

AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Long-Term Debt
E	Indebtedness to Related Parties
F	Guarantees of Securities of Other Issuers
G	Capital Stock
68-D	Reconciliation of Related Earnings Available for Dividend Declaration
68-E	Financial Soundness Indicators

SCHEDULE A**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
DECEMBER 31, 2019**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash			
Cash in banks			
Deutsch Bank	P51,550,967	P51,550,967	P272,170
Bank of Philippine Islands	70,607,139	70,607,139	41,175
	122,158,106	122,158,106	313,345
Receivables			
Related parties	4,071,821,559	4,071,821,559	501,925,433
Third parties	486,947,707	486,947,707	-
Others	374,307	374,307	-
	4,559,143,573	4,559,143,573	501,925,433
	P4,681,301,679	P4,681,301,679	P502,238,778

AREIT, INC.**(Formerly One Dela Rosa Property Development, Inc.)**

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS,
OFFICERS, EMPLOYEES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN
RELATED PARTIES)
DECEMBER 31, 2019**

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Current	Noncurrent	Balance at the end of the year
N/A	N/A	N/A	N/A	N/A	N/A	N/A

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED
PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF
FINANCIAL STATEMENTS
DECEMBER 31, 2019**

	Receivable Balance	Payable Balance	Current portion
Total Eliminated Receivables/Payables	N/A	N/A	N/A

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
DECEMBER 31, 2019

Long-term Debt			
Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long- term debt" in related balance sheet
N/A	N/A	N/A	N/A

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2019

Indebtedness to Related Parties (Long-term Loans from Related Companies)		
Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS**DECEMBER 31, 2019**

Guarantees of Securities of Other Issuers				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**DECEMBER 31, 2019**

Capital Stock						
Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	1,174,000,000	977,792,435	–	977,792,428	7	–

AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

**SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019**

Unappropriated Retained Earnings, beginning	₱722,691,606
Less: Deferred tax assets	66,525,091
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	656,166,515
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	1,261,410,487
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	(5,567,558)
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	—
Unrealized actuarial gain	—
Fair Value adjustment (M2M gains)	—
Fair Value adjustments of Investment Properties resulting to gain adjustment due to deviation from PFRS/GAAP - gain	—
Other unrealized gains or adjustments to the Retained Earnings as a result of certain transactions accounted for under the PFRS	—
Sub-total	1,255,842,929
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	—
Adjustments due to deviation from PFRS/GAAP - loss	—
Loss on fair value adjustments of Investment Properties (after tax)	—
Net income Actual/Realized	1,255,842,929
Add (Less):	
Dividend declarations during the year	(961,297,669)
Appropriations of Retained Earnings during the period	—
Reversals of appropriations	—
Effects of prior period adjustments	—
Treasury shares	—
	(961,297,669)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION	₱950,711,775

AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)

SCHEDULE 68-E

COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

Ratio	Formula	2019	2018	2017
Current ratio	Current assets / Current liabilities	4.35	4.93	6.16
Acid test ratio	Quick assets / Current liabilities (Quick assets includes cash)	0.24	0.06	0.20
Solvency ratio	EBITDA / Total debt (Total debt includes short-term debt, long-term debt and current portion of long-term debt)	0.00	0.00	0.00
Debt-to-equity ratio	Total debt / Stockholders' equity	0.00	0.00	0.00
Asset-to-equity ratio	Total assets / Stockholders' equity	1.11	1.10	1.20
Interest rate coverage ratio	EBITDA / Interest expense	100.04	45.00	148.15
Return on equity	Net income / Average total stockholders' equity	0.12	0.09	0.27
Return on assets	Net income after tax / Average total assets	0.11	0.08	0.23
Net profit margin	Net income / Total revenue	0.83	0.62	0.64

AREIT, Inc.

Pro-Forma Condensed Financial Information
As at June 30, 2021
and for the Six-Months Ended
June 30, 2021 and the Year Ended
December 31, 2020

and

Report on the Compilation of
Pro-Forma Condensed Financial Information
Included in a Prospectus



REPORT ON THE COMPILATION OF PRO-FORMA CONDENSED FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

The Stockholders and Board of Directors
AREIT, Inc.

