of Melco Resorts and its subsidiaries (collectively referred to as "Melco Resorts Group") has been transferred from non-controlling interests. The difference of HK$3,457,017,000 between the decrease in the non-controlling interests and the consideration paid has been recognized in special reserve.

42. 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.

42. CHANGE IN OWNERSHIP INTEREST OF THE SUBSIDIARIES (continued)

The Philippine subsidiaries

In September 2018, MRP filed with the PSE (i) a tender offer report, as amended from time to time, the tender offer of 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 15), 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.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2018, property, plant and equipment amounting to HK$532,554,000 (2017: HK$765,832,000) were purchased from external parties and remained unsettled as at 31 December 2018.

During the year ended 31 December 2018, property, plant and equipment amounting to HK$32,721,000 (2017: HK$97,413,000) were purchased from related companies and remained unsettled as at 31 December 2018.

During the year ended 31 December 2017, the Group recognized property, plant and equipment amounted to HK$500,123,000 in connection with the contribution of freehold land from the non-controlling shareholder of the subsidiary to develop, operate and maintain an integrated casino resort in Limassol, Cyprus, which was non-cash in nature.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities during the years ended 31 December 2018 and 2017

	Interest-bearing borrowings HK$'000	Obligations under finance leases HK$'000
At 1 January 2017	30,410,381	2,280,219
Net changes of cash flows from financing activities	3,934,380	(254,873)
Foreign exchange movement	(47,069)	(3,981)
Other (note)	169,043	307,058
At 31 December 2017 and 1 January 2018	34,466,735	2,328,423
Net changes of cash flows from financing activities	3,844,142	(261,294)
Foreign exchange movement	128,827	(112,389)
Other (note)	362,216	301,002
At 31 December 2018	38,801,920	2,255,742

Note: "Other" mainly represents the effect of movement of debt financing costs and interest incurred on obligations under finance leases during the year.

44. REGULAR LICENSE, COOPERATION AGREEMENT, OPERATING AGREEMENT AND MRP LEASE AGREEMENT FOR CITY OF DREAMS MANILA

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

(a) Regular License

On 29 April 2015, PAGCOR issued a regular casino gaming license, as amended (the "Regular License") in replacement of a provisional license granted by PAGCOR as of 13 March 2013, to the co-licensees (the "Licensees") namely, MPHIL Holdings No.1 Corporation, a subsidiary of MRP, and its subsidiaries including Melco Resorts Leisure (collectively the "MPHIL Holdings Group"), SM Investments Corporation ("SMIC"), Belle Corporation ("Belle") and PremiumLeisure and Amusement, Inc. ("PLAI") (SMIC, Belle and PLAI are collectively referred to as the "Philippine Parties") for the establishment and operation of City of Dreams Manila, with Melco Resorts Leisure, a co-licensee, as the "special purpose entity" to operate the casino business and as representative for itself and on behalf of the other co-licensees in dealings with PAGCOR. The Regular License has the same terms and conditions as the provisional license, and is valid until 11 July 2033. Further details of the terms and commitments under the Regular License are included in note 47.

44. REGULAR LICENSE, COOPERATION AGREEMENT, OPERATING AGREEMENT AND MRP LEASE AGREEMENT FOR CITY OF DREAMS MANILA (continued)

(b) Cooperation Agreement

The Licensees and certain of its subsidiaries entered into a cooperation agreement (the "Cooperation Agreement") and other related arrangements which govern the rights and obligations of the Licensees. Under the Cooperation Agreement, Melco Resorts Leisure is appointed as the sole and exclusive representative of the Licensees in connection with the Regular License and is designated as the operator to operate and manage City of Dreams Manila. Further details of the commitments under the Cooperation Agreement are included in note 47.

(c) Operating Agreement

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

(d) MRP Lease Agreement

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

45. OPERATING LEASE ARRANGEMENTS

(a) The Group as lessee

The Group leased a portion of land for City of Dreams Manila, Mocha Clubs sites, office space, warehouses, staff quarters and various equipment under non-cancellable operating leases and right to use agreements that expire at various dates through July 2033. Certain lease agreements provide for periodic rental increases based on both contractual agreed incremental rates and on the general inflation rate once agreed by the Group and its lessor and in some cases contingent rental expenses stated as a percentage of turnover. These leases typically contain renewal or continuation clauses. During the year ended 31 December 2018, the Group incurred rental expenses amounting to HK$361,619,000 (2017: HK$356,191,000), which included contingent rental expenses of HK$124,788,000 (2017: HK$118,652,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases and right to use agreements which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	207,885	226,348
In the second to fifth years, inclusive	378,722	576,257
After five years	260,094	396,228
	846,701	1,198,833

Leases for properties are negotiated for terms ranging from 1 to 20 years.

