SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2014**

2. Commission identification number **58648** 3. BIR Tax Identification No. **000-410-840-000**

4. Exact name of issuer as specified in its charter
Melco Crown (Philippines) Resorts Corporation

5. Province, country or other jurisdiction of incorporation or organization
Philippines

6. Industry Classification Code: ☐ (SEC Use Only)

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7. Address of issuer's principal office Postal Code
Aseana Boulevard cor. Roxas Boulevard., Brgy. Tambo Paranaque City **1701**

8. Issuer's telephone number, including area code
(02) 866-9888

9. Former name, former address and former fiscal year, if changed since last report
N.A.

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**4,911,480,300**
	Outstanding Debt: ₱15 billion Senior Note

11. Are any or all of the securities listed on a Stock Exchange?

Yes [**X**] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange **Common**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [**X**] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [**X**] No [ ]

TABLE OF CONTENTS

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited condensed consolidated financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 and the audited consolidated balance sheet as of December 31, 2013 and the related notes to unaudited condensed consolidated financial statements of Melco Crown (Philippines) Resorts Corporation (the "**Company**" or "**MCP**") and its subsidiaries (collectively, "**the Group**" or "**we**") are filed as part of this Form 17-Q as Appendix I.

There are no other material events subsequent to the end of this interim period that had not been reflected in the unaudited condensed consolidated financial statements filed as part of this report.

Review of Unaudited Interim Financial Information

The Group's unaudited condensed consolidated financial statements have been reviewed and approved by the Company's Audit Committee and reviewed by the Group's external auditors in accordance with Philippine Standard on Review Engagements ("**PSRE**") 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing and Assurance Standards Council of the Philippines. The Group's unaudited condensed consolidated financial statements are included as part of this Form 17-Q, which have been reviewed and approved by the Company's Board of Directors.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis relate to the consolidated financial information and pre-operating results of the Group and should be read in conjunction with the accompanying consolidated financial statements and related notes of the Group as of September 30, 2014 and December 31, 2013, and for the three and nine months ended September 30, 2014 and 2013.

<u>Overview and Plan of Operation</u>

The Company, through its subsidiaries, is engaged in the development and, upon opening, the operation of an integrated hotel, gaming, retail and entertainment complex within the Bagong Nayong Pilipino-Entertainment City Manila. The Company's subsidiaries, MCE Holdings (Philippines) Corporation ("**MCE Holdings**"), MCE Holdings No. 2 (Philippines) Corporation ("**MCE Holdings No. 2**"), and MCE Leisure (Philippines) Corporation ("**MCE Leisure**"), together with SM Investments Corporation ("**SMIC**"), Belle Corporation ("**Belle**") and PremiumLeisure Amusement, Inc. ("**PLAI**") are the holders of the provisional license ("**Provisional License**") issued by the Philippine Amusement and Gaming Corporation ("**PAGCOR**") for the development of City of Dreams Manila as defined on page 5. The Company is an indirect subsidiary of Melco Crown Entertainment Limited ("**MCE**"), a leading developer of integrated gaming resorts in Macau and other parts of Asia, and its subsidiary, MCE Leisure, is responsible for the furniture, fixtures and equipment (including gaming equipment), working capital expenses, non-real property improvements and personal property, as well as the management and operation of City of Dreams Manila. Belle, one of the largest conglomerates in the Philippines with interests in retail, real estate development and banking, among others, is responsible for construction of the principal structures and fixtures of City of Dreams Manila.

City of Dreams Manila, when it opens in December, with a grand opening planned in the first quarter of 2015, will mark the formal entry of MCE into the fast-growing and dynamic tourism industry in the Philippines. The new integrated casino resort at Entertainment City, Manila Bay, Manila, is being developed and, upon its opening, will be solely operated and managed by MCE Leisure. The dynamic and innovative resort complex, located on an approximately 6.2 hectare site at the gateway to Entertainment City, will include the ultimate in entertainment, hotel, retail and dining and lifestyle experiences with aggregated gaming space, including VIP and mass market gaming facilities with up to approximately 380 gaming tables, 1,700 slot machines and 1,700 electronic table games upon opening. The integrated resort will feature three distinctive entertainment venues, namely Manila's first branded

Family Entertainment Center, a live performance central lounge inside the casino and a night club situated at the Fortune Egg, an architecturally-unique dome-like structure, which will be accented with creative exterior lighting design. It is expected to become an iconic landmark of the Manila Bay area.

City of Dreams Manila is destined to deliver an unparalleled entertainment and hospitality experience to the Philippines and will ultimately play a key role in strengthening the depth and diversity of Manila's leisure, business and tourism offering, enhancing its growing position as one of Asia's premier leisure destinations. It is being developed to specifically meet the needs of the large, rapidly growing and increasingly diverse audience of leisure and entertainment seekers both in the Philippines and those visiting Manila from across the Asia region and around the world.

On October 9, 2013, the Company announced that its new integrated casino resort at Entertainment City, Manila, was branded "City of Dreams Manila".

On January 27, 2014, the Company announced the introduction of internationally acclaimed Nobu Hospitality at City of Dreams Manila marking the first Nobu Hotel in Asia. The Nobu Hotel will feature a Nobu restaurant with the unique cuisine of celebrated Chef Nobu.

Following various amendments to gaming regulations in the Philippines by PAGCOR, with the most recent one dated April 4, 2014, City of Dreams Manila is now anticipated to be able to operate up to approximately 380 gaming tables, 1,700 slot machines and 1,700 electronic table games upon opening.

On May 22, 2014, the Company announced a collaboration with global branded entertainment company DreamWorks Animation (NASDAQ: DWA) to develop the world's first DreamWorks-inspired "Edutainment" center at City of Dreams Manila. In collaboration with DreamWorks Animation, the Group introduced the education-based, interactive entertainment concept, "DreamPlay by DreamWorks", which will be the first of its kind in the world when it opens at City of Dreams Manila.

On June 4, 2014, Hyatt Hotels & Resorts and the Company announced that a Hyatt affiliate and the Company have entered into a management agreement for Hyatt City of Dreams Manila, which will consist of two hotel towers and is expected to open at around the same time as City of Dreams Manila.

On August 18, 2014, the Company announced its collaboration with The Ault Group, the nightclub consulting firm to bring in the world-renowned nightclub brands – Pangaea and Chaos - into City of Dreams Manila.

Currently, the Group has a total manpower of 4,679 employees as of September 30, 2014, from 2,480 employees as of June 30, 2014, which represents an 89% increase in total manpower from the second to the third quarter of the year. The Group is expected to further increase its manpower by 16% at the end of the year, to complete its total manpower complement.

Subsidiaries of MCP and group reorganization

On March 20, 2013, pursuant to the terms of the subscription and share sale agreement, MCP entered into a deed of assignment with MCE (Philippines) Investments Limited ("**MCE Investments**"), whereby MCP acquired all equity interests of MCE Investments in MCE Holdings, consisting of 147,894,500 issued and outstanding common shares with a par value of ₱1.00 per share as of March 20, 2013, at a consideration of ₱7,198,590,000 (the "**Asset Acquisition Transaction**"). MCE Holdings holds 100% direct ownership interests in MCE Holdings No. 2, which in turn holds 100% direct ownership interests in MCE Leisure. As a result of the Asset Acquisition Transaction, the companies in the MCE Holdings Group are wholly-owned subsidiaries of MCP.

As of September 30, 2014 and December 31, 2013, MCP's wholly-owned subsidiaries include the MCE Holdings Group. MCE Holdings, MCE Holdings No. 2 and MCE Leisure were all incorporated in the Philippines and were registered with the SEC on August 13, 2012, August 22, 2012 and August 30, 2012, respectively. The primary purpose of MCE Holdings and MCE Holdings No. 2 is investment holding, while the primary purpose of MCE Leisure is to develop and operate tourist facilities, including City of

Dreams Manila, a hotel casino entertainment complex with hotel, retail and amusement areas and themed development components, which were further expanded to include casino gaming activities.

Activities of the Group

On July 5, 2012, MCE, through its indirect subsidiary, MPEL Projects Limited, entered into a memorandum of agreement (the "**MOA**") with SMIC, SM Land, Inc., SM Hotels and Conventions Corporation, SM Commercial Properties, Inc., and SM Development Corporation (collectively, the "**SM Group**"), Belle and PLAI (collectively, together with the SM Group, the "**Philippine Parties**") for the development of City of Dreams Manila. Further to the MOA, on October 25, 2012, the MCE Holdings Group i) together with certain of its affiliated companies, entered into a closing arrangement agreement (the "**Closing Arrangement Agreement**"); and ii) entered into the cooperation agreement and other related arrangements with the Philippine Parties. MCE Leisure also entered into the lease agreement on October 25, 2012 with Belle for City of Dreams Manila (the "**Lease Agreement**").

On March 13, 2013, the date on which the conditions to closing under the Closing Arrangement Agreement were fulfilled, or waived, the cooperation agreement and the Lease Agreement became effective, with minor changes to the original terms. In addition, the MCE Holdings Group and the Philippine Parties entered into the operating agreement on March 13, 2013, pursuant to which MCE Leisure has been granted the exclusive right to manage, operate and control City of Dreams Manila (the "**Operating Agreement**").

On December 19, 2013, MCE Leisure priced its ₱15 billion aggregate principal amount of senior notes at par, with a maturity date of January 24, 2019 (the "**Senior Notes**"). The issuance of the Senior Notes was completed on January 24, 2014. The net proceeds from the issuance of Senior Notes were used for the development of City of Dreams Manila.

On June 24, 2014, MCP and MCE Investments completed a placing and subscription transaction (the **"2014 Placing and Subscription Transaction"**), under which MCE Investments offered and sold in a private placement to various institutional investors 485,177,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱11.30 per share (the **"2014 Offer"**). MCE Investments then used the proceeds from the 2014 Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱ 11.30 per share. The issued common shares of MCP increased from 4,426,303,300 to 4,911,480,300 after the 2014 Placing and Subscription Transaction. We applied the proceeds of the subscription transaction (after payment of fees and other expenses relating to the transaction) to fund the development of City of Dreams Manila, including payment for gaming equipment purchases, fit-out work and other various initial opening costs, such as pre-opening costs and working capital as well as for several corporate purposes.

<u>Pre-Operating Results</u>

The following will be the key performance indicators of the Group when it starts commercial operations in 2014:

a. Adjusted EBITDA: Earnings before interest, taxes, depreciation, amortization, pre-opening costs, development costs, property charges and others, share-based compensation, and other non-operating income and expenses.

b. Revenue Growth: Measures the percentage change in revenue over a period of time. It is regularly monitored on a per product and per client basis.

c. Net Income: Measures the profitability of the Group.

d. Basic Earnings Per Share: Measures how much a stockholder earns in the Net Income of the Group. Basic Earnings per share is calculated by dividing Net Income by the weighted number of common shares issued and outstanding during a particular period of time.

e. Rolling chip volume: the amount of non-negotiable chips wagered and lost by the rolling chip market segment.

f. Rolling chip win rate: rolling chip table games win as a percentage of rolling chip volume.

g. Mass market table games drop: the amount of table games drop in the mass market table games segment.

h. Mass market table games hold percentage: mass market table games win as a percentage of mass market table games drop.

i. Table games win: the amount of wagers won net of wagers lost on gaming tables that is retained and recorded as casino revenues.

j. Gaming machine handle: the total amount wagered in gaming machines (including both slot machines and electronic table games).

k. Gaming machine win rate: gaming machine win expressed as a percentage of gaming machine handle.

l. Average daily rate: calculated by dividing total room revenues (less service charges, if any) by total rooms occupied, i.e., average price of occupied rooms per day.

m. Occupancy rate: the average percentage of available hotel rooms occupied during a period.

n. Revenue per available room, or REVPAR: calculated by dividing total room revenues (less service charges, if any) by total rooms available, thereby representing a combination of hotel average daily room rates and occupancy.

These performance indicators are not applicable as of September 30, 2014 when the Company and the Group had no commercial operations.

<u>Pre-Operating Results for the Three Months Ended September 30, 2014 Compared to the Three Months ended September 30, 2013</u>

The following table shows a summary of the pre-operating results of the Group for the three months ended September 30, 2014 and the three months ended September 30, 2013 as derived from the accompanying consolidated financial statements:

	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	% Change
Revenue (₱000)	26,829	26,901	0%
Operating costs and expenses (₱000)	(1,391,585)	(336,977)	313%
Non-operating expenses, net (₱000)	(424,908)	(374,019)	14%
Net loss (₱000)	(1,789,664)	(684,095)	162%
Basic/diluted loss per share (₱)	(0.36)	(0.15)	140%

We are currently in the development stage, and as a result, there is no revenue and cash provided by our intended operations, except for a management fee income from MCE as discussed below. Accordingly, the activities reflected in our consolidated statements of comprehensive income mainly relate to operating costs and expenses and non-operating income (expenses) including general and administrative expenses, pre-opening costs, development costs, property charges and others, amortization of contract acquisition costs, depreciation, interest income, interest expenses – net of capitalized interest, other finance fees, foreign exchange loss – net and amortization of deferred financing costs. Consequently, as is typical for a development stage company, we have incurred losses to date and expect these losses to continue to increase until we commence commercial operations with the planned opening of City of Dreams Manila which is expected in December, with a grand opening planned in the first quarter of 2015.

Consolidated comprehensive loss for the three months ended September 30, 2014 was ₱1,789.7 million, an increase of ₱1,105.6 million, or 162%, compared to ₱684.1 million for the three months ended September 30, 2013, which is primarily related to pre-opening costs, property charges and others, general and administrative expenses, as well as the interest expenses (net of capitalized interest) as a result of continuous development of City of Dreams Manila.

Revenue

Revenue for the three months ended September 30, 2014 and 2013 amounted to ₱26.8 million and ₱ 26.9 million respectively, primarily representing the reimbursement for the share-based compensation costs for certain MCP directors, based on the share incentive plan launched in June 2013, recharged to MCE.

Operating costs and expenses

Total operating costs and expenses were ₱1,391.6 million for the three months ended September 30, 2014, representing an increase of ₱1,054.6 million, from ₱337.0 million for the three months ended September 30, 2013. The increase in operating costs was mainly related to the pre-opening costs, property charges and others, as well as depreciation, which are further discussed below.

General and administrative expenses for the three months ended September 30, 2014 amounted to ₱ 25.6 million, as compared to ₱29.3 million for the three months ended September 30, 2013. The decrease was primarily due to a lower legal and professional fee for corporate matters, which were offset in part by a higher tax and license fees for the documentary stamp duty related to increase in share capital of the MCE Holdings Group companies, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

Amortization of contract acquisition costs for the three months ended September 30, 2014 and 2013 remained stable at ₱13.0 million for both periods and represented the consideration paid to Belle for the termination of various agreements with a third party in accordance with the Closing Arrangement Agreement and this amount is amortized over the term of the Operating Agreement.

Pre-opening costs were ₱1,172.2 million for the three months ended September 30, 2014, as compared to ₱294.5 million for the three months ended September 30, 2013, primarily related to staff cost, consultancy fee in consideration for share awards, project management fee charged from MCE or its subsidiaries, share-based payments, rental expenses, advertising and marketing expenses, legal and other professional fee for pre-operating corporate matters as well as other operating expenses incurred during the period. The increase in pre-opening costs were mainly attributable to (i) increase in staff cost by ₱732.3 million, which was in line with the increase in headcount; (ii) an increase of ₱41.8 million in rental expenses mainly due to rental of additional office/training space and office furniture; (iii) an increase of ₱29.4 million in repair and maintenance expenses; (iv) an increase of ₱11.8 million in advertising and marketing expenses as a result of more public relation events for City of Dreams Manila Project held during the quarter; (v) an increase of ₱7.1 million in project management fee; (vi) net increase in others by ₱55.3 million, mainly for security services, communication and office supplies, which was in line with the active development of City of Dreams Manila.

Property charges and others were ₱155.2 million for the three months ended September 30, 2014 and represented the damaged furniture, fixtures and equipment being written off as a result of the typhoon in July 2014.

Non-operating expenses, net

Interest income of ₱7.9 million for the three months ended September 30, 2014, as compared to ₱19.7 million for the three months ended September 30, 2013, represented the bank interest income mainly generated from short-term fixed deposits. The decrease was primarily due to less deposits being placed during the quarter.

Interest expenses (net of capitalized interest) amounted to ₱449.3 million for the three months ended September 30, 2014, as compared to ₱387.8 million for the three months ended September 30, 2013. The increase was primarily due to the full quarter recognition of interest expense on Senior Notes issued on January 24, 2014. The interest expenses for the three months ended September 30, 2013 represented interest on obligation under finance lease in relation to a Lease Agreement of the building with Belle.

Other finance costs amounted to ₱12.4 million for the three months ended September 30, 2014, representing the gross receipt tax in relation to the interest payment of Senior Notes issued in January 2014. No such cost in 2013.