We have completed our assurance engagement to report on the compilation of the pro-forma condensed financial information of AREIT, Inc. (the Company) by the Company's management. The pro-forma condensed financial information consists of the pro-forma statement of financial position as at June 30, 2021 and the pro-forma statement of comprehensive income, pro-forma statement of changes in equity, pro-forma statement of cash flows for the six months ended June 30, 2021 and year ended December 31, 2020 and related notes. The applicable criteria on the basis of which the Company's management has compiled the pro-forma condensed financial information are described in Note 2 to the pro-forma condensed financial information.

The pro-forma condensed financial information has been compiled by the Company's management to illustrate the impact of the transactions set out in Note 3 on the Company's financial position as at June 30, 2021, the end of the period presented, and its financial performance and cash flows for the six months ended June 30, 2021 and year ended December 31, 2020, as if the transactions had taken place at January 1, 2020 and January 1, 2021, respectively, which is the beginning of the period presented. As part of this process, information about the Company's financial position, financial performance and cash flows have been extracted by Company's management from the Company's audited financial statements as at and for the year ended December 31, 2020, on which an audit report has been issued on February 24, 2021, and interim condensed financial statements as at and for the six months ended June 30, 2021, on which a review report has been issued on September 1, 2021.

Responsibility for the Pro-Forma Condensed Financial Information

The Company's management is responsible for compiling the pro-forma condensed financial information on the basis of the applicable criteria set out in Note 2 to the pro-forma condensed financial information.

Auditor's Responsibilities

Our responsibility is to express an opinion, as required by Section 9, Part II of the Revised Securities Regulation Code Rule 68, about whether the pro-forma condensed financial information has been compiled, in all material respects, by the Company's management on the basis of the applicable criteria set out in Note 2 to the pro-forma condensed financial information.

We conducted our engagement in accordance with the Philippine Standard on Assurance Engagements (PSAE) 3420, *Assurance Engagements to Report on the Compilation of Pro-Forma Financial Information Included in a Prospectus*, issued by the Philippine Auditing and Assurance Standards Council. This standard requires that the auditors comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Company's management has compiled, in all material respects, the pro-forma condensed financial information on the basis of the applicable criteria set out in Note 2 to the pro-forma condensed financial information.



For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro-forma condensed financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro-forma condensed financial information.

The purpose of the pro-forma condensed financial information included in a Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for the purpose of illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at June 30, 2021, or at the beginning of period presented, would have been as presented.

As reasonable assurance engagement to report on whether the pro-forma condensed financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Company's management in the compilation of the pro-forma condensed financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro-forma adjustments give appropriate effect to those criteria; and
- the pro-forma condensed financial information reflects the proper application of those adjustments to the unadjusted financial information.

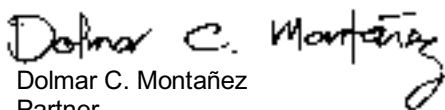
The procedures selected depend on the auditor's judgment, having regard to the auditor's understanding of the nature of the Company, the event or transaction in respect of which the pro-forma condensed financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro-forma condensed financial information. We believe that the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the pro-forma condensed financial information has been compiled, in all material respects, on the basis of the applicable criteria set out in Note 2 to the pro-forma condensed financial information.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez
Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534336, January 4, 2021, Makati City

September 1, 2021



AREIT, INC.**PRO-FORMA STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021**

