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Financial Statements and
Independent Auditors' Report

MREIT, Inc.

For the Six Months Ended December 31, 2021 and June 30, 2021 and the Three Months Ended December 31, 2020

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Report of Independent Auditors

The Board of Directors
MREIT, Inc.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
18th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

Opinion

We have audited the financial statements of MREIT, Inc. (the Company), which comprise the statements of financial position as of December 31, 2021 and June 30, 2021, and the statements of comprehensive income, statements of changes in equity (capital deficiency) and statements of cash flows for the six months ended December 31, 2021 and June 30, 2021, and the three months ended December 31, 2020, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and June 30, 2021, and its financial performance and its cash flows for the six months ended December 31, 2021 and June 30, 2021, and the three months ended December 31, 2020, 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 a 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.

Valuation of Investment Properties

Description of the Matter

The fair value of investment properties 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 compensates the risks associated with a particular investment. The total fair value of investment properties as of December 31, 2021 is P59.3 billion, which represents 97% of the total assets of the Company. The valuation of investment properties is significant to our audit because of the significance of the amount and because the measurement involves application of significant judgments and estimates.

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 methods used are fully described in Note 21 to the financial statements.

How the Matter was Addressed in the Audit

We have evaluated the independence and competence of the appraiser by obtaining an understanding of their qualifications, experience and track record. 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 key inputs used such as lease rates and lease terms by agreeing a sample 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 period ended December 31, 2021, 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 period ended December 31, 2021 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 period ended December 31, 2021 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 audits resulting in this independent auditors' report is Renan A. Piamonte.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8852342, January 3, 2022, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 24, 2022

MREIT, INC.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND JUNE 30, 2021
(Amounts in Philippine Pesos)

	Notes	**December 31, 2021**	June 30, 2021
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	**P 1,333,805,607**	P 2,308,916,531
Trade and other receivables	5	**88,118,786**	9,339,619
Other current assets	7	**71,262,351**	1,194,220
Total Current Assets		**1,493,186,744**	2,319,450,370
NON-CURRENT ASSETS			
Trade receivables	5	**56,558,890**	12,300,122
Investment properties	6	**59,261,000,000**	49,443,000,000
Other non-current assets	7	**54,441,929**	54,923,129
Total Non-current Assets		**59,372,000,819**	49,510,223,251
TOTAL ASSETS		**P 60,865,187,563**	P 51,829,673,621
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts and other payables	8	**P 172,191,343**	P 63,879,299
Deposits and other liabilities	9	**263,008,802**	179,944,909
Total Current Liabilities		**435,200,145**	243,824,208
NON-CURRENT LIABILITIES			
Interest-bearing loan	10	**7,195,789,259**	-
Deposits and other liabilities	9	**1,072,876,081**	729,865,666
Deferred tax liabilities	14	**-**	101,168,724
Total Non-current liabilities		**8,268,665,340**	831,034,390
Total Liabilities		**8,703,865,485**	1,074,858,598
EQUITY			
Capital stock	16	**2,532,121,381**	2,532,121,381
Additional paid-in capital	16	**47,907,466,035**	47,907,466,035
Retained earnings		**1,721,734,662**	315,227,607
Equity		**52,161,322,078**	50,754,815,023
TOTAL LIABILITIES AND EQUITY		**P 60,865,187,563**	P 51,829,673,621

See Notes to Financial Statements.

MREIT, INC.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021
AND THE THREE MONTHS ENDED DECEMBER 31, 2020*
(Amounts in Philippine Pesos)

	Notes	**December 31, 2021 (Six Months)**	June 30, 2021 (Six Months)	December 31, 2020 (Three Months)
REVENUES				
Rental income	11	**P 1,197,497,661**	P 195,044,232	P -
Income from dues - net	2	**263,215,987**	32,151,176	-
		1,460,713,648	227,195,408	-
COST OF SERVICES	12	**222,987,792**	20,469,415	-
GROSS PROFIT		**1,237,725,856**	206,725,993	-
OTHER OPERATING EXPENSES	13	**9,630,912**	18,761,149	10,278,820
OPERATING PROFIT		**1,228,094,944**	187,964,844	(10,278,820)
OTHER INCOME (CHARGES) - NET				
Fair value gains on investment properties	6	**702,000,000**	240,592,380	-
Interest expense	9 , 10	**(23,833,140)**	(2,403,391)	-
Interest income	4, 7	**8,374,430**	637,045	-
		686,541,290	238,826,034	-
PROFIT (LOSS) BEFORE TAX		**1,914,636,234**	426,790,878	(10,278,820)
TAX INCOME (EXPENSE)	14	**99,579,952**	(101,284,451)	-
NET PROFIT (LOSS)		**2,014,216,186**	325,506,427	(10,278,820)
OTHER COMPREHENSIVE INCOME		**-**	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 2,014,216,186**	P 325,506,427	(P 10,278,820)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	17	**P 0.80**	P 0.13	(P 1.03)

* The Company was incorporated on October 2, 2020 and has started its commercial operations on June 2, 2021.