45. OPERATING LEASE ARRANGEMENTS (continued)

(b) The Group as lessor

The Group entered into non-cancellable operating leases and right to use agreements mainly for its investment properties and mall spaces in the sites of City of Dreams, City of Dreams Manila and Studio City with various retailers that expire at various dates through November 2026. Certain of the operating leases and right to use agreements include minimum base fees with escalated contingent fee clauses.

At the end of the reporting period, future minimum fees to be received under all non-cancellable operating leases and right to use agreements were as follows:

	2018 HK$'000	2017 HK$'000
Within one year	431,102	424,874
In the second to fifth years, inclusive	1,234,454	1,343,910
After five years	764,904	1,052,042
	2,430,460	2,820,826

The total future minimum fees do not include any escalated contingent fee amounts. During the year ended 31 December 2018, the Group earned contingent fees of HK$99,557,000 (2017: HK$213,814,000).

46. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,026,060	1,134,876

47. OTHER COMMITMENTS

Gaming Subconcession

On 8 September 2006, the Macau government granted a gaming subconcession to Melco Resorts Macau to operate its gaming business in Macau. Pursuant to the gaming subconcession agreement, Melco Resorts Macau committed to pay the Macau government the following:

(i) A fixed annual premium of MOP30,000,000 (equivalent to HK$29,126,000).

(ii) A variable premium depending on the number and type of gaming tables and gaming machines that the Group operates. The variable premium is calculated as follows:

- MOP300,000 (equivalent to HK$291,000) per year for each gaming table (subject to a minimum of 100 tables) reserved exclusively for certain kinds of games or to certain players;
- MOP150,000 (equivalent to HK$146,000) per year for each gaming table (subject to a minimum of 100 tables) not reserved exclusively for certain kinds of games or to certain players; and
- MOP1,000 (equivalent to HK$970) per year for each electrical or mechanical gaming machine, including the slot machine.

47. OTHER COMMITMENTS (continued)

Gaming Subconcession (continued)

(iii) A special gaming tax of an amount equal to 35% of the gross revenues of the gaming business operations on a monthly basis.

(iv) A sum of 4% of the gross revenues of the gaming business operations to utilities designated by the Macau government (a portion of which must be used for promotion of tourism in Macau) on a monthly basis.

(v) Melco Resorts Macau must maintain a guarantee issued by a Macau bank in favor of the Macau government in a maximum amount of MOP300,000,000 (equivalent to HK$291,262,000) until the 180th day after the termination date of the gaming subconcession.

As a result of the bank guarantee given by the bank to the Macau government as disclosed above, a sum of 1.75% of the guarantee amount will be payable by Melco Resorts Macau quarterly to the bank.

Land Concession Contracts

The Group's subsidiaries have entered into concession contracts for the land in Macau on which Altira Macau, City of Dreams and Studio City properties and development projects are located. The title to the land lease right is obtained once the related land concession contract is published in the Macau official gazette. The contracts have a term of 25 years, which is renewable for further consecutive periods of 10 years, subject to applicable legislation in Macau. The Group's land holding subsidiaries are required to i) pay an upfront land premium, which is recognized as a land use right in the consolidated statement of financial position and an annual government land use fee, which is recognized as other expenses and may be adjusted every five years; and (ii) place a guarantee deposit upon acceptance of the land lease terms, which is subject to adjustments from time to time in line with the amounts paid as annual land use fees. During the land concession term, amendments may be sought which have or may result in revisions to the development conditions, land premium and government land use fees.

Altira Macau

On 18 December 2013, the Macau government published in the Macau official gazette the final amendment for revision of the land concession contract for Taipa land on which Altira Macau is located. According to the revised land amendment, the government land use fees were HK$1,445,000 per annum. As of 31 December 2018, the Group's total commitment for government land use fees for the Altira Macau site to be paid during the initial term of the land concession contract which expires in March 2031 was HK$17,581,000 (2017: HK$19,026,000).

