

# COVER SHEET

for

# AUDITED FINANCIAL STATEMENTS

SEC Registration Number

|   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|
| C | S | 2 | 0 | 2 | 0 | 5 | 2 | 2 | 9 | 4 |
|---|---|---|---|---|---|---|---|---|---|---|

**Company Name**

[illegible]

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

[illegible]

FORM TYPE

|   |   |   |   |
|---|---|---|---|
| 1 | 7 | - | A |
|---|---|---|---|

DEPARTMENT REQUIRING THE REPORT

|   |   |   |   |
|---|---|---|---|
| M | S | R | D |
|---|---|---|---|

SECONDARY LICENSE TYPE, IF APPLICABLE

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|--|--|--|--|

## COMPANY INFORMATION

**COMPANY EMAIL ADDRESS**

COMPLIANCE@MREIT.COM.PH

COMPANY'S TELEPHONE NUMBER

(632) 8894-6300/6400

MOBILE NUMBER

(0917) 8788206

NO. OF STOCKHOLDERS

17

ANNUAL MEETING (MONTH/DAY)

TBA

FISCAL YEAR (MONTH/DAY)

DECEMBER 31

## CONTACT PERSON INFORMATION

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

NAME OF CONTACT PERSON

ATTY. KRIZELLE MARIE F. POBLACION

EMAIL ADDRESS

COMPLIANCE@MREIT.COM.PH

TELEPHONE NO.

(632) 8894-6300

MOBILE NUMBER

(0906) 448 8908

## CONTACT PERSON'S ADDRESS

10th Floor, Two World Square, 24 Upper McKinley Road, McKinley Hill, Taguig City, Philippines 1634

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

**Note 2:** All boxes must be properly and completely filled-up. Failure to do so shall cause delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The management of MREIT, Inc. (the Company), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2023, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
**FRANCISCO C. CANUTO**  
*Chairman of the Board*  
**KEVIN ANDREW L. TAN**  
*President and Chief Executive Officer*  
**ENGLEBERT G. TEH**  
*Chief Financial Officer*

Signed this 26th day of February 2024

SUBSCRIBED AND SWORN to before me this 29<sup>th</sup> day of February 2024 at Pasay City, Philippines, affiants exhibiting to me their Tax Identification Nos. as follows:

Francisco C. Canuto  
Kevin Andrew L. Tan  
Englebert G. Teh

TIN No. 102-956-483-000  
TIN No. 224-803-734-000  
TIN No. 422-006-274-000

*Angeli S. Tristeza*  
**NOTARY PUBLIC**

**ATTY. ANGELI S. TRISTEZA**

Commission No. 23-20

Notary for Pasay City

Roll No. 71193

PTR No. A-6123732 / 01-03-2024 / Taguig City

IBP No. 327821 / 12-13-2023 / Cagayan

Doc. No. 58;  
Page No. 13;  
Book No. III;  
Series of 2024.



Megaworld Holdings <megaworldholdingsinc@gmail.com>

---

## Your BIR AFS eSubmission uploads were received

1 message

**eafs@bir.gov.ph** <eafs@bir.gov.ph>

Mon, Apr 15, 2024 at 8:15 PM

To: MEGAWORLHDHOLDINGSINC@gmail.com

Cc: MEGAWORLHDHOLDINGSINC@gmail.com

Hi MREIT, INC.,

### Valid files

- EAFS502228971OTHTY122023.pdf
- EAFS502228971RPPTY122023.pdf
- EAFS502228971TCRTY122023-01.pdf
- EAFS502228971ITRTY122023.pdf
- EAFS502228971AFSTY122023.pdf

### Invalid file

- <None>

Transaction Code: **AFS-0-44ZW2ZS408KE995E6QP4NVPVR0QVX1P4QW**

Submission Date/Time: **Apr 15, 2024 08:15 PM**

Company TIN: **502-228-971**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply.



**FOR SEC FILING**

Financial Statements and  
Independent Auditors' Report

**MREIT, Inc.**

For the Years Ended December 31, 2023 and 2022 and  
the Six Months Ended December 31, 2021

## **Report of Independent Auditors**

---

**Punongbayan & Araullo**

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors****MREIT, Inc.**

*(A Subsidiary of Megaworld Corporation)*

18th Floor, Alliance Global Tower  
36th Street cor. 11th Avenue  
Uptown Bonifacio, Taguig City

### **Report on the Audit of Financial Statements**

#### ***Opinion***

We have audited the financial statements of MREIT, Inc. (the Company), which comprise the statements of financial position as of December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, and the notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, in accordance with Philippine Financial Reporting Standards (PFRS).

#### ***Basis for Opinion***

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

***Emphasis of Matter***

As more fully described on Note 1 to the financial statements, the Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 2, 2020. Subsequently, the Company applied with the SEC in October 2021 for the amendments in its By-laws for a change in its reporting period from fiscal year beginning July 1 and ending June 30 to calendar year beginning January 1 and ending December 31, and such amendment was approved by the SEC and Bureau of Internal Revenue (BIR) on November 4, 2021 and November 25, 2021, respectively.

***Key Audit Matters***

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

***Addition to and Valuation of Investment Properties******Description of the Matter***

In 2023, the Company acquired additional investment properties valued at P5.3 billion through a Deed of Exchange of Property for Shares with Megaworld Corporation, its Parent Company. Investment properties are accounted for under the fair value model, which was determined by an independent appraiser using the income approach. Under the income approach, the fair value of an asset is measured by calculating the present value of its economic benefits by discounting expected cash flows at a rate of return that compensate the risks associated with a particular investment. The total fair value of investment properties as of December 31, 2023 is P59.0 billion, which represents 96% of the total assets of the Company. The addition to and valuation of the additional acquisition and remeasurement of fair value of investment properties are considered key audit matters because of the significance of the amounts to the financial statements. In addition, the measurement of the property for share swap transaction and the remeasurement of investment properties at fair value as of December 31, 2023 involve the application of significant management judgments and high estimation uncertainty.

The Company's policy on measurement of investment properties is more fully described in Note 2 to the financial statements. The significant judgments applied and estimates used in measuring fair value are more fully described in Note 3 to the financial statements, while the detailed information on investment properties and valuation approach used are fully described in Notes 6 and 21, respectively, to the financial statements.

***How the Matter was Addressed in the Audit***

We have examined the additional investment properties during the year by agreeing to supporting documents, including but not limited to the Deed of Exchange of Property for Shares and the Securities and Exchange Commission's Certificate of Approval of Valuation. We have evaluated the competence, capability and objectivity of the independent appraisers to establish reliance on their work. We have also involved our internal valuation specialists in evaluating the accuracy of the valuation model and the reasonableness of key assumptions used, such as discount rates and growth rates. We have also tested the completeness and accuracy of key inputs used in the valuation such as lease rates and lease terms, on a sample basis, by agreeing it to supporting lease contracts.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Company's SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditors' report.

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

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

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

### **Report on Other Legal and Regulatory Requirements**

The supplementary information for the year ended December 31, 2023 required by the BIR is presented by the management of the Company in a supplementary schedule filed separately from the basic financial statements. The BIR requires the information to be presented in the notes to financial statements. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is also not a required disclosure under Revised Securities Regulation Code Rule 68 of the SEC. Such supplementary information is the responsibility of management. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

The engagement partner on the audit resulting in this independent auditors' report is John Endel S. Mata.

### **PUNONGBAYAN & ARAULLO**



**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347  
TIN 257-622-627  
PTR No. 10076144, January 3, 2024, Makati City  
SEC Group A Accreditation  
Partner - No. 121347-SEC (until financial period 2023)  
Firm - No. 0002 (until financial period 2024)  
BIR AN 08-002551-040-2023 (until Jan. 24, 2026)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 26, 2024

**MREIT, INC.**  
**(A Subsidiary of Megaworld Corporation)**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**  
**(Amounts in Philippine Pesos)**

|                                      | <u>Notes</u> | <u>2023</u>                     | <u>2022</u>                   |
|--------------------------------------|--------------|---------------------------------|-------------------------------|
| <b><u>A S S E T S</u></b>            |              |                                 |                               |
| <b>CURRENT ASSETS</b>                |              |                                 |                               |
| Cash and cash equivalents            | 4            | <b>P 1,678,912,046</b>          | P 1,380,526,060               |
| Trade and other receivables          | 5            | <b>321,244,295</b>              | 263,951,215                   |
| Other current assets                 | 7            | <b><u>261,593,381</u></b>       | <u>268,309,116</u>            |
| Total Current Assets                 |              | <b><u>2,261,749,722</u></b>     | <u>1,912,786,391</u>          |
| <b>NON-CURRENT ASSETS</b>            |              |                                 |                               |
| Trade receivables                    | 5            | <b>130,022,306</b>              | 45,889,816                    |
| Investment properties                | 6            | <b>58,980,800,000</b>           | 56,439,000,000                |
| Other non-current assets             | 7            | <b><u>78,547,978</u></b>        | <u>92,640,614</u>             |
| Total Non-current Assets             |              | <b><u>59,189,370,284</u></b>    | <u>56,577,530,430</u>         |
| <b>TOTAL ASSETS</b>                  |              | <b><u>P 61,451,120,006</u></b>  | <u>P 58,490,316,821</u>       |
| <b><u>LIABILITIES AND EQUITY</u></b> |              |                                 |                               |
| <b>CURRENT LIABILITIES</b>           |              |                                 |                               |
| Accounts and other payables          | 8            | <b>P 785,682,360</b>            | P 493,988,323                 |
| Deposits and other liabilities       | 9            | <b><u>402,219,629</u></b>       | <u>266,074,302</u>            |
| Total Current Liabilities            |              | <b><u>1,187,901,989</u></b>     | <u>760,062,625</u>            |
| <b>NON-CURRENT LIABILITIES</b>       |              |                                 |                               |
| Interest-bearing loan                | 10           | <b>7,206,697,580</b>            | 7,201,241,354                 |
| Deposits and other liabilities       | 9            | <b><u>917,961,518</u></b>       | <u>1,010,783,749</u>          |
| Total Non-current liabilities        |              | <b><u>8,124,659,098</u></b>     | <u>8,212,025,103</u>          |
| Total Liabilities                    |              | <b><u>9,312,561,087</u></b>     | <u>8,972,087,728</u>          |
| <b>EQUITY</b>                        |              |                                 |                               |
| Capital stock                        | 16           | <b>2,795,821,381</b>            | 2,532,121,381                 |
| Additional paid-in capital           | 16           | <b>52,782,813,885</b>           | 47,907,466,035                |
| Deficit                              |              | <b>( <u>3,440,076,347</u> )</b> | <b>( <u>921,358,323</u> )</b> |
| Total Equity                         |              | <b><u>52,138,558,919</u></b>    | <u>49,518,229,093</u>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |              | <b><u>P 61,451,120,006</u></b>  | <u>P 58,490,316,821</u>       |

*See Notes to Financial Statements.*

MREIT, INC.  
*(A Subsidiary of Megaworld Corporation)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
**AND THE SIX MONTHS ENDED DECEMBER 31, 2021**  
*(Amounts in Philippine Pesos)*

|  | Notes | December 31, 2023<br>(One Year) | December 31, 2022<br>(One Year) | December 31, 2021<br>(Six Months) |
|--|-------|---------------------------------|---------------------------------|-----------------------------------|
| <b>REVENUES</b>                                    |       |                                 |                                 |                                   |
| Rental income                                      | 11    | P 3,223,382,715                 | P 2,917,785,685                 | P 1,197,497,661                   |
| Income from dues - net                             | 2     | <u>933,121,752</u>              | <u>730,981,573</u>              | <u>263,215,987</u>                |
|  |       | 4,156,504,467                   | 3,648,767,258                   | 1,460,713,648                     |
| <b>COST OF SERVICES</b>                            | 12    | <u>940,568,965</u>              | <u>676,211,193</u>              | <u>222,987,792</u>                |
| <b>GROSS PROFIT</b>                                |       | 3,215,935,502                   | 2,972,556,065                   | 1,237,725,856                     |
| <b>OTHER OPERATING EXPENSES</b>                    | 13    | <u>62,196,945</u>               | <u>37,400,283</u>               | <u>9,630,912</u>                  |
| <b>OPERATING PROFIT</b>                            |       | <u>3,153,738,557</u>            | <u>2,935,155,782</u>            | <u>1,228,094,944</u>              |
| <b>OTHER INCOME (CHARGES)</b>                      |       |                                 |                                 |                                   |
| Fair value gains (losses) on investment properties | 6     | ( 2,732,200,000 )               | ( 2,822,000,000 )               | 702,000,000                       |
| Interest expense                                   | 9, 10 | ( 306,980,679 )                 | ( 309,090,834 )                 | ( 23,833,140 )                    |
| Interest income                                    | 4, 7  | 64,685,771                      | 23,042,323                      | 8,374,430                         |
| Miscellaneous income                               |       | <u>1,686,743</u>                | <u>688,017</u>                  | <u>-</u>                          |
|  |       | ( <u>2,972,808,165</u> )        | ( <u>3,107,360,494</u> )        | <u>686,541,290</u>                |
| <b>PROFIT (LOSS) BEFORE TAX</b>                    |       | 180,930,392                     | ( 172,204,712 )                 | 1,914,636,234                     |
| <b>TAX INCOME (EXPENSE)</b>                        | 14    | ( <u>12,586,537</u> )           | ( <u>4,348,835</u> )            | <u>99,579,952</u>                 |
| <b>NET PROFIT (LOSS)</b>                           |       | 168,343,855                     | ( 176,553,547 )                 | 2,014,216,186                     |
| <b>OTHER COMPREHENSIVE INCOME</b>                  |       | <u>-</u>                        | <u>-</u>                        | <u>-</u>                          |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>           |       | <u>P 168,343,855</u>            | ( <u>P 176,553,547</u> )        | <u>P 2,014,216,186</u>            |
| <b>BASIC AND DILUTED EARNINGS</b>                  |       |                                 |                                 |                                   |
| (LOSS) PER SHARE                                   | 17    | <u>P 0.06</u>                   | ( <u>P 0.07</u> )               | <u>P 0.80</u>                     |