Amortization of deferred financing costs amounted to ₱15.6 million for the three months ended September 30, 2014, relating the Senior Notes issued in January 2014. There were no such costs in 2013.

Foreign exchange gain (loss) – net of ₱44.4 million for the three months ended September 30, 2014 mainly resulted from the translation of foreign currency denominated bank balances and payables at the period end closing rate. Because Philippine Peso depreciated against H.K. Dollar and U.S. Dollar during the three months period, therefore foreign exchange gain resulted for the three months ended September 30, 2014 as a result of the foreign exchange revaluation on the USD denominated bank accounts, which were offset in part by foreign exchange revaluation on foreign currencies payables during the quarter.

Pre-Operating Results for the Nine Months Ended September 30, 2014 Compared to the Nine Months ended September 30, 2013

The following table shows a summary of the pre-operating results of the Group for the nine months ended September 30, 2014 and the nine months ended September 30, 2013 as derived from the accompanying consolidated financial statements:

	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013	% Change
Revenue (₱000)	71,835	26,901	167%
Operating costs and expenses (₱000)	(2,654,111)	(746,734)	255%
Non-operating expenses, net (₱000)	(1,607,769)	(975,381)	65%
Net loss (₱000)	(4,190,045)	(1,695,214)	147%
Basic/diluted loss per share (₱)	(0.91)	(0.58)	57%

Consolidated comprehensive loss for the nine months ended September 30, 2014 was ₱4,190.0 million, an increase of ₱2,494.8 million, or 147%, from ₱1,695.2 million for the nine months ended September 30, 2013, which is primarily related to pre-opening costs, general and administrative expenses, property charges and others, as well as the interest expenses (net of capitalized interest) as a result of continuous development of City of Dreams Manila.

Revenue

Revenue for the nine months ended September 30, 2014 amounted to ₱71.8 million, primarily representing the reimbursement for the share-based compensation costs for certain MCP directors, based on the share incentive plan launched in June 2013, recharged to MCE.

Operating costs and expenses

Total operating costs and expenses were ₱2,654.1 million for the nine months ended September 30, 2014, representing an increase of ₱1,907.4 million, compared to ₱746.7 million for the nine months ended September 30, 2013. The increase in operating costs were mainly related to the pre-opening costs, depreciation, property charges and others, as well as amortization of contract acquisition costs, which were partially offset by the decrease in general and administrative expenses and development costs, which were further discussed below.

General and administrative expenses for the nine months ended September 30, 2014 amounted to ₱76.3 million, as compared to ₱132.8 million for the nine months ended September 30, 2013. The decrease was primarily due to the higher non-recurring documentary stamp duty and SEC filing fee related to increase in share capital of the MCE Holdings Group companies, as well as the legal and other professional fees incurred for the project funding during the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2014.

Amortization of contract acquisition costs for the nine months ended September 30, 2014 and 2013 amounted to ₱39.1 million and ₱30.4 million, respectively. The increase was due to the full period effect when compared to the nine months ended September 30, 2013.

Development costs for the nine months ended September 30, 2013 amounted to ₱95.1 million, which is primarily consisted of legal and other professional fees incurred during the closing of the Closing Arrangement Agreement, as well as certain regulatory fees. There were no such fees incurred for the nine months ended September 30, 2014.

Pre-opening costs were ₱2,335.1 million for the nine months ended September 30, 2014, as compared to ₱488.3 million for the nine months ended September 30, 2013, which is primarily related to staff cost, consultancy fee in consideration for share awards, project management fee charged from MCE or its subsidiaries, share-based payments, land rental charges on the Lease Agreement with Belle, as well as legal and other professional fees for pre-operating corporate matters incurred during the period. The increase in pre-opening costs were mainly attributable to (i) increase in staff costs by ₱1,266.2 million, which was in line with the increase in headcount; (ii) an increase of ₱235.5 million share-based compensation for consultants and employees as a result of full period effect of share-based compensation for the share options and restricted shares granted in June 2013, as well as the full period expenses for the newly granted share options and restricted shares on May 30, 2014; (iii) an increase of ₱52.0 million in repair and maintenance expenses; (iv) an increase of ₱130.7 million in rental expenses mainly due to rental of additional office/training space and office furniture; (v) an increase of ₱43.5 million in advertising and marketing expenses as a result of more public relation events for City of Dreams Manila Project held during the period; (vi) net increase in others by ₱118.9 million, mainly for security services, travel and entertainment, communication and office supplies, which was in line with the active development of City of Dreams Manila.

Property charges and others were ₱155.2 million for the nine months ended September 30, 2014 and represented the damaged furniture, fixtures and equipment being written off as a result of the typhoon in July 2014.

Non-operating expenses, net

Interest income of ₱37.3 million for the nine months ended September 30, 2014, as compared to ₱33.7 million for the nine months ended September 30, 2013, represented the bank interest income mainly generated from short-term fixed deposits. There was no material fluctuation noted.

Interest expenses (net of capitalized interest) amounted to ₱1,476.5 million for the nine months ended September 30, 2014, as compared to ₱950.4 million for the nine months ended September 30, 2013. The increase was primarily due to the recognition of interest expense on Senior Notes issued on January 24, 2014 since the first quarter amounted to ₱645.8 million. The interest expense for the nine months ended September 30, 2013 represented interest on obligation under finance lease in relation to the Lease Agreement of the building with Belle.

Other finance costs amounted to ₱33.0 million for the nine months ended September 30, 2014, representing the gross receipt tax in relation to the interest payment of Senior Notes issued in January 2014. No such cost in 2013.

Amortization of deferred financing costs amounted to ₱41.7 million for the nine months ended September 30, 2014, representing deferred financing costs capitalized for the Senior Notes which effective from January 2014. There were no such costs in 2013.

Foreign exchange loss – net of ₱93.9 million for the nine months ended September 30, 2014 mainly due to the translation of foreign currency denominated bank balances and payables at the period end closing rate. Because Philippine Peso fluctuated against H.K. Dollar and U.S. Dollar during the nine months period, foreign exchange loss increased by ₱19.7 million from ₱74.2 million for the nine months ended September 30, 2014 as a result of the foreign exchange revaluation on foreign currencies payables/USD denominated bank accounts during the period.

Trends, Events or Uncertainties Affecting Recurring Revenues and Profits

Upon commencement of the business and operation of City of Dreams Manila, the Group will be exposed to a number of trends, events and uncertainties, which can affect its recurring revenues and profits. These include levels of general economic activity, as well as certain cost items, such as operating cost, taxes, labor, fuel and power. The Group will collect revenues and pay expenses in various currencies and the appreciation and depreciation of other major currencies against the Philippine peso may have a negative impact on the Group's reported levels of revenues and profits.

Financial Condition and Balance Sheets

Significant change in the consolidated balance sheets of the Company as of September 30, 2014 versus December 31, 2013 mainly included:

(i) The issuance of the Senior Notes by MCE Leisure on January 24, 2014, which was priced at par, with an interest rate of 5.00% per annum and a maturity date of January 24, 2019.
(ii) The 2014 Placing and Subscription Transaction by MCE Investments, which offered and sold 485,177,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱11.30 per share, on June 24, 2014.
(iii) On May 30, 2014, MCP has granted to certain employees and directors of the Company and MCP and other eligible participants under the share incentive plan of MCP (the "**Share Incentive Plan**") (i) share options to subscribe for a total of 4,861,003 common shares with a par value of ₱1.00 each of MCP (the "**MCP Shares**") and (ii) restricted shares in respect of a total of 4,738,684 MCP Shares, pursuant to the MCP Share Incentive Plan.

The consolidated balance sheet of the Company as of September 30, 2014, with variance of plus or minus 5% against of December 31, 2013, is discussed as follows:

In thousands of Philippine peso, except % change data	**September 30, 2014**	**December 31, 2013**	**% Change**
Current assets	14,956,636	8,996,407	66%
Noncurrent assets	32,567,201	19,146,328	70%
Total assets	47,523,837	28,142,735	69%
Current liabilities	6,043,219	3,481,369	74%
Noncurrent liabilities	26,579,182	11,327,675	135%
Total liabilities	32,622,401	14,809,044	120%
Equity	14,901,436	13,333,691	12%

Current assets

Cash and cash equivalents increased by ₱4,696.6 million, which is the net result of the net proceeds from issuance of the Senior Notes and 2014 Placing and Subscription Transaction, partially offset by the payments made for the capital and operating expenditures during the period presented.

Prepayments and other current assets increased by ₱1,256.5 million, which was primarily due to the increase in (i) input VAT mainly arising from the payments of constructions costs and rental expenses; (ii) prepaid staff benefits primarily related to housing allowances and (iii) increase in others (mainly for prepaid marketing service fee for grand opening; prepaid maintenance costs, rental expenses and insurance, etc.).

Inventories increased by ₱7.1 million, which mainly consist of retail merchandise, food and beverage items and certain operating supplies for opening.

Noncurrent assets

Property and equipment increased by ₱11,097.9 million, mainly due to the additional capital expenditures mainly in construction in progress of ₱8,560.1 million and recognition of operating equipment of ₱2,755.4 million incurred during the nine months ended September 30, 2014, which were partially offset by the write off of damaged operating equipment of ₱155.2 million as a result of typhoon in July 2014, a cost reduction of ₱3.7 million as a result of finance leased asset buy back and depreciation of ₱58.7 million for these operating equipment during the period.

Contract acquisition costs decreased by ₱39.1 million, mainly due to the amortization for the nine months ended September 30, 2014.

Other intangible assets representing the license fees incurred for the right to the use of certain third party trademarks for City of Dreams Manila. The balance remained stable as at September 30, 2014 as compared to December 31, 2013.

Other noncurrent assets increased by ₱2,320.6 million primarily due to (i) the recognition of advance payment and deposit for property and equipment of ₱2,267.7 million; (ii) increase in security and rental deposits and other non-current deposits of ₱60.1 million, mainly for electricity supply and tour and transportation service for opening, both deposits to be refunded upon termination of such service; (iii) the long term prepayment on license fee of ₱16.8 million mainly pertaining to the usage of Information Technology ("**IT**") software and certain license; which are offset in part by (iv) the netting-off of deferred financing costs of ₱20.9 million with Senior Notes in January 2014.

The ₱21.6 million increase in restricted cash resulted from the depreciation of Philippine Peso against the U.S. Dollar. Therefore more Philippine Peso are required to fulfill the US$50 million minimum requirement on the escrow account as required under the Provisional License granted by PAGCOR.

Current liabilities

Accrued expenses, other payables and other current liabilities increased by ₱2,244.6 million, which is mainly related to increase in accruals for fit-out construction costs by ₱1,586.4 million, increase in interest expenses and other finance costs payable of ₱150.5 million as a result of the aforesaid issuance of the Senior Notes, increase in accruals for staff costs of ₱313.9 million, as well as a net increase in others of ₱193.8 million.

Current portion of obligations under finance lease is comprised of the building lease portion. It represented the lease payments that are due within one year. The increase during the period was due to (i) the finance lease charges of ₱794.3 million recognized during the period, partially offset by the lease payments made of ₱735.5 million during the period and the termination of the obligation under finance leases for IT infrastructure service in August 2014 with the remaining obligation of ₱39.9 million (including the reclassification of the long term obligation of ₱33.6 million made in June 2014).

Amounts due to affiliated companies, ultimate holding company and immediate holding company increased by ₱258.4 million, which primarily resulted from project management fee and payroll recharged from affiliates/holding companies, as well as funds advance from MCE Investments, which partially offset by the share-based compensation costs for MCP directors recharged to MCE, during the nine months ended September 30, 2014. Please refer to Note 15 to the unaudited condensed consolidated financial statements for the nature and details of the related party transactions for the nine months ended September 30, 2014.

Noncurrent liabilities

Non-current portion of obligations under finance lease increased by ₱503.2 million. It represented the lease payments that are due more than one year.

Long-term debt of ₱14.7 billion representing the Senior Notes which will mature in 2019 and priced at par of 100% of the principal amount of ₱15.0 billion, net with ₱310.5 million unamortized deferred financing costs, and offered to certain primary institutional lenders as noteholders through a private placement in the Philippines, issued on January 24, 2014.

Deferred rent liability represented the difference between the amount of effective rent on leased land recognized in the consolidated statement of comprehensive income and actual payment made throughout the lease periods. The amount is not expected to be reversed within one year.

Other non-current liability represented the retail tenants' deposits which are due more than one year.

Equity

Capital stock and additional paid-in capital increased by ₱ 485.2 million and ₱ 4,890.7 million, respectively, as of September 30, 2014 as compared to December 31, 2013, which was mainly due to the aforesaid 2014 Placing and Subscription Transaction.

Share-based compensation reserve increased by ₱381.9 million mainly due to the recognition of share-based payments during the nine months ended September 30, 2014.

Equity reserve consisted of the net difference between the cost of MCP to acquire MCE Holdings Group and the legal capital of the latter at the date of reverse acquisition, plus the retained earnings of MCP as of December 19, 2012, the date when MCP was acquired by MCE. The amount remained unchanged as of September 30, 2014 as compared to December 31, 2013.

Deficit increased by ₱4,190.0 million to ₱6,703.2 million as of September 30, 2014, from ₱2,513.2 million as of December 31, 2013, which was solely due to the net loss recognized during the nine months ended September 30, 2014.

<u>Liquidity and Capital Resources</u>

The table below shows the Group's consolidated cash flows for the nine months ended September 30, 2014 and 2013, respectively:

	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013	% Change
In thousands of Philippine peso, except % change data			
Net cash used in operating activities	(2,673,978)	(472,491)	466%
Net cash used in investing activities	(11,336,957)	(12,058,719)	-6%
Net cash provided by financing activities	18,818,883	21,926,149	-14%
Effect of foreign exchange on cash and cash equivalents	(111,368)	504	-22197%
Net increase in cash and cash equivalents	4,696,580	9,395,443	-50%
Cash and cash equivalents at beginning of period	8,599,842	1,152,022	646%
Cash and cash equivalents at end of period	13,296,422	10,547,465	26%

Cash and cash equivalents increased by 26% as of September 30, 2014 compared to December 31, 2013 mainly due to the net effect of the following:

- For the nine months ended September 30, 2014, the Group registered negative cash flow from operating activities of ₱2,674.0 million primarily due to a continuous development of City of Dreams Manila as discussed aforesaid sections.

- Net cash used in investing activities amounted to ₱11,337.0 million for the nine months ended September 30, 2014, which primarily includes: (i) capital expenditure payments of ₱7,825.8 million; and (ii) advance payment and deposit for acquisition of property and equipment of ₱ 3,487.2 million, (iii) an increase in restricted cash of ₱21.6 million for the escrow account as discussed in the foregoing.

- Net cash provided by financing activities for the nine months ended September 30, 2014 mainly represented: (i) net proceeds from the 2014 Placing and Subscription Transaction of ₱5,380.5 million; (ii) proceeds from the issuance of Senior Notes of ₱15,000 million; partially offset by (iii) payment of deferred financing costs related to the issuance of Senior Notes of ₱325.6 million; (iv) payment for transaction costs of issuance of share capital during the year ended December 31, 2013 of ₱6.1 million during the nine months ended; (v) repayments of obligations under the finance lease of ₱737.5 million and (vi) interest and other finance fee payments for Senior Notes of ₱492.7 million.

The table below shows the Group's capital resources as of September 30, 2014 and December 31, 2013:

	As of September 30, 2014	As of December 31, 2013	% Change
In thousands of Philippine peso, except % change data			
Long-term debt	14,689,511	-	**N/A**
Equity	14,901,436	13,333,691	**12%**
	29,590,947	13,333,691	**122%**

Total long-term debt and equity increased by 122% to ₱29,590.9 million as of September 30, 2014, from ₱13,333.7 million as of December 31, 2013. The increase was due to (i) the 2014 Placing and Subscription Transaction in June 2014; (ii) the issuance of the Senior Notes; (iii) recognition of share-based compensation reserve of ₱381.9 million; partially offset by (iv) the net loss of ₱4,190.0 million during the nine months ended September 30, 2014.

On January 24, 2014, MCE Leisure completed the issuance of the Senior Notes, which was priced at par, with an interest rate of 5.00% per annum and a maturity date of January 24, 2019. The interest on Senior Notes includes a tax gross up provision requiring MCE Leisure to pay without any deduction or withholding for or on account of tax. We intend to use the net proceeds from the issuance of the Senior Notes for the development of City of Dreams Manila.

The Senior Notes will be general obligations of MCE Leisure, will rank equally with all of MCE Leisure's existing and future senior indebtedness (save and except for any statutory preferences or priority) and will rank senior to all of MCE Leisure's existing and future subordinated indebtedness. The Senior Notes will be guaranteed by MCE, MCP and all present and future direct and indirect subsidiaries of MCP (subject to certain limited exceptions) on a senior basis. In addition, the Senior Notes will be secured by pledge of shares of all present and future direct and indirect subsidiaries of MCP.