City of Dreams

On 29 January 2014, the Macau government published in the Macau official gazette the final amendment for revision of the land concession contract for Cotai land on which City of Dreams is located. According to the revised land amendment, the government land use fees were HK$9,217,000 per annum during the development period of an additional hotel at City of Dreams; and HK$9,611,000 per annum after the completion of the development. In January 2018, the Macau government granted an extension of the development period under the land concession contract for Cotai land to 11 June 2018. As of 31 December 2018, the Group's total commitment for government land use fees for the City of Dreams site to be paid during the initial term of the land concession contract which expires in August 2033 was HK$140,155,000 (2017: HK$149,590,000).

47. OTHER COMMITMENTS (continued)

Land Concession Contracts (continued)

Studio City

On 23 September 2015, the Macau government published in the Macau official gazette the final amendment for revision of the land concession contract for Studio City land on which Studio City is located. According to the revised land amendment, the government land use fees were HK$3,809,000 per annum during the development period of Studio City and HK$8,801,000 per annum after the development period. In February 2018, the Macau government granted an extension of the development period under the land concession contract for Studio City land to 24 July 2021. As of 31 December 2018, the Group's total commitment for government land use fees for the Studio City site to be paid during the initial term of the land concession contract which expires in October 2026 was HK$64,420,000 (2017: HK$71,597,000).

Regular License

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

- To secure a surety bond in favor of PAGCOR in the amount of PHP100,000,000 (equivalent to HK$14,854,000) to ensure prompt and punctual remittances/payments of all license fees.

- License fees must be remitted on a monthly basis, in lieu of all taxes with reference to the income component of the gross gaming revenues: (a) 15% high roller tables; (b) 25% non-high roller tables; (c) 25% slot machines and electronic gaming machines; and (d) 15% junket operations. The license fees are inclusive of the 5% franchise tax under the terms of the PAGCOR Charter.

- The Licensees are required to remit 2% of casino revenues generated from non-junket operation tables to a foundation devoted to the restoration of Philippine cultural heritage, as selected by the Licensees and approved by PAGCOR.

- PAGCOR may collect a 5% fee on non-gaming revenue received from food and beverage, retail and entertainment outlets. All revenues of hotel operations should not be subject to the 5% fee except for rental income received from retail concessionaires.

- Grounds for revocation of the Regular License, among others, are as follows: (a) failure to comply with material provisions of this license; (b) failure to remit license fees within 30 days from receipt of notice of default; (c) has become bankrupt or insolvent; and (d) if the debt-to-equity ratio is more than 70:30. As of 31 December 2018 and 2017, MPHIL Holdings Group, as one of the Licensee parties, has complied with the required debt-to-equity ratio under the definition as agreed with PAGCOR.

Cooperation Agreement

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

47. OTHER COMMITMENTS (continued)

Gaming License of an integrated casino resort in Cyprus

On 26 June 2017, the Cyprus government granted the Cyprus License to the Cyprus Subsidiary to develop, operate and maintain an integrated casino resort in Limassol, Cyprus and up to four satellite casino premises in Cyprus for a term of 30 years, the first 15 years of which are exclusive. Pursuant to the Cyprus License agreement, the Cyprus Subsidiary has committed to pay the Cyprus government the following:

(i) annual license fee for the temporary casino and integrated casino resort of EUR2,500,000 (equivalent to HK$22,396,000) per year for the first four years, and EUR5,000,000 (equivalent to HK$44,792,000) per year for the next four years. Upon the completion of the eight years and thereafter every four years during the term of the Cyprus License, the Cyprus government may review the annual license fee, with minimum of EUR5,000,000 (equivalent to HK$44,792,000) per year and any increase in the annual license fee may not exceed 20% of the annual license fee paid annually during the previous four-year period.

(ii) annual license fee for two operating satellite casinos in Nicosia and Larnaca of EUR1,500,000 (equivalent to HK$13,437,000).

(iii) a casino tax of an amount equal to 15% of the gross gaming revenue on a monthly basis and shall not be increased during the period of exclusivity for the Cyprus License.

(iv) if the Cyprus Subsidiary fails to open the integrated casino resort by the opening date, as defined in the Cyprus License as 30 April 2021 (the "Opening Date"), the Cyprus Subsidiary shall pay to the Cyprus government the amount of EUR10,000 (equivalent to HK$90,000) for each day the integrated casino resort remains unopened past the Opening Date, up to a maximum of EUR1,000,000 (equivalent to HK$8,958,000). If the integrated casino resort does not open for 100 business days past the Opening Date, the Cyprus government may terminate the Cyprus License.