*See Notes to Financial Statements.*

MREIT, INC.  
*(A Subsidiary of Megaworld Corporation)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
**AND THE SIX MONTHS ENDED DECEMBER 31, 2021**  
*(Amounts in Philippine Pesos)*

|                                      | Note | December 31, 2023<br>(One Year) | December 31, 2022<br>(One Year) | December 31, 2021<br>(Six Months) |
|--------------------------------------|------|---------------------------------|---------------------------------|-----------------------------------|
| <b>CAPITAL STOCK</b>                 |      |                                 |                                 |                                   |
| Balance at beginning of period       |      | P 2,532,121,381                 | P 2,532,121,381                 | P 2,532,121,381                   |
| Issuance of shares during the period | 16   | <u>263,700,000</u>              | <u>-</u>                        | <u>-</u>                          |
| Balance at end of period             |      | <u>2,795,821,381</u>            | <u>2,532,121,381</u>            | <u>2,532,121,381</u>              |
| <b>ADDITIONAL PAID-IN CAPITAL</b>    |      |                                 |                                 |                                   |
| Balance at beginning of period       |      | 47,907,466,035                  | 47,907,466,035                  | 47,907,466,035                    |
| Addition during the period           | 16   | <u>4,875,347,850</u>            | <u>-</u>                        | <u>-</u>                          |
| Balance at end of period             |      | <u>52,782,813,885</u>           | <u>47,907,466,035</u>           | <u>47,907,466,035</u>             |
| <b>RETAINED EARNINGS (DEFICIT)</b>   |      |                                 |                                 |                                   |
| Balance at beginning of period       |      | ( 921,358,323 )                 | 1,721,734,662                   | 315,227,607                       |
| Net profit (loss) during the period  |      | 168,343,855                     | ( 176,553,547 )                 | 2,014,216,186                     |
| Dividends declared during the period | 16   | <u>( 2,687,061,879 )</u>        | <u>( 2,466,539,438 )</u>        | <u>( 607,709,131 )</u>            |
| Balance at end of period             |      | <u>( 3,440,076,347 )</u>        | <u>( 921,358,323 )</u>          | <u>1,721,734,662</u>              |
| <b>TOTAL EQUITY</b>                  |      | <u><b>P 52,138,558,919</b></u>  | <u><b>P 49,518,229,093</b></u>  | <u><b>P 52,161,322,078</b></u>    |

*See Notes to Financial Statements.*

MREIT, INC.  
*(A Subsidiary of Megaworld Corporation)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
**AND THE SIX MONTHS ENDED DECEMBER 31, 2021**  
*(Amounts in Philippine Pesos)*

|   | Notes | December 31, 2023<br>(One Year) | December 31, 2022<br>(One Year) | December 31, 2021<br>(Six Months) |
|---|-------|---------------------------------|---------------------------------|-----------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |       |                                 |                                 |                                   |
| Profit (loss) before tax                                    |       | P 180,930,392                   | ( P 172,204,712 )               | P 1,914,636,234                   |
| Adjustments for:  |       |                                 |                                 |                                   |
| Fair value losses (gains) on investment properties          | 6     | 2,732,200,000                   | 2,822,000,000                   | ( 702,000,000 )                   |
| Interest expense  | 9, 10 | 306,980,679                     | 309,090,834                     | 23,833,140                        |
| Interest income   | 4, 7  | ( 64,685,771 )                  | ( 23,042,323 )                  | ( 8,374,430 )                     |
| Operating profit before working capital changes             |       | 3,155,425,300                   | 2,935,843,799                   | 1,228,094,944                     |
| Increase in trade and other receivables                     |       | ( 141,941,325 )                 | ( 165,624,932 )                 | ( 122,916,877 )                   |
| Increase in other current assets                            |       | ( 128,236,415 )                 | ( 197,544,978 )                 | ( 70,068,131 )                    |
| Decrease (increase) in other non-current assets             |       | 15,253,575                      | ( 37,179,610 )                  | 858,355                           |
| Increase in accounts and other payables                     |       | 291,694,037                     | 321,796,980                     | 100,316,824                       |
| Increase (decrease) in deposits and other liabilities       |       | 9,099,296                       | ( 95,304,501 )                  | 410,400,646                       |
| Cash generated from operations                              |       | 3,201,294,468                   | 2,761,986,758                   | 1,546,685,761                     |
| Interest received   |       | 64,040,587                      | 22,983,038                      | 7,876,217                         |
| Income tax paid   |       | ( 12,586,537 )                  | ( 4,348,835 )                   | ( 1,588,771 )                     |
| Net Cash From Operating Activities                          |       | 3,252,748,518                   | 2,780,620,961                   | 1,552,973,207                     |
| <b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>                |       |                                 |                                 |                                   |
| Acquisition of investment properties                        | 6     | -                               | -                               | ( 9,116,000,000 )                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |       |                                 |                                 |                                   |
| Dividends paid  | 16    | ( 2,687,061,879 )               | ( 2,466,539,438 )               | ( 607,709,131 )                   |
| Interest paid   | 10    | ( 267,300,653 )                 | ( 267,361,070 )                 | -                                 |
| Proceeds from availment of loan, net of transaction costs   | 10    | -                               | -                               | 7,195,625,000                     |
| Net Cash From (Used in) Financing Activities                |       | ( 2,954,362,532 )               | ( 2,733,900,508 )               | 6,587,915,869                     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> |       |                                 |                                 |                                   |
|   |       | 298,385,986                     | 46,720,453                      | ( 975,110,924 )                   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>     |       |                                 |                                 |                                   |
|   |       | 1,380,526,060                   | 1,333,805,607                   | 2,308,916,531                     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>           |       |                                 |                                 |                                   |
|   |       | P 1,678,912,046                 | P 1,380,526,060                 | P 1,333,805,607                   |

**Supplemental Information on Non-cash Investing and Financing Activity —**

In 2023, the Company and Megaworld Corporation (the Parent Company) entered into a property-for-share swap transaction. Accordingly, the Parent Company transferred certain real properties for lease to the Company amounting to P5,274.0 million. In exchange for the properties transferred, the Company issued 263,700,000 common shares with a par value of P1.0 per share to the Parent Company which resulted in recognition of Capital Stock and Additional Paid-in Capital amounting to P263.7 million and P4,875.3 million, net of P135.0 million stock issuance cost, respectively (see Note 16).

*See Notes to Financial Statements.*

**MREIT, INC.**  
***(A Subsidiary of Megaworld Corporation)***  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023, 2022, AND 2021**  
***(Amounts in Philippine Pesos)***

**1. GENERAL INFORMATION**

MREIT, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 2, 2020. The Company's primary purpose is to engage in the business of a real estate investment trust, as provided under Republic Act (R.A.) No. 9856, *The Real Estate Investment Trust Act of 2009* (the "REIT Act"), including its implementing rules and regulations, and other applicable laws.

The Company is a subsidiary of Megaworld Corporation Inc. (MC) or the Parent Company owning 55.63% of the Company's outstanding capital stock.

MC is presently engaged in property-related activities such as project design, construction, and property management. MC's real estate portfolio includes residential condominium units, subdivision lots and townhouses, condominium-hotel projects, as well as office projects and retail spaces.

Alliance Global Group, Inc. (AGI) is the Company's ultimate parent company. AGI is a holding company presently engaged in the food and beverage, real estate development, quick-service restaurant, tourism-oriented and gaming businesses.

On April 7, 2021, majority of the members of the BOD and stockholders of the Company approved the amendments to the Articles of Incorporation and By-Laws of the Company, including the change in the fiscal year of the Company to begin on the first day of July and end on the last day of June of each year. The SEC and the Bureau of Internal Revenue (BIR) approved the amendments to the Company's Articles of Incorporation and By-Laws on May 19, 2021 and May 20, 2021, respectively.

On September 30, 2021, the BOD approved the change in the Company's accounting period to begin on the first day of January and end on the last day of December of each year. The Company applied with the SEC for an amendment of its By-laws in October 2021. The SEC and the BIR approved the change on November 4, 2021 and November 25, 2021, respectively.

The registered office address and principal place of business of the Company and MC are located at 18th and 30th Floors, respectively, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The registered office of AGI, which is also its principal place of business, is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City Cyberpark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

The Company's share of stock are listed and traded in the Philippine Stock Exchange (PSE). MC and AGI are also publicly-listed entities in the Philippines.

The financial statements of the Company as of and for year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022 and the six months ended December 31, 2021) were authorized for issue by the Company's BOD on February 26, 2024.

## **2. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION**

The material accounting policy information that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to the periods presented, unless otherwise stated.

### **2.1 *Basis of Preparation of Financial Statements***

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expense and other comprehensive income or loss in a single statement of comprehensive income.

The Company presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

#### *(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's presentation and functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using the Company's functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

## 2.2 Adoption of Amended PFRS

### (a) Effective in 2023 that are Relevant to the Company

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

|  |  |
|--|--|
| PAS 1 and PFRS Practice Statement 2 (Amendments) | : Presentation of Financial Statements – Disclosure of Accounting Policies |
| PAS 8 (Amendments)                               | : Definition of Accounting Estimates                                       |
| PAS 12 (Amendments)                              | : Deferred Tax Related to Assets and Liabilities from a Single Transaction |

Discussed below and in the succeeding page are the relevant information about these pronouncements.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Company's financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Company's financial statements.

- (iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Company's financial statements.

(b) *Effective in 2023 that is not Relevant to the Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Company's financial statements

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)
- (iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)
- (iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

## **2.3 Financial Instruments**

(a) *Financial Assets*

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

(i) *Classification and Measurement of Financial Assets*

The Company's financial assets only includes financial assets at amortized cost.

(ii) *Impairment of Financial Assets*

The expected credit losses (ECL) on trade and other receivables are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to the debtors, adjusted for general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics.

However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Company measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period, except when there has been a significant increase in credit risk on the financial asset since initial recognition.

(b) *Financial Liabilities*

Financial liabilities include Security deposits (presented under Deposits and Other Liabilities), Accounts and Other Payables (except tax-related liabilities), and Interest-bearing Loan.

**2.4 *Investment Properties***

Investment properties include several buildings for mixed use, which are being leased out as office, retail and hotel, including the hotel's parking spaces.

Investment properties are accounted for under the fair value model. They are revalued annually and are reported in the statement of financial position at its fair value. Fair value is based on the income approach and is determined annually by an independent appraiser with sufficient experience with respect to both the location and the nature of the investment properties (see Note 21.3).

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains on investment properties account under the Other Income (Charges) section in the statement of comprehensive income.

**2.5 *Revenue and Expense Recognition***

Revenue comprises revenue from leasing activities.

The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Income from dues* – Income from dues are recognized when the related services are rendered. Electricity and water dues in excess of actual charges and consumption are recorded as revenues. In addition, billing from common dues, presented at gross amounts, is computed based on a fixed rate per square meter of the leasable area occupied by the tenant.

The Company assesses its revenue agreement against the specific criteria in order to determine if it is acting as a principal or an agent. The Company has concluded that it is acting as a principal for billings from common area, air conditioning and other dues, except for electricity and water dues in which the Company acts as an agent.

- (b) *Interest Income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

The Company also recognizes revenues from rentals which are based on the provisions of PFRS 16.

Cost of services and operating expenses are recognized in profit or loss upon utilization of the goods or services or at the date these are incurred.

## **2.6 Leases**

The Company accounts for leases as follows:

- (a) *Company as a Lessee*

Variable lease payments that are not based on an index or a rate are not part of the lease liability, but they are recognized in the statement of comprehensive income when the event or condition that triggers those payments occurs.

The Company has elected to account for any short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

- (b) *Company as a Lessor*

The Company applies judgment in determining whether a lease contract is a finance or operating lease.