On June 24, 2014, MCP and MCE Investments completed the 2014 Placing and Subscription Transaction, under which MCE Investments offered and sold in a private placement to various institutional investors 485,177,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱11.30 per share. MCE Investments then used the proceeds from the 2014 Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱11.30 per share. The aggregate net proceeds from aforementioned equity transactions, after deducting the underwriting commissions and other expenses of ₱106.6 million, was ₱5,375.9 million.

Risks Related to Financial Instruments

The Group has financial assets and financial liabilities such as cash and cash equivalents, amount due from a shareholder, deposits and receivables, restricted cash, accrued expenses, other payables and other current liabilities, amount due to ultimate holding company, amount due to immediate holding company, amounts due to affiliated companies, obligations under finance lease, long-term debt and interest expenses payable on long-term debt, which arise directly from its operation.

The main risks arising from the Group's financial instruments as of and for nine months ended September 30, 2014 are interest rate risk, credit risk, liquidity risk and foreign exchange risk. Management reviews and approves policies for managing each of these risks. Refer to Note 22 to the unaudited condensed consolidated financial statements for detail.

Other Financing and Liquidity Matters

We may obtain financing in the form of, among other things, equity or debt, including additional bank loans or high yield, mezzanine or other debt, or rely on our operating cash flow to fund the development of City of Dreams Manila. We are a growing company with significant financial needs. We expect to have significant capital expenditures in the future as we continue to develop City of Dreams Manila.

We have relied and intend in the future to rely on our operating cash flow and different forms of financing to meet our funding needs and repay our indebtedness, as the case may be.

The timing of any future debt and equity financing activities will be dependent on our funding needs, our development and construction schedule, the availability of funds on acceptable terms to us, and prevailing market conditions. We may carry out activities from time to time to strengthen our financial position and ability to better fund our business expansion. Such activities may include refinancing existing debt, monetizing assets, sale-and-leaseback transactions or other similar activities.

The total budget for the City of Dreams Manila project up to the time of opening is estimated to be approximately ₱37 billion (or US$832.0 million based on an exchange rate of US$1.00 to ₱44.50), consisting of funds primarily for capital expenditures, working capital for initial opening and other pre-opening expenses. However, this estimate may be revised depending on a range of variables, including the final design and development plans, funding costs, the availability of financing on terms acceptable to us, and prevailing market conditions.

The development of City of Dreams Manila may be subject to further financing and a number of other factors, many of which are beyond our control. Our investment plans are preliminary and subject to change based upon the execution of our business plan, the progress of our capital projections, market conditions and outlook on future business.

As of September 30, 2014, we had capital commitments mainly for the fit-out construction costs of City of Dreams Manila totaling ₱6,180.2 million including advance payment for construction costs of ₱668.1 million. For further details on our commitments and contingencies, please refer to Note 21 to the unaudited condensed consolidated financial statements included in this quarterly report.

CAUSES FOR ANY MATERIAL CHANGES FROM PERIOD TO PERIOD OF FS WHICH SHALL INCLUDE VERTICAL AND HORIZONTAL ANALYSIS OF ANY MATERIAL ITEM (5%)

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of Philippine peso, except % change data)

			VERTICAL ANALYSIS		HORIZONTAL ANALYSIS	Causes of Material Changes
					% of Change in	
	September 30,	December 31,	% to Total Assets		Prior Period	(With 5% as a Threshold)
ASSETS	**2014**	2013	**2014**	2013	**2014**	
Current assets						
Cash and cash equivalents	13,296,422	8,599,842	28%	31%	55%	The increase is attributed to the net result of the net proceeds from issuance of Senior Notes and 2014 Placing and Subscription Transaction, partially offset by the payments made for the capital and operating expenditures.
Prepayments and other current assets	1,647,683	391,140	3%	1%	321%	The increase is attributable to the increase in (i) input VAT mainly arising from the payments of constructions costs and rental expenses; (ii) prepaid staff benefits primarily related to housing allowances, (iii) increase in others (mainly for prepaid marketing service fee for opening; prepaid maintenance costs, rental expenses and insurance, etc).
Amount due from a shareholder	5,425	5,425	0%	0%	0%	
Inventory	7,106	-	0%	0%	N/A	Balance mainly consist of retail merchandise, food and beverage items and certain operating supplies for opening.
Total current assets	14,956,636	8,996,407	31%	32%	66%	
Noncurrent assets						
Property and equipment	26,092,899	14,995,010	55%	53%	74%	The increase is attributable to the continuous development of City of Dreams Manila.
Contract acquisition costs	981,081	1,020,151	2%	4%	-4%	
Other intangible assets	8,698	8,698	0%	0%	0%	
Other noncurrent assets	3,216,380	895,795	7%	3%	259%	The increase is mainly attributable to the recognition of advance payment and deposit for acquisition of property and equipment, security and rental deposits and other non-current deposits mainly for electricity supply and tour and transportation service for opening; offset in part by the netting-off of deferred financing costswith Senior Notes in January 2014.
Restricted cash	2,248,300	2,226,674	5%	8%	1%	The increase was mainly resulted from the depreciation of PHP against USD and therefore more PHP are required to fulfill the US$50m minimum requirement on the escrow account.
Deferred tax asset	19,843	-	0%	0%	N/A	
Total noncurrent assets	32,567,201	19,146,328	69%	68%	70%	
Total assets	**47,523,837**	**28,142,735**	100%	100%	69%	

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of Philippine peso, except % change data)

	September 30, 2014	December 31, 2013	VERTICAL ANALYSIS % to Total Assets 2014	2013	HORIZONTAL ANALYSIS % of Change in Prior Period 2014	Causes of Material Changes (With 5% as a Threshold)
LIABILITIES AND EQUITY						
Current liabilities						
Accrued expenses, other payables and other current liabilities	3,163,027	918,389	7%	3%	244%	The increase is primarily attributable to the increase in accruals for fit-out construction costs, increase in interest expenses payables as a result of the issuance of Senior Notes as well as increase in accruals for staff costs and others.
Current portion of obligations under finance lease	1,266,016	1,214,187	3%	4%	4%	The increase was primarily due to the finance lease charges recognized during the period, partially offset by the lease payments made for the building lease with Belle during the period.
Amount due to ultimate holding company	69,685	107,787	0%	0%	-35%	The increase is resulted from project management
Amount due to immediate holding company	896,219	887,415	2%	3%	1%	fee and payroll recharged from affiliates/holding
Amounts due to affiliated companies	641,317	353,591	1%	1%	81%	companies as well as funds advance from MCE
Income tax payable	6,955	-	0%	0%	N/A	
Total current liabilities	6,043,219	3,481,369	13%	12%	74%	
Noncurrent liabilities						
Long-term debt	14,689,511	-	31%	0%	N/A	The increase was due to the issuance of Senior Notes in January 2014, net of unamortized deferred financing cost.
Noncurrent portion of obligations under finance lease	11,771,516	11,268,283	25%	40%	4%	The increase represents the finance lease charges recognized during the period for the building lease portion.
Deferred rent liability	106,298	59,392	0%	0%	79%	The increase represents the difference between the amount of effective rent and the actual payment.
Other non-current liabilities	11,857	-	0%	0%	N/A	The increase represents the retail tenants rental deposits.
Total noncurrent liabilities	26,579,182	11,327,675	56%	40%	135%	
Equity						
Capital stock	4,911,480	4,426,303	10%	17%	11%	The increase is attributable to the 2014 Placing
Additional paid-in capital	19,647,157	14,756,430	42%	52%	33%	and Subscription Transaction completed during
Share-based compensation reserve	660,037	278,151	1%	1%	137%	The increase is attributable to recognition of share-based payments during the nine months ended September 30, 2014.
Equity reserve	(3,613,990)	(3,613,990)	-8%	-13%	0%	The amount represents the net difference between the cost of MCP to acquire MCE Holdings Group and the legal capital of the latter at the date of reverse acquisition plus the retained earnings of MCP.
Accumulated deficits	(6,703,248)	(2,513,203)	-14%	-9%	167%	The increase is due to the net loss recognized during the period.
Total equity	14,901,436	13,333,691	31%	48%	12%	
Total equity and liabilities	**47,523,837**	**28,142,735**	100%	100%	69%	

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of Philippine peso except % change data and Basic/diluted Loss per Share)

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	VERTICAL ANALYSIS % to Revenues 2014	VERTICAL ANALYSIS % to Revenues 2013	HORIZONTAL ANALYSIS % of Change in Prior Period 2014	Causes of Material Changes (With 5% as a Threshold)
Revenue						
Management fee income	26,829	26,901	100%	100%	0%	
Operating costs and expenses						
General and administrative expenses	(25,568)	(29,280)	-95%	-109%	-13%	The decrease was primarily due to a higher legal and professional fee for corporate matters incurred for Q3'2013 as compared to Q3'2014.
Pre-opening costs	(1,172,195)	(294,484)	-4369%	-1095%	298%	The increase is attributable to the continuous development of City of Dreams Manila.
Amortization of contract acquisition costs	(13,023)	(13,023)	-49%	-48%	0%	
Depreciation	(25,606)	(190)	-95%	-1%	13377%	The increase is attributable to the increase in furniture, fixture and equipment which were already in use.
Property charges and others	(155,193)	-	-578%	0%	N/A	Property charges and others represented the damaged furniture, fixtures and equipment being written off as a result of the typhoon in July 2014.
Total operating costs and expenses	(1,391,585)	(336,977)	-5187%	-1253%	313%	
Non-operating income (expenses)						
Interest income	7,899	19,732	29%	73%	-60%	The decrease is attributable to less short-term fixed deposits being placed at the bank during the Q3'14 as compared to Q3'13.
Interest expenses, net of capitalized interest	(449,265)	(387,788)	-1675%	-1442%	16%	The increase is attributable to the interest on Senior Notes issued in January 2014, partially offset by a higher capitalized interest.
Other finance costs	(12,378)	-	-46%	0%	N/A	The increase is attributable to the gross receipt tax in relation to Senior Notes issued in January 2014.
Foreign exchange gain (loss), net	44,394	(5,963)	165%	-22%	-844%	The current period gain is attributable to the depreciation of Philippine Peso against U.S. Dollar.
Amortization of deferred financing costs	(15,558)	-	-58%	0%	N/A	
Total non-operating expenses, net	(424,908)	(374,019)	-1584%	-1390%	14%	
Net loss	(1,789,664)	(684,095)	-6671%	-2543%	162%	
Other comprehensive income	-	-	0%	0%	N/A	
Total comprehensive loss	(1,789,664)	(684,095)	-6671%	-2543%	162%	The increase is attributable to the increase in pre-opening costs, property charges and others and depreciation as discussed above.
Basic/diluted loss per share	(₱ 0.36)	(₱ 0.15)	0%	0%	140%	

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of Philippine peso except % change data and Basic/diluted Loss per Share)

	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013	VERTICAL ANALYSIS % to Revenues 2014	VERTICAL ANALYSIS % to Revenues 2013	HORIZONTAL ANALYSIS % of Change in Prior Period 2014	Causes of Material Changes (With 5% as a Threshold)
Revenue						
Management fee income	71,835	26,901	100%	100%	167%	The increase is attributable to the management fee income for the share based compensation costs for certain MCP directors recharged to MCE, in which the Share Incentive Plan launched in late June 2013.
Operating costs and expenses						
General and administrative expenses	(76,346)	(132,774)	-106%	-494%	-42%	The sharp decrease was primarily due to the non-recurring G&A incurred during the nine month ended September 30, 2013, whereas no such expenses noted during the period.
Pre-opening costs	(2,335,120)	(488,293)	-3252%	-1815%	378%	The increase is attributable to the continuous development of City of Dreams Manila.
Development costs	-	(95,090)	0%	-353%	-100%	The decrease was primarily due to the project related legal and professional fee incurred during the nine months period ended September 30, 2013, whereas no such expenses noted during the period.
Amortization of contract acquisition costs	(39,070)	(30,387)	-54%	-113%	29%	The increase is attributable to the full period amortization of the consideration paid to Belle as part of the closing condition during the period.
Depreciation	(48,382)	(190)	-67%	-1%	25364%	The increase is attributable to the increase in furniture, fixture and equipment which were already in use.
Property charges and others	(155,193)	-	-216%	0%	N/A	Property charges and others represented the damaged furniture, fixtures and equipment being written off as a result of the typhoon in July 2014.
Total operating costs and expenses	(2,654,111)	(746,734)	-3695%	-2776%	255%	
Non-operating income (expenses)						
Interest income	37,272	33,687	52%	125%	11%	The increase is attributable to more short-term fixed deposits being placed at the bank as a result of the increase in bank balances due to the aforesaid funding activities.
Interest expenses, net of capitalized interest	(1,476,489)	(950,410)	-2055%	-3533%	55%	The increase is attributable to the interest on Senior Notes issued in January 2014, partially offset by a higher capitalized interest.
Other finance costs	(32,951)	-	-46%	0%	N/A	The increase is attributable to the gross receipt tax in relation to Senior Notes issued in January 2014.
Foreign exchange loss, net	(93,862)	(74,201)	-131%	-276%	26%	The increase is attributable to the fluctuation of Philippine Peso against U.S. Dollar.
Amortization of deferred financing costs	(41,739)	-	-58%	0%	N/A	
Other income	-	15,543	0%	58%	-100%	
Total non-operating expenses, net	(1,607,769)	(975,381)	-2238%	-3626%	65%	
Net loss	(4,190,045)	(1,695,214)	-5833%	-6302%	147%	
Other comprehensive income	-	-	0%	0%	N/A	
Total comprehensive loss	(4,190,045)	(1,695,214)	-5833%	-6302%	147%	The increase is attributable to the increase in depreciation, pre-opening expenses, property charges and others, interest expenses, net of capitalized interest as discussed above.
Basic/diluted loss per share	(₱ 0.91)	(₱ 0.58)	0%	0%	57%	

PART II--OTHER INFORMATION

There is no other information which has not been previously reported in SEC Form 17-C that needs to be reported in this section.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION
(Issuer)

Clarence Yuk Man Chung
President

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION
(Issuer)

Adrian Hsen Bin Au
Treasurer

Melco Crown (Philippines) Resorts Corporation and Subsidiaries

Condensed Consolidated Financial Statements
September 30, 2014 (Unaudited) and December 31, 2013
and For The Three and Nine Months Ended September 30, 2014 and 2013 (Unaudited)

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(In thousands of Philippine peso, except share and per share data)

	September 30, 2014 (Unaudited) (Note 2)	December 31, 2013 (Audited) (Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 22 and 23)	**₱13,296,422**	₱8,599,842
Prepayments and other current assets	**1,647,683**	391,140
Inventories	**7,106**	–
Amount due from a shareholder (Notes 15, 22 and 23)	**5,425**	5,425
Total Current Assets	**14,956,636**	8,996,407
Noncurrent Assets		
Property and equipment (Note 5)	**26,092,899**	14,995,010
Contract acquisition costs (Note 6)	**981,081**	1,020,151
Other intangible assets (Note 7)	**8,698**	8,698
Other noncurrent assets (Note 8)	**3,216,380**	895,795
Restricted cash (Notes 9, 22 and 23)	**2,248,300**	2,226,674
Deferred tax asset (Note 17)	**19,843**	–
Total Noncurrent Assets	**32,567,201**	19,146,328
	₱47,523,837	₱28,142,735
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses, other payables and other current liabilities (Notes 10, 22 and 23)	**₱3,163,027**	₱918,389
Current portion of obligations under finance lease (Notes 18, 22 and 23)	**1,266,016**	1,214,187
Amount due to ultimate holding company (Notes 15, 22 and 23)	**69,685**	107,787
Amount due to immediate holding company (Notes 15, 22 and 23)	**896,219**	887,415
Amounts due to affiliated companies (Notes 15, 22 and 23)	**641,317**	353,591
Income tax payable (Note 17)	**6,955**	–
Total Current Liabilities	**6,043,219**	3,481,369
Noncurrent Liabilities		
Long-term debt (Notes 19, 22 and 23)	**14,689,511**	–
Noncurrent portion of obligations under finance lease (Notes 18, 22 and 23)	**11,771,516**	11,268,283
Deferred rent liability	**106,298**	59,392
Other noncurrent liabilities (Notes 22 and 23)	**11,857**	–
Total Noncurrent Liabilities	**26,579,182**	11,327,675
Equity		
Capital stock (Note 11)	**4,911,480**	4,426,303
Additional paid-in capital	**19,647,157**	14,756,430
Share-based compensation reserve (Note 26)	**660,037**	278,151
Equity reserve (Notes 2 and 11)	**(3,613,990)**	(3,613,990)
Accumulated deficits	**(6,703,248)**	(2,513,203)
Total Equity	**14,901,436**	13,333,691
	₱47,523,837	₱28,142,735

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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