Guarantees

Except as disclosed in note 34, the Group had made the following significant guarantees as of 31 December 2018:

- Melco Resorts Macau has issued a promissory note ("Livrança") of MOP550,000,000 (equivalent to HK$533,981,000) to a bank in respect of the bank guarantee issued to the Macau government under its gaming subconcession.

- Melco Resorts has entered into two deeds of guarantee with third parties amounting to US$35,000,000 (equivalent to HK$274,103,000) to guarantee certain payment obligations of the City of Dreams' operations.

- In October 2013, one of the Group's subsidiaries entered into a trade credit facility agreement for HK$200,000,000 ("Trade Credit Facility") with a bank to meet certain payment obligations of the Studio City project. The Trade Credit Facility which matured on 31 August 2017 was further extended to 31 August 2019, and is guaranteed by Studio City Company. As of 31 December 2018, approximately HK$5,000,000 of the Trade Credit Facility had been utilized.

- Melco Resorts Leisure has issued a corporate guarantee of PHP100,000,000 (equivalent to HK$14,854,000) to a bank in respect of a surety bond issued to PAGCOR as disclosed above under the Regular License.

47. OTHER COMMITMENTS (continued)

Litigation

As of 31 December 2018, the Group is a party to certain legal proceedings which relate to matters arising out of the ordinary course of its business. Management believes that the outcome of such proceedings have no material impacts on the Group's consolidated financial statements as a whole.

48. RELATED PARTY TRANSACTIONS

(a) The Group has entered into the following significant transactions with related parties:

	2018 HK$'000	2017 HK$'000
A joint venture and a subsidiary of MECOM: (note)		
Construction cost	79,026	276,277
Consultancy fee expense	91,893	17,317
Purchase of property and equipment	26,777	–

Note:

Mr. Ho Lawrence Yau Lung, a Director, Chairman and Chief Executive Officer of the Company, has a shareholding interest of approximately 20% in MECOM. In July 2018, the Group entered into a term contract with EHY Construction and Engineering Company Limited ("EHY Construction"), a subsidiary of MECOM, pursuant to which EHY Construction agreed to provide certain services to the Group, including but not limited to structural steelworks, civil engineering construction and fitting out and renovation work for a term of three years. The performance by EHY Construction of these services under the term contract is subject to (i) individual work orders as may be issued to EHY Construction from time to time; and (ii) the maximum aggregate contract amount of HK$600,000,000. The amounts included the services provided by EHY Construction of HK$180,395,000 during the year ended 31 December 2018. As of 31 December 2018, the Group had capital commitments contracted but not incurred with a joint venture and a subsidiary of MECOM mainly for the construction for Studio City totaling HK$15,851,000.

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2018 HK$'000	2017 HK$'000
Short-term benefits	112,369	131,717
Post-employment benefits	1,067	188
Share-based compensation	239,844	170,152
	353,280	302,057

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Group's operating results and market standards.

49. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Financial assets

2018

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortized cost HK$'000
Trade receivables*	–	1,899,892
Financial assets included in prepayments, deposits and other receivables*	–	430,474
Bank deposits with original maturities over three months*	–	40,000
Cash and bank balances*	–	11,892,778
Equity investments at fair value through profit or loss**	717,356	–
Restricted cash*	–	543,887
Amount due from an associate*	–	38,645
	717,356	14,845,676

2017

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000
Trade receivables*	1,276,910	–
Financial assets included in prepayments, deposits and other receivables*	557,814	–
Bank deposits with original maturities over three months*	348,741	–
Cash and bank balances*	11,768,251	–
Available-for-sale investments**	–	699,222
Amounts due from related companies*	112	–
Restricted cash*	499,815	–
Amount due from an associate*	46,949	–
	14,498,592	699,222

* These financial assets were previously classified as loans and receivables under HKAS 39 and are classified as financial assets at amortized costs upon the adoption of HKFRS 9 on 1 January 2018.

** The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as equity investments at fair value through profit or loss upon the adoption of HKFRS 9 on 1 January 2018.

49. FINANCIAL INSTRUMENTS (continued)

(a) Categories of financial instruments (continued)

Financial liabilities

	Financial liabilities at amortized cost	
	2018	2017
	HK$'000	HK$'000
Trade payables	198,341	127,720
Financial liabilities included in other payables, accruals and deposits received	6,311,370	6,353,414
Interest-bearing borrowings	38,801,920	34,466,735
Obligations under finance leases	2,255,742	2,328,423
	47,567,373	43,276,292

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposits, other financial assets, bank deposits with original maturities over three months, cash and bank balances, trade and other payables, interest-bearing borrowings and obligations under finance leases. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk, liquidity risk and equity price risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Details of the sensitivity analysis for currency risk, interest rate risk and other price risk are set out below.