## **2.7 Impairment of Non-financial Assets**

The Company's non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## **2.8 Material Related Party Transactions**

Based on the requirements of SEC Memorandum Circular No. 10, Series of 2019, *Rules on Material Related Party Transactions for Publicly-Listed Companies*, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with the related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-third of the outstanding capital stock.

For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Company's total assets based on the latest audited financial statements, the same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in the discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### ***3.1 Critical Management Judgment in Applying Accounting Policies***

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

##### *(a) Determination of ECL on Trade and Other Receivables*

The Company uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables are disclosed in Note 19.2(b).

Based on management evaluation of information and circumstances affecting the Company's trade and other receivables as of the end of the reporting periods, the Company has not recognized any impairment loss.

##### *(b) Distinction Among Investment Properties and Owner-occupied Properties*

The Company determines whether a property should be classified as investment property or owner-occupied property. The Company applies judgment upon initial recognition of the asset based on intention and also when there is a change in use. In making its judgment, the Company considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

When a property comprises of a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the Company's main line of business or for administrative purposes, the Company accounts for the portions separately if these portions can be sold separately (or leased out separately under finance lease). If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the Company's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

(c) *Distinction Between Operating and Finance Leases as a Lessor*

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management assessment, the Company's lease agreements are classified as operating leases.

(d) *Evaluating Principal Versus Agent Consideration*

The Company exercises judgment to determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the Company is a principal) or to arrange for the other party to provide to those goods or services (i.e., the Company is an agent). Failure to make the right judgment will result in misstatement of revenues and expenses accounts. The Company assessed that it is acting as an agent for utility transactions of its tenants under operating leases. The net amount of utility revenues and utility expenses set off against each other is presented as part of Income from dues under Revenues section of the statements of comprehensive income for the reporting periods presented.

(e) *Recognition of Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. Where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision. Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 18.

### **3.2 Key Sources of Estimation Uncertainty**

Presented below and in the succeeding page are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

#### *(a) Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 19.2.

#### *(b) Fair Value Measurement of Investment Properties*

The Company's investment properties, composed of buildings for mixed use, are measured using the fair value model. In determining the fair value of these assets, the Company engages the services of professional and independent appraisers applying the Income Approach. In determining the fair value under the Income Approach, significant estimates are made such as revenues generated, costs and expenses related to the operations of the development and discount rate (see Note 21.3).

A significant change in these elements may affect prices and the value of the assets. The fair value of investment properties is disclosed in Notes 6 and 21.3.

For investment properties with valuation conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

#### *(c) Determination of Realizable Amount of Deferred Tax Asset*

The Company reviews its deferred taxes at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Although the Company is not designated as tax-free under the law, as a REIT entity it is exempt from income tax provided it meets certain conditions which includes distribution of a minimum amount of its earnings. The Company assesses that it will continue to comply with the conditions and therefore will not have sufficient taxable income against which it can utilize its net operating loss carry over. As a result, no deferred tax asset was recognized as of December 31, 2023 and 2022.

The carrying amount of the unrecognized deferred tax asset as at December 31, 2023 and 2022 is disclosed in Note 14.

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainties relates to assumptions about future operating results and the determination of suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses on the Company's non-financial assets required to be recognized for the reporting periods presented.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

|                          | <u>2023</u>                   | <u>2022</u>            |
|--------------------------|-------------------------------|------------------------|
| Cash on hand and in bank | <b>P 813,761,836</b>          | P 724,400,562          |
| Short-term placements    | <u><b>865,150,210</b></u>     | <u>656,125,498</u>     |
|                          | <u><b>P 1,678,912,046</b></u> | <u>P 1,380,526,060</u> |

Cash in bank generally earns interest based on daily bank deposit rates.

Short-term placements are made for varying periods from 30 to 33 days in 2023 and 30 to 34 days in 2022. These short-term placements earn effective interest ranging from 6.0% to 6.15% in 2023 and 5.1% to 5.65% in 2022.

Interest earned from cash in bank and short-term placements for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021 amounted to P63.5 million, P22.0 million and P8.0 million, respectively. Interest earned is presented as Interest income under Other Income (Charges) section in the statements of comprehensive income.

## 5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

|                     | <u>2023</u>                 | <u>2022</u>                 |
|---------------------|-----------------------------|-----------------------------|
| Current –           |                             |                             |
| Trade receivables:  |                             |                             |
| Billed              | P 165,668,420               | P 104,289,531               |
| Accrued             | 126,876,356                 | 148,321,339                 |
| Others              | <u>28,699,519</u>           | <u>11,340,345</u>           |
|                     | <b>321,244,295</b>          | 263,951,215                 |
| Non-current –       |                             |                             |
| Trade receivables – |                             |                             |
| Accrued             | <u>130,022,306</u>          | <u>45,889,816</u>           |
|                     | <b><u>P 451,266,601</u></b> | <b><u>P 309,841,031</u></b> |

Billed receivables arise mainly from tenants for rentals of office, retail, hotel, and parking spaces, including dues. These are noninterest-bearing and are generally collectible on 30-day term.

Accrued receivables pertain to receivables resulting from the straight-line method of recognizing rental income.

All trade and other receivables are subject to credit risk exposure. However, there was no impairment losses recognized for the reporting periods presented as management believes that the remaining receivables are fully collectible [see Note 19.2(b)]. In addition, the receivables are secured to the extent of advance rent and security deposits received from lessees which provide credit enhancements.

## 6. INVESTMENT PROPERTIES

The Company's investment properties include several buildings for mixed use, which are being leased out as office, retail, and hotel, including the hotel's parking spaces.

A reconciliation of the carrying amounts of investment properties is shown below.

|                                | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|--------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Balance at beginning of period | P 56,439,000,000                 | P 59,261,000,000                 | P 49,443,000,000                   |
| Additions                      | 5,274,000,000                    | -                                | 9,116,000,000                      |
| Fair value gains (losses)      | ( <u>2,732,200,000</u> )         | ( <u>2,822,000,000</u> )         | <u>702,000,000</u>                 |
| Balance at end of period       | <b><u>P 58,980,800,000</u></b>   | <b><u>P 56,439,000,000</u></b>   | <b><u>P 59,261,000,000</u></b>     |

As of December 31, 2023, the Company has a total of 18 investment properties consisting of the following:

Located at McKinley Hill, Fort Bonifacio, Taguig City:

One World Square  
Two World Square  
Three World Square  
8/10 Upper McKinley Building  
18/20 Upper McKinley Building  
World Finance Plaza  
One West Campus (80% owned pro indiviso)  
Five West Campus (80% owned pro indiviso)

Located at Eastwood, Quezon City:

1880 Eastwood Avenue  
1800 Eastwood Avenue  
E-Commerce Plaza

Located at Iloilo Business Park, Iloilo City:

Richmonde Hotel Iloilo and Richmonde Iloilo Office Tower  
One Techno Place  
Two Techno Place  
Three Techno Place  
One Global Center  
Two Global Center  
Festive Walk 1B

On April 1, 2022, the BOD of the Company approved the proposed subscription of MC to 263,700,000 common shares of the Company for a total subscription price of P5.3 billion to be paid by way of transfer of four prime, grade A, office properties in PEZA-accredited zones.

On March 23, 2023, the SEC issued its confirmation of valuation of the four prime, grade A, office properties in PEZA-accredited zones transferred by MC to the Company in payment of its subscription to 263,700,000 common shares of the Company pursuant to the Deed of Exchange of Property for Shares dated April 5, 2022 (see Note 15.4). Accordingly, the subject properties were transferred to the Company, and 263,700,000 common shares of the Company were issued in the name of MC on March 31, 2023. Pursuant to the amended Deed of Exchange of Property for Shares for this transaction, the Company recognized the income from the Four properties beginning January 1, 2023.

The details of the assets transferred to the Company are presented below.

|   | <u>Ownership</u> |
|---|------------------|
| Two Global Center, Megaworld Blvd. and Enterprise Rd.,<br>Iloilo Business Park, Manduriao Iloilo City | 100%             |
| Festive Walk 1B, Lot 5 Buhang Taft North Manduriao,<br>Iloilo City                                    | 100%             |
| One West Campus, 5 Le Grand Avenue, McKinley West,<br>Fort Bonifacio, Taguig City                     | 80% pro indiviso |
| Five West Campus, 15 Le Grand Avenue, McKinley West,<br>Fort Bonifacio, Taguig City                   | 80% pro indiviso |

For the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, rental income from investment properties amounted to P3,223.4 million, P2,917.8 million and P1,197.5 million, respectively (see Note 11).

The direct operating costs incurred relating to investment properties, which pertains to repairs and maintenance and real property taxes, amounted to P172.9 million, P104.1 million and P10.7 million for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, respectively. These direct operating costs are presented as part of Cost of Services account in the statements of comprehensive income (see Note 12). All investment properties generate rental income.

The fair values of the investment properties as of December 31, 2023 and 2022 were determined based on the latest appraisal reports by an independent real property appraiser, which uses the income approach (see Note 21.3). The related fair value losses for the years ended December 31, 2023 and 2022 and fair value gains for the six months ended December 31, 2021 are presented as Fair Value Gains (Losses) on Investment Properties in the statements of comprehensive income.

## 7. OTHER ASSETS

The Company's other assets consist of the following:

|                              | <u>2023</u>                 | <u>2022</u>          |
|------------------------------|-----------------------------|----------------------|
| Current:                     |                             |                      |
| Creditable withholding taxes | <b>P 110,789,901</b>        | P 78,876,441         |
| Deferred input VAT           | <b>76,157,097</b>           | 32,537,899           |
| Prepaid expenses             | <b>72,156,399</b>           | 156,894,776          |
| Creditable VAT withheld      | <b><u>2,489,984</u></b>     | <u>-</u>             |
|                              | <b><u>261,593,381</u></b>   | <u>268,309,116</u>   |
| Non-current:                 |                             |                      |
| Deferred charges             | <b>53,671,308</b>           | 56,033,405           |
| Security deposit             | <b>20,649,401</b>           | 19,488,462           |
| Other non-current asset      | <b><u>4,227,269</u></b>     | <u>17,118,747</u>    |
|                              | <b><u>78,547,978</u></b>    | <u>92,640,614</u>    |
|                              | <b><u>P 340,141,359</u></b> | <u>P 360,949,730</u> |

Security deposit is related to the lease of certain parcels of land on which the investment properties stand (see Note 15.2). The related interest income recognized from subsequent amortization of the security deposit for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021 amounted to P1.2 million, P1.0 million and P0.4 million, respectively. Interest earned is presented as part of Interest income under Other Income (Charges) section in the statements of comprehensive income.

Deferred charges pertain to the difference between the nominal values of the security deposits and their fair values. These are initially measured at fair value and subsequently amortized using the straight-line method. Amortization of deferred charges is presented as part of Miscellaneous under Cost of Services account in the statements of comprehensive income (see Note 12). Other non-current asset consists of office machinery-net and advance payment to contractors for aircon related repairs and enhancement.

## 8. ACCOUNTS AND OTHER PAYABLES

The details of this account are as follows:

|                           | Notes      | 2023                 | 2022                 |
|---------------------------|------------|----------------------|----------------------|
| Accounts payable          | 15.3, 15.5 | P 460,332,383        | P 411,064,691        |
| Accrued expenses          | 15.3       | 240,679,842          | 53,027,572           |
| Output VAT payable        |            | 49,652,443           | 9,406,429            |
| Deferred output VAT       |            | 19,590,863           | 4,524,528            |
| Interest payable          | 10         | 8,055,636            | 8,055,636            |
| Withholding taxes payable |            | 4,909,493            | 6,076,519            |
| Others                    |            | 2,461,700            | 1,832,948            |
|                           |            | <b>P 785,682,360</b> | <b>P 493,988,323</b> |

## 9. DEPOSITS AND OTHER LIABILITIES

The details of this account are as follows:

|                   | Notes      | 2023                   | 2022                   |
|-------------------|------------|------------------------|------------------------|
| Current:          |            |                        |                        |
| Advance rent      | 15.1, 18.1 | P 249,188,852          | P 152,740,839          |
| Security deposits | 15.1, 18.1 | 148,131,106            | 107,491,807            |
| Deferred credits  |            | 4,899,671              | 5,841,656              |
|                   |            | <b>402,219,629</b>     | <b>266,074,302</b>     |
| Non-current:      |            |                        |                        |
| Security deposits | 15.1, 18.1 | 631,021,852            | 605,347,267            |
| Advance rent      | 15.1, 18.1 | 224,919,982            | 327,114,762            |
| Deferred credits  |            | 62,019,684             | 78,321,720             |
|                   |            | <b>917,961,518</b>     | <b>1,010,783,749</b>   |
|                   |            | <b>P 1,320,181,147</b> | <b>P 1,276,858,051</b> |

Security deposits represent deposits from lessees to secure the faithful compliance by lessees of their obligations under the lease contracts. These are equivalent to three months' rent for office and six months' rent for commercial spaces and will be refunded to the lessee at the end of the lease term. The related accretion of interest presented as part of Interest expense under Other Income (Charges) - net in the statements of comprehensive income amounted to P34.2 million, P36.3 million and P15.7 million for the years ended December 31, 2023 and 2022, and the six months ended December 31, 2021, respectively.