	AREIT, Inc. (Unaudited)	Pro-forma Adjustments (Unaudited) (Note 3.l)	Pro-forma Balances (Unaudited)
ASSETS			
Current assets			
Cash (Note 3.l.a)	₱71,085,834	₱460,254,366	₱531,340,200
Receivables (Note 3.l.b)	528,397,305	4,097,893	532,495,198
Other current assets	400,701,376	—	400,701,376
Total Current Assets	1,000,184,515	464,352,259	1,464,536,774
Noncurrent Assets			
Noncurrent portion of receivables (Note 3.l.c)	2,614,246,562	518,789,862	3,133,036,424
Investment properties (Note 3.l.d)	34,811,316,966	15,224,875,449	50,036,192,415
Property and equipment	231,454	—	231,454
Other noncurrent assets	1,686,916,465	—	1,686,916,465
Total Noncurrent Assets	39,112,711,447	15,743,665,311	54,856,376,758
	₱40,112,895,962	₱16,208,017,570	₱56,320,913,532
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables	₱449,414,607	₱—	₱449,414,607
Short-term loans payable	4,422,500,000	—	4,422,500,000
Interest payable	1,782,778	—	1,782,778
Current portion of deposits and other liabilities (Note 3.l.e)	291,143,698	13,404,662	304,548,360
Income tax payable	54,444,350	—	54,444,350
Current portion of lease liability (Note 3.l.f)	36,015,135	8,924,603	44,939,738
Construction bonds (Note 3.l.g)	—	49,921,269	49,921,269
Total Current Liabilities	5,255,300,568	72,250,534	5,327,551,102
Noncurrent Liabilities			
Deposits and other liabilities - net of current portion (Note 3.l.h)	718,693,919	674,086,693	1,392,780,612
Lease liability- net of current portion (Note 3.l.i)	847,028,275	249,000,852	1,096,029,127
Total Noncurrent Liabilities	1,565,722,194	923,087,545	2,488,809,739
Total Liabilities	6,821,022,762	995,338,079	7,816,360,841
Equity			
Paid-up capital (Note 3.l.j)	10,929,864,050	4,832,543,750	15,762,407,800
Treasury shares	(673,299,700)	—	(673,299,700)
Additional paid-in capital (Note 3.l.k)	785,681,404	10,583,270,813	11,368,952,217
Retained earnings (Note 3.l.l)	22,249,627,446	(203,135,072)	22,046,492,374
Total Equity	33,291,873,200	15,212,679,491	48,504,552,691
	₱40,112,895,962	₱16,208,017,570	₱56,320,913,532

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	AREIT, Inc. (Unaudited)	Pro-Forma Adjustments (Unaudited) (Note 3.II)	Pro-Forma Balances (Unaudited)
REVENUE			
Rental income	₱1,076,037,132	₱724,429,932	₱1,800,467,064
Dues	199,681,658	147,172,183	346,853,841
Interest income from finance lease receivables	88,978,313	22,165,523	111,143,836
	1,364,697,103	893,767,638	2,258,464,741
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES			
	307,873,195	189,917,194	497,790,389
COSTS AND EXPENSES			
Direct operating expenses	285,947,276	167,579,012	453,526,288
General and administrative expenses	23,043,932	2,956,243	26,000,175
	308,991,208	170,535,255	479,526,463
OTHER INCOME (CHARGES) - Net			
Gain under finance lease	28,309,398	—	28,309,398
Interest income	3,926,391	—	3,926,391
Interest expense	(80,879,798)	(11,518,990)	(92,398,788)
	(48,644,009)	(11,518,990)	(60,162,999)
INCOME BEFORE INCOME TAX	1,314,935,081	901,630,587	2,216,565,668
PROVISION FOR INCOME TAX	25,453	—	25,453
NET INCOME	1,314,909,628	901,630,587	2,216,540,215
OTHER COMPREHENSIVE INCOME	—	—	—
TOTAL COMPREHENSIVE INCOME	₱1,314,909,628	₱901,630,587	₱2,216,540,215
Weighted Average Number of Common Shares	1,025,656,435		1,508,910,810
Basic/Diluted Earnings Per Share (Note 4)	₱1.28		₱1.47

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020**

	AREIT, Inc. (Audited)	Restatement Adjustment. (Unaudited) (Note 2)	Pro-Forma Adjustments (Unaudited) (Note 3.III)	Pro-Forma Balances (Unaudited)
REVENUE				
Rental income	₱1,495,723,891	₱—	₱1,753,869,463	₱3,249,593,354
Dues	305,087,397	—	321,682,056	626,769,453
Interest income from finance lease receivables	150,814,117	—	74,720,975	225,535,092
	1,951,625,405	—	2,150,272,494	4,101,897,899
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES				
	—	1,424,645,596	379,388,990	1,804,034,586
COSTS AND EXPENSES				
Direct operating expenses	585,302,407	(225,529,580)	403,212,458	762,985,285
General and administrative expenses	49,474,313	—	6,561,422	56,035,735
	634,776,720	(225,529,580)	409,773,880	819,021,020
OTHER INCOME (CHARGES)				
— Net				
Interest income	78,670,585	—	—	78,670,585
Interest expense	(65,419,124)	—	(23,037,980)	(88,457,104)
Other income	3,660,620	—	—	3,660,620
	16,912,081	—	(23,037,980)	(6,125,899)
INCOME BEFORE INCOME TAX				
	1,333,760,766	1,650,175,176	2,096,849,624	5,080,785,566
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	106,576,453	(3,387,455,299)	213,395,781	(3,067,483,065)
NET INCOME				
	1,227,184,313	5,037,630,475	1,883,453,843	8,148,268,631
OTHER COMPREHENSIVE INCOME				
	—	—	—	—
TOTAL COMPREHENSIVE INCOME				
	₱1,227,184,313	₱5,037,630,475	₱1,883,453,843	₱8,148,268,631
Weighted Average Number of Common Shares				
	996,151,230			1,479,405,605
Basic/Diluted Earnings Per Share (Note 4)				
	₱1.23			₱5.51