	Three Months Ended September 30, 2014 (Note 2)	Three Months Ended September 30, 2013 (Note 2)	Nine Months Ended September 30, 2014 (Note 2)	Nine Months Ended September 30, 2013 (Note 2)
REVENUE				
Management fee income (Note 15)	**₱26,829**	₱26,901	**₱71,835**	₱26,901
OPERATING COSTS AND EXPENSES				
General and administrative expenses (Note 12)	**(25,568)**	(29,280)	**(76,346)**	(132,774)
Pre-opening costs (Note 13)	**(1,172,195)**	(294,484)	**(2,335,120)**	(488,293)
Development costs (Note 14)	**–**	–	**–**	(95,090)
Amortization of contract acquisition costs (Note 6)	**(13,023)**	(13,023)	**(39,070)**	(30,387)
Depreciation (Note 5)	**(25,606)**	(190)	**(48,382)**	(190)
Property charges and others	**(155,193)**	–	**(155,193)**	–
Total Operating Costs and Expenses	**(1,391,585)**	(336,977)	**(2,654,111)**	(746,734)
NON-OPERATING INCOME (EXPENSES)				
Interest income	**7,899**	19,732	**37,272**	33,687
Interest expenses, net of capitalized interest	**(449,265)**	(387,788)	**(1,476,489)**	(950,410)
Other finance fees	**(12,378)**	–	**(32,951)**	–
Foreign exchange gain (loss), net	**44,394**	(5,963)	**(93,862)**	(74,201)
Amortization of deferred financing costs	**(15,558)**	–	**(41,739)**	–
Other income	**–**	–	**–**	15,543
Total Non-operating Expenses, Net	**(424,908)**	(374,019)	**(1,607,769)**	(975,381)
NET LOSS	**(1,789,664)**	(684,095)	**(4,190,045)**	(1,695,214)
OTHER COMPREHENSIVE INCOME	**–**	–	**–**	–
TOTAL COMPREHENSIVE LOSS	**(₱1,789,664)**	(₱684,095)	**(₱4,190,045)**	(₱1,695,214)
Basic/Diluted Loss Per Share (Note 16)	**(₱0.36)**	(₱0.15)	**(₱0.91)**	(₱0.58)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands of Philippine peso, except share and per share data)

	Capital Stock (Note 11)									
	Class A	**Class B**	**Common Stock**	**Subtotal Capital Stock**	**Additional Paid-in Capital**	**Share-based Compensation Reserve**	**Equity Reserve** (Note 11)	**Accumulated Deficits**	**Cost of Treasury Shares Held** (Note 11)	**Total**
Balance as of January 1, 2014	**₱–**	**₱–**	**₱4,426,303**	**₱4,426,303**	**₱14,756,430**	**₱278,151**	**(₱3,613,990)**	**(₱2,513,203)**	**₱–**	**₱13,333,691**
Net loss	–	–	–	–	–	–	–	**(4,190,045)**	–	**(4,190,045)**
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–	–	**(4,190,045)**	–	**(4,190,045)**
Shares issued, net of offering expenses (Note 11)	–	–	**485,177**	**485,177**	**4,890,727**	–	–	–	–	**5,375,904**
Share-based compensation (Note 26)	–	–	–	–	–	**381,886**	–	–	–	**381,886**
Balance as of September 30, 2014	**₱–**	**₱–**	**₱4,911,480**	**₱4,911,480**	**₱19,647,157**	**₱660,037**	**(₱3,613,990)**	**(₱6,703,248)**	**₱–**	**₱14,901,436**
Balance as of January 1, 2013	₱337,500	₱225,000	₱–	₱562,500	₱92,679	₱–	₱740,763	(₱49,786)	(₱288,514)	₱1,057,642
Net loss	–	–	–	–	–	–	–	(1,695,214)	–	(1,695,214)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–	–	(1,695,214)	–	(1,695,214)
Declassification of Class A shares and Class B shares (Note 11)	(337,500)	(225,000)	562,500	–	–	–	–	–	–	–
Shares issued, net of offering expenses (Note 11)	–	–	3,863,803	3,863,803	12,816,082	–	–	–	–	16,679,885
Sale of treasury shares (Note 11)	–	–	–	–	1,847,669	–	–	–	288,514	2,136,183
Share-based compensation (Note 26)	–	–	–	–	–	146,370	–	–	–	146,370
Movement of equity reserve (Note 2)	–	–	–	–	–	–	(4,354,753)	–	–	(4,354,753)
Balance as of September 30, 2013	₱–	₱–	₱4,426,303	₱4,426,303	₱14,756,430	₱146,370	(₱3,613,990)	(₱1,745,000)	₱–	₱13,970,113

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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

	Nine Months Ended September 30,	
	2014	2013
	(Note 2)	(Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**(₱4,190,045)**	(₱1,695,214)
Adjustments for:		
Interest income	**(37,272)**	(33,687)
Interest expenses, net of capitalized interest	**1,476,489**	950,410
Consultancy fee in consideration for share awards recognized as pre-opening costs (Note 13)	**227,275**	93,202
Property and equipment written off to property charges and others (Note 5)	**155,193**	−
Share-based compensation expenses recognized as pre-opening costs (Note 13)	**154,611**	53,168
Unrealized foreign exchange loss, net	**129,101**	70,304
Depreciation (Note 5)	**48,382**	190
Amortization of deferred financing costs	**41,739**	−
Amortization of contract acquisition costs (Note 6)	**39,070**	30,387
Other finance fees	**32,951**	−
Amortization of prepaid rent	**3,966**	3,085
Contract acquisition costs written off to development costs (Note 14)	**−**	64,721
Operating loss before working capital changes	**(1,918,540)**	(463,434)
Changes in assets and liabilities:		
Increase in prepayments and other current assets	**(1,262,295)**	(220,348)
Increase in other noncurrent assets	**(84,569)**	(6,010)
(Decrease) increase in amount due to ultimate holding company	**(40,245)**	21,088
Increase in inventories	**(7,106)**	−
Increase in accrued expenses, other payables and other current liabilities	**435,500**	49,988
Increase in amounts due to affiliated companies	**106,672**	82,588
Increase in deferred rent liability	**46,906**	38,063
Increase in other noncurrent liabilities	**11,857**	−
Increase in amount due from a shareholder	**−**	(5,272)
Net cash used in operations	**(2,711,820)**	(503,337)
Income tax paid (Note 17)	**(1,644)**	−
Interest received	**39,486**	30,846
Net cash used in operating activities	**(2,673,978)**	(472,491)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of property and equipment	**(7,825,824)**	(1,098,909)
Advance payment and deposit for acquisition of property and equipment	**(3,487,190)**	(282,454)
Increase in restricted cash	**(21,626)**	(2,174,399)
Payment for acquisition of other intangible assets	**(1,317)**	−
Payment for other noncurrent assets	**(1,000)**	−
Cash used in reverse acquisition (Notes 1(c) and 2)	**−**	(7,198,590)
Payment for contract acquisition costs	**−**	(1,128,768)
Payment for security deposit	**−**	(175,599)
Net cash used in investing activities	**(₱11,336,957)**	(₱12,058,719)

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – continued

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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

	Nine Months Ended September 30,	
	2014	2013
	(Note 2)	(Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt (Note 19)	**₱15,000,000**	₱–
Net proceeds from issuance of share capital (Note 11)	**5,374,475**	16,685,943
Increase in amount due to immediate holding company	**154**	811,405
Repayments of obligations under finance lease	**(737,458)**	(551,219)
Interest paid	**(468,750)**	–
Payment for deferred financing costs	**(325,622)**	–
Other finance fees paid	**(23,916)**	–
Net proceeds from capital stock issuance of legal subsidiary (Notes 1(c) and 11)	**–**	2,843,837
Proceeds from sale of treasury shares	**–**	2,136,183
Net cash provided by financing activities	**18,818,883**	21,926,149
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	**(111,368)**	504
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,696,580**	9,395,443
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**8,599,842**	1,152,022
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱13,296,422**	₱10,547,465

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

1. **Organization and Business**

   (a) Corporate Information

   Melco Crown (Philippines) Resorts Corporation (herein referred to as "MCP" or the "Parent Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (the "SEC"). The shares of stock of the Parent Company are publicly traded in the Philippine Stock Exchange (the "PSE").

   The Parent Company is principally engaged in acquiring investments and securities and was further authorized to provide financing to its group companies, as approved by the SEC on July 25, 2013.

   The Parent Company's principal place of business is the Philippines. On March 5, 2013, the SEC approved the amendments to the articles of incorporation of the Parent Company for change of its corporate name from Manchester International Holdings Unlimited Corporation to Melco Crown (Philippines) Resorts Corporation and its registered office address from Canlubang Industrial Estate, Bo. Pittland, Cabuyao, Laguna to 10th Floor, Liberty Center, 104 H.V. dela Costa St., Salcedo Village, Makati City, which were approved by the stockholders of MCP on February 19, 2013. The Parent Company's registered office address was further change to Aseana Boulevard cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701, which was approved by the stockholders of MCP on June 21, 2013.

   The ultimate holding company of the Parent Company is Melco Crown Entertainment Limited (referred to as "MCE"), a company incorporated in the Cayman Islands with its American depository shares are traded on the NASDAQ Global Select Market in the United States of America and its ordinary shares are traded on the Main Board of The Stock Exchange of Hong Kong Limited in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong").

   (b) Change in Capital Structure and Ownership of MCP

   On February 19, 2013, the stockholders of MCP approved the declassification of the existing ₱900,000 authorized capital stock of MCP, consisting of 60% Class A shares and 40% Class B shares to a single class of common stock and denial of pre-emptive rights and the increase in MCP's authorized capital stock to ₱5,900,000 divided into 5.9 billion shares with par value of ₱1 per share from authorized capital stock of ₱900,000 divided into 900 million shares with par value of ₱1 per share.

   On March 5, 2013, the SEC approved the declassification of the capital stock of MCP to a single class of common stock and denial of pre-emptive rights. On April 8, 2013, the SEC also approved the increase in authorized share capital stock of MCP.

1. **Organization and Business** – continued

(b) Change in Capital Structure and Ownership of MCP – continued

On March 20, 2013, MCP entered into a subscription and share sale agreement (the "Subscription and Share Sale Agreement") with MCE (Philippines) Investments Limited ("MCE Investments"), an indirect subsidiary of MCE, under which MCE Investments subscribed for 2,846,595,000 common shares of MCP with par value of ₱1 per share at total consideration of ₱2,846,595 (the "Share Subscription Transaction"). The Share Subscription Transaction which was subject to the SEC's approval for the increase in MCP's authorized capital stock as mentioned above, was completed on April 8, 2013.

On April 8, 2013, MCP sold all of its treasury shares, representing 150,435,404 common shares to third parties at ₱14.2 per share.

On April 24, 2013, MCP and MCE Investments completed a placing and subscription transaction (the "Placing and Subscription Transaction"), under which MCE Investments offered and sold in a private placement to various institutional investors of 981,183,700 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share (the "Offer"). In connection with the Offer, MCE Investments granted an over-allotment option (the "Over-allotment Option") of up to 117,075,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share to a stabilizing agent (the "Stabilizing Agent"). MCE Investments then used the proceeds from the Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱14 per share.

On May 23, 2013, the Stabilizing Agent exercised the Over-allotment Option and subscribed for 36,024,600 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share. MCE Investments then used the proceeds from the Over-allotment Option to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱14 per share.

In March and April 2014, there are minor changes in ownership of MCP by MCE and its subsidiaries. As a result of change in directors for MCP, MCE (Philippines) Investments No.2 Corporation ("MCE Investments No.2"), an indirect subsidiary of MCE and a minority shareholder of MCP, acquired additional 400 common shares and 3,000 common shares of MCP under trust arrangements on March 13, 2014 and April 11, 2014, respectively. On March 31, 2014, MCE Investments sold 200 common shares of MCP to two independent directors of the Parent Company.

On June 24, 2014, MCP and MCE Investments completed a placing and subscription transaction (the "2014 Placing and Subscription Transaction"), under which MCE Investments offered and sold in a private placement to various institutional investors of 485,177,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱11.30 per share (the "2014 Offer"). MCE Investments then used the proceeds from the 2014 Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱11.30 per share.

After the series of transactions as above and as of September 30, 2014 and December 31, 2013, MCE Investments became the immediate holding company of MCP.

1. **Organization and Business** – continued

(c) Subsidiaries of MCP and Group Reorganization

On March 20, 2013, pursuant to the terms of the Subscription and Share Sale Agreement, MCP entered into a deed of assignment with MCE Investments, in which MCP acquired all equity interests of MCE Investments in MCE Holdings (Philippines) Corporation (herein referred to as "MCE Holdings"), consisting of 147,894,500 issued and outstanding common shares with par value of ₱1 per share as of March 20, 2013, at a consideration of ₱7,198,590 (the "Asset Acquisition Transaction"). MCE Holdings holds 100% direct ownership interests in MCE Holdings No. 2 (Philippines) Corporation (herein referred to as "MCE Holdings No. 2") which, in turn, holds 100% direct ownership interests in MCE Leisure (Philippines) Corporation (herein referred to as "MCE Leisure") (collectively referred to the "MCE Holdings Group"). As a result of the Asset Acquisition Transaction, MCE Holdings Group became wholly owned subsidiaries of MCP.

As of September 30, 2014 and December 31, 2013, MCP's wholly owned subsidiaries included MCE Holdings, MCE Holdings No. 2 and MCE Leisure (together with MCP collectively referred to as the "Group"). MCE Holdings, MCE Holdings No. 2 and MCE Leisure were all incorporated in the Philippines and were registered with the SEC on August 13, 2012, August 22, 2012 and August 30, 2012, respectively. The primary purpose of MCE Holdings and MCE Holdings No. 2 is investment holding and the primary purpose of MCE Leisure is to develop and operate tourist facilities, including hotel casino entertainment complexes with hotel, retail and amusement areas and themed development components and to engage in casino gaming activities.

1. **Organization and Business** – continued

(d) Activities of MCE Holdings Group

On July 5, 2012, MCE, through its indirect subsidiary, MPEL Projects Limited, entered into a memorandum of agreement (the "MOA") with SM Investments Corporation and certain of its subsidiaries (collectively, the "SM Group"), Belle Corporation ("Belle") and PremiumLeisure and Amusement, Inc. ("PLAI") (collectively, the "Philippine Parties") for the development of an integrated resort project located within Entertainment City, Manila comprising a casino, hotel, retail and entertainment complex, which was subsequently branded "City of Dreams Manila" upon the execution of a trademark licensing agreement signed between MCP and MCE (IP) Holdings Limited, a subsidiary of MCE, on October 9, 2013. Further to the MOA, on October 25, 2012, MCE Holdings Group i) together with certain of its affiliated companies entered into a closing arrangement agreement (the "Closing Arrangement Agreement"); and ii) entered into a cooperation agreement (the "Cooperation Agreement") and other related arrangements with the Philippine Parties; and MCE Leisure entered into a lease agreement (the "Lease Agreement") with Belle, for City of Dreams Manila. On March 13, 2013, the date on which the conditions to closing under the Closing Arrangement Agreement were fulfilled, or waived (the "Closing"), the Cooperation Agreement and the Lease Agreement became effective, with minor changes to the original terms. In addition, MCE Holdings Group and the Philippine Parties entered into an operating agreement (the "Operating Agreement") on March 13, 2013, pursuant to which MCE Leisure has been granted the exclusive right to manage, operate and control City of Dreams Manila. The Cooperation Agreement, the Lease Agreement and the Operating Agreement ends on the date of expiry of the Provisional License as mentioned in Note 1(e) below, currently expected to be on July 11, 2033 unless terminated earlier in accordance with the respective terms of the individual agreements.

(e) Provisional License

On October 25, 2012, further to the Cooperation Agreement as mentioned above, the Philippine Amusement and Gaming Corporation ("PAGCOR") acknowledged the inclusion of, amongst others, MCE Leisure as a co-licensee, as well as the "special purpose entity", to take effect as of the effective date of the Cooperation Agreement, allowing MCE Leisure to be the operator to operate the casino business and as representative for itself and on behalf of the other co-licensees under a provisional license (the "Provisional License") in their dealings with PAGCOR. The Cooperation Agreement became effective on March 13, 2013, the date on which the Closing under the Closing Arrangement Agreement dated October 25, 2012 occurred. As a result, MCE Holdings Group and the Philippine Parties together became co-licensees (the "Licensees") under the Provisional License granted by PAGCOR for the establishment and operation of City of Dreams Manila. The Provisional License, as well as any regular license to be issued to replace it upon satisfaction of certain conditions, is concurrent with section 13 of Presidential Decree No. 1869 (the "PAGCOR Charter"), will expire on July 11, 2033.

1. **Organization and Business** – continued

(f) Status of Operations for City of Dreams Manila

The Group and the Philippine Parties are the joint developers of City of Dreams Manila. MCE Leisure is responsible for the management and operation, as well as for the project's fit-out, furniture, fixtures and equipment (including gaming equipment), working capital expenses, non-real property improvements and personal property of City of Dreams Manila, and Belle is responsible for construction and maintenance of the building structures of City of Dreams Manila.