A reconciliation of security deposits as of December 31, 2023 and 2022 is shown below.

|                                | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|--------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Balance at beginning of period | P 712,839,074                    | P 675,215,622                    | P 507,472,851                      |
| Additions                      | 32,090,084                       | 1,345,783                        | 152,069,109                        |
| Accretion of interest          | <u>34,223,800</u>                | <u>36,277,669</u>                | <u>15,673,662</u>                  |
| Balance at end of period       | <u>P 779,152,958</u>             | <u>P 712,839,074</u>             | <u>P 675,215,622</u>               |

Advance rentals from lessees represent cash received in advance representing three months' rent which will be applied to the last three months' rentals on the related lease contracts.

Deferred credits pertain to the difference between the nominal values of the deposits and their fair values. These are initially measured at fair value and subsequently amortized using the straight-line method.

A reconciliation of deferred credits is shown below.

|                                | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|--------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Balance at beginning of period | P 84,163,376                     | P 110,140,347                    | P 95,358,222                       |
| Additions                      | 17,362,471                       | 12,385,578                       | 31,323,170                         |
| Amortization                   | <u>(34,606,492)</u>              | <u>(38,362,549)</u>              | <u>(16,541,045)</u>                |
| Balance at end of period       | <u>P 66,919,355</u>              | <u>P 84,163,376</u>              | <u>P 110,140,347</u>               |

Amortization of deferred credits is presented as part of Rental income under Revenues section in the statements of comprehensive income (see Note 11).

## 10. INTEREST-BEARING LOAN

In December 2021, the Company obtained an unsecured, 10-year, P7.25 billion term loan from a local bank to finance the acquisition of investment properties (see Note 6). The principal is payable quarterly in installments beginning on the last quarter of the fifth year with a balloon payment at the end of the term. Interest is payable quarterly at 3.64% per annum subject to repricing in December 2024.

The Company is required to maintain certain financial ratios to comply with its debt covenants with a certain local bank. As of December 31, 2023 and 2022, the Company is in compliance with such financial covenant obligations.

Total capitalized loan origination costs amounted to P54.4 million. Amortization for the years ended December 31, 2023 and 2022 amounted to both P5.5 million, and is presented as part of Interest expense under Other Income (Charges) – net in the 2023 and 2022 statements of comprehensive income.

The related interest incurred amounted to P267.3 million, P267.4 million and P8.0 million for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, respectively, and this is presented as part of Interest expense under Other Income (Charges) - net in the 2023, 2022 and 2021 statements of comprehensive income. The related accrual is presented as Interest payable under Accounts and Other Payables in the statements of financial position (see Note 8)

The reconciliation of the unamortized loan origination costs is presented below.

|                                | <u>2023</u>                | <u>2022</u>                |
|--------------------------------|----------------------------|----------------------------|
| Balance at beginning of period | <b>P 48,758,739</b>        | P 54,210,741               |
| Amortization                   | <b>( 5,456,226)</b>        | <b>( 5,452,002)</b>        |
| Balance at end of period       | <b><u>P 43,302,513</u></b> | <b><u>P 48,758,739</u></b> |

## 11. RENTAL INCOME

The Company derives its revenues from contracts with customers through leasing real properties. The breakdown of rental income for as reported in the statements of comprehensive income is shown below.

|                                  | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|----------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Office                           | <b>P 2,937,940,509</b>           | P 2,685,516,839                  | P 1,106,101,576                    |
| Commercial                       | <b>188,644,599</b>               | 131,765,294                      | 45,839,766                         |
| Hotel                            | <b>56,400,000</b>                | 56,400,000                       | 28,200,000                         |
| Advertising                      | <b>4,447,035</b>                 | 4,447,035                        | 185,294                            |
| Parking                          | <b>1,344,080</b>                 | 1,293,968                        | 629,980                            |
| Amortization of deferred credits | <b><u>34,606,492</u></b>         | <b><u>38,362,549</u></b>         | <b><u>16,541,045</u></b>           |
|                                  | <b><u>P 3,223,382,715</u></b>    | <b><u>P 2,917,785,685</u></b>    | <b><u>P 1,197,497,661</u></b>      |

Rental income from office, retail and advertising includes income from straight-line method of recognizing rental income amounting to P62.7 million, P123.5 million and P58.3 million, for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, respectively.

Rental income also includes variable lease payments amounting to P26.3 million, P21.7 million and P8.2 million for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021, respectively, which do not depend on an index or a rate.

## 12. COST OF SERVICES

The following are the details of direct costs and expenses from rendering of services for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021:

|                         | Notes      | 2023<br>(One Year)   | 2022<br>(One Year)   | 2021<br>(Six Months) |
|-------------------------|------------|----------------------|----------------------|----------------------|
| Outside services        |            | P 246,110,000        | P 178,224,665        | P 79,955,625         |
| Management fees         | 15.3       | 228,607,745          | 200,682,199          | 63,807,804           |
| Utilities               |            | 146,641,453          | 134,251,052          | 54,410,175           |
| Repairs and maintenance |            | 144,933,911          | 82,949,835           | 2,469,379            |
| Supplies and materials  |            | 63,935,320           | 28,689,642           | 2,581,208            |
| Land lease              | 15.2, 18.2 | 39,512,606           | -                    | -                    |
| Taxes and licenses      |            | 32,511,921           | 24,567,523           | 11,434,498           |
| Insurance               |            | 16,766,335           | 11,742,529           | 4,282,156            |
| Miscellaneous           | 7          | 21,549,674           | 15,103,748           | 4,046,947            |
|                         |            | <u>P 940,568,965</u> | <u>P 676,211,193</u> | <u>P 222,987,792</u> |

## 13. OTHER OPERATING EXPENSES

Presented below are the details of other operating expenses.

|                                | Note | 2023<br>(One Year)  | 2022<br>(One Year)  | 2021<br>(Six Months) |
|--------------------------------|------|---------------------|---------------------|----------------------|
| Taxes and licenses             |      | P 31,314,680        | P 18,555,936        | P 2,967,914          |
| Professional fees              |      | 16,903,038          | 5,942,958           | 1,069,812            |
| Outside services               | 15.5 | 5,469,780           | 5,469,780           | 3,376,257            |
| Salaries and employee benefits |      | 2,873,346           | 3,111,376           | 197,218              |
| Advertising and promotion      |      | 4,321,061           | 3,829,094           | 920,130              |
| Depreciation                   |      | 25,661              | 25,661              | -                    |
| Office supplies                |      | 101,359             | 47,647              | 692,044              |
| Transportation and travel      |      | 30,219              | 18,421              | -                    |
| Miscellaneous                  |      | 1,157,801           | 399,410             | 407,537              |
|                                |      | <u>P 62,196,945</u> | <u>P 37,400,283</u> | <u>P 9,630,912</u>   |

#### 14. INCOME TAXES

The components of tax expense (income) as reported in the statements of comprehensive income for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021 are as follows:

|                            | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|----------------------------|----------------------------------|----------------------------------|------------------------------------|
| Current tax expense -      |                                  |                                  |                                    |
| Final tax at 20%           | P 12,586,537                     | P 4,348,835                      | P 1,588,771                        |
| Deferred tax income        |                                  |                                  |                                    |
| related to origination and |                                  |                                  |                                    |
| reversal of temporary      |                                  |                                  |                                    |
| differences                | -                                | -                                | ( 101,168,723 )                    |
|                            | <u>P 12,586,537</u>              | <u>P 4,348,835</u>               | <u>(P 99,579,952)</u>              |

A reconciliation of tax on pretax profit or loss computed at the applicable statutory rates to tax expense or income reported in the statements of comprehensive income for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021 are presented below.

|                                      | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|--------------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Tax on pre-tax profit (loss) at 25%  | P 45,232,598                     | (P 43,051,178)                   | P 478,659,059                      |
| Adjustment for income subjected to   |                                  |                                  |                                    |
| lower tax rates                      | ( 3,294,671 )                    | ( 1,156,976 )                    | ( 410,548 )                        |
| Unrecognized deferred taxes          | 638,239,162                      | 665,942,389                      | -                                  |
| Tax effects of:                      |                                  |                                  |                                    |
| Deductible dividend distribution     | ( 671,765,470 )                  | ( 618,470,648 )                  | -                                  |
| Non-deductible expenses              | 13,116,776                       | 10,930,654                       | 4,573,933                          |
| Non-taxable income                   | ( 8,941,858 )                    | ( 9,845,406 )                    | ( 194,301,013 )                    |
| Deductible expenses                  | -                                | -                                | ( 280,417,757 )                    |
| Excess of optional standard          |                                  |                                  |                                    |
| deductions (OSD) over                |                                  |                                  |                                    |
| itemized deductions                  | -                                | -                                | ( 6,514,902 )                      |
| Reversal of deferred tax liabilities | -                                | -                                | ( 101,168,724 )                    |
|                                      | <u>P 12,586,537</u>              | <u>P 4,348,835</u>               | <u>(P 99,579,952)</u>              |

The Company is subject to regular corporate income tax (RCIT) of 25% of net taxable income. However, the Company did not recognize RCIT during the reporting periods since the Company reported zero net taxable income for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021.

The Company is not subject to the minimum corporate income being a REIT entity.

The Company opted to claim itemized deduction for the years ended December 31, 2023 and 2022 while the Company claimed OSD in computing for its income tax due for the six months ended December 31, 2021. In addition, the Company's dividend distribution can be claimed as a special deduction in computing for taxable income both under OSD and itemized deductions.

## 15. RELATED PARTY TRANSACTIONS

The Company's related parties include the Parent Company and related parties under common ownership. A summary of the Company's transactions and outstanding balances with its related parties is presented below.

| Related Party<br>Category                      | Notes | Amounts of Transactions |              |                | Outstanding<br>Receivable (Payable) |               |
|--|-------|-------------------------|--------------|----------------|-------------------------------------|---------------|
|  |       | 2023                    | 2022         | 2021           |                                     |               |
|  |       | (One Year)              | (One Year)   | (Six Months)   | 2023                                | 2022          |
| <b>Parent Company:</b>                         |       |                         |              |                |                                     |               |
| Purchase of properties                         | 6     | P -                     | P -          | P9,116,000,000 | P -                                 | P -           |
| Rendering of services                          | 15.1  | 185,404,218             | 190,288,374  | 73,776,308     | 48,452,534                          | 30,071,019    |
| Advance rent                                   | 15.1  | ( 2,810)                | ( 3,713,545) | ( 13,527,808)  | ( 3,716,355)                        | ( 3,713,545)  |
| Security deposits received                     | 15.1  | ( 2,187,218)            | ( 8,979,924) | ( 18,117,600)  | ( 29,284,741)                       | ( 27,097,524) |
| Security deposits paid                         | 15.2  | 1,160,939               | 22,782,651   | 375,155        | 20,649,401                          | 19,488,462    |
| Property-for-share swap                        | 15.4  | 5,274,000,000           | -            | -              | -                                   | -             |
| Collections remitted                           | 15.4  | 207,263,800             | -            | -              | -                                   | -             |
| Land lease                                     | 15.2  | 39,512,606              | -            | -              | ( 19,981,967)                       | -             |
| <b>Related parties under common Ownership:</b> |       |                         |              |                |                                     |               |
| Advance rent                                   | 15.1  | -                       | ( 96,529)    | ( 96,529)      | ( 8,713,745)                        | ( 8,713,745)  |
| Security deposits received                     | 15.1  | -                       | ( 2,258,173) | ( 10,674,337)  | ( 25,128,472)                       | ( 25,128,472) |
| Rendering of services                          | 15.1  | 127,750,635             | 127,753,385  | 61,122,501     | 82,173,827                          | 54,249,565    |
| Management services                            | 15.3  | 228,607,746             | 200,682,199  | 63,807,804     | ( 310,353,006)                      | (146,452,966) |
| <b>Key management personnel – Compensation</b> |       |                         |              |                |                                     |               |
| Compensation                                   | 15.5  | 5,469,780               | 5,469,780    | 2,734,890      | 5,469,780                           | -             |

### 15.1 Rendering of Services to Related Parties

The Company leases some of its investment properties to the Parent Company and other related parties under common ownership with rental payments mutually agreed generally before the commencement of the lease. Most of the leases have terms ranging from 5 to 25 years, with renewal options, and include annual escalation rates of 5% to 10%, except for contingent rent. The revenues earned from these related parties are included as part of Rental income under Revenues section in the statements of comprehensive income for the years ended December 31, 2023 and 2022 and the six months ended December 31, 2021 (see Note 11). The related outstanding receivables from these transactions, which are collectible on demand, unsecured and noninterest-bearing, are presented as part of Trade receivables under the Trade Receivables account in the statements of financial position (see Note 5). Advanced rentals and security deposits relating to this transaction are presented as part of current and non-current portion of Deposits and Other Liabilities account in the statements of financial position (see Note 9).