See Notes to Financial Statements.

MREIT, INC.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021
AND THE THREE MONTHS ENDED DECEMBER 31, 2020*
(Amounts in Philippine Pesos)

	Notes	**December 31, 2021 (Six Months)**	June 30, 2021 (Six Months)	December 31, 2020 (Three Months)
CAPITAL STOCK				
Balance at beginning of period		**P 2,532,121,381**	P 10,000,000	P -
Issuance of shares during the period	1	**-**	2,522,121,381	10,000,000
Balance at end of period		**2,532,121,381**	2,532,121,381	10,000,000
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of period		**47,907,466,035**	-	-
Addition during the period	1, 16	**-**	47,907,466,035	-
Balance at end of period		**47,907,466,035**	47,907,466,035	-
RETAINED EARNINGS (DEFICIT)				
Balance at beginning of period		**315,227,607**	(10,278,820)	-
Net profit (loss) during the period		**2,014,216,186**	325,506,427	(10,278,820)
Dividends declared during the period	16	**(607,709,131)**	-	-
Balance at end of period		**1,721,734,662**	315,227,607	(10,278,820)
EQUITY (CAPITAL DEFICIENCY)		**P 52,161,322,078**	P 50,754,815,023	(P 278,820)

* The Company was incorporated on October 2, 2020 and has started its commercial operations on June 2, 2021.

See Notes to Financial Statements.

MREIT, INC.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021
AND THE THREE MONTHS ENDED DECEMBER 31, 2020*
(Amounts in Philippine Pesos)

	Notes	**December 31, 2021 (Six Months)**	June 30, 2021 (Six Months)	December 31, 2020 (Three Months)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		**P 1,914,636,234**	P 426,790,878	(P 10,278,820)
Adjustments for:				
Fair value gains on investment properties	6	**(702,000,000)**	(240,592,380)	-
Interest expense	9, 10	**23,833,140**	2,403,391	-
Interest income	4, 7	**(8,374,430)**	(637,045)	-
Operating profit (loss) before working capital changes		**1,228,094,944**	187,964,844	(10,278,820)
Increase in trade and other receivables		**(122,916,877)**	(21,639,741)	-
Increase in other current assets		**(70,068,131)**	(1,184,980)	(9,240)
Decrease (increase) in other non-current assets		**858,355**	(54,864,716)	-
Increase (decrease) in due to parent company		**-**	(201,820)	201,820
Increase in accounts and other payables		**100,316,824**	63,793,059	86,240
Increase in deposits and other liabilities		**410,400,646**	907,407,184	-
Cash generated from (used in) operations		**1,546,685,761**	1,081,273,830	(10,000,000)
Interest received		**7,876,217**	578,632	-
Income tax paid		**(1,588,771)**	(115,727)	-
Net Cash From (Used in) Operating Activities		**1,552,973,207**	1,081,736,735	(10,000,000)
CASH FLOW FROM AN INVESTING ACTIVITY				
Acquisition of investment properties	6	**(9,116,000,000)**	-	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loan, net of transaction costs	10	**7,195,625,000**	-	-
Dividends paid	16	**(607,709,131)**	-	-
Proceeds from issuance of shares, net of shares issuance costs	16	**-**	1,227,179,796	10,000,000
Net Cash From Financing Activities		**6,587,915,869**	1,227,179,796	10,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(975,110,924)**	2,308,916,531	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**2,308,916,531**	-	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P 1,333,805,607**	P 2,308,916,531	P -

* The Company was incorporated on October 2, 2020 and has started its commercial operations on June 2, 2021.

Supplemental Information on Non-cash Investing and Financing Activity —

In June 2021, 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 P49,202.4 million and was presented as Investment Properties in the June 30, 2021 statement of financial position (see Note 6). In exchange for the properties transferred, the Company issued 1,282,120,381 common shares with a par value of P1 per share to the Parent Company which resulted in recognition of Capital Stock and Additional Paid-in Capital amounting to P1,282.1 million and P47,920.3 million, respectively (see Note 16).

See Notes to Financial Statements.

MREIT, INC.
(Formerly Megaworld Holdings, Inc.)
(A Subsidiary of Megaworld Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND JUNE 30, 2021
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

MREIT, Inc. (the Company, formerly Megaworld Holdings, Inc.) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 2, 2020. The Company's primary purpose, as amended in April 2021, 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.

On February 1, 2021, Megaworld Corporation (MC or the Parent Company) obtained control over the Company by subscribing to 12,400,000 shares of the Company's authorized capital stock with par value of P100 per share or a total of P1,240,000,000. Accordingly, MC acquired 99.20% direct ownership of the Company's total issued and outstanding capital stock (see Note 16).