City of Dreams Manila is located on an approximately 6.2-hectare site in Entertainment City. As of September 30, 2014, the construction on the main building structures of City of Dreams Manila is substantially complete, while the construction of the connecting structures and the fit-out construction of City of Dreams Manila are ongoing.

2. **Summary of Significant Accounting Policies**

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

On March 20, 2013, MCP completed the Asset Acquisition Transaction for acquiring 100% ownership interests in the MCE Holdings Group with net assets value of ₱2,609,589 from MCE Investments for a consideration of ₱7,198,590 (see Note 1(c)). Because MCP did not meet the definition of a business, the MCE Holdings Group was deemed to be the accounting acquirer for accounting purposes. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard under Philippine Financial Reporting Standards ("PFRS"). In a reverse acquisition, the legal parent, MCP is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary, MCE Holdings Group is adjudged to be the entity that gained control over the legal parent. Accordingly, the unaudited condensed consolidated financial statements of MCP have been prepared as a continuation of the financial statements of the MCE Holdings Group. The MCE Holdings Group has accounted for the acquisition of MCP on December 19, 2012, which was the date when MCE through MCE Investments and MCE Investments No.2 acquired control of MCP.

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

Basis of Preparation – continued
Because the unaudited condensed consolidated financial statements represent a continuation of the financial statements of the MCE Holdings Group, except for its capital structure, the consolidation reflects:

(a) the consolidated assets and liabilities of the MCE Holdings Group (legal subsidiary/accounting acquirer) recognized and measured at their pre-combination carrying amounts, not at their acquisition-date fair values and the assets and liabilities of MCP (legal parent/accounting acquiree) recognized and measured at their acquisition-date fair values;

(b) the combined results of the MCE Holdings Group for full period together with the post-combination results of MCP from December 19, 2012, the date when MCP was acquired by MCE through MCE Investments and MCE Investments No.2 (i.e. not those of MCP);

(c) the total equity is that of the MCE Holdings Group and MCP, but the legal capital would be that of MCP;

(d) any difference between (1) the consolidated net assets of the MCE Holdings Group and MCP, and (2) the combined results of the MCE Holdings Group for full period together with the post-combination results of MCP from December 19, 2012 and the sum of legal capital of MCP and the consideration of the Asset Acquisition Transaction, shall be accounted for as equity reserve in the condensed consolidated balance sheets as of September 30, 2014 (unaudited) and December 31, 2013 (audited), respectively; and

(e) the unaudited condensed consolidated statements of comprehensive income for the nine months ended September 30, 2014 and 2013 reflect that of the MCE Holdings Group together with MCP for the full period.

Reverse acquisition applies only to the consolidated financial statements of MCP. The Parent Company financial statements will continue to represent MCP as a stand-alone entity as of September 30, 2014 and December 31, 2013.

Statement of Compliance
The Group's unaudited condensed consolidated financial statements have been prepared in conformity with Philippine Accounting Standards ("PAS") 34, *Interim Financial Reporting*.

The Group's unaudited condensed consolidated financial statements as of September 30, 2014 do not include all the information and disclosures required in the annual consolidated financial statements and the results of operations are not necessarily indicative of the results for full year, and should be read in conjunction with the Group's consolidated financial statements as of December 31, 2013 and 2012 and for the year ended December 31, 2013 and for the period from August 13, 2012 to December 31, 2012.

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

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

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the unaudited condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the unaudited condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements as of December 31, 2013 and 2012 and for the year ended December 31, 2013 and for the period from August 13, 2012 to December 31, 2012.

Inventories

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

Property and Equipment

Property and equipment with a finite useful life is depreciated on a straight-line basis over the asset's estimated useful life. Estimated useful lives are as follows:

Classification	Estimated Useful Life
Building	25 years or over the term of the lease agreement, whichever is shorter
Leasehold improvements	5 to 10 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	3 to 7 years
Motor vehicles	5 years
Plant and gaming machinery	3 to 5 years

Capitalization of Interest and Amortization of Deferred Financing Costs

Interest and amortization of deferred financing costs incurred on funds used to construct the Group's casino gaming and entertainment resort facilities during the active construction period is capitalized. Interest subject to capitalization primarily includes interest paid or payable on obligations under finance lease and the Group's ₱15,000,000 5.00% senior notes, due 2019 (the "Senior Notes") issued on January 24, 2014. The capitalization of interest and amortization of deferred financing costs ceases once a project is substantially completed or development activity is suspended for more than a brief period.

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

Capitalization of Interest and Amortization of Deferred Financing Costs – continued
To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. If an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

For the three months ended September 30, 2014 and 2013, total interest expenses incurred amounted to ₱680,055 and ₱431,076, of which ₱230,790 and ₱43,288 were capitalized, respectively. For the nine months ended September 30, 2014 and 2013, total interest expenses incurred amounted to ₱1,977,379 and ₱1,019,846, of which ₱500,890 and ₱69,436 were capitalized, respectively. No amortization of deferred financing costs was capitalized for the three and nine months ended September 30, 2014.

Property Charges and Others
Property charges and others consist of one-off activities related to written off of certain equipment damaged by typhoon. Property charges and others of ₱155,193 were recognized for both periods for the three and nine months ended September 30, 2014 and nil for both periods for the three and nine months ended September 30, 2013.

Deferred Financing Costs
Direct and incremental costs incurred in obtaining loans or in connection with the issuance of long-term debt are capitalized and amortized over the terms of the related debt agreements using the effective interest method. Deferred financing costs of ₱15,558 and nil were amortized for the three months ended September 30, 2014 and 2013, respectively; and ₱41,739 and nil were amortized for the nine months ended September 30, 2014 and 2013, respectively.

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

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

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

Share-based Compensation Expenses – continued

Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based compensation reserve will be transferred to retained profits. When the awarded shares are not vested or are forfeited during the vesting period, the amount previously recognized in share-based compensation reserve will be recognized as income immediately in profit or loss.

Further information on the Group's share-based compensation arrangement for the three and nine months ended September 30, 2014 and 2013 for restricted shares and share options granted under its share incentive plan is included in Note 26.

Loss Per Share

The weighted average number of common and common equivalent shares used in the calculation of basic and diluted net loss per share consisted of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Weighted average number of common shares outstanding used in the calculation of basic net loss per share	**4,911,480,300**	4,426,303,300	**4,602,246,608**	2,936,555,313
Incremental weighted average number of common shares from assumed vesting of restricted shares and exercise of share options	**–**	–	**–**	–
Weighted average number of common shares outstanding used in the calculation of diluted net loss per share	**4,911,480,300**	4,426,303,300	**4,602,246,608**	2,936,555,313

For the three and nine months ended September 30, 2014, 125,427,218 outstanding share options and 65,021,790 outstanding restricted shares as of September 30, 2014 were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2013, 120,306,094 outstanding share options and 60,153,045 outstanding restricted shares as of September 30, 2013 were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive.

Contingencies

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

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

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

Segment Reporting
As of September 30, 2014 and December 31, 2013, the Group did not present the segment reporting as City of Dreams Manila is currently under development, and mainly incurred pre-opening expenses and other non-operating expenses for the three and nine months ended September 30, 2014 and 2013.

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

3. **Accounting Policies Effective During the Period and Future Changes in Accounting Policies**

The accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those new and amended PAS and PFRS adopted as of January 1, 2014 followed in the preparation of the Group's audited consolidated financial statements as of December 31, 2013 and 2012 and for the year ended December 31, 2013 and for the period from August 13, 2012 to December 31, 2012 except for adoption of the following new and amended PAS, PFRS and Philippine Interpretations as of January 1, 2014. The adoption of these new and amended PAS, PFRS and Philippine Interpretations had no significant impact on the unaudited condensed consolidated financial statements:

- PAS 32, *Financial Instruments: Presentation − Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PAS 36, *Impairment of Assets − Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39, *Financial Instruments: Recognition and Measurement − Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

4. **Cash and Cash Equivalents**

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Cash on hand	**₱1,047**	₱687
Cash in banks	**13,295,375**	8,599,155
	₱13,296,422	₱8,599,842

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

5. **Property and Equipment**

September 30, 2014 (Unaudited)

	Building under Finance Lease	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	Total
Costs:							
Balance at beginning of period	**₱11,820,440**	**₱186,536**	**₱14,293**	**₱258,289**	**₱–**	**₱2,731,558**	**₱15,011,116**
Additions	**–**	**729,718**	**2,450**	**1,895,560**	**127,712**	**8,549,772**	**11,305,212**
Capitalization of depreciation	**–**	**–**	**–**	**–**	**–**	**10,377**	**10,377**
Adjustment on purchase of leased asset	**–**	**–**	**–**	**(3,748)**	**–**	**–**	**(3,748)**
Written off	**–**	**–**	**–**	**(155,193)**	**–**	**–**	**(155,193)**
Balance at end of period	**11,820,440**	**916,254**	**16,743**	**1,994,908**	**127,712**	**11,291,707**	**26,167,764**
Accumulated Depreciation:							
Balance at beginning of period	**–**	**(109)**	**(1,620)**	**(14,377)**	**–**	**–**	**(16,106)**
Depreciation	**–**	**(7,507)**	**(2,271)**	**(47,664)**	**(1,317)**	**–**	**(58,759)**
Balance at end of period	**–**	**(7,616)**	**(3,891)**	**(62,041)**	**(1,317)**	**–**	**(74,865)**
Net Book Value	**₱11,820,440**	**₱908,638**	**₱12,852**	**₱1,932,867**	**₱126,395**	**₱11,291,707**	**₱26,092,899**

December 31, 2013 (Audited)

	Building under Finance Lease	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Plant and Gaming Machinery	Construction in Progress	Total
Costs:							
Balance at beginning of year	₱–	₱–	₱–	₱423	₱–	₱38,859	₱39,282
Additions	11,820,440	186,536	14,293	257,866	–	2,684,703	14,963,838
Capitalization of depreciation	–	–	–	–	–	7,996	7,996
Balance at end of year	11,820,440	186,536	14,293	258,289	–	2,731,558	15,011,116
Accumulated Depreciation:							
Balance at beginning of year	–	–	–	–	–	–	–
Depreciation	–	(109)	(1,620)	(14,377)	–	–	(16,106)
Balance at end of year	–	(109)	(1,620)	(14,377)	–	–	(16,106)
Net Book Value	₱11,820,440	₱186,427	₱12,673	₱243,912	₱–	₱2,731,558	₱14,995,010

On August 28, 2014, MCE Leisure terminated a finance lease agreement for certain equipment with net book value of ₱36,125 and exercised the buy-out option at a price of ₱36,173. As a result, the difference between the buy-out price and the carrying amount of the lease obligation of ₱3,748 was recognized as an adjustment to the cost for purchase of leased asset, further details please refer to Note 18.

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

5. **Property and Equipment** – continued

Furniture, fixtures and equipment with net book value amounted to nil and ₱44,382 were held under finance lease as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014 and December 31, 2013, construction in progress included interest paid or payable on the obligations under finance lease which amounted to ₱648,443 and ₱147,553, respectively.

6. Contract Acquisition Costs

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Balance at beginning of period/year	**₱1,020,151**	₱58,427
Additions	**–**	1,134,576
Amortization	**(39,070)**	(43,410)
Capitalized in building under finance lease	**–**	(64,721)
Written off to development costs (Note 14)	**–**	(64,721)
Balance at end of period/year	**₱981,081**	₱1,020,151

As of March 13, 2013, this account consists of legal and other professional fees, documentary stamps tax and other directly attributable costs incurred by the Group in negotiating the Lease Agreement and management contracts for City of Dreams Manila amounting to ₱129,442. Upon the Lease Agreement becoming effective on March 13, 2013, the Group had written off the portion of the contract acquisition costs amounting to ₱64,721 incurred in relation to the contract negotiations classified as operating lease to development costs (Note 14), while the remaining portion amounting to ₱64,721 incurred in relation to the contract negotiations classified as building under finance lease is capitalized in building under finance lease. On the same date, the Group paid ₱1,063,561 to Belle as consideration for termination of various agreements with a third party in accordance with the Closing Arrangement Agreement and this amount is amortized over the lease term.

7. Other Intangible Assets

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Balance at beginning of period/year	**₱8,698**	₱–
Additions	**–**	8,698
Balance at end of period/year	**₱8,698**	₱8,698

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

7. **Other Intangible Assets** – continued

The other intangible assets represent the license fees incurred by MCE Leisure for right to use of certain trademarks for City of Dreams Manila and are amortized on a straight-line basis over the term of the license agreement which expires in 5 years from the opening of City of Dreams Manila.

8. **Other Noncurrent Assets**

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Advance payment and deposit for acquisition of property and equipment	**₱2,946,097**	₱678,472
Noncurrent portion of prepaid rent	**102,078**	106,044
Security and rental deposits (Notes 22 and 23)	**97,591**	90,342
Other noncurrent deposits	**52,824**	–
Other noncurrent assets	**17,790**	–
Prepayment of deferred financing costs	**–**	20,937
	₱3,216,380	₱895,795

Advance payment for construction costs which are mostly secured by surety bonds and deposit for acquisition of property and equipment are connected with the fit-out of City of Dreams Manila.

Upon the Lease Agreement becoming effective on March 13, 2013, a security deposit of ₱175,599 was paid to Belle. As of September 30, 2014, part of prepaid rent amounting to ₱94,131 represented the noncurrent portion of excess of principal amount of the security deposit paid pursuant to the Lease Agreement over its fair value at inception, and is amortized on a straight-line basis over the lease term while part of the current portion of prepaid rent of ₱5,289 is included in prepayments and other current assets.

9. **Restricted Cash**

Under the Provisional License granted by PAGCOR, it is a requirement that the Licensees set-up an escrow account with an amount of US$100 million with a universal bank mutually agreed by PAGCOR and the Licensees. All funds for the development of the casino project shall pass through the escrow account and all drawdowns of funds from the said escrow account must be applied to City of Dreams Manila. The escrow account should have a maintaining balance of US$50 million until the completion of City of Dreams Manila. As of September 30, 2014 and December 31, 2013, MCE Leisure, as one of the Licensees maintained a balance of ₱2,248,300 and ₱2,226,674, respectively, in the escrow account for US$ equivalent of US$50 million in each of those periods based on prevailing exchange rates. The escrow account will be closed at completion of City of Dreams Manila and funds held in the escrow account will be released to MCE Leisure.

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

10. Accrued Expenses, Other Payables and Other Current Liabilities

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Accruals for:		
Fit-out construction costs	**₱2,293,103**	₱706,686
Staff costs	**357,901**	43,971
Legal and other professional fees	**79,394**	87,671
Taxes and licenses	**133**	7,225
Operating expenses and others	**148,779**	42,416
Interest expenses payable	**141,667**	–
Withholding tax payable	**129,391**	26,668
Other finance fees payable	**8,854**	–
Other payables and liabilities	**3,805**	3,752
	₱3,163,027	₱918,389

Accrued expenses, other payables and other current liabilities are due for payment within the next financial year.

11. Equity

Authorized Capital Stock

The following is a summary of the movement of the Parent Company's authorized capital stock with the related issue price and date of approval of registration by the SEC:

Share Registered: Common Class A	Share Registered: Common Class B	Share Registered: Common Share	Issue Price: Class A	Issue Price: Class B	Issue Price: Common Share	Date of SEC Approval
90,000,000	60,000,000	–	₱3.20	₱3.40	₱–	February 14, 1991
180,000,000	120,000,000	–	1.00	1.00	–	August 9, 1993
270,000,000	180,000,000	–	1.00	1.00	–	October 21, 1997
(540,000,000)	(360,000,000)	900,000,000	–	–	1.00	March 5, 2013*
–	–	5,000,000,000	–	–	1.00	April 8, 2013
–	–	5,900,000,000				

**Declassification of Class A and Class B shares to a single class of common shares and denial of pre-emptive rights*

Immediately before the declassification of Class A and Class B shares to a single class of common shares on March 5, 2013, the two classes of common stock, Class A shares and Class B shares, are identical in all respects except that Class A shares are restricted in ownership to Philippine nationals. Both classes of common stocks have par value of ₱1 per share.

11. **Equity** – continued

Authorized Capital Stock – continued
On February 19, 2013, the stockholders of MCP approved the declassification of ₱900,000 authorized capital stock of MCP, consisting of 60% Class A shares and 40% Class B shares to a single class of common stock and denial of pre-emptive rights and the increase in MCP's authorized capital stock to ₱5,900,000 divided into 5.9 billion shares with par value of ₱1 per share from authorized capital stock of ₱900,000 divided into 900 million shares with par value of ₱1 per share.