### ***15.2 Land Lease Agreement***

In 2021 and 2022, the Company entered into land lease agreements with MC over the land on which its investment properties stood for a period of 25 years, renewable for another 25 years, at the option of the Company, on terms and conditions mutually acceptable to the parties. As consideration for the land lease, the Company shall pay MC rent equivalent to: (a) 2.5% of gross rental income for office, retail and commercial properties for the period July 1, 2023 and until June 30 2025, and 5% thereafter; and, (b) 1.5% of gross rental income for hotel properties for the period July 1, 2023 and until June 30 2025, and 3% thereafter.

Deposit paid by the Company from the land lease agreement was presented as Security deposit under Other Non-current Assets in the statements of financial position (see Note 7). This deposit will be refunded at the end of the lease term at its face value amounting to P77.0 million.

The Company incurred a total of P39.5 million land lease for the year ended December 31, 2023 (nil in 2022 and 2021), which is presented as part of Cost of Services in the 2023 statement of comprehensive income. The outstanding balance of P20.0 million as of December 31, 2023 is presented as part of Accounts payable under Accounts and Other Payables account in the 2023 statement of financial position (see Note 8).

### ***15.3 Management Services***

The fund management function of the Company is handled by MREIT Fund Managers, Inc., a subsidiary of MC, in exchange for a fee. Management fee is payable annually equivalent to 3.5% of the Company's gross revenues but shall not exceed 1% of the net asset value of the properties under management.

The operations and management of the properties and facilities of the Company are handled by MREIT Property Managers, Inc., a subsidiary of MC, in exchange for a fee. Property management fee is payable quarterly equivalent to 2% of the Company's gross revenues but shall not exceed 1% of the net asset value of the properties under management.

The Company recognized a total of P228.6 million and P200.7 million management fees for the years ended December 31, 2023 and 2022 and P63.8 million for the six months ended December 31, 2021, which is presented as part of Cost of Services in the statements of comprehensive income. The outstanding balance of P310.4 million as of December 31, 2023 and P146.5 million as of December 31, 2022 are presented as part of Accounts payable and Accrued expenses under Accounts and Other Payables account in the statements of financial position (see Note 8).

### ***15.4 Property-for-share Swap***

In line with the Company's investment plan to infuse around 100,000 square meters of additional office gross leasable area in 2022, the BOD approved on April 1, 2022 the subscription of MC to 263,700,000 shares of the Company to be paid by way of transfer of four grade A buildings in PEZA-registered zones (see Note 6). Pursuant to the Amended Deed of Exchange of Property for Shares between the two parties, all collections of rental fees, security deposits and advanced rent from January 1, 2023 on the covered properties shall be remitted by MC to the Company. In 2023, MC remitted P207.3 million to the Company.

### 15.5 Key Management Personnel Compensation

Key management personnel compensation pertains to payment for outsourced management services included within Outside services under Other Operating Expenses (see Note 13). The outstanding balance of P5.5 million as of December 31, 2023 is presented as part of Accounts payable under Accounts and Other Payables account in the 2023 statement of financial position (see Note 8).

## 16. EQUITY

### 16.1 Capital Stock

Capital stock consists of:

|                                | Shares               |                      |                      | Amount                 |                        |                        |
|--------------------------------|----------------------|----------------------|----------------------|------------------------|------------------------|------------------------|
|                                | 2023                 | 2022                 | 2021                 | 2023<br>(One Year)     | 2022<br>(One Year)     | 2021<br>(One Year)     |
| Common shares                  |                      |                      |                      |                        |                        |                        |
| Authorized                     | <u>5,000,000,000</u> | <u>5,000,000,000</u> | <u>5,000,000,000</u> | <u>P 5,000,000,000</u> | <u>P 5,000,000,000</u> | <u>P 5,000,000,000</u> |
| Issued and outstanding         |                      |                      |                      |                        |                        |                        |
| Balance at beginning of period | <u>2,532,121,381</u> | <u>2,532,121,381</u> | <u>2,532,121,381</u> | <u>P 2,532,121,381</u> | <u>P 2,532,121,381</u> | <u>P 2,522,121,381</u> |
| Issuance                       | <u>263,700,000</u>   | <u>-</u>             | <u>-</u>             | <u>263,700,000</u>     | <u>-</u>               | <u>-</u>               |
| Balance at end of period       | <u>2,795,821,381</u> | <u>2,532,121,381</u> | <u>2,532,121,381</u> | <u>P 2,795,821,381</u> | <u>P 2,532,121,381</u> | <u>P 2,532,121,381</u> |

On October 2, 2020, the Company was incorporated with a total authorized capital stock of P5,000,000,000 divided into 50,000,000 common shares with a P100 par value per share, of which P10,000,000 had been subscribed and paid.

On February 1, 2021, MC has subscribed to and paid for 12,400,000 shares with par value of P100 per share or a total of P1,240,000,000.

On April 7, 2021, majority of the members of the BOD and stockholders of MREIT approved the amendments to the Articles of Incorporation and By-Laws of MREIT, which include, among others, the change in par value of common shares from P100 to P1, resulting in an increase in the number of authorized common shares from 50,000,000 to 5,000,000,000 and subscribed common shares from 12,500,000 to 1,250,000,000. On May 19, 2021, the Company obtained approval of the amendments from the SEC (see Note 1).

On May 28, 2021, an individual stockholder subscribed and paid 1,000 common shares of the Company with par value of P1 per share or a total subscription price of P1,000.

On June 2, 2021, on consummation of the Deed of Exchange of Property and Shares in relation to the Property-for-Share Swap transaction with MC, the Company issued 1,282,120,381 common shares at par value of P1 per share (see Notes 1 and 6). In addition, the Company recognized APIC amounting to P47,920,287,239, less shares issuance costs amounting to P12.8 million.

On June 16, 2021, the Company filed its application with the PSE for the listing of its 2,532,121,381 existing common shares. The listing application was approved by PSE on August 9, 2021 which includes the Secondary Offer Shares of 844,300 common shares with an Overallotment Option of up to 105,537,500 common shares to be offered and sold by MC to the public, under the Main Board of the PSE with an offer price of P16.10 per share. The PSE approved the listing application of the Company on August 9, 2021.

Also on June 16, 2021, the Company filed a Registration Statement covering the registration of 2,532,121,381 existing common shares, in accordance with the requirements of the SEC's Securities Regulation Code. The Registration Statement was rendered effective on September 13, 2021.

On October 1, 2021, the common shares of the Company were listed as a REIT company under the Main Board of the PSE.

On April 1, 2022, the BOD of the Company approved the proposed subscription of MC to 263,700,000 common shares of the Company for a total subscription price of P5.3 billion to be paid by way of transfer of four prime, grade A, office properties in PEZA-accredited zones. On March 23, 2023, the SEC issued its confirmation of the valuation of the property-for-share swap. Consequently, on March 31, 2023, the Company issued 263,700,000 common shares.

On May 22, 2023, the Company filed the application for listing of the additional shares with the PSE, which is still pending as of the issuance date of the Company's financial statements. In addition, the Company recognized APIC in 2023 amounting to P5,010,300,000, less issuance cost amounting to P134,952,150.

There are 25,989 and 25,096 shareholders of at least one board lot of the listed shares as of December 31, 2023 and 2022, respectively. As of December 29, 2023 and December 29, 2022, the last trading dates for both years, the shares closed at P12.30 and P14.48 per share, respectively.

## 16.2 Dividends

The details of the Company's cash dividend declarations are as follows:

|                                  | <u>Q4 2023</u> | <u>Q3 2023</u> | <u>Q2 2023</u> | <u>Q1 2023</u> | <u>Q4 2022</u> |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Declaration date/approved by BOD | Nov. 6, 2023   | Aug. 8, 2023   | May 12, 2023   | Jan. 6, 2023   | Nov. 11, 2022  |
| Date of record                   | Nov. 20, 2023  | Aug. 23, 2023  | May 29, 2023   | Jan. 24, 2023  | Nov. 25, 2022  |
| Date of payment                  | Dec. 14, 2023  | Sept. 14, 2023 | June 19, 2023  | Feb. 15, 2023  | Dec. 15, 2022  |
| Amounts declared to common       | P 687,772,060  | P 692,245,374  | P 692,245,374  | P 614,799,071  | P 618,850,466  |
| Per share value                  | P 0.2460       | P 0.2476       | P 0.2476       | P 0.2428       | P 0.2444       |

### 16.3 Distributable Income

The computation of the distributable income of the Company for the year ended December 31, 2023 is shown below.

|  |          |                             |
|--|----------|-----------------------------|
| Net income   | P        | 168,343,855                 |
| Fair value adjustment of investment property<br>resulting to loss  |          | 2,732,200,000               |
| Unrealized gains or adjustments to income<br>as a result of certain transactions<br>accounted for under PFRS | (        | 97,293,999)                 |
| Adjustments due to any prescribed accounting<br>standard which result to a loss                              |          | <u>40,881,185</u>           |
| Distributable income   | <b>P</b> | <b><u>2,844,131,041</u></b> |

## 17. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share amounts were computed as follows:

|  | <u>2023</u><br><u>(One Year)</u> | <u>2022</u><br><u>(One Year)</u> | <u>2021</u><br><u>(Six Months)</u> |
|--|----------------------------------|----------------------------------|------------------------------------|
| Net profit (loss) for the period                           | <b>P 168,343,855</b>             | (P 176,553,547)                  | P 2,014,216,186                    |
| Divided by weighted number<br>of outstanding common shares | <u>2,729,896,381</u>             | <u>2,532,121,381</u>             | <u>2,532,121,381</u>               |
| Basic and diluted earnings (loss)<br>per share             | <b><u>P 0.06</u></b>             | (P 0.07)                         | <u>P 0.80</u>                      |

The Company has no potential dilutive common shares as of and for the years ended December 31, 2023 and 2022 and for the six months ended December 31, 2021.

## 18. COMMITMENTS AND CONTINGENCIES

### 18.1 Operating Lease Commitments – Company as a Lessor

The Company is a lessor under several operating leases covering real estate properties for office and commercial use (see Note 6). The future minimum lease receivable under these agreements as of December 31, 2023 and 2022 are shown below.

|   | <u>2023</u>                    | <u>2022</u>                    |
|---|--------------------------------|--------------------------------|
| Within one year                                   | <b>P 2,917,612,931</b>         | P 2,981,191,290                |
| After one year but not more than<br>two years     | <b>2,547,489,544</b>           | 2,497,739,835                  |
| After two years but not more than<br>three years  | <b>1,740,895,275</b>           | 1,875,531,163                  |
| After three years but not more than<br>four years | <b>1,051,335,041</b>           | 1,111,478,803                  |
| After four years but not more than<br>five years  | <b>673,081,114</b>             | 657,254,881                    |
| More than five years                              | <u><b>2,598,259,220</b></u>    | <u>2,778,752,188</u>           |
|   | <b><u>P 11,528,673,125</u></b> | <b><u>P 11,901,948,160</u></b> |

The Company is subject to risk incidental to the operation of its office and commercial properties, which include, among others, changes in market rental rates, inability to renew leases upon lease expiration, and inability to collect rent from tenants due to bankruptcy or insolvency of tenants. Majority of the Company's revenue from rental properties are derived from commercial and BPO-based tenants. If the expected growth, particularly from BPO-based tenants, does not meet management's expectations, or in the case of commercial tenants more stringent health measures are imposed resulting to further temporary or permanent closures of commercial establishments, the Company may not be able to lease their properties in a timely manner or collect rent at profitable rates.

To mitigate these risks, the Company requires security deposits and advanced rentals representing three months' and six months' rent from office and commercial tenants, respectively (see Note 9).

### ***18.2 Operating Lease Commitments – Company as a Lessee***

The Company entered into a land lease agreement with MC over the land on which its investment properties stood for a period of 25 years, renewable for another 25 years. (see Note 15.2). Variable lease payments will commence on July 1, 2023. The lease agreement does not contain any fixed lease payments. In addition, the lease agreement involves payment for security deposit (see Note 7). The related variable lease expense incurred amounting to P39.5 million in 2023 is presented as Land lease under the Cost of Services account in the 2023 statement of comprehensive income (see Note 12).

### ***18.3 Others***

There are commitments and contingent liabilities that may arise in the normal course of the Company's operations, which are not reflected in the financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Company's financial statements.

## **19. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks in relation to its financial instruments. The Company's financial assets and financial liabilities by category are summarized in Note 20. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated with its parent company, in close coordination with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial risks.

The Company does not engage in trading of financial assets for speculative purposes. The relevant financial risks to which the Company is exposed are discussed below.

### ***19.1 Market Risk***

As of December 31, 2023 and 2022, the Company is exposed to market risk through its cash in banks, which are subject to changes in market interest rates. However, management believes that the related interest rate risk exposure is not significant. All other financial assets and financial liabilities are either noninterest-bearing or subject to fixed interest rates.