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, which include, among others, the following:

- change of name of the Company from Megaworld Holdings, Inc. to MREIT, Inc.;

- change in primary purpose of the Company from engaging in investment activities as an investment holdings company to engaging in the business of a real estate investment trust, as provided under the REIT Act and other applicable laws, which business includes: dealing with (1) income-generating real estate; (2) real estate, real estate-related assets, investments and instruments; and, (3) rent, interest, dividends and income arising from its property and investments;

- change in the secondary purposes of the Company to align with its primary purpose;

- change of principal office of the Company from 30th Floor, Alliance Global Tower to 18th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City;

- change in number of directors from five to seven;

- change in par value of common shares from P100 to P1, resulting to an increase in the number of common shares from 50,000,000 to 5,000,000,000; and,

- 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.

Likewise, on April 7, 2021, the Board of Directors (BOD) and stockholders of the Company approved the Property-for-Share Swap transaction with the Parent Company (see Notes 6 and 16.1).

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.

Both MC and AGI are publicly-listed companies in the Philippines.

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.

On October 1, 2021, the Company offered and sold 949,837,500 of its common shares, with a par value of P1 per share (the Offer) through an initial public offering. The Offer was comprised of secondary offer of shares held by MC. The effective ownership of MC was reduced to 62.09% as a result of the Offer.

On December 20, 2021, the Company acquired additional four properties from MC for cash (see Note 6).

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 financial statements of the Company as of and for the six months ended December 31, 2021 (including the comparative financial statements as of and for the six months ended June 30, 2021 and for the three months period ended December 31, 2020) were authorized for issue by the Company's BOD on February 24, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies 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 Reporting Standards Council (FRSC) 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.

The Company presents Accounts and Other Payables as a separate line item in its statement of financial position as of December 31, 2021. This account was previously presented as part of Deposits and Other Liabilities but is now presented separately as the amount is considered material as of December 31, 2021. As a result, accrued expenses and other payables amounting to P63.8 million as of June 30, 2021, previously presented within Deposits and Other Liabilities, was reclassified and presented as part of Accounts and Other Payables. The reclassification did not have a significant impact on the Company's statement of financial position as of December 31, 2020; hence, the comparative statement of financial position is not presented.

(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 New and Amended PFRS

(a) Effective in the Six Months Period Ended December 31, 2021 that is Relevant to the Company

The Company adopted for the first time the application of the amendments to *PFRS 16, Leases – COVID-19-Related Rent Concessions beyond June 30, 2021*, which is effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Company's financial statements.

(b) Effective Subsequent to Fiscal Year 2021 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements.

(i) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, only PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities* (effective from January 1, 2022), is relevant to the Company. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

(iii) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

(iv) PAS 1 (Amendments), *Presentation of Financial Statements* and PFRS Practice Statement 2 (Amendments), *Making Materiality Judgments – Disclosure of Accounting Policies* (effective from January 1, 2023). The amendments specify the requirement for an entity to disclose its material accounting policies instead of its significant accounting policies and provide guidance and examples with regards to application of the four-step materiality process in the identification of material accounting policy disclosures.

(v) PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates* (effective from January 1, 2023). The amendments clarify the definition of accounting estimates as monetary amounts in the financial statements that are subject to measurement uncertainty and the difference of changes in accounting estimates from changes in accounting policies and corrections of prior period errors.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(i) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the relevant financial asset classification applicable to the Company is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss.

The Company's financial assets at amortized cost are presented as Cash and Cash Equivalents, Trade and Other Receivables and Security deposit (presented under Other Non-current Assets) in the statement of financial position. Cash and cash equivalents include demand deposits and short-term placements with original maturities of three months or less from the date of acquisition. Demand deposits maintained in a local bank are unrestricted and readily available for use in the Company's operations. Short-term placements include short-term, highly-liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

(ii) Impairment of Financial Assets

The Company assesses expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables and security deposit. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators, forward-looking information, and other qualitative factors (including possible offsetting) to calculate the ECL using a provision matrix. The Company also assesses impairment of trade and other receivables and security deposit on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due.

For cash and cash equivalents, the Company applies low credit risk simplification and measures the ECL on the financial assets based on a 12-month ECL basis unless there has been a significant increase in credit risk since origination, in which case, the loss allowance will be based on lifetime ECL.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through an allowance for impairment account. Subsequent recoveries of amounts previously written off are credited against the same line item.

(iii) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Financial Liabilities

Financial liabilities, which pertain to Security deposits (presented under Deposits and Other Liabilities), Accounts and Other Payables (except tax-related liabilities), and Interest-bearing Loan are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

All interest-related charges, except any capitalized borrowing costs, are recognized as expense in profit or loss under Interest Expense account in the statement of comprehensive income.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Other Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.5 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.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal.

2.6 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.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, 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, probable 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.

2.7 Revenue and Expense Recognition

Revenue comprises revenue from leasing activities.

To determine whether to recognize revenue, the Company follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligation;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and,
5. recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(c) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied. The Company uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized.

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 [see Note 2.8(b)].

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.

Finance costs are reported on an accrual basis, except any capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.11).