On March 5, 2013, the SEC approved the declassification of the capital stock of MCP to a single class of common stock and denial of pre-emptive rights. On April 8, 2013, the SEC also approved the increase in authorized share capital stock of MCP.

Issued Capital Stock
As of September 30, 2014 and December 31, 2013, the Parent Company's issued capital stock consists of 4,911,480,300 and 4,426,303,300 common shares with par value of ₱1 per share, respectively.

On March 20, 2013, MCP entered into the Share Subscription Transaction with MCE Investments, under which MCE Investments subscribed for 2,846,595,000 common shares of MCP at par value of ₱1 per share for a total consideration of ₱2,846,595. The Share Subscription Transaction was completed upon SEC's approval of the increase in MCP's authorized capital stock on April 8, 2013.

On April 24, 2013, MCP and MCE Investments completed the Placing and Subscription Transaction, under which MCE Investments offered and sold in a private placement to various institutional investors of 981,183,700 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share. MCE Investments then used the proceeds from the Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱14 per share.

In connection with the Offer, MCE Investments granted the Over-allotment Option of up to 117,075,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share to the Stabilizing Agent. On May 23, 2013, the Stabilizing Agent exercised the Over-allotment Option and subscribed for 36,024,600 common shares of MCP with par value of ₱1 per share, at the offer price of ₱14 per share. MCE Investments then used the proceeds from the Over-allotment Option to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱14 per share.

The aggregate net proceeds from the aforementioned equity transactions, after deducting the underwriting commissions and other expenses of ₱407,626, was ₱16,679,885.

On June 24, 2014, MCP and MCE Investments completed the 2014 Placing and Subscription Transaction, under which MCE Investments offered and sold in a private placement to various institutional investors of 485,177,000 common shares of MCP with par value of ₱1 per share, at the offer price of ₱11.30 per share. MCE Investments then used the proceeds from the 2014 Offer to subscribe to an equivalent number of common shares in MCP at the subscription price of ₱11.30 per share. The net proceeds from the 2014 Offer, after deducting the underwriting commissions and other expenses of ₱106,596, was ₱5,375,904.

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

11. **Equity** – continued

Treasury Shares
As of December 31, 2012, the total number of treasury shares held by MCP was 150,435,404 shares, representing 64,803,449 Class A shares and 85,631,955 Class B shares, and the total cost of treasury shares in aggregate was ₱288,514. The declassification of Class A and Class B treasury shares to a single class of common stock treasury share were approved by the SEC on March 5, 2013. On April 8, 2013, MCP sold all of its treasury shares, representing 150,435,404 common shares to third parties at ₱14.2 per share. As of September 30, 2014 and December 31, 2013, MCP does not have any remaining treasury shares.

Equity Reserve
The amount of equity reserve consists of the net difference between the cost of MCP to acquire MCE Holdings Group and the legal capital of the latter (i.e., common stock and additional paid-in capital) at the date of reverse acquisition plus the retained earnings of MCP as of December 19, 2012, the date when MCP was acquired by MCE through MCE Investments and MCE Investments No.2.

The equity reserve is accounted for as follows:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Retained earnings of MCP as of December 19, 2012	**₱732,453**	₱732,453
Consideration to MCP for the acquisition of MCE Holdings Group	**(7,198,590)**	(7,198,590)
Legal capital of MCE Holdings Group as of March 20, 2013*	**2,852,147**	2,852,147
	(₱3,613,990)	(₱3,613,990)

**Including share issuance costs of ₱2,094*

As of September 30, 2014 and December 31, 2013, the Parent Company has 439 and 436 stockholders, respectively.

12. **General and Administrative Expenses**

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Legal and other professional fees	**₱4,352**	₱27,708	**₱47,889**	₱72,492
Taxes and licenses	**18,767**	(16)	**21,919**	45,402
Management fee expenses (Note 15)	**476**	271	**2,418**	4,113
Rental expenses (Note 21(b))	**–**	–	**–**	8,209
Operating expenses and others	**1,973**	1,317	**4,120**	2,558
	₱25,568	₱29,280	**₱76,346**	₱132,774

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

13. **Pre-opening Costs**

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Staff costs	**₱792,975**	₱60,685	**₱1,347,027**	₱80,857
Consultancy fee in consideration for share awards (Note 26)	**77,977**	90,259	**227,275**	93,202
Rental expenses (Note 21(b))	**89,617**	47,816	**225,544**	94,885
Share-based compensation expenses (Note 26)	**61,216**	51,469	**154,611**	53,168
Project management fee expenses (Note 15)	**43,544**	36,434	**132,389**	119,745
Repairs and maintenance	**32,844**	3,424	**55,376**	3,424
Advertising and marketing expenses	**11,783**	–	**43,775**	314
Travel and entertainment	**6,580**	4,673	**27,934**	5,037
Legal and other professional fees	**(1,328)**	6,062	**24,861**	24,875
Taxes and licenses	**377**	(11,104)	**6,496**	6,833
Operating expenses and others	**56,610**	4,766	**89,832**	5,953
	₱1,172,195	₱294,484	**₱2,335,120**	₱488,293

14. **Development Costs**

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Written off from contract acquisition costs (Note 6)	**₱–**	₱–	**₱–**	₱64,721
Legal and other professional fees	**–**	–	**–**	28,865
Project management fee expenses	**–**	–	**–**	1,504
	₱–	₱–	**₱–**	₱95,090

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

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

15. **Related Party Transactions**

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

In addition to those transactions disclosed in Notes 1(b), 1(c), 1(d), 11, 24(a), 24(c) and 24(g), the Group entered into the following significant related party transactions:

Category	Amount of transactions for the three months ended September 30, 2014 (Unaudited)	Amount of transactions for the nine months ended September 30, 2014 (Unaudited)	Outstanding balance (Unaudited)	Terms	Conditions
Amount due from a shareholder					
MCE Investments No.2					
Balance as of January 1, 2014 and September 30, 2014			**₱5,425**	**Repayable on demand; non-interest bearing**	**Unsecured, no impairment**
Amount due to ultimate holding company					
MCE					
Balance as of January 1, 2014			**₱107,787**	**Repayable on demand; non-interest bearing**	**Unsecured**
Project management fee expenses recognized as pre-opening costs	**₱10,598**	**₱31,590**	**31,590**		
Management fee income[1]	**(26,829)**	**(71,835)**	**(71,835)**		
Revaluation of outstanding balance			**2,143**		
Balance as of September 30, 2014			**₱69,685**		
Amount due to immediate holding company					
MCE Investments					
Balance as of January 1, 2014			**₱887,415**	**Repayable on demand; non-interest bearing**	**Unsecured**
Funds advance to the Group	**₱–**	**₱154**	**154**		
Revaluation of outstanding balance			**8,650**		
Balance as of September 30, 2014			**₱896,219**		

MELCO CROWN (PHILIPPINES) RESORTS CORPORATION AND SUBSIDIARIES

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

15. **Related Party Transactions** – continued

Category	Amount of transactions for the three months ended September 30, 2014 (Unaudited)	Amount of transactions for the nine months ended September 30, 2014 (Unaudited)	Outstanding balance (Unaudited)	Terms	Conditions
Amounts due to affiliated companies					
MCE's subsidiaries					
Balance as of January 1, 2014			**₱345,449**	**Repayable on demand; non-interest bearing**	**Unsecured**
Project management fee expenses capitalized in construction in progress	**₱116,047**	**₱147,368**	**147,368**		
Project management fee expenses capitalized in deferred financing costs	**–**	**622**	**622**		
Project management fee expenses recognized as pre-opening costs	**32,946**	**100,799**	**100,799**		
Management fee expenses recognized as general and administrative expenses	**476**	**2,418**	**2,418**		
Settlement of payables on behalf of the Group	**1,821**	**3,038**	**3,038**		
Revaluation of outstanding balance			**8,081**		
Balance as of September 30, 2014			**₱607,775**		
A subsidiary of Crown Resorts Limited ("Crown")[2]					
Balance as of January 1, 2014			**₱5,874**	**Repayable on demand; non-interest bearing**	**Unsecured**
Acquisition of property and equipment	**₱23,557**	**₱24,995**	**24,995**		
Consultancy fee expenses recognized as pre-opening costs	**2,621**	**2,621**	**2,621**		
Settlement of outstanding balance			**(1,628)**		
Balance as of September 30, 2014			**₱31,862**		

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

15. **Related Party Transactions** – continued

Category	Amount of transactions for the three months ended September 30, 2014 (Unaudited)	Amount of transactions for the nine months ended September 30, 2014 (Unaudited)	Outstanding balance (Unaudited)	Terms	Conditions
Amounts due to affiliated companies – continued					
Melco International Developments Limited ("Melco")(2), its subsidiary and associated company					
Balance as of January 1, 2014			**₱2,268**	**Repayable on demand; non-interest bearing**	**Unsecured**
Deposit for acquisition of property and equipment	**₱1,308**	**₱60,745**	**60,745**		
Acquisition of property and equipment	**1,380**	**5,796**	**5,796**		
Settlement of payables on behalf of the Group	**1,308**	**2,864**	**2,864**		
Revaluation of outstanding balance			**(12)**		
Settlement of outstanding balance			**(69,981)**		
Balance as of September 30, 2014			**₱1,680**		

Notes:
(1) The amount represents the recharge of share-based compensation expenses for certain directors of MCP for the three and nine months ended September 30, 2014 to MCE.

(2) Crown and Melco are major shareholders of MCE.

Directors' Remuneration

For the three and nine months ended September 30, 2014, the remuneration of directors of the Group were borne by MCE.

16. **Basic/Diluted Loss Per Share**

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Net loss (a)	**(₱1,789,664)**	(₱684,095)	**(₱4,190,045)**	(₱1,695,214)
Weighted average number of common shares outstanding of legal parent (b)	**4,911,480,300**	4,426,303,300	**4,602,246,608**	2,936,555,313
Basic/Diluted loss per share (a)/(b)*1,000	**(₱0.36)**	(₱0.15)	**(₱0.91)**	(₱0.58)

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

16. **Basic/Diluted Loss Per Share** – continued

For the three and nine months ended September 30, 2014, 125,427,218 outstanding share options and 65,021,790 outstanding restricted shares as of September 30, 2014 were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2013, 120,306,094 outstanding share options and 60,153,045 outstanding restricted shares as of September 30, 2013 were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive.

17. **Income Tax**

The provision for income tax for the three and nine months ended September 30, 2014 and 2013 consisted of:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Provision for current income tax	**₱6,955**	₱–	**₱19,843**	₱–
Benefit from deferred income tax	**(6,955)**	–	**(19,843)**	–
	₱–	₱–	**₱–**	₱–

The provision for current income tax for the three and nine months ended September 30, 2014 represents the tax provided by the Group on its income for these periods. The benefit from deferred income tax represents the deferred tax asset, which is recognized up to the amount of income tax recognized for the three and nine months ended September 30, 2014 to the extent of the amount of the reversing deductible temporary difference arising from share-based compensation expenses.

The components of the Group's net deferred tax assets as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Deferred tax assets:		
Deferred rent under PAS 17	**₱191,068**	₱44,265
Share-based compensation expenses	**19,843**	–
	210,911	44,265
Deferred tax liability:		
Capitalized interest expenses	**(191,068)**	(44,265)
	₱19,843	₱–

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

17. **Income Tax** – continued

The Group has the following temporary differences for which no deferred tax assets have been recognized since management believes that the Group may not be able to realize the benefits from these deferred tax assets in the future.

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Net operating loss carryover ("NOLCO")	**₱1,387,607**	₱468,301
Deferred rent under PAS 17	**233,346**	178,446
Share-based compensation expenses	**178,168**	83,445
Unrealized foreign exchange loss, net	**70,512**	31,782
Interest expenses	**53,125**	–
Others	**94,534**	8,530
	₱2,017,292	₱770,504

As of September 30, 2014, the Group's NOLCO can be carried forward and claimed as deduction from regular taxable income are as follows:

Year Incurred	Expiry Year	Amount
2012	2015	**₱48,224**
2013	2016	**1,440,046**
2014	2017	**3,137,086**
		₱4,625,356

No NOLCO has been utilized for the three months ended September 30, 2014. NOLCO incurred in 2013, 2012 and 2011 amounting ₱8,742, ₱3,210 and ₱1,264, respectively have been utilized for the nine months ended September 30, 2014. The amounts utilized included the NOLCO of ₱1,264 and ₱1,429 incurred by former business of MCP in 2011 and 2012, respectively. NOLCO incurred by former business of MCP in 2010 amounting to ₱1,365 expired in 2013.

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

17. **Income Tax** – continued

As of September 30, 2014 and December 31, 2013, the Group has income tax payable as follows:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Balance at beginning of period/year	**₱–**	₱–
Provision for current income tax	**19,843**	–
Under provision for income tax for prior year	**1,722**	–
Less: Utilization of creditable withholding tax	**(11,244)**	–
Less: Utilization of tax credit from minimum corporate income tax ("MCIT")	**(1,722)**	–
Less: Income tax paid	**(1,644)**	–
Balance at end of period/year	**₱6,955**	₱–

MCIT tax credit incurred for the prior year amount to ₱1,722 has been utilized for the nine months ended September 30, 2014.

A reconciliation of income tax benefit computed at statutory income tax rate to provision for income tax is as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Income tax benefit computed at statutory income tax rate	**(₱536,900)**	(₱205,228)	**(₱1,257,014)**	(₱508,564)
Income tax effects of:				
Change in unrecognized deferred tax assets	**534,400**	208,526	**1,250,753**	496,180
Change in unrecognized deferred tax asset in prior year	**(2,072)**	–	**12,526**	–
Expenses not deductible for tax	**6,942**	2,946	**8,882**	22,490
Utilization of tax loss previously not recognized	**–**	–	**(3,965)**	–
Interest income subject to final tax	**(2,370)**	(6,244)	**(11,182)**	(10,106)
	₱–	₱–	**₱–**	₱–

17. **Income Tax** – continued

Section 13(2)(a) of the PAGCOR Charter grants PAGCOR an exemption from tax, income or otherwise, as well as exemption from any form of charges, fees, levies of whatever nature, whether national or local, except a 5% franchise tax on the gross revenue or earnings derived by PAGCOR on its operations under the franchise. Such tax shall be in lieu of all taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority. Section 13(2)(a) of the PAGCOR Charter which provides that the exemptions granted for earnings derived from the operations conducted under the franchise specifically from the payment of any tax, income or otherwise, as well as any form of charges, fees or levies, shall inure to the benefit of and extend to the corporations, associations, agencies or individuals with whom PAGCOR, or operator has any contractual relationship in connection with the operations of the casino authorized to be conducted under the franchise and to those receiving compensation of other remuneration from PAGCOR or operator as a result of essential facilities furnished and/or technical services rendered to PAGCOR or operator. Management believes that the tax benefits granted to PAGCOR under its charter inure to the benefit of, and extend to corporations, associations and agencies, individuals with whom PAGCOR has any contractual agreement in accordance with Section 13(2)(b) of the PAGCOR Charter as of March 31, 2013.

The Bureau of Internal Revenue (“BIR”) issued Revenue Memorandum Circular (“RMC”) No. 33-2013 on April 17, 2013. The RMC clarifies that PAGCOR is no longer exempt from corporate income tax and is thus subject to corporate income tax under the National Internal Revenue Code (the “Tax Code”) on its operations of gambling, casinos, gaming clubs and other similar recreation or amusement places, gaming pools and other related operations as well as on other income. The RMC further provided that PAGCOR’s licensees and contractees, which are entities duly authorized and licensed by PAGCOR to perform gambling casinos, gaming clubs and other similar recreation or amusement places, and gaming pools, are likewise subject to income tax under the Tax Code.

To address the additional exposure to corporate income tax brought by BIR RMC No. 33-2013, PAGCOR and the Licensees have agreed for the three and nine months ended September 30, 2014 to adjust the license fees commencing April 1, 2014 by 10% of gross gaming revenues, further details please refer to Note 21(c).

As of September 30, 2014, management believes that the RMC No. 33-2013 does not have any material financial impact to the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2014.

On August 23, 2013, MCE Leisure was issued a certificate of registration by Philippine Economic Zone Authority (“PEZA”) as a tourism economic zone enterprise (“Tourism Economic Zone Enterprise”) for the development and operation of tourist facilities, particularly: (a) hotels, including facilities relating thereto, such as spas, fitness centers, restaurants, etc; (b) retail areas; (c) theme amusement and entertainment complexes; (d) ballroom, function room, and conference facilities; and (e) food and beverage outlets, at the Belle Grande Manila Bay (now rebranded as City of Dreams Manila), pursuant to the terms and conditions of a registration agreement signed between PEZA and MCE Leisure on August 22, 2013. As a Tourism Economic Zone Enterprise, MCE Leisure was granted the following fiscal incentives: (a) tax and duty free importation of capital equipment to be used as part of the registered activity; and (b) VAT zero rating on local purchase of capital equipment in accordance with the PEZA rules and regulations.