## 19.2 Credit Risk

The Company's credit risk is attributable to trade and other receivables and other financial assets. The Company maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. In addition, for trade receivables, security deposits and advance payments are received to mitigate credit risk.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to financial statements), as summarized below.

|                             | Notes | 2023                          | 2022                          |
|-----------------------------|-------|-------------------------------|-------------------------------|
| Cash and cash equivalents   | 4     | <b>P 1,678,912,046</b>        | P 1,380,526,060               |
| Trade and other receivables | 5     | <b>451,266,601</b>            | 309,841,031                   |
| Security deposit            | 7     | <b>20,649,401</b>             | 19,488,462                    |
|                             |       | <b><u>P 2,150,828,048</u></b> | <b><u>P 1,709,855,553</u></b> |

### (a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum of P0.5 million for every depositor per banking institution.

### (b) Trade and Other Receivables

The Company applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The other receivables relate to receivables from third parties other than trade receivables and have substantially the same risk characteristics as the trade receivables. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

Management considers the ECL on the Company's trade and other receivables to be negligible taking into consideration the counterparties' ability to repay at the reporting date and the actual collection from such counterparties during the reporting periods.

Furthermore, the Company considers credit enhancements in determining the expected credit loss. Trade receivables are collateralized by advance rental and security deposits received from lessees.

The estimated fair value of collateral and other security enhancements held against trade and other receivables as of December 31, 2023 and 2022 is presented below.

|                         | <u>Gross<br/>Maximum<br/>Exposure</u> | <u>Fair<br/>Value of<br/>Collaterals</u> | <u>Net<br/>Exposure</u> |
|-------------------------|---------------------------------------|--|-------------------------|
| As of December 31, 2023 | <u>P 451,266,601</u>                  | <u>P 1,253,261,792</u>                   | <u>P -</u>              |
| As of December 31, 2022 | <u>P 309,841,031</u>                  | <u>P 1,192,694,675</u>                   | <u>P -</u>              |

(c) *Security Deposit*

The credit risk for security deposit is considered negligible as the Company has ongoing lease agreement with the counterparty and the latter is considered to be with sound financial condition and sufficient liquidity. The security deposit can also be applied against future rental payments in cases of default.

**19.3 Liquidity Risk**

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week, as well as on the basis of a rolling 30-day projection. Long-term needs for a 6-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, or short-term marketable securities.

As at December 31, 2023 and 2022, the Company's financial liabilities have contractual maturities which are presented below.

|                                 | <u>Within<br/>1 Year</u>      | <u>1 to 5<br/>Years</u>       | <u>More than<br/>5 Years</u>  |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b><u>December 31, 2023</u></b> |                               |                               |                               |
| Interest-bearing loan           | P 257,347,079                 | P 1,978,800,374               | P 8,572,225,343               |
| Security deposits               | 179,856,807                   | 582,625,738                   | 81,535,377                    |
| Accounts payable                | 460,332,383                   | -                             | -                             |
| Accrued expenses                | <u>240,679,842</u>            | <u>-</u>                      | <u>-</u>                      |
|                                 | <b><u>P 1,138,216,111</u></b> | <b><u>P 2,561,426,112</u></b> | <b><u>P 8,653,760,720</u></b> |
| <b><u>December 31, 2022</u></b> |                               |                               |                               |
| Interest-bearing loan           | P 260,116,227                 | P 1,087,645,108               | P 8,234,613,600               |
| Security deposits               | 188,900,183                   | 535,675,064                   | 73,381,164                    |
| Accounts payable                | 411,064,691                   | -                             | -                             |
| Accrued expenses                | <u>53,027,572</u>             | <u>-</u>                      | <u>-</u>                      |
|                                 | <b><u>P 913,108,673</u></b>   | <b><u>P 1,623,320,172</u></b> | <b><u>P 8,307,994,764</u></b> |

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 20. CATEGORIES, FAIR VALUES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 20.1 Carrying Amounts and Fair Value by Category

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

| Notes                                    | 2023            |                        | 2022                   |                        |
|--|-----------------|------------------------|------------------------|------------------------|
|  | Carrying Values | Fair Values            | Carrying Values        | Fair Values            |
| <b>Financial assets</b>                  |                 |                        |                        |                        |
| Financial assets at amortized cost:      |                 |                        |                        |                        |
| Cash and cash equivalents                | 4               | P 1,678,912,046        | P 1,678,912,046        | P 1,380,526,060        |
| Trade and other receivables              | 5               | 451,266,601            | 451,266,601            | 309,841,031            |
| Security deposit                         | 7               | 20,649,401             | 19,570,069             | 18,408,488             |
|  |                 | <u>P 2,150,828,048</u> | <u>P 2,149,748,716</u> | <u>P 1,709,855,553</u> |
|  |                 |                        | <u>P 1,708,755,579</u> |                        |
| <b>Financial liabilities</b>             |                 |                        |                        |                        |
| Financial liabilities at amortized cost: |                 |                        |                        |                        |
| Interest-bearing loan                    | 10              | P 7,206,697,580        | P 7,206,697,580        | P 7,201,241,354        |
| Security deposits                        | 9               | 779,152,958            | 744,498,127            | 712,839,074            |
| Accounts payable                         | 8               | 460,332,383            | 460,332,383            | 411,064,691            |
| Accrued expenses                         | 8               | 240,679,842            | 240,679,842            | 53,027,572             |
| Interest payable                         | 8               | 8,055,636              | 8,055,636              | 8,055,636              |
|  |                 | <u>P 8,694,918,399</u> | <u>P 8,660,263,568</u> | <u>P 8,386,228,327</u> |
|  |                 |                        |                        | <u>P 8,351,454,825</u> |

A description of the Company's risk management objectives and policies for financial instruments is provided in Note 19.

### 20.2 Offsetting of Financial Assets and Financial Liabilities

Except when applicable for the offsetting of rental receivables and rental deposits arising from the normal course of the Company's leasing activities, the Company has not set off financial instruments and do not have relevant offsetting arrangements. Currently, all other financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and shareholders. As such, the Company's outstanding receivables from and payables to the same related parties can be potentially offset to the extent of their corresponding outstanding balances.

## 21. FAIR VALUE MEASUREMENT AND DISCLOSURE

### 21.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### ***21.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed***

The Company's financial assets which are not measured at fair value in the statements of financial position but for which fair value is disclosed only include cash and cash equivalents categorized as Level 1. All other financial assets and financial liabilities are categorized under Level 3.

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

### ***21.3 Fair Value Measurement of Investment Properties***

As of December 31, 2023 and 2022, the Company's investment properties amounting to P59.0 billion and P56.4 billion, respectively, are classified under Level 3 of the hierarchy of fair value measurements.

The fair values of the Company's investment properties (see Note 6) are determined on the basis of the appraisals performed by Santos Knight Frank, Inc., an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. Briefly describing the valuation method used, the approach converts anticipated future gains to present worth by projecting reasonable income and expenses for the properties. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Company's investment property is its current use.

Fair value as determined by independent appraisers are based on the Income Approach. Under the Income Approach, the fair value of an asset is measured by calculating the present value of its economic benefits by discounting expected cash flows at a rate of return that compensates the risks associated with the particular investment. The most common approach in valuing future economic benefits of a projected income stream is the discounted cash flows model. This valuation process of this model consists of the following: (a) estimation of the revenues generated; (b) estimation of the costs and expenses related to the operations of the development; (c) estimation of an appropriate discount rate; and (d) discounting process using an appropriate discount rate to arrive at an indicative fair value. The most significant inputs used in this model are the estimated expected future annual cash inflow and outgoing expenses, anticipated increase in market rental, discount rate and terminal capitalization rate.

The fair value is sensitive to changes in discount rate, terminal capitalization rate and market rental. A change in these unobservable inputs would have the following impact on fair value:

|                              | <u><b>Increase</b></u> | <u><b>Decrease</b></u> |
|------------------------------|------------------------|------------------------|
| Discount rate                | Decrease               | Increase               |
| Terminal capitalization rate | Decrease               | Increase               |
| Increase in market rental    | Increase               | Decrease               |

The discount rates and terminal capitalization rates were determined with reference to published risk free rates and risk premium rates at the date of valuation.

Also, there were no transfers into or out of Level 3 fair value hierarchy.

## 22. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Company manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's total liabilities and total equity are presented below.

|                   | <u><b>2023</b></u>     | <u><b>2022</b></u> |
|-------------------|------------------------|--------------------|
| Total liabilities | <b>P 9,312,561,087</b> | P 8,972,087,728    |
| Total equity      | <b>52,138,558,919</b>  | 49,518,229,093     |

Under REIT Act, the Company is subject to external capital requirement to have a minimum paid-up capital of P300.0 million, which was complied with as of the reporting periods presented.

## 23. OPERATING SEGMENT

The Company has determined that it operates as one operating segment. The Company's only income-generating activity is the lease of its buildings, which is the measure used by the Chief Operating Decision Maker in allocating resources.

# **Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements**

---

**Punongbayan & Araullo**

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors and Stockholders  
MREIT, Inc.**

***(A Subsidiary of Megaworld Corporation)***

18th Floor, Alliance Global Tower  
36th Street cor. 11th Avenue  
Uptown Bonifacio, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of MREIT, Inc. (the Company) as at and for the year ended December 31, 2023 and have issued our report thereon dated February 26, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Company's management. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **PUNONGBAYAN & ARAULLO**



**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347

TIN 257-622-627

PTR No. 10076144, January 3, 2024, Makati City

SEC Group A Accreditation

Partner - No. 121347-SEC (until financial period 2023)

Firm - No. 0002 (until financial period 2024)

BIR AN 08-002551-040-2023 (until Jan. 24, 2026)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 26, 2024

**MREIT, INC.**  
**List of Supplementary Information**  
**December 31, 2023**

| <b>Schedule</b> | <b>Content</b>   | <b>Page No.</b> |
|-----------------|--|-----------------|
| A               | Financial Assets   | 1               |
| B               | Amounts Receivable from Directors, Officers, Employees,<br>Related Parties and Principal Stockholders (Other than Related Parties) | 2               |
| C               | Amounts Receivable/Payable from/to Related Parties which are Eliminated<br>during the Consolidation of Financial Statements        | 3               |
| D               | Long-term Debt   | 4               |
| E               | Indebtedness to Related Parties (Long-term Loans from Related Companies)   | 5               |
| F               | Guarantees of Securities of Other Issuers  | 6               |
| G               | Capital Stock  | 7               |

**Other Required Information**

Reconciliation of Retained Earnings Available for Dividend Declaration

Map Showing the Relationship Between the Company and its Related Entities

**MREIT, Inc.**  
**Schedule A - Financial Assets**  
**December 31, 2023**

The Company does not have financial assets classified under fair value through other comprehensive income, fair value through profit or loss and held to maturity as of December 31, 2023.

**MREIT, Inc.**  
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders**  
**(Other than Related Parties)**  
**December 31, 2023**

The Company does not have amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties) above P1 million or 1% of total assets as of December 31, 2023.

MREIT, Inc.  
Schedule C - Amounts Receivable/ Payable from/ to Related Parties which are Eliminated  
During the Consolidation of Financial Statements  
December 31, 2023

| <i>Name and<br/>Designation of<br/>Debtor</i> | <i>Balance at<br/>Beginning of<br/>Period</i> | <i>Additions</i> | <i>Deductions</i>            |                                | <i>Current</i> | <i>Not Current</i> | <i>Balance at End<br/>of Period</i> |
|---|---|------------------|------------------------------|--------------------------------|----------------|--------------------|-------------------------------------|
|   |   |                  | <i>Amounts<br/>Collected</i> | <i>Amounts<br/>Written Off</i> |                |                    |                                     |
| N/A   | N/A   | N/A              | N/A                          | N/A                            | N/A            | N/A                | N/A                                 |

MREIT, Inc.  
Schedule D - Long-Term Debt  
December 31, 2023

| <i>Title of Issue and Type of Obligation</i> |   | <i>Amount Authorized by Indenture</i> |   | <i>Amount shown under Caption "Interest-bearing loan" in related Balance Sheet</i> |   | <i>Amount shown under Caption "Interest-bearing loan" in related Balance Sheet</i> |
|--|---|---------------------------------------|---|--|---|--|
| Long -term loan (Domestic)                   | P | 7,250,000,000                         | p | -  | P | 7,206,697,580  |

MREIT, Inc.  
Schedule E - Indebtedness to Related Parties (Long-term Loans from Related Companies)  
December 31, 2023

| <i>Name of Related Party</i> | <i>Balance at Beginning of Period</i> | <i>Balance at End of Period</i> |
|------------------------------|---------------------------------------|---------------------------------|
| N/A                          | N/A                                   | N/A                             |

MREIT, Inc.  
Schedule F - Guarantees of Securities of Other Issuers  
December 31, 2023

| <i>Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed</i> | <i>Title of Issue of Each Class of Securities Guaranteed</i> | <i>Total Amount Guaranteed and Outstanding</i> | <i>Amount Owned by Person for which Statement is Filed</i> | <i>Nature of Guarantee</i> |
|---|--|--|--|----------------------------|
| N/A   | N/A  | N/A  | N/A  | N/A                        |