Market risk

(i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk. Foreign exchange risk arises from future commercial transactions and recognized monetary assets and liabilities denominated in a currency that is not the functional currency of the relevant group entities. The Group has certain cash and bank balances, trade and other receivables, trade and other payables, interest-bearing borrowings and obligations under finance leases denominated in currencies other than the functional currencies of the relevant group entities.

The Group has not engaged in the hedging transactions with respect to foreign exchange exposure of the revenues and expenses in the day-to-day operations during the years ended 31 December 2018 and 2017. 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.

The Group's foreign currency transactions are mainly denominated in US$.

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

The carrying amounts of the US$-denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
US$	14,376,408	2,673,777	(20,968,887)	(28,849,966)

Sensitivity analysis

The Group is mainly exposed to transactions denominated in US$ against HK$, which is the functional currency of the relevant group entities.

The following table details the Group's sensitivity to a 1% increase or decrease in HK$ against US$. 1% is the sensitivity rate used for US$, when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding US$-denominated monetary items and adjusts their translation at the year end for a 1% change in foreign currency rate.

A positive number below indicates an increase in profit where the HK$ strengthens 1% against US$ and all other variables were held constant. For a 1% weakening of the HK$ against the relevant US$ and all other variables were held constant, there would be an equal and opposite impact on the profit.

	US$ Impact (a) HK$'000
2018: Profit for the year	65,925
2017: Profit for the year	263,281

(a) This is mainly attributable to the exposure on outstanding US$-denominated cash and bank balances, receivables, payables and interest-bearing borrowings at the end of reporting period.

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to borrowings which carried interest at floating rate (see note 34 for details). 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate risk for variable-rate borrowings. The analysis is prepared by assuming the amount of variable-rate borrowings at the end of the reporting period was outstanding for the whole year. 50 basis points is the sensitivity rate used for variable-rate borrowings, when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

The following analyses detail the Group's sensitivity to a 50 basis points increase or decrease on its variable-rate borrowings.

A negative number below indicates a decrease in the Group's profit if interest rate had been 50 basis points higher and all other variables were held constant. If interest rate had been 50 basis points lower and all other variables were held constant, there would be an equal and opposite impact on the profit.

	Borrowings HK$'000
2018: Profit for the year	(91,714)
2017: Profit for the year	(46,832)

Credit risk

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

The Group trades only with recognized and creditworthy third parties. In order to minimize the credit risk on trade receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group issues credit in the form of markers to approved casino customers following investigations of creditworthiness. Credit is also given to its gaming promoters in Macau and the Philippines, which receivables can be offset against commissions payable and front money deposits held by the Group to the respective customers and for which the Group intends to set-off when required. In this regard, the directors of the Company consider that the Group's credit risk is adequately monitored.

As at 31 December 2018, the Group has concentration of credit risk as 18% (2017: 34%) of the Group's trade receivables are due from the Group's five largest customers within the Casino and Hospitality segment. Given the close business relationship between the Group and these customers and their good repayment history, the Group considers that the credit risk associated with these balances is low.

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2018

Credit risk from the financial assets of the Group was mainly composed of cash and cash equivalents, bank deposits with original maturities over three months, restricted cash, trade receivables, financial assets at fair value through profit or loss, deposits, other receivables and amount due from an associate. The carrying amounts of these financial assets represented the maximum exposure to credit risk.

The credit risk on liquid funds, including cash and cash equivalents, bank deposits with original maturities over three months, restricted cash and financial assets at fair value through profit or loss was limited because they were deposited with or purchased from several banks with high credit ratings assigned by international credit-rating agencies. Trade receivables, deposits, other receivables and amount due from an associate were considered as high grade as the Group only trades with recognized and creditworthy parties.

The Group applies the general approach for impairment of these financial assets except for trade receivables and financial assets at fair value through profit or loss. For the year ended 31 December 2018, the credit risks for the financial assets that are subject to impairment under the general approach have not increased significantly since initial recognition and for which the loss allowances are measured at an amount equal to 12-month ECLs. The Group applies the simplified approach for impairment of trade receivables, see note 28.