2.8 Leases

The Company accounts for leases as follows:

(a) *Company as a Lessee*

For any new contracts entered into, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

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*

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

2.9 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.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.10 Employee Benefits

The Company provides post-employment benefits to employees through defined contribution plans and other employee benefits which are recognized as follows:

(a) *Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.11 Borrowing Costs

For financial reporting purposes, borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.12 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.13 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Based on the requirement of SEC Memorandum Circular 2019-10, *Rules of Material Related Party Transactions of Publicly-listed Companies*, transactions amounting to 10% or more of the total assets based on its latest financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds (2/3) vote of the Company's board of directors, with at least a majority of the independent directors, 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-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of ten percent of the Company's total assets based on the latest financial statements, the same board approval would be required for the transactions that meet and exceeds the materiality threshold covering the same related party.

2.14 Equity (Capital Deficiency)

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the issuance of capital. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Retained earnings (deficit) represents all current and prior period results of pre-operations and operations as reported in the statement of comprehensive income.

2.15 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net profit (loss) by the weighted average number of shares issued and outstanding, adjusted retrospectively for any share dividend declared, share split and reverse share split during the current year, if any.

Diluted earnings (loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares. Currently, the Company does not have potential dilutive shares outstanding; hence, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

2.16 Events After the End of the Reporting Period

Any event after the end of the reporting period that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Events after the end of the reporting period that are not adjusting events, if any, are disclosed when material to the financial statements.

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 has just started its operations during the period; hence, no historical default is available for the Company. 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 amount of utility revenues and utility expenses which were set off against each other is presented as part of Income from dues under Revenues section of the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.6 and disclosures on relevant provisions and contingencies are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

Presented below 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 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 (NOLCO). As a result, no deferred tax asset was recognized as of December 31, 2021 and June 30, 2021.

The carrying amount of the unrecognized deferred tax asset as at December 31, 2021, and June 30, 2021 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. Also, the Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.9. 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 six months ended December 31, 2021 and June 30, 2021, and the three months ended December 31, 2020 based on management's assessment.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	December 31, 2021	June 30, 2021
Cash on hand and in bank	**P 832,127,010**	P 1,308,559,864
Short-term placements	**501,678,597**	1,000,356,667
	P 1,333,805,607	P 2,308,916,531

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

Short-term placements are made for varying periods from 30 to 44 days and earn effective interest of 0.5% to 1.125%.

Interest earned from cash in bank and short-term placements for the six months ended December 31, 2021 and June 30, 2021 amounted to P8.0 million and P0.6 million, respectively, and is presented as Interest income under Other Income (Charges) section in the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021.

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	December 31, 2021	June 30, 2021
Current		
Trade receivables:		
Billed	**P 70,763,275**	P 7,793,613
Accrued	**14,112,404**	85,318
Others	**3,243,107**	1,460,688
	88,118,786	9,339,619
Non-current –		
Trade receivables –		
Accrued	**56,558,890**	12,300,122
	P 144,677,676	P 21,639,741

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

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.

All trade and other receivables are subject to credit risk exposure. However, there was no impairment losses recognized for the six months ended December 31, 2021 and June 30, 2021 as management believes that the remaining receivables are fully collectible [see Note 19.2(b)].

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 at the beginning and end of the six-month periods ended December 31, 2021 and June 30, 2021 of investment properties is shown below.

Balance at January 1, 2021	P -
Additions for the period	49,202,407,620
Fair value gains	240,592,380
Balance at June 30, 2021	49,443,000,000
Additions for the period	9,116,000,000
Fair value gains	702,000,000
Balance at December 31, 2021	**P 59,261,000,000**

In May 2021, ten properties were transferred to the Company in accordance with the Property-for-Share Swap transaction (the Assigned Properties) entered into by the Company and MC as approved by its BOD and stockholders on April 7, 2021 (see Note 1).

On May 19, 2021, in furtherance of the transfer, assignment and conveyance in favor of MREIT of all of MC's rights, title and interests in the Assigned Properties in exchange for MREIT's common shares, MC and MREIT entered into a Deed of Assignment of Leases assigning all of MC's rights and interests in and to the Contracts of Lease over portions of the Assigned Properties leased out to various entities effective upon the issuance of MREIT's common shares in the name of the Company under the Deed of Exchange of Property and Shares.

On June 1, 2021, SEC has certified the approval of the valuation of the Assigned Properties under the Deed of Exchange of Property and Shares. Consequently, on June 2, 2021, the Company issued 1,282,120,381 common shares to MC, and the Deed of Assignment of Leases was consummated (see Note 16.1).

On December 20, 2021, the Company purchased four additional prime, Grade A buildings located in zones registered with the Philippine Economic Zoning Authority (PEZA) from MC for a total acquisition price of P9,116.0 million (the Additional Properties). The acquisition was partially financed by a loan obtained from a local bank (see Note 10). MC and MREIT likewise entered into a Deed of Assignment of Leases assigning all of MC's rights and interests in and to the Contracts of Lease over portions of the Additional Properties.