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

18. **Obligations Under Finance Lease**

On October 25, 2012, MCE Leisure and Belle entered into the Lease Agreement, where Belle agreed to lease to MCE Leisure the land and certain of the building structures for City of Dreams Manila for the period from March 13, 2013 (i.e. the date when relevant obligations and other conditions to give effect to the Lease Agreement were satisfied) until the termination of the Operating Agreement, currently expected to be on July 11, 2033 or unless terminated earlier in accordance with its terms. The Group made an assessment at inception of the lease and recorded the portion related to the lease of certain of the building structures under finance lease, with the amount of obligations under finance lease recognized being the lower of the fair value of the building structures and present value of the minimum lease payments. Interest rate underlying the obligations under finance lease was 14.92% per annum at inception of the Lease Agreement.

On July 31, 2013, MCE Leisure and Belle signed an addendum to the Lease Agreement to reduce the monthly rental payments with effective from July 1, 2013 with total discount for each twelve month rolling period with a cap of the Philippine peso equivalent of US$1,000,000, with the first twelve month period beginning from March 1, 2013. As a result of the discount in monthly rental payments, the interest rate underlying the obligations under finance lease was revised to 14.63% per annum. As of September 30, 2014, after subsequent minor changes to the terms of the Lease Agreement, the interest rate underlying the obligations under finance lease was revised to 14.29% per annum.

As of September 30, 2014, the minimum lease payments and present value of minimum lease payments on obligations under finance lease of the Group on the Lease Agreement were as follows:

	September 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Minimum Lease Payments	**Present Value of Minimum Lease Payments**	Minimum Lease Payments	Present Value of Minimum Lease Payments
Amounts payable under finance lease:				
Within one year	**₱1,369,255**	**₱1,266,016**	₱1,305,472	₱1,206,198
In more than one year and not more than five years	**6,927,587**	**4,479,239**	6,490,353	4,170,746
In more than five years	**34,618,558**	**7,292,277**	36,160,760	7,059,327
	42,915,400	**13,037,532**	43,956,585	12,436,271
Less: Finance charges	**(29,877,868)**	**–**	(31,520,314)	–
Present value of lease obligations	**₱13,037,532**	**13,037,532**	₱12,436,271	12,436,271
Less: Current portion of obligations under finance lease		**(1,266,016)**		(1,206,198)
Noncurrent portion of obligations under finance lease		**₱11,771,516**		₱11,230,073

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

18. **Obligations Under Finance Lease** – continued

Apart from the lease of certain of the building structures under finance lease as mentioned above, MCE Leisure signed a master service agreement with a third party in 2013 to set up certain information technology infrastructure (the “IT Equipment”) for City of Dreams Manila and provide maintenance and support service to MCE Leisure for the period from August 2013 to November 2018. The ownership and title of the IT Equipment will be transferred to MCE Leisure upon expiry of the term or when MCE Leisure agrees to purchase the IT Equipment at agreed prices at different time periods if the master service agreement is early terminated. The Group made an assessment at inception of the master service agreement and recorded the portion related to the IT Equipment under finance lease. Interest rate underlying the obligations under finance lease for the IT Equipment was 8% per annum at inception of the master service agreement.

On April 30, 2014, MCE Leisure exercised the termination clause of the master service agreement by serving a 120-day notice, and accordingly, the effective date of termination is August 28, 2014. Upon termination of the agreement, MCE Leisure exercised the buy-out option at a price of ₱36,173. The difference between the buy-out price of the IT Equipment under finance lease and the carrying amount of the lease obligations of ₱39,921 was recorded as an adjustment to the cost of the IT Equipment (see Note 5).

As of September 30, 2014, the Group had no obligation under finance lease for the IT Equipment. As of December 31, 2013, the minimum lease payments and present value of minimum lease payments on obligations under finance lease for the IT Equipment were as follows:

	September 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Minimum Lease Payments	**Present Value of Minimum Lease Payments**	Minimum Lease Payments	Present Value of Minimum Lease Payments
Amounts payable under finance lease:				
Within one year	**₱–**	**₱–**	₱11,396	₱7,989
In more than one year and not more than five years	–	–	44,635	38,210
	–	–	56,031	46,199
Less: Finance charges	–	–	(9,832)	–
Present value of lease obligations	**₱–**	–	₱46,199	46,199
Less: Current portion of obligations under finance lease		–		(7,989)
Noncurrent portion of obligations under finance lease		**₱–**		₱38,210

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

19. **Long-term Debt**

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Senior Notes	**₱15,000,000**	₱–
Less: Deferred financing costs, net	**(310,489)**	–
	14,689,511	–
Current portion of long-term debt	**–**	–
	₱14,689,511	₱–

(a) Senior Notes

On January 24, 2014, MCE Leisure issued the ₱15,000,000 Senior Notes at par of 100% of the principal amount and offered to certain primary institutional lenders as noteholders via private placement in the Philippines which was priced on December 19, 2013.

The Senior Notes are general obligations of MCE Leisure, secured on a first-ranking basis by pledge of shares of all present and future direct and indirect subsidiaries of MCP, rank equally in right of payment to all existing and future senior indebtedness of MCE Leisure (save and except for any statutory preference or priority) and rank senior in right of payment to any existing and future subordinated indebtedness of MCE Leisure.

The Senior Notes are guaranteed by MCP and all present and future direct and indirect subsidiaries of MCP (subject to certain limited exceptions) (collectively the "Guarantors"), jointly and severally with MCE Leisure; and irrevocably and unconditionally by MCE on a senior basis. The guarantees are general obligations of the Guarantors, rank equally in right of payment to all existing and future senior indebtedness of the Guarantors (except for any statutory preference or priority) and rank senior in right of payment to any existing and future subordinated indebtedness of the Guarantors.

The Senior Notes mature on January 24, 2019. Interest on the Senior Notes is accrued at a rate of 5.00% per annum and is payable semi-annually in arrears on January 24 and July 24 of each year, commencing on July 24, 2014. In addition, the Senior Notes includes a tax gross up provision requiring MCE Leisure to pay without any deduction or withholding for or on account of tax.

The net proceeds from the offering of the Senior Notes, after deducting the underwriting commissions and other expenses of ₱230,769, was ₱14,769,231. MCE Leisure used the net proceeds from the offering to fund the City of Dreams Manila project, refinancing of debt and for general corporate purposes.

19. **Long-term Debt** – continued

(a) Senior Notes – continued

MCE Leisure has the option to redeem all or a portion of the Senior Notes at any time prior to January 24, 2015 at 100% of the principal amount plus applicable premium as defined in the notes facility and security agreement (the "Notes Facility and Security Agreement") governing the Senior Notes. Thereafter, MCE Leisure has the option to redeem all or a portion of the Senior Notes at any time at fixed prices that decline ratably over time.

The Notes Facility and Security Agreement contains certain covenants that, subject to certain exceptions and conditions, limit the ability of MCP and its subsidiaries' ability, including MCE Leisure to, among other things: (i) incur or guarantee additional indebtedness; (ii) sell assets; (iii) create liens; and (iv) effect a consolidation and merger.

The Senior Notes are exempted from registration with SEC under the Philippine Securities Regulation Code Rule ("SRC Rule") 9.2.2(B) promulgated by SEC as the Senior Notes were offered via private placement to not more than nineteen primary institutional lenders, accordingly, the Senior Notes is subject to the conditions of the said SRC Rule 9.2.2(B) which limit the assignment and transfer of the Senior Notes to primary institutional lenders only and to be held by not more than nineteen primary institutional lenders at any time before maturity of the Senior Notes.

(b) Shareholder Loan Facility

On December 23, 2013, MCE Leisure, as borrower (the "Borrower"), signed the definitive agreement of the senior secured shareholder loan facility (the "Shareholder Loan Facility") in an aggregate amount of up to US$340,000,000 (the "Shareholder Loan") with MCE Investments as lender (the "Lender") with reference to certain terms and conditions set out in a commitment letter (the "Commitment Letter") entered by MCE Leisure with MCE Investments on April 12, 2013. The Shareholder Loan Facility is a term loan facility denominated in the United States dollars. MCP, MCE Holdings, MCE Holdings No. 2 (together with the Borrower, the "Obligors") have provided a guarantee under the Shareholder Loan Facility in favour of the Lender in relation to the obligations of the Obligors under the Shareholder Loan. The Lender may require such security as is notified by the Lender to the Borrower, including a pledge of shares (legally and beneficially held) over each of the present and future direct and indirect subsidiaries of MCP to be provided as a condition precedent to the initial utilization of the Shareholder Loan.

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

19. **Long-term Debt** – continued

(b) Shareholder Loan Facility – continued

As of September 30, 2014 and December 31, 2013, the Shareholder Loan Facility has not been drawn as it was originally intended to be a back-up facility arrangement and will only be utilized by the Borrower if the issuance of the Senior Notes is not completed.

(c) Deferred Financing Costs, Net

Direct and incremental costs of ₱352,228 incurred in connection with the issuance of the Senior Notes are capitalized as deferred financing costs. For the three and nine months ended September 30, 2014, deferred financing costs of ₱15,558 and ₱41,739 were amortized to the unaudited condensed consolidated statements of comprehensive income, respectively. As of September 30, 2014, the unamortized deferred financing costs of ₱310,489 were net off and included in the amount of long-term debt as shown in the unaudited condensed consolidated balance sheet.

Interest expenses on long-term debt consisted of interest for the Senior Notes amounted to ₱234,375 and ₱645,833 for the three and nine months ended September 30, 2014, respectively. No interest on long-term debt was capitalized for the three and nine months ended September 30, 2014.

For the three and nine months ended September 30, 2014, the Group's borrowing rates were approximately 6.25% per annum in each of those periods, including a tax gross up impact on interest on the Senior Notes which required MCE Leisure to pay without any deduction or withholding for or on account of tax.

Other finance fees on long-term debt represents the gross receipt tax on interest, including a tax gross up impact which required MCE Leisure to pay without any deduction or withholding for or on account of tax amounted to ₱12,378 and ₱32,951 for the three and nine months ended September 30, 2014, respectively.

20. **Cooperation Agreement, Operating Agreement and Lease Agreement**

For the three and nine months ended September 30, 2014, there is no significant change to the terms and conditions of the Cooperation Agreement, the Operating Agreement and the Lease Agreement as disclosed in the Group's consolidated financial statements as of December 31, 2013.

21. **Commitments and Contingencies**

(a) Capital Commitments

As of September 30, 2014, the Group had capital commitments mainly for the fit-out construction costs of City of Dreams Manila totaling ₱6,180,228 including advance payment for construction costs of ₱668,080 as disclosed in Note 8.

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

21. **Commitments and Contingencies** – continued

(b) Operating Lease Commitments

The Group leased a portion of land under the Lease Agreement for City of Dreams Manila and certain office spaces, warehouses, staff quarter and various equipment under non-cancellable operating lease agreements that expire at various dates through July 2033. Certain lease agreements provide for periodic rental increases based on both contractually agreed incremental rates and on the general inflation rate once agreed by the Group and its lessors. For the three months ended September 30, 2014 and 2013, the Group incurred total rental expenses amounting to ₱96,657 and ₱51,183, of which ₱89,617 and ₱47,816 were recognized as pre-opening costs and ₱7,040 and ₱3,367 were capitalized in construction in progress, respectively. For the nine months ended September 30, 2014 and 2013, the Group incurred total rental expenses amounting to ₱246,117 and ₱106,461, of which nil and ₱8,209 were recognized as general and administrative expenses, ₱225,544 and ₱94,885 were recognized as pre-opening costs and ₱20,573 and ₱3,367 were capitalized in construction in progress, respectively.

As of September 30, 2014, minimum lease payments under non-cancellable leases are as follows:

	September 30, 2014 (Unaudited)
Year ending December 31,	
2014	**₱76,374**
2015	**212,785**
2016	**215,988**
2017	**200,456**
2018	**162,674**
Over 2018	**2,584,156**
	₱3,452,433

21. **Commitments and Contingencies** – continued

(c) Other Commitments and Guarantees

For the three and nine months ended September 30, 2014, there is no significant change to the terms of other commitments and guarantees for the Provisional License, the Cooperation Agreement and the Lease Agreement as disclosed in the Group's consolidated financial statements as of December 31, 2013, except for the below:

For taxable periods prior to April 1, 2014, under Article IV, Section 20 of the Provisional License, PAGCOR and the Licensees agreed the license fees that are paid to PAGCOR by the Licensees are in lieu of all taxes with reference to the income component of the gross gaming revenues. PAGCOR and the Licensees have agreed to adjust the license fees commencing April 1, 2014 by 10% of gross gaming revenues. This adjustment will address the additional exposure to corporate income tax on the Licensees brought by BIR RMC No. 33-2013 as disclosed in Note 17. The 10% license fee adjustment is a temporary measure to address the unilateral BIR action and is not intended to modify, amend or revise the Provisional License. PAGCOR and the Licensees agreed to revert to the original license fee structure under the Provisional License in the event the BIR action is permanently restrained, corrected or withdrawn. PAGCOR and the Licensees also agreed that the 10% license fee adjustment is not an admission of the validity of BIR RMC No. 33-2013 and it is not a waiver of any of the remedies against any assessments by the BIR for corporate income tax on the gaming revenue of the Licensees.

Under the terms of the Provisional License, it requires each Licensees to maintain a debt-to-equity ratio under the definition as agreed with PAGCOR of not more than 70:30. As of September 30, 2014, MCE Holdings Group as one of the parties as Licensees has complied with the required debt-to-equity ratio.

(d) Litigation

As of September 30, 2014, the Group is a party to certain legal proceedings which relate to matters arising out of the ordinary course of its business. Management does not believe that the outcome of such proceedings will have a material effect on the Group's financial position, results of operations or cash flows.

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

The Group's principal financial instruments consist mainly of cash and cash equivalents and restricted cash which will be used for City of Dreams Manila. The Group has other financial assets and liabilities such as security deposit, other deposits and receivables, amount due from a shareholder, accrued expenses, other payables and other current liabilities, amount due to ultimate holding company, amount due to immediate holding company, amounts due to affiliated companies and other noncurrent liabilities which arise directly from its operations.

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

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

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

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

With respect to credit risk from the financial assets of the Group, which are composed of cash and cash equivalents, restricted cash, security deposit, other deposits and receivables and amount due from a shareholder, the exposure of the Group to credit risk arises from the default of bank where the Group's cash and cash equivalents and restricted cash were deposited, the default of the counterparty of which the security deposit and other deposits and receivables were held and the default of repayment from a shareholder, with a maximum exposure equal to the carrying amount of these instruments. There is no significant concentration of credit risk in the Group.

Credit Risk Exposures. The carrying values of the Group's financial assets represent the maximum exposure to credit risk since the financial assets have no collateral or credit enhancements as of September 30, 2014 and December 31, 2013.

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

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

Credit Risk – continued

Credit Quality per Class of Financial Assets. Cash and cash equivalents and restricted cash are considered as high grade and include deposits made to reputable banks in the Philippines. Amount due from a shareholder and other deposits and receivables are considered as high grade as MCE will provide financial support to the shareholder of the Parent Company to meet in full its financial obligations as they fall due and the Group only trades with recognized and creditworthy third parties. Security deposit is also classified as high grade since the security deposit in relation to the Lease Agreement is placed with Belle, a company listed in the PSE with positive financial performance.

	September 30, 2014 (Unaudited)				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Financial Assets					
Cash and cash equivalents	**₱13,296,422**	**₱–**	**₱–**	**₱–**	**₱13,296,422**
Amount due from a shareholder	**5,425**	**–**	**–**	**–**	**5,425**
Deposits and receivables	**178,493**	**–**	**–**	**–**	**178,493**
Restricted cash	**2,248,300**	**–**	**–**	**–**	**2,248,300**
	₱15,728,640	**₱–**	**₱–**	**₱–**	**₱15,728,640**

	December 31, 2013 (Audited)				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Financial Assets					
Cash and cash equivalents	₱8,599,842	₱–	₱–	₱–	₱8,599,842
Amount due from a shareholder	5,425	–	–	–	5,425
Deposits and receivables	100,371	–	–	–	100,371
Restricted cash	2,226,674	–	–	–	2,226,674
	₱10,932,312	₱–	₱–	₱–	₱10,932,312

Liquidity Risk

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

The Group obtains funding from ultimate holding company and immediate holding company and manages its liquid funds through cash planning on a monthly basis. The Group uses historical data and forecasts from its collection and disbursement to ensure it has sufficient cash to meet capital expenditure and operational needs. The forecast takes into consideration of the Group's issuance of new shares and debt financing plans and covenant compliance requirements.

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

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

Liquidity Risk – continued

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities as of September 30, 2014 and December 31, 2013 based on undiscounted contractual cash flows.