Maximum exposure as at 31 December 2017

Credit risk from the financial assets of the Group was mainly composed of cash and cash equivalents, bank deposits with original maturities over three months, restricted cash, available-for-sale investments, trade receivables, deposits, other receivables and amount due from an associate. The carrying values of the Group's financial assets represented the maximum exposure to credit risk.

The credit risk on liquid funds, including cash and cash equivalents, bank deposits with original maturities over three months, restricted cash and available-for-sale investments was limited because they were deposited with or purchased from several banks with high credit ratings assigned by international credit-rating agencies.

Trade receivables, deposits, other receivables and amount due from an associate were considered as high grade as the Group only trades with recognized and creditworthy parties.

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity, details of which are set out in note 34. As at 31 December 2018, the Group had available unused banking facilities of HK$2,555,722,000 (2017: HK$12,683,130,000).

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual repayment date or the earliest date that the Group can be required to pay. The amounts disclosed are based on undiscounted cash flows that include principal and interest payments.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	On demand or less than 1 year HK$'000	1 - 2 years HK$'000	2 - 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000
2018						
Trade and other payables	–	6,467,853	31,411	3,203	7,244	6,509,711
Borrowings	5.01%	5,282,713	14,172,585	16,785,658	8,377,695	44,618,651
Obligations under finance leases	13.51%	291,660	321,063	1,087,407	3,654,440	5,354,570
		12,042,226	14,525,059	17,876,268	12,039,379	56,482,932
2017						
Trade and other payables	–	6,325,222	126,424	27,795	1,693	6,481,134
Borrowings	5.58%	3,983,468	6,529,730	23,396,284	8,701,849	42,611,331
Obligations under finance leases	13.52%	279,166	305,892	1,088,156	4,223,493	5,896,707
		10,587,856	6,962,046	24,512,235	12,927,035	54,989,172

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Other price risk

The Group is exposed to equity price risk through its investments in marketable equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is 6% in current year (2017: 6%) which the management considered is a reasonable price fluctuation range.

If the prices of the respective equity security had been 6% (2017: 6%) higher/lower:

- profit for the year ended 31 December 2018 would increase/decrease by HK$43,041,000 (2017: nil) as a result of changes in fair value of the financial assets at fair value through profit or loss which were previously classified as available-for-sale investments; and

- other comprehensive income for the year ended 31 December 2018 would not have increased or decreased (2017: increase/decrease by HK$41,953,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss which were previously classified as available-for-sale investments.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines the fair values of the financial instruments.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of the financial assets are determined.

Fair value hierarchy as at 31 December

	Level 1	
Financial assets	2018 HK$'000	2017 HK$'000
Financial assets at fair value through profit or loss		
Equity securities	717,356	–
Available-for-sale investments		
Equity securities	–	699,222
	717,356	699,222

The fair values of the investments as at 31 December 2018 and 2017 were determined based on quoted market prices in active markets and were classified as Level 1 of the fair value hierarchy.

49. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

(ii) Fair values of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis

The fair values of the financial assets and liabilities that are not measured at fair value on a recurring basis have been assessed by the directors of the Company based on a discounted cash flow analysis.

Based on the results of the assessment, the directors of the Company consider that the carrying amounts of financial assets and liabilities recognized in the consolidated financial statements that are not measured at fair value on a recurring basis approximate their fair values.

50. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which is the interest-bearing borrowings disclosed in note 34, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

	2018 HK$'000	2017 HK$'000
Debt – interest-bearing borrowings (note 34)	38,801,920	34,466,735
Equity attributable to owners of the Company	16,232,230	18,988,887

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the directors' assessment, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchase as well as the issue of new debt or the redemption of existing debt.

51. PARTIALLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of non-wholly-owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Melco Resorts Group	Cayman Islands/ Macau/the Philippines	45.12%	48.78%	1,103,768	610,513	23,977,900	26,323,876
Individually immaterial subsidiaries with non-controlling interests				(26,171)	(22,115)	492,896	539,283
				1,077,597	588,398	24,470,796	26,863,159

51. PARTIALLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

Details of non-wholly-owned subsidiaries that have material non-controlling interests (continued)

The summarized financial information of Melco Resorts Group below represents amounts before intragroup eliminations.