As of December 31, 2021, the Company has a total of 14 assets 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

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

For the six months ended December 31, 2021 and June 30, 2021, rental income from investment properties amounted to P1,197.5 million and P195.0 million, respectively (see Note 11). All investment properties generate rental income.

The direct operating costs incurred relating to investment properties, which pertains to repairs and maintenance and real property taxes, amounted to P10.7 million and P4.4 million for the six months ended December 31, 2021 and June 30, 2021, respectively.

The fair values of the investment properties as of December 31, 2021 and June 30, 2021 amounted to P59.3 billion and P49.4 billion, respectively, 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 gain amounting to P702.0 million and P240.6 million is presented as Fair value gains on investment properties in the Other Income (Charges) section of the statement of comprehensive income for the six months ended December 31, 2021 and June 30, 2021, respectively.

The Company does not have contractual commitments for purchase of investment properties. The operating lease commitments of the Company as lessor are fully disclosed in Note 18.1.

7. OTHER ASSETS

The Company's other assets consist of the following:

	December 31, 2021	June 30, 2021
Current:		
Creditable withholding taxes	**P 35,522,343**	P 1,140,880
Prepaid expenses	**24,595,487**	-
Deferred input value added tax (VAT)	**11,144,521**	53,340
	71,262,351	1,194,220
Non-current:		
Security deposit	**12,704,475**	12,327,320
Deferred charges	**41,737,454**	42,595,809
	54,441,929	54,923,129
	P 125,704,280	P 56,117,349

Security deposit is related to the lease of certain parcels of land on which the investment properties stand (see Note 15.3). The related interest income recognized from subsequent amortization of the security deposit is presented as part of Interest income under Other Income (Charges) section in the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021.

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 for the six months ended December 31, 2021 and June 30, 2021 (see Note 12).

8. ACCOUNTS AND OTHER PAYABLES

The details of this account are as follows:

	Notes	December 31, 2021	June 30, 2021
Accounts payable	15.4	**P 84,743,687**	P -
Accrued expenses		**54,791,622**	55,497,840
Deferred output VAT		**11,618,604**	917,509
Interest payable	10	**7,995,219**	-
Withholding taxes payable		**7,083,822**	1,480
Others		**5,958,389**	7,462,470
		P 172,191,343	P 63,879,299

Other payables include output VAT payable.

9. DEPOSITS AND OTHER LIABILITIES

The details of this account are as follows:

	Notes	December 31, 2021	June 30, 2021
Current:			
Advance rent	15.1, 18.1	**P 139,154,738**	P 47,908,232
Security deposits	15.1,18.1	**87,085,752**	102,285,171
Deferred credits		**36,768,312**	29,751,506
		263,008,802	179,944,909
Non-current:			
Security deposits	15.1, 18.1	**588,129,870**	405,187,680
Advance rent	15.1, 18.1	**411,374,176**	259,071,270
Deferred credits		**73,372,035**	65,606,716
		1,072,876,081	729,865,666
		P 1,335,884,883	P 909,810,575

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.

A reconciliation of security deposits as of December 31, 2021 and June 30, 2021 is shown below:

	December 31, 2021	June 30, 2021
Balance at beginning of period	**P 507,472,851**	P -
Additions	**152,069,109**	505,069,460
Accretion of interest	**15,673,662**	2,403,391
Balance at end of period	**P 675,215,622**	P 507,472,851

Accretion of interest is presented as part of Interest expense under Other Income (Charges) section of the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021.

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.

	December 31, 2021	June 30, 2021
Balance at beginning of period	**P 95,358,222**	P -
Additions	**31,323,170**	97,977,031
Amortization	**(16,541,045)**	(2,618,809)
Balance at end of period	**P 110,140,347**	P 95,358,222

Amortization of deferred credits is presented as part of Rental income under Revenues section in the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021 (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 instalment 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 on December 2024. Interest incurred amounted to P8.0 million and is presented as part of Interest Expense in the statement of comprehensive income for the six months ended December 31, 2021. The related accrual is presented as Interest payable under Accounts and Other Payables in the statement of financial position as of December 31, 2021 (see Note 8).

Total capitalized loan origination costs amounted to P54.4 million. Amortization for the six months ended December 31, 2021 amounted to P0.1 million and is presented as part of Interest Expense in the statement of comprehensive income for the six months ended December 31, 2021.

11. RENTAL INCOME

The Company derives its revenues from contracts with customers through leasing real properties. The breakdown of rental income for the six months ended December 31, 2021 and June 30, 2021 reported in the statements of comprehensive income is shown below.

	December 31, 2021	June 30, 2021
Office	**P 1,106,101,576**	P 180,906,954
Commercial	**45,839,766**	6,715,759
Hotel	**28,200,000**	4,700,000
Parking	**629,980**	102,710
Advertising	**185,294**	-
Amortization of deferred credits	**16,541,045**	2,618,809
	P 1,197,497,661	P 195,044,232

Rental income from office, retail and advertising includes income from straight-line method of recognizing rental income amounting to P58.3 million and P12.4 million, for the six months ended December 31, 2021 and June 30, 2021, respectively.