MREIT, Inc.  
Schedule G - Capital Stock  
December 31, 2023

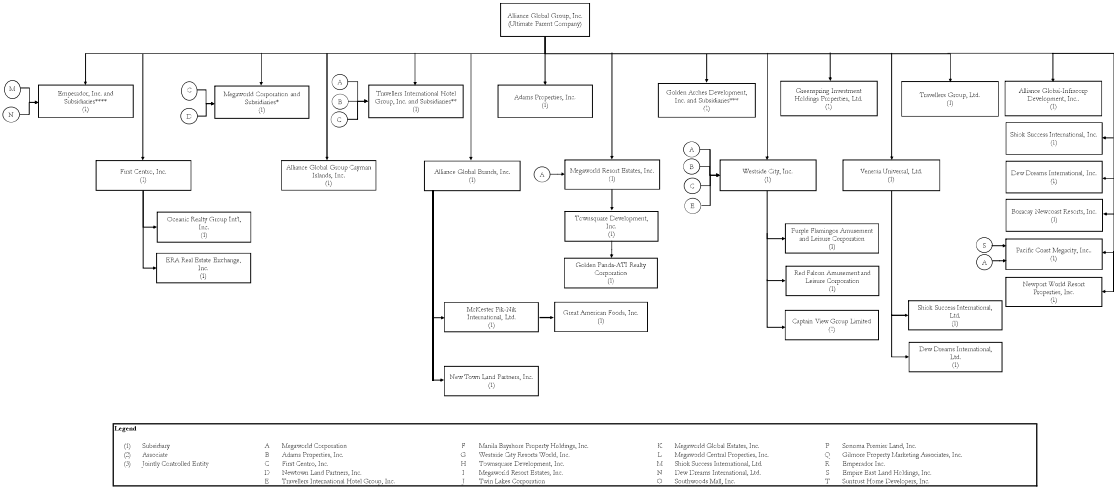
| <i>Title of Issue</i>        | <i>Number of Shares Authorized</i> | <i>Number of Shares Issued and Outstanding as shown under the related Balance Sheet Caption</i> | <i>Number of Shares Reserved for Options, Warrants, Conversion and other Rights</i> | <i>Number of Shares Held by</i> |  |               |
|------------------------------|------------------------------------|---|---|---------------------------------|--|---------------|
|                              |                                    |   |   | <i>Related Parties</i>          | <i>Directors, Officers and Employees</i> | <i>Others</i> |
| Common shares - P1 par value | 5,000,000,000                      | 2,795,821,381   | -   | 1,584,235,781                   | 10,001,000                               | 1,201,584,600 |

**MREIT, INC.**  
*(A Subsidiary of Megaworld Corporation)*  
18th Floor, Alliance Global Tower,  
36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City

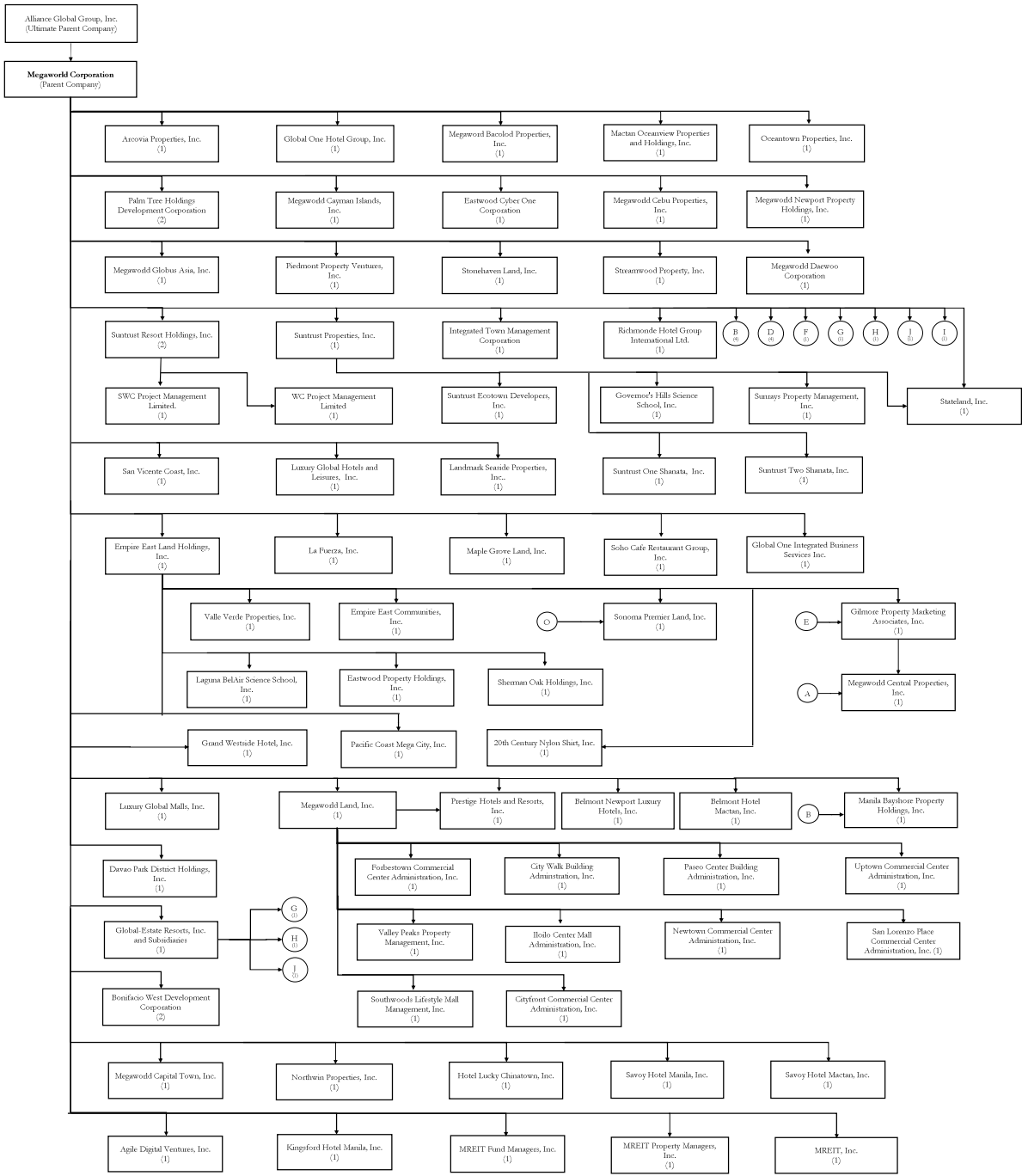
**Reconciliation of Retained Earnings Available for Dividend Declaration  
December 31, 2023**

|   |                      |                               |
|---|----------------------|-------------------------------|
| <b>Unappropriated Retained Earnings at Beginning of Year, as Adjusted<br/>based on prior year reconciliation</b>        |                      | P <u>865,337,592</u>          |
| <b>Distributable Net Income</b>   |                      |                               |
| Net Income for the current year   |                      | 168,343,855                   |
| <b>Add: Fair value adjustment of investment property resulting to loss</b>  | <u>2,732,200,000</u> | 2,732,200,000                 |
| <b>Less: Unrealized gains or adjustments to income as a result of<br/>certain transactions accounted for under PFRS</b> |                      |                               |
| PFRS 16 straight-line adjustment on rental income   | ( 62,687,508 )       |                               |
| Rental income on amortization of deferred credits   | ( 34,606,492 )       | ( 97,293,999 )                |
| <b>Add: Adjustments due to any prescribed accounting<br/>standard which result to a loss</b>                            |                      |                               |
| Interest expense on amortization of security deposit (liability)  | 34,223,800           |                               |
| Interest expense from amortization of loan transaction costs  | 5,456,226            |                               |
| Rental expense on amortization of deferred charges  | 2,362,098            |                               |
| Interest income on amortization of security deposit (asset)   | ( <u>1,160,939</u> ) | <u>40,881,185</u>             |
|   |                      | <u>2,844,131,041</u>          |
| <b>Dividends declared during the year</b>   |                      | ( <u>2,687,061,879</u> )      |
| <b>Unappropriated Retained Earnings Available for Dividend Distribution at End of Year</b>                              |                      | <b>P <u>1,022,406,754</u></b> |

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES  
Map Showing the Relationship Between Alliance Global Group, Inc.  
and its Related Parties  
December 31, 2023



ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES  
Map Showing the Relationship Between Alliance Global Group, Inc.  
and Megaworld Corporation Group  
December 31, 2023



Legend  
Relationship with Megaworld Corporation

- (1) Subsidiary  
(2) Associate  
(3) Jointly Controlled Entity  
(4) FVOCI

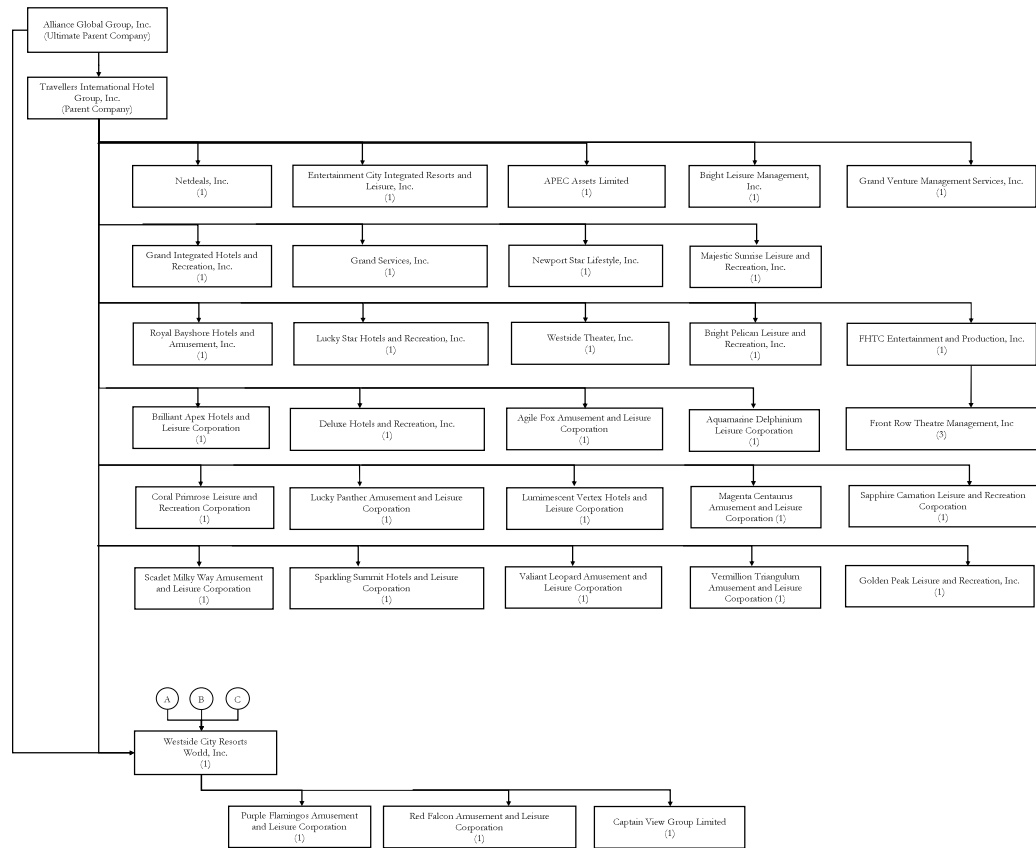
A Megaworld Corporation  
B Travellers International Hotel Group  
C Manila Bayshore Property Holdings, Inc.  
D Westside City Resort World, Inc.

E Townsquare Development, Inc.  
F Megaworld Resort Estates, Inc.  
G Twin Lakes Corporation  
H Megaworld Global Estates, Inc.

I Megaworld Central Properties, Inc.  
J Southwoods Mall, Inc.  
K Sonoma Premier Land, Inc.  
L Gilmore Property Marketing Associates, Inc.