Melco Resorts Group

	2018 HK$'000	2017 HK$'000
Current assets	15,319,098	14,389,720
Non-current assets	85,206,403	61,626,803
Current liabilities	16,699,185	13,203,243
Non-current liabilities	33,611,954	32,270,980

	2018 HK$'000	2017 HK$'000
Revenue	40,436,029	41,095,580
Expenses	38,139,565	39,595,856
Profit for the year	2,296,464	1,499,724
Other comprehensive income for the year	(285,115)	(15,320)
Total comprehensive income for the year	2,011,349	1,484,404
Dividend to non-controlling shareholders	1,012,618	3,088,487

	2018 HK$'000	2017 HK$'000
Net cash inflow from operating activities	8,283,085	10,918,647
Net cash outflow from investing activities	(4,779,193)	(3,191,177)
Net cash outflow from financing activities	(3,173,642)	(10,012,977)
Effect of foreign exchange rate changes	(12,788)	(2,583)
Net cash inflow/(outflow)	317,462	(2,288,090)

52. SUBSEQUENT EVENTS

On 31 December 2018, the Group partially redeemed the outstanding US$825 million 8.5% senior notes due 2020 in aggregate principal amount of US$400 million at a price of 100%, together with accrued interest. On 22 January 2019, the Group initiated a conditional tender offer (the "Conditional Tender Offer") to purchase the remaining US$825 million 8.5% senior note due 2020 in aggregate principal amount of US$425 million (equivalent to HK$3,328,399,000), with accrued interest. The Conditional Tender Offer was conditional with sufficient funding from completion of one or more financing transactions, together with cash on hand. The Conditional Tender Offer expired on 4 February 2019 with US$216.5 million (equivalent to HK$1,695,526,000) aggregate principal amount tendered.

On 11 February 2019, the Group issued US$600 million (equivalent to HK$4,698,917,000) in aggregate principal amount of 7.25% senior notes due 2024 and priced at 100% (the "2019 Studio City Notes"). The net proceeds from the 2019 Studio City Notes was used to fund the Conditional Tender Offer, and to redeem in full the remaining portion of US$825 million 8.5% senior note due 2020 in aggregate principal amount of US$208.5 million (equivalent to HK$1,632,874,000), with accrued interest on 13 March 2019.

53. COMPARATIVE FIGURES

The Group had initially applied HKFRS 15 and HKFRS 9 on 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.2. In addition, certain comparative figures have been reclassified to conform to the current year's presentation as the directors of the Company consider that the new presentation is more relevant and appropriate to the consolidated financial statements.

54. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	3,837,451	3,524,276
Other intangible assets	5,700	5,700
Amounts due from subsidiaries	6,702,765	6,718,801
Total non-current assets	10,545,916	10,248,777
CURRENT ASSETS		
Other receivables, prepayments and deposits	3,918	60,907
Amounts due from subsidiaries	1,710,984	1,145,298
Bank deposits with original maturities over three months	–	193,199
Cash and bank balances	300,560	429,418
Total current assets	2,015,462	1,828,822
CURRENT LIABILITIES		
Other payables	30,737	54,152
Amounts due to subsidiaries	1,642,639	2,839,007
Loan from a subsidiary	4,980	4,980
Dividend payable	37,221	1,056
Interest-bearing borrowings	–	546,000
Total current liabilities	1,715,577	3,445,195
NET CURRENT ASSETS/(LIABILITIES)	299,885	(1,616,373)
TOTAL ASSETS LESS CURRENT LIABILITIES	10,845,801	8,632,404
NON-CURRENT LIABILITIES		
Amount due to a subsidiary	28,901	47,931
Loan from subsidiaries	1,603,855	–
Total non-current liabilities	1,632,756	47,931
Net assets	9,213,045	8,584,473
EQUITY		
Share capital	5,660,191	5,624,135
Reserves (note)	3,552,854	2,960,338
Total equity	9,213,045	8,584,473

The Company's statement of financial position was approved and authorized for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Ho, Lawrence Yau Lung
Director