Rental income also includes variable lease payments amounting to P8.2 million and P1.4 million for the six months ended December 31, 2021 and June 30, 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 six months ended December 31, 2021 and June 30, 2021:

	Note	**December 31, 2021**	June 30, 2021
Outside services		**P 79,955,624**	P 9,308,668
Management fees	15.4	**63,807,804**	-
Utilities		**54,410,175**	4,370,148
Taxes and licenses		**11,434,498**	3,485,621
Repairs and maintenance		**2,469,379**	2,966,060
Miscellaneous		**10,910,312**	338,918
		P 222,987,792	P 20,469,415

13. OTHER OPERATING EXPENSES

Presented below are the details of other operating expenses.

	Note	**December 31, 2021**	June 30, 2021	December 31, 2020
Outside services	15.5	**P 3,376,257**	P 1,100,342	P -
Taxes and licenses		**2,967,914**	17,017,937	10,201,820
Professional fees		**1,069,812**	444,500	77,000
Advertising and promotion		**920,130**	-	-
Office supplies		**692,044**	3,630	-
Salaries and employee benefits		**197,218**	37,500	-
Miscellaneous		**407,537**	157,240	-
		P 9,630,912	P 18,761,149	P 10,278,820

14. INCOME TAXES

The components of tax expense (income) as reported in the statements of comprehensive income for the six months ended December 31, 2021 and June 30, 2021 (nil for the three months ended December 31, 2020) are as follows:

	December 31, 2021	June 30, 2021
Current tax expense – Final tax at 20%	**P 1,588,771**	P 115,727
Deferred tax expense (income) related to origination and reversal of temporary differences	**(101,168,723)**	101,168,724
	(P 99,579,952)	P 101,284,451

A reconciliation of tax on pretax profit or loss computed at the applicable statutory rates to tax expense or income reported in the statement of comprehensive income for the six months ended December 31, 2021 and June 30, 2021 is as follows:

	December 31, 2021	June 30, 2021
Tax on pretax profit at 25%	**P 478,659,059**	P 106,697,720
Adjustment for income subjected to lower income tax rate	**(410,548)**	(28,931)
Application of unrecognized NOLCO	**-**	(2,144,401)
Tax effects of:		
Deductible expenses	**(280,417,757)**	(3,205,301)
Reversal of deferred tax liabilities	**(101,168,724)**	-
Non-taxable income	**(194,301,013)**	(669,305)
Excess of optional standard deductions (OSD) over itemized deductions	**(6,514,902)**	-
Non-deductible expenses	**4,573,933**	634,669
	(P 99,579,952)	P 101,284,451

The deferred tax liabilities as at June 30, 2021 relate to the following:

Fair value gains on investment properties	P	60,148,095
Depreciation of investment properties		37,924,269
Rent income differential		3,096,360
	P	101,168,724

In 2021, the Company is subject to regular corporate income tax (RCIT) of 25% of net taxable income. However, the Company did not recognize RCIT in 2021 since the Company reported zero net taxable income for the six months ended December 31, 2021 and June 30, 2021. On the other hand, the Company is in a tax loss position for the three months ended December 31, 2020 as the Company has not yet started commercial operations during such time; hence, there was no RCIT reported.

The Company availed of tax-free incentives available under the REIT Act and no deferred taxes were recognized on temporary differences.

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

The Company opted to claim OSD for the six months ended December 31, 2021 while the Company claimed itemized deductions in computing for its income tax due for the six months ended June 30, 2021 and for the three months ended December 31, 2020. 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.

In 2020, the Company incurred NOLCO amounting to P10.3 million, of which P8.6 million was claimed as a deduction from the Company's taxable income for the period ended June 30, 2021. The remaining NOLCO incurred in 2020, which can be claimed as a deduction from the future taxable income until 2025 in accordance with R.A. No. 11494, *Bayanihan to Recover as One Act*, amounted to P1.7 million as at June 30, 2021. Deferred tax asset on NOLCO amounting to P0.4 million both as at December 31, 2021 and June 30, 2021 and P3.1 million as at December 31, 2020, respectively, was not recognized [see Note 3.2(c)].

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act has several provisions with retroactive effect beginning July 1, 2020. The CREATE Act aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. The CREATE Act has no impact on the Company's financial statements.

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 in the succeeding page.