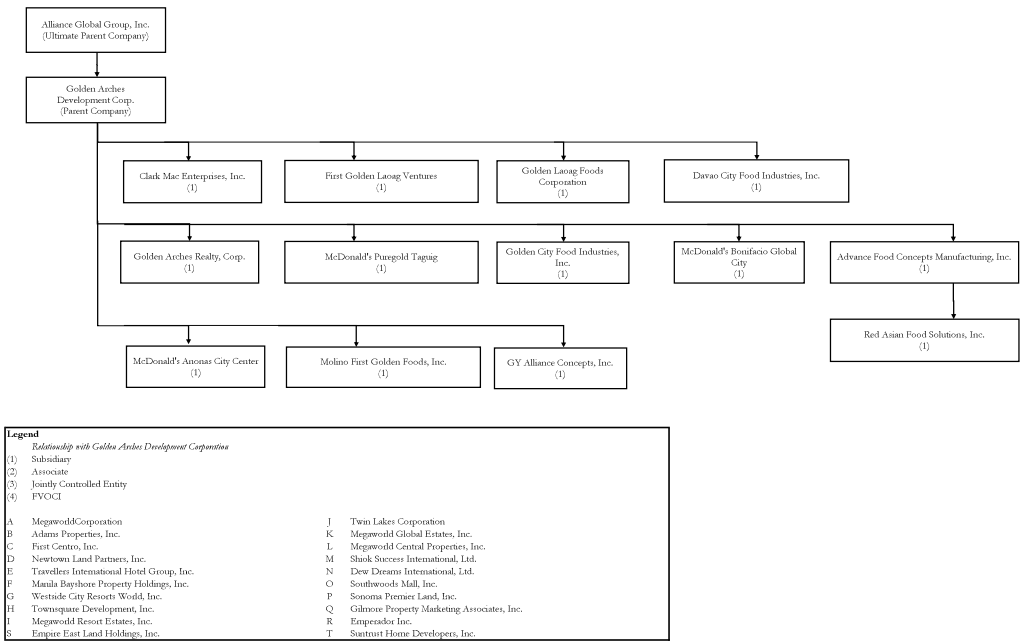
M Empire East Land Holdings, Inc.  
N Suntrust Resort Holdings, Inc.  
O First Centro, Inc.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
Map Showing the Relationship Between Alliance Global Group, Inc.  
and Travellers Group  
December 31, 2023

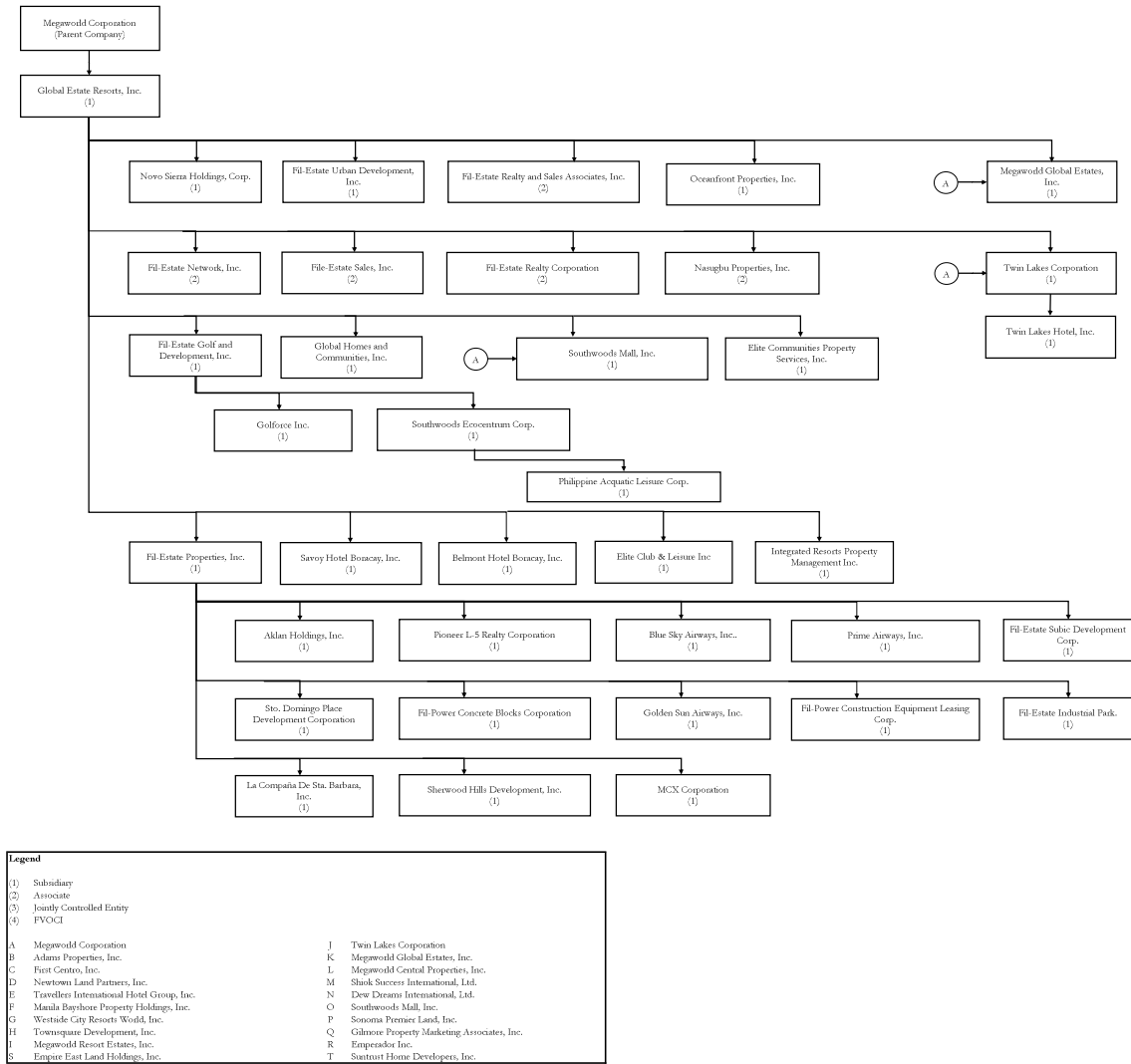


| Legend   |   |
|--|---|
| Relationship with Travellers International Hotel Group, Inc. |   |
| (1)  | Subsidiary                                  |
| (2)  | Associate                                   |
| (3)  | Jointly Controlled Entity                   |
| (4)  | FVOCI                                       |
| A  | Megaworld Corporation                       |
| B  | Adams Properties, Inc.                      |
| C  | First Centro, Inc.                          |
| D  | Newtown Land Partners, Inc.                 |
| E  | Travellers International Hotel Group, Inc.  |
| F  | Manila Bayshore Property Holdings, Inc.     |
| G  | Westside City Resorts World, Inc.           |
| H  | Townsquare Development, Inc.                |
| I  | Megaworld Resor Estates, Inc.               |
| J  | Empire East Land Holdings, Inc.             |
| J  | Twin Lakes Corporation                      |
| K  | Megaworld Global Estates, Inc.              |
| L  | Megaworld Central Properties, Inc.          |
| M  | Shook Success International, Ltd.           |
| N  | Dew Dream International, Ltd.               |
| O  | Southwoods Mall, Inc.                       |
| P  | Sonoma Premier Land, Inc.                   |
| Q  | Gilmore Property Marketing Associates, Inc. |
| R  | Empirestar Inc.                             |
| T  | Sunstart Home Developers, Inc.              |

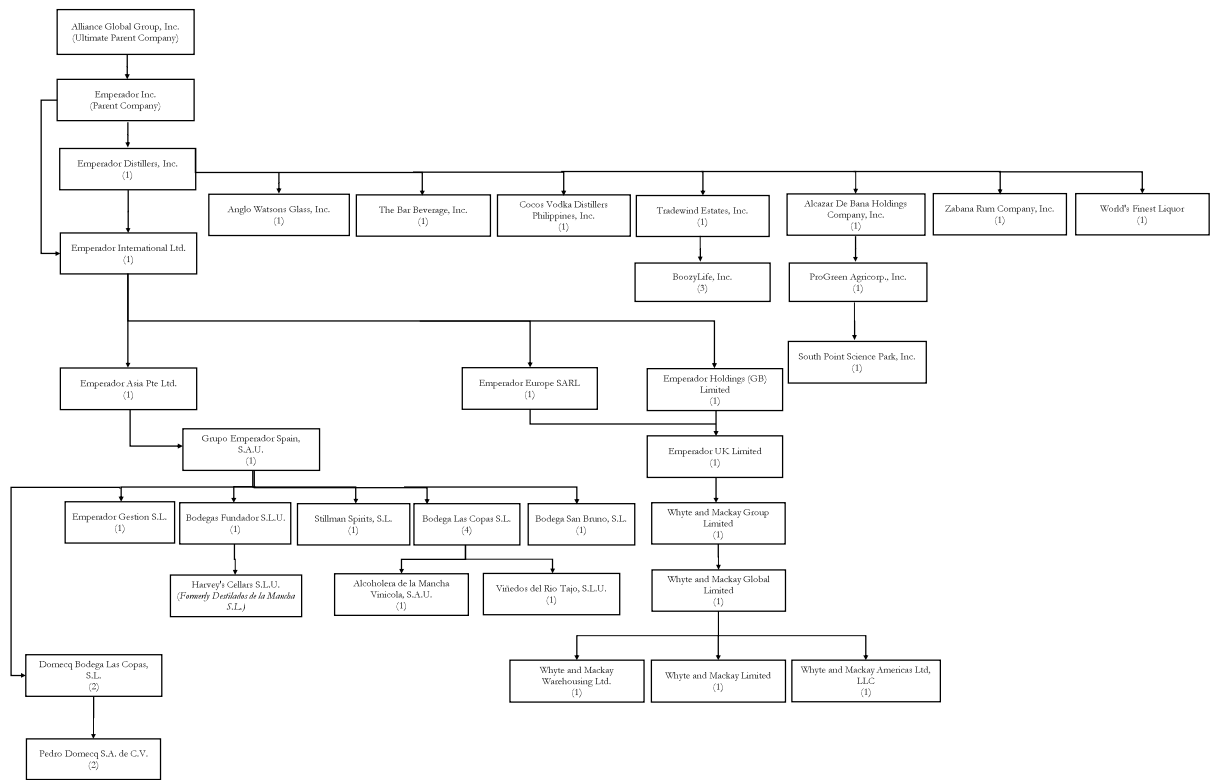
**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
Map Showing the Relationship Between Alliance Global Group, Inc.  
and Golden Arches Development Corporation Group  
December 31, 2023



**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
Map Showing the Relationship Between and  
Among Megaworld and Global Estate Resorts Inc. Group  
December 31, 2023



**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**  
Map Showing the Relationship Between Alliance Global Group, Inc.  
and Emperador Group  
December 31, 2023



| Legend                           |                           |
|----------------------------------|---------------------------|
| Relationship with Emperador Inc. |                           |
| (1)                              | Subsidiary (100%)         |
| (2)                              | Subsidiary (50%)          |
| (3)                              | Subsidiary (51%)          |
| (4)                              | Jointly Controlled Entity |

## **Report of Independent Auditors on Components of Financial Soundness Indicators**

**The Board of Directors and Stockholders  
MREIT, Inc.**

***(A Subsidiary of Megaworld Corporation)***

18th Floor, Alliance Global Tower  
36th Street cor. 11th Avenue  
Uptown Bonifacio, Taguig City

---

**Punongbayan & Araullo**

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of MREIT, Inc. (the Company) as at and for the year ended December 31, 2023 and have issued our report thereon dated February 26, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at and for the year ended December 31, 2023, 2022 and six months ended December 31, 2021 and no material exceptions were noted.

### **PUNONGBAYAN & ARAULLO**



**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347

TIN 257-622-627

PTR No. 10076144, January 3, 2024, Makati City

SEC Group A Accreditation

Partner - No. 121347-SEC (until financial period 2023)

Firm - No. 0002 (until financial period 2024)

BIR AN 08-002551-040-2023 (until Jan. 24, 2026)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 26, 2024

**MREIT, INC.**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**For the year ended December 31, 2023**

| Ratio                        | Formula  | December 31, 2023<br>(One Year) | December 31, 2022<br>(One Year) | December 31, 2021<br>(Six Months) |
|------------------------------|--|---------------------------------|---------------------------------|-----------------------------------|
| Current ratio                | Current assets / Current liabilities   | 1.90                            | 2.52                            | 3.43                              |
| Acid test ratio              | Quick assets / Current liabilities (Quick assets include cash and current portion of trade receivables - net)                    | 1.68                            | 2.16                            | 3.27                              |
| Debt-to-equity ratio         | Total debt / Total stockholders' equity (Total debt includes interest bearing loans and borrowings and bonds and notes payable ) | 0.14                            | 0.15                            | 0.14                              |
| Asset-to-equity ratio        | Total assets / Total stockholders' equity  | 1.18                            | 1.18                            | 1.17                              |
| Solvency ratio               | EBITDA / Total debt (Total debt includes interest bearing loans and borrowings and bonds and notes payable )*                    | 0.45                            | 0.41                            | 0.17                              |
| Interest rate coverage ratio | EBIT / Total Interest (Total interest includes interest expense and capitalized interest)**                                      | 10.49                           | 9.57                            | 51.88                             |
| Return on equity             | Net profit / Average total stockholders' equity  | 0.0033                          | -0.0035                         | 0.0391                            |
| Return on assets             | Net profit / Average total assets  | 0.0028                          | -0.0030                         | 0.0357                            |
| Net profit margin            | Net profit / Total revenues  | 0.0405                          | -0.0484                         | 1.3789                            |

\*EBITDA refers to earnings before interest, taxes, depreciation, amortization and excludes net fair value change in investment properties

\*\*EBIT refers to earnings before interest and taxes and excludes net fair value change in investment properties