Evan Andrew Winkler
Director

54. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve HK$'000	Share option reserve HK$'000	Shares held under share award schemes HK$'000	Share award reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	7,053	200,284	(138,466)	22,554	287,957	379,382
Profit for the year	–	–	–	–	3,083,365	3,083,365
Exercise of share options	–	(75,898)	–	–	–	(75,898)
Recognition of equity-settled share-based payments	–	15,540	–	85,113	–	100,653
Transfer of share option reserve upon expiry of share options	–	(2,772)	–	–	2,772	–
Shares vested under the share award schemes	–	–	61,842	(59,770)	(2,072)	–
Purchase of shares for unvested shares under share award schemes	–	–	(91,562)	–	–	(91,562)
Repurchase of shares	–	–	–	–	(371,304)	(371,304)
Dividends paid (note 15)	–	–	–	–	(64,298)	(64,298)
At 31 December 2017 and 1 January 2018	7,053	137,154	(168,186)	47,897	2,936,420	2,960,338
Profit for the year	–	–	–	–	934,088	934,088
Exercise of share options	–	(14,510)	–	–	–	(14,510)
Recognition of equity-settled share-based payments	–	30,944	–	145,062	–	176,006
Transfer of share option reserve upon expiry of share options	–	(5,821)	–	–	5,821	–
Shares vested under the share award schemes	–	–	155,476	(151,301)	(4,175)	–
Repurchase of shares	–	–	–	–	(335,179)	(335,179)
Dividends paid (note 15)	–	–	–	–	(167,889)	(167,889)
At 31 December 2018	7,053	147,767	(12,710)	41,658	3,369,086	3,552,854

FIVE YEARS FINANCIAL SUMMARY

31 December 2018

RESULTS

	For the year ended 31 December				
	2014	2015	2016	2017	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	201,735	395,082	23,852,811	41,180,086	40,724,673
Profit for the year	1,435,127	90,877	9,890,779	1,062,534	1,600,168
Attributable to:					
Owners of the Company	1,487,172	100,924	10,365,940	474,136	522,571
Non-controlling interests	(52,045)	(10,047)	(475,161)	588,398	1,077,597
	1,435,127	90,877	9,890,779	1,062,534	1,600,168

ASSETS AND LIABILITIES

	At 31 December				
	2014	2015	2016	2017	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	14,097,064	14,316,938	103,650,932	98,270,226	98,026,241
Total liabilities	(1,377,526)	(1,538,486)	(46,607,439)	(52,418,180)	(57,323,215)
	12,719,538	12,778,452	57,043,493	45,852,046	40,703,026
Equity attributable to owners of the Company	12,331,656	12,385,837	22,347,746	18,988,887	16,232,230
Non-controlling interests	387,882	392,615	34,695,747	26,863,159	24,470,796
	12,719,538	12,778,452	57,043,493	45,852,046	40,703,026

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Ho, Lawrence Yau Lung
(Chairman and Chief Executive Officer)
Mr. Evan Andrew Winkler
(President and Managing Director)
Mr. Chung Yuk Man, Clarence

Non-executive Directors
Mr. Tsui Che Yin, Frank
Mr. Ng Ching Wo

Independent Non-executive Directors
Mr. Chow Kwong Fai, Edward
Dr. Tyen Kan Hee, Anthony
Ms. Karuna Evelyne Shinsho

EXECUTIVE COMMITTEE

Mr. Ho, Lawrence Yau Lung *(Chairman)*
Mr. Evan Andrew Winkler
Mr. Chung Yuk Man, Clarence
Mr. Geoffrey Stuart Davis*
Mr. Leung Hoi Wai, Vincent*

AUDIT COMMITTEE

Dr. Tyen Kan Hee, Anthony *(Chairman)*
Mr. Ng Ching Wo
Mr. Chow Kwong Fai, Edward

NOMINATION COMMITTEE

Dr. Tyen Kan Hee, Anthony *(Chairman)*
Mr. Ng Ching Wo
Mr. Chow Kwong Fai, Edward

REMUNERATION COMMITTEE

Mr. Chow Kwong Fai, Edward *(Chairman)*
Mr. Ng Ching Wo
Dr. Tyen Kan Hee, Anthony
Ms. Karuna Evelyne Shinsho

CORPORATE GOVERNANCE COMMITTEE

Mr. Ng Ching Wo *(Chairman)*
Dr. Tyen Kan Hee, Anthony
Mr. Leung Hoi Wai, Vincent*

FINANCE COMMITTEE

Mr. Ho, Lawrence Yau Lung *(Chairman)*
Mr. Evan Andrew Winkler
Mr. Chung Yuk Man, Clarence
Mr. Geoffrey Stuart Davis*

REGULATORY COMPLIANCE COMMITTEE

Mr. Ho, Lawrence Yau Lung *(Chairman)*
Mr. Evan Andrew Winkler
Mr. Leung Hoi Wai, Vincent*

COMPANY SECRETARY

Mr. Leung Hoi Wai, Vincent

REGISTERED OFFICE

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The Centrium
60 Wyndham Street
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Hong Kong

* non-voting co-opted members

AUDITOR

Ernst & Young

LEGAL ADVISORS

Gibson, Dunn & Crutcher LLP
King & Wood Mallesons

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