Related Party Category	Notes	Amount of Transaction December 31, 2021	Amount of Transaction June 30, 2021	Outstanding Receivable (Payable) December 31, 2021	Outstanding Receivable (Payable) June 30, 2021
Parent Company					
Property-for-share swap	6	**P -**	P 49,202,440,620	**P -**	P -
Purchase of properties	6	**9,116,000,000**	-	**-**	-
Rendering of services	15.1	**73,776,308**	12,296,051	**10,897,960**	1,556,851,
Advance rent	15.1	**(13,527,808)**	13,527,808	**-**	(13,527,808)
Security deposits received	15.1	**(18,117,600)**	-	**(18,117,600)**	-
Security deposits paid	15.3	**377,155**	12,327,320	**12,704,475**	12,327,320
Accommodation of expenses	15.2	**-**	(201,820)	**-**	-
Related parties under common ownership					
Advance rent	15.1	**(96,529)**	8,713,747	**(8,617,218)**	(8,713,747)
Security deposits received	15.1	**10,674,337**	12,195,962	**(22,870,299)**	(12,195,962)
Rendering of services	15.1	**61,122,501**	9,938,898	**21,192,835**	3,655,623
Management services	15.4	**63,807,804**	-	**(53,860,004)**	-
Key management personnel –					
Compensation	15.5	**2,734,890**	455,815	**-**	-

15.1 Rendering of Services to Related Parties

The Company leases some of its investment properties to 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 six months ended December 31, 2021 and June 30, 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 under the current and non-current portion of Deposits and Other Liabilities account in the statements of financial position (see Note 9).

15.2 Accommodation of Expenses

In 2020, portion of the SEC registration fees amounting to P0.2 million was paid by the Parent Company on behalf of the Company. Such amount is still outstanding as of December 31, 2020 and is presented as Due to Parent Company in the 2020 statement of financial position. This outstanding balance is unsecured, noninterest-bearing and is payable in cash on demand or through offsetting arrangement. As of June 30, 2021, the outstanding balance was fully paid.

15.3 Land Lease Agreement

In 2021, 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, 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 P55.0 million.

15.4 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 P63.8 million management fees for the six months ended December 31, 2021 (nil for the six months ended June 30, 2021), which is presented as part of Cost of Services in the statement of comprehensive income for the six months ended December 31, 2021. The outstanding balance of P53.9 million as of December 31, 2021 is presented as part of Accounts payable under Accounts and Other Payables account in the statement of financial position as of December 31, 2021 (see Note 8).

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). There was no similar transaction for the three months ended December 31, 2020.

16. EQUITY

16.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	December 31, 2021	June 30, 2021	December 31 2020	**December 31, 2021**	June 30, 2021	December 31, 2020
Common shares						
Authorized						
Balance at beginning of the period	**5,000,000,000**	50,000,000	50,000,000	**P 5,000,000,000**	P 5,000,000,000	P 5,000,000,000
Change in par value	**-**	4,050,000,000	-	**-**	-	-
Balance at end of the period	**5,000,000,000**	5,000,000,000	5,000,000,000	**P 5,000,000,000**	P 5,000,000,000	P 5,000,000,000
Issued and outstanding						
Balance at beginning of the period	**2,532,121,381**	100,000	-	**P 2,532,121,381**	P 10,000,000	P -
Issuance	**-**	1,294,521,381	100,000	**-**	2,522,121,381	10,000,000
Change in par value	**-**	1,237,500,000	-	**-**	-	-
Balance at end of the period	**2,532,121,381**	2,532,121,381	100,000	**P 2,532,121,281**	P 2,532,121,381	P 10,000,000

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 has 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 (see Note 1).

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.

As of December 31, 2021, there are 12,900 holders of at least one board lot of the listed shares, which closed at P19.70 per share as of that date.

16.2 Dividends

On October 25, 2021, the BOD approved the declaration of cash dividends of P0.24 per share (P607.7 million) to stockholders on record as of November 9, 2021. The dividends were declared out of the unrestricted retained earnings for the fiscal year ending June 30, 2021 and earnings for the quarter ending September 30, 2021. The cash dividends were paid on November 15, 2021.

16.3 Distributable Income

The computation of the distributable income of the Company as at December 31, 2021 is shown below.

Net income	P	2,014,216,186
Fair value adjustment of investment property resulting to gain	(	702,000,000)
Unrealized gains or adjustments to income as a result of certain transactions accounted for under PFRS	(	214,909,856)
Adjustments due to any prescribed accounting standard which result to a loss		858,354
Distributable income	**P**	**1,098,164,684**

REIT entities must distribute annually at least 90% of its distributable income as dividends to its shareholders not later than the last working day of the fifth month following the close of the fiscal year.

17. EARNINGS (LOSS) PER SHARE

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

	December 31, 2021 (Six Months)	June 30, 2021 (Six Months)	December 31, 2020 (Three Months)
Net profit (loss) for the period	**P 2,014,216,186**	P 325,506,427	(P 10,278,820)
Divided by weighted number of outstanding common shares	**2,532,121,381**	2,532,121,381	10,000,000
Basic and diluted earnings (loss) per share	**P 0.80**	P 0.13	(P 1.03)

The Company has no potential dilutive common shares as of December 31, 2021, June 30, 2021 and December 31, 2020.

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, 2021 and June 30, 2021 are shown below.