	September 30, 2014 (Unaudited)				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	**₱13,296,422**	**₱–**	**₱–**	**₱–**	**₱13,296,422**
Amount due from a shareholder	**5,425**	–	–	–	**5,425**
Deposits and receivables	**28,044**	**37,708**	**7,029**	**208,288**	**281,069**
Restricted cash	**–**	**2,248,300**	**–**	**–**	**2,248,300**
Financial Liabilities					
Accrued expenses, other payables and other current liabilities*	**₱3,031,591**	**₱–**	**₱–**	**₱–**	**₱3,031,591**
Amount due to ultimate holding company	**69,685**	**–**	**–**	**–**	**69,685**
Amount due to immediate holding company	**896,219**	**–**	**–**	**–**	**896,219**
Amounts due to affiliated companies	**641,317**	**–**	**–**	**–**	**641,317**
Current portion of obligations under finance lease	**1,369,255**	**–**	**–**	**–**	**1,369,255**
Noncurrent portion of obligations under finance lease	**–**	**3,140,487**	**3,787,100**	**34,618,558**	**41,546,145**
Long-term debt	**–**	**–**	**15,000,000**	**–**	**15,000,000**
Interest expenses payable on long-term debt (including withholding tax)	**937,500**	**1,875,000**	**1,229,167**	**–**	**4,041,667**
Other finance fees payable on long-term debt (including gross up withholding tax)	**47,832**	**95,663**	**62,713**	**–**	**206,208**
Other noncurrent liabilities	**–**	**931**	**2,375**	**8,551**	**11,857**

	December 31, 2013 (Audited)				
	Within 1 Year	1 – 3 Years	3 – 5 Years	Over 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱8,599,842	₱–	₱–	₱–	₱8,599,842
Amount due from a shareholder	5,425	–	–	–	5,425
Deposits and receivables	10,029	12,808	7,029	175,599	205,465
Restricted cash	–	2,226,674	–	–	2,226,674
Financial Liabilities					
Accrued expenses, other payables and other current liabilities*	₱884,496	₱–	₱–	₱–	₱884,496
Amount due to ultimate holding company	107,787	–	–	–	107,787
Amount due to immediate holding company	887,415	–	–	–	887,415
Amounts due to affiliated companies	353,591	–	–	–	353,591
Current portion of obligations under finance lease	1,316,868	–	–	–	1,316,868
Noncurrent portion of obligations under finance lease	–	2,986,078	3,548,910	36,160,760	42,695,748

**Excluding government and statutory liabilities*

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

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

Foreign Exchange Risk
Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group has transactional currency exposures arising from transactions denominated in foreign currencies, mainly Hong Kong dollars, United States dollars, Macau Patacas, Australian dollars and Singapore dollars. Foreign exchange risks of the Group are regularly reviewed by the management and appropriate processes are in place to monitor and mitigate the said risks by maintaining a certain amount of operating funds in the same currencies in which the Group has obligations to pay from time to time. Management decides not to hedge the currency exposures considering the cost of hedging being higher than the currency exposure.

The following table shows the Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents:

	September 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Foreign Currency	**Philippine Peso**	Foreign Currency	Philippine Peso
Financial Asset				
Cash and cash equivalents:				
United States dollar ("US$")	**US$86,670,239**	**3,897,214**	US$502,697	22,387
Foreign Currency-denominated Financial Asset		**3,897,214**		22,387

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

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

Foreign Exchange Risk – continued

	September 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Foreign Currency	**Philippine Peso**	Foreign Currency	Philippine Peso
Financial Liabilities				
Accrued expenses, other payables and other current liabilities:				
Hong Kong dollar ("HK$")	**HK$1,190,258**	**6,879**	HK$3,823,272	21,885
Macau Patacas ("MOP")	**MOP20,250**	**114**	–	–
Singapore dollar ("SGD")	**SGD8,000**	**282**	–	–
US$	**US$941,056**	**42,316**	US$1,061,348	47,266
		49,591		69,151
Amount due to ultimate holding company:				
HK$	**HK$2,634,522**	**15,227**	HK$2,634,522	15,080
MOP	**MOP16,848,582**	**94,543**	MOP11,114,897	61,770
US$	**US$1,879,012**	**84,492**	US$1,879,012	83,679
		194,262		160,529
Amount due to immediate holding company:				
HK$	**HK$155,600,000**	**899,320**	HK$155,600,000	890,670
		899,320		890,670
Amounts due to affiliated companies:				
Australian dollar ("AUD")	**AUD7,439**	**291**	AUD7,439	294
HK$	**HK$20,321,961**	**117,455**	HK$14,746,789	84,412
MOP	**MOP84,565,558**	**474,527**	MOP44,343,000	246,431
SGD	**SGD1,713**	**60**	SGD1,713	60
US$	**US$343,422**	**15,442**	US$320,007	14,251
		607,775		345,448
Current portion of obligations under finance lease:				
US$	–	–	US$179,390	7,989
		–		7,989
Noncurrent portion of obligations under finance lease:				
US$	–	–	US$858,008	38,210
		–		38,210
Foreign Currency-denominated Financial Liabilities		**1,750,948**		1,511,997

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

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

Foreign Exchange Risk – continued

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Group used the following rates of exchange as of September 30, 2014 and December 31, 2013:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Philippine peso to 1 unit of foreign currency:		
AUD	**39.08**	39.58
HK$	**5.78**	5.72
MOP	**5.61**	5.56
SGD	**35.22**	35.03
US$	**44.97**	44.53

The Group recognized net foreign exchange gain of ₱44,394 and net foreign exchange loss of ₱5,963 for the three months ended September 30, 2014 and 2013, respectively; and net foreign exchange loss of ₱93,862 and ₱74,201 for the nine months ended September 30, 2014 and 2013, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant, of the Group's loss before income tax. There is no other impact on the Group's equity other than those already affecting the total comprehensive loss.

	September 30, 2014 (Unaudited)		December 31, 2013 (Audited)	
	% Change Currency Rate	**Effect on Loss Before Income Tax**	% Change Currency Rate	Effect on Loss Before Income Tax
AUD	**+1.5%**	**₱4**	+1.4%	₱4
	-1.5%	**(4)**	-1.4%	(4)
HK$	**+1.2%**	**12,467**	+1.3%	13,157
	-1.2%	**(12,467)**	-1.3%	(13,157)
MOP	**+1.2%**	**6,830**	+1.3%	4,007
	-1.2%	**(6,830)**	-1.3%	(4,007)
SGD	**+0.6%**	**2**	+0.9%	1
	-0.6%	**(2)**	-0.9%	(1)
US$	**+1.2%**	**(45,060)**	+1.3%	2,197
	-1.2%	**45,060**	-1.3%	(2,197)

The change in currency rate is based on the Group's best estimate of expected change considering historical trends and experiences.

Positive change in currency rate reflects a stronger peso against foreign currency. On the other hand, a negative change in currency rate reflects a weaker peso against foreign currency.

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

Capital Risk Management

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

The Group considers total equity and long-term debt as its capital which amounted to ₱29,590,947 and ₱13,333,691 as of September 30, 2014 and December 31, 2013, respectively.

Under the terms of the Provisional License, it requires each of the Licensees to maintain a debt-to-equity ratio under the definition as agreed with PAGCOR (the "D/E Ratio") of not more than 70:30. The Group's strategy is to monitor capital and maintain the D/E Ratio to comply with the PAGCOR requirements. As of September 30, 2014 and December 31, 2013, MCE Holdings Group as one of the parties as Licensees has complied with the D/E Ratio as required by PAGCOR.

23. **Financial Instruments**

Fair Value of Financial Instruments

Cash and cash equivalents, Amount due from a shareholder, Other deposits and receivables, Restricted cash, Accrued expenses, other payables and other current liabilities, Amount due to ultimate holding company, Amount due to immediate holding company, Amounts due to affiliated companies and Other noncurrent liabilities. The carrying values approximate their fair values at reporting date due to the relatively short-term maturities of the transactions.

Security deposit, Current and Noncurrent portion of obligations under finance lease and Long-term debt. The carrying values approximate their fair values, which are measured by discounting estimated future cash flows to present value using a credit-adjusted discount rate.

23. **Financial Instruments** – continued

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

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

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

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

As of September 30, 2014 and December 31, 2013, the Group does not have financial instruments that are carried and measured at fair value. For the three and nine months ended September 30, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

24. **Note to Unaudited Condensed Consolidated Statements of Cash Flows**

(a) For the nine months ended September 30, 2014, fit-out construction costs and cost of property and equipment in total of ₱2,186,100 and ₱172,363 were funded through accrued expenses, other payables and other current liabilities and amounts due to affiliated companies, respectively (For the nine months ended September 30, 2013: ₱272,566 and ₱139,420, respectively).

(b) For the nine months ended September 30, 2014, interest expenses capitalized in fit-out construction costs of ₱500,890 was funded through obligations under finance lease (For the nine months ended September 30, 2013: ₱69,436).

(c) For the nine months ended September 30, 2014, deferred financing costs of ₱8,975 and ₱622 were funded through accrued expenses, other payables and other current liabilities and amounts due to affiliated companies, respectively (For the nine months ended September 30, 2013: nil and nil, respectively).

(d) For the nine months ended September 30, 2014, part of the transaction costs for the issuance of shares capitalized in additional paid-in capital of ₱4,629 was funded through accrued expenses, other payables and other current liabilities (For the nine months ended September 30, 2013: ₱6,058).

(e) For the nine months ended September 30, 2014, buy-out fee of a finance lease agreement of ₱36,173 was funded through accrued expenses, other payables and other current liabilities (For the nine months ended September 30, 2013: nil).

24. **Note to Unaudited Condensed Consolidated Statements of Cash Flows** – continued

(f) For the nine months ended September 30, 2013, building under finance lease and furniture, fixtures and equipment of ₱ 11,755,719 and ₱ 49,543, respectively, were funded through obligations under finance lease.

(g) For the nine months ended September 30, 2013, contract acquisition costs of ₱5,808 was funded through amounts due to affiliated companies. For the nine months ended September 30, 2013, contract acquisition costs of ₱64,721 was capitalized in building under finance lease.

25. **Employee Benefit Plans**

Employees employed by the Group are members of government-managed Social Security System Scheme (the "SSS Scheme") operated by the Philippines Government and the Group is required to pay at a certain percentage of the employee's relevant income and met the minimum mandatory requirements of the SSS Scheme to fund the benefits. The obligation of the Group with respect to the SSS Scheme operated by the Philippines Government is to make the required contributions under the SSS Scheme.

Certain employees employed by the Group are eligible to participate in a defined contribution scheme (the "Macau Scheme") operated by the subsidiaries of MCE in the Macau Special Administrative Region of the People's Republic of China ("Macau"). The Group is required to contribute a fixed percentage of the employees' base salaries or fixed amount to the Macau Scheme. The Group's contributions to the Macau Scheme are vested to employees in accordance to a vesting schedule with full vesting in 10 years from date of employment. The Macau Scheme was established under trust with the assets of funds held separately from those of the MCE's subsidiaries in Macau and the Group by an independent trustee in Macau.

An employee and one of the executive officers employed by the Group are members of Mandatory Provident Fund Scheme (the "MPF Scheme") operated by MCE in Hong Kong and the Group is required to contribute a fixed percentage of the employee's and the executive officer's base salaries to the MPF Scheme, which included the Group's mandatory portion. The excess of contributions over the Group's mandatory portion are treated as the Group's voluntary contribution and are vested to the executive officer in accordance to a vesting schedule with full vesting in 10 years from date of employment. The Group's mandatory contributions to the MPF Scheme are fully and immediately vested to the employee and the executive officer once they are paid. The MPF Scheme was established by MCE under trust with the assets of the funds held separately from those of MCE and the Group by an independent trustee in Hong Kong.

For the three months ended September 30, 2014 and 2013, the Group's contributions into the defined contribution plans were ₱14,855 and ₱1,073, respectively. For the nine months ended September 30, 2014 and 2013, the Group's contributions into the defined contribution plans were ₱20,937 and ₱1,089, respectively.

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

26. **Share Incentive Plan**

On February 19, 2013, the Group adopted a share incentive plan ("Share Incentive Plan") to promote the success and enhance the value of the Group by linking personal interests of members of the Board, employees and consultants to those of the stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the stockholders which was approved by the SEC and became effective on April 12, 2013. On June 21, 2013, the shareholders of the Parent Company approved the minor amendments on additional provisions of the Share Incentive Plan which was approved by the SEC and became effective on June 24, 2013. Under the Share Incentive Plan, the Group may grant various share-based awards, including but not limited to, options to purchase the Parent Company's shares, restricted shares, share appreciation rights and other types of awards. The term of such awards shall not exceed 10 years from the date of grant. The maximum aggregate number of shares which may be issued pursuant to all awards under the Share Incentive Plan is 442,630,330 shares and with up to 5% of the issued capital stock of the Parent Company from time to time over 10 years. As of September 30, 2014, 55,125,007 shares remain available for the grant of various share-based awards under the Share Incentive Plan.

Share Options

The Group granted 9,543,186 share options to certain personnel under the Share Incentive Plan for the nine months ended September 30, 2014, with the exercise price for 4,861,003 share options determined at the higher of the closing price on the date of grant and the average closing price for the five trading days preceding the date of grant of the Parent Company's common shares trading on the PSE. The exercise price for 4,682,183 share options is fixed at ₱8.3 per share, with the same exercise price with the share options granted on June 28, 2013 on the bases approved by the management that these personnel will contribute significantly to the pre-opening of City of Dreams Manila and joined the Group prior to March 31, 2014. These share options will become exercisable over different vesting periods of around three years. The share options granted expire 10 years after the date of grant.

The Group uses the Black-Scholes valuation model to determine the estimated fair value for each option grant granted, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Expected volatility is based on the historical volatility of a peer group of publicly traded companies. Expected term is based upon the vesting term or the historical of expected term of publicly traded companies. 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 term.

The fair value per option under the Share Incentive Plan was estimated at the date of grant using the following weighted average assumptions for options granted for the nine months ended September 30, 2014:

Expected dividend yield	–
Expected stock price volatility	40%
Risk-free interest rate	3.77%
Expected average life of options (years)	5.18

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

26. **Share Incentive Plan** – continued

Share Options – continued

A summary of share options activity under the Share Incentive Plan as of September 30, 2014, and changes for the nine months ended September 30, 2014 are presented below:

	Number of Share Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of January 1, 2014	**116,144,153**	**₱8.30**		
Granted	**9,543,186**	**10.82**		
Forfeited	**(260,121)**	**8.30**		
Outstanding as of September 30, 2014	**125,427,218**	**₱8.49**	**8.81**	**₱590,774**

As of September 30, 2014, no share options granted under the Share Incentive Plan were vested and exercisable.

A summary of share options expected to vest under the Share Incentive Plan as of September 30, 2014 are presented below:

	Expected to Vest		
	Number of Share Options	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Exercise price per share:			
₱8.30	**120,566,215**	**8.78**	**₱590,774**
₱13.26	**4,861,003**	**9.67**	**–**
	125,427,218	**8.81**	**₱590,774**

The weighted average fair value of share options granted under the Share Incentive Plan for the nine months ended September 30, 2014 was ₱6.31 per share. As of September 30, 2014, there was ₱181,550 unrecognized compensation costs related to unvested share options under the Share Incentive Plan and the costs were expected to be recognized over a weighted average period of 1.33 years.

Restricted Shares

The Group granted 7,079,775 restricted shares to certain personnel under the Share Incentive Plan for the nine months ended September 30, 2014. These restricted shares have vesting periods of around three years. The grant date fair value is determined with reference to the market closing price of the Parent Company's common share on the date of grant.

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

26. **Share Incentive Plan** – continued

Restricted Shares – continued

A summary of the restricted shares activity under the Share Incentive Plan as of September 30, 2014, and changes for the nine months ended September 30, 2014 are presented below:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2014	**58,072,076**	**₱8.30**
Granted	**7,079,775**	**13.03**
Forfeited	**(130,061)**	**8.30**
Unvested as of September 30, 2014	**65,021,790**	**₱8.82**

No restricted shares under the Share Incentive Plan were vested for the nine months ended September 30, 2014. As of September 30, 2014, there was ₱217,813 unrecognized compensation costs related to restricted shares under the Share Incentive Plan and the costs were expected to be recognized over a weighted average period of 1.34 years.

The impact of share options and restricted shares for the three and nine months ended September 30, 2014 recognized in the unaudited condensed consolidated financial statements were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
Share Incentive Plan:				
Share options	**₱62,948**	₱65,638	**₱175,847**	₱67,788
Restricted shares	**76,245**	76,090	**206,039**	78,582
Total share-based compensation expenses	**₱139,193**	₱141,728	**₱381,886**	₱146,370
Share-based compensation expenses recognized as pre-opening costs	**₱61,216**	₱51,469	**₱154,611**	₱53,168
Consultancy fee in consideration for share awards recognized as pre-opening costs	**77,977**	90,259	**227,275**	93,202
	₱139,193	₱141,728	**₱381,886**	₱146,370