	December 31, 2021	June 30, 2021
Within one year	**P 2,911,615,030**	P 2,072,833,070
After one year but not more than two years	**2,876,435,530**	1,913,175,479
After two years but not more than three years	**2,090,182,820**	1,281,609,300
After three years but not more than four years	**1,424,419,672**	927,994,622
After four years but not more than five years	**749,643,195**	456,827,297
More than five years	**2,946,449,745**	2,321,048,522
	P 12,998,745,992	P 8,973,488,290

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 15.3). Variable lease payments will commence on July 1, 2023. The lease agreement do not contain any fixed lease payments. In addition, the lease agreement involves payment for security deposit (see Note 7).

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 and in the succeeding pages.

19.1 Market Risk

As of December 31, 2021 and June 30, 2021, 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 incorporate 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 statement of financial position (or in the detailed analysis provided in the notes to financial statements), as summarized below.

	Notes	**December 31, 2021**	June 30, 2021
Cash and cash equivalents	4	**P 1,333,805,607**	P 2,308,916,531
Trade and other receivables	5	**144,677,676**	21,639,741
Security deposit	7	**12,704,475**	12,327,320
		P 1,491,187,758	P 2,342,883,592

(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.

The Company has just started its operation during the current period; hence, no historical information is available for the Company. In addition, 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.

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, 2021 and June 30, 2021 is presented below.

	Gross Maximum Exposure	**Fair Value of Collaterals**	**Net Exposure**
As of December 31, 2021	**P 144,677,676**	**P 1,225,744,536**	**P -**
As of June 30, 2021	P 21,639,741	P 814,452,353	P -

(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, 2021 and June 30, 2021, the Company's financial liabilities have contractual maturities which are presented below.

	Within 1 Year	1 to 5 Years	More than 5 Years
December 31, 2021			
Interest-bearing loan	P 202,226,142	P 1,062,378,362	P 8,558,008,771
Security deposits	80,283,620	624,904,157	81,250,993
Accounts payable	84,743,687	-	-
Accrued expenses	54,791,622	-	-
	P 422,045,071	**P 1,687,282,519**	**P 8,639,259,764**
June 30, 2021			
Security deposits	P 12,163,230	P 475,158,733	P 115,724,527
Accrued expenses	55,497,840	-	-
	P 67,661,070	P 475,158,733	P 115,724,527

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 and in the succeeding page.

	Notes	December 31, 2021		June 30, 2021	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial assets					
Financial assets at amortized cost:					
Cash and cash equivalents	4	**P 1,333,805,607**	**P 1,333,805,607**	P 2,308,916,531	P 2,308,916,531
Trade and other receivables	5	**144,677,676**	**144,677,676**	21,639,741	21,639,741
Security deposit	7	**12,704,475**	**14,998,475**	12,327,320	12,443,514
		P 1,491,187,758	**P 1,493,481,758**	P 2,342,883,592	P 2,342,999,786

	Notes	December 31, 2021 Carrying Values	December 31, 2021 Fair Values	June 30, 2021 Carrying Values	June 30, 2021 Fair Values
Financial liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loan	10	**P 7,195,789,259**	**P 7,195,789,259**	P -	P -
Security deposits	9	**675,215,622**	**755,115,600**	507,472,851	507,990,352
Accounts payable	8	**84,743,687**	**84,743,687**	-	-
Accrued expenses	8	**54,791,622**	**54,791,622**	55,497,840	55,497,840
Interest payable	8	**7,995,219**	**7,995,219**	-	-
		P 8,018,535,409	**P 8,098,435,387**	P 562,970,691	P 563,488,192

See Note 2.3 for the description of the accounting policies for each category of financial instruments. 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 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 include cash and cash equivalents, which are categorized as Level 1, and trade and other receivables and security deposit, which are categorized as Level 3. Financial liabilities which are not measured at fair value but for which fair value is disclosed pertain to security deposits, accrued expenses and due to parent company, which 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, 2021 and June 30, 2021, the Company's investment properties amounting to P59.3 billion and P49.4 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. To some extent, the valuation process was conducted by the appraiser in discussion with the Company's management with respect to the determination of the inputs such as the size, age, and condition of the properties (buildings), and the comparable prices in the corresponding property location. 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 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 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 unobservable inputs used in this model are the estimated expected future annual cash inflows and outgoing expenses, which runs for an average period of 10 years. Cash inflows include the contractual rents that are based on existing lease contracts, as presented in Note 18.1, with an assumption of renewal for a period of 5 years and an annual escalation of 5% until the end of the term. Aside from rentals, cash inflows also include income from dues with 15% of the average expected costs are assumed to be recovered. The costs and expenses are assumed to be at an average of 10% to 15% of the total net revenues. In addition, the discount rates and terminal growth rates used range from 4.5% to 9%. A reasonably possible change in the inputs to different amounts or rates would not cause the fair values of the investment properties to increase or decrease significantly.

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.

	December 31, 2021	June 30, 2021
Total liabilities	**P 8,703,865,485**	P 1,074,858,598
Total equity	**52,161,322,078**	50,754,815,023

Under REIT Act, the Company is subject to external capital requirement to have a minimum paid-up capital of P300.0 million.

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.