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	AREIT, Inc. (Unaudited)	Pro-Forma Adjustments (Unaudited) (Note 3.IV)	Pro-Forma Balances (Unaudited)
PAID-UP CAPITAL			
Common Shares - ₱10 par value			
Balance at beginning of period	₱10,929,864,050	₱-	₱10,929,864,050
Issuance of new shares (Note 3.IV.2)	-	4,832,543,750	4,832,543,750
Balance at end of period	10,929,864,050	4,832,543,750	15,762,407,800
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	785,681,404	-	785,681,404
Issuance of new shares (Note 3.IV.2)	-	10,583,270,813	10,583,270,813
Balance at end of period	785,681,404	10,583,270,813	11,368,952,217
TREASURY SHARES			
Balance at beginning and end of period	(673,299,700)	-	(673,299,700)
RETAINED EARNINGS			
Balance at beginning of period	21,765,499,530	-	21,765,499,530
Total comprehensive income/Net income	1,314,909,628	901,630,587	2,216,540,215
Cash dividends	(830,781,712)	-	(830,781,712)
Other pro-forma adjustments (Note 3.IV)	-	(1,104,765,659)	(1,104,765,659)
Balance at end of period	22,249,627,446	(203,135,072)	22,046,492,374
	₱33,291,873,200	₱15,212,679,491	₱48,504,552,691

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020**

	AREIT, Inc. (Audited)	Restatement Adjustments (Unaudited) (Note 2)	Pro-Forma Adjustments (Unaudited) (Note 3.V)	Pro-Forma Balances (Unaudited)
PAID-UP CAPITAL				
Common Shares - ₱10 par value				
Balance at beginning of year	₱10,451,224,050	₱-	₱-	₱10,451,224,050
Issuance of new shares (Note 3.V.2)	478,640,000	-	4,832,543,750	5,311,183,750
Balance at end of year	10,929,864,050	-	4,832,543,750	15,762,407,800
ADDITIONAL PAID-IN CAPITAL				
Issuance of new shares (Note 3.V.2)	785,681,404	-	10,583,270,813	11,368,952,217
Balance at end of year	785,681,404	-	10,583,270,813	11,368,952,217
TREASURY SHARES				
Balance at beginning and end of year	(673,299,700)	-	-	(673,299,700)
RETAINED EARNINGS				
Balance at beginning of year	1,022,804,424	15,431,740,803	-	16,454,545,227
Total comprehensive income/Net income (Note 3.V)	1,227,184,313	5,037,630,475	1,883,453,843	8,148,268,631
Cash dividends	(953,860,485)	-	-	(953,860,485)
Other pro-forma adjustments (Note 3.V)	-	-	(1,883,453,843)	(1,883,453,843)
Balance at end of year	1,296,128,252	20,469,371,278	-	21,765,499,530
	₱12,338,374,006	₱20,469,371,278	₱15,415,814,563	₱48,223,559,847

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	AREIT, Inc. (Unaudited)	Pro-Forma Adjustments (Unaudited) (Note 3.VI)	Pro-forma Balances (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax (Note 3.VI.a)	₱1,314,935,081	₱901,630,587	₱2,216,565,668
Adjustments for:			
Net fair value change in investment properties (Note 3.VI.b)	(307,873,195)	(189,917,194)	(497,790,389)
Depreciation and amortization	7,805	—	7,805
Interest expense (Note 3.VI.c)	80,879,798	11,518,990	92,398,788
Gain under finance lease	(28,309,398)	—	(28,309,398)
Interest income from finance lease receivables (Note 3.VI.d)	(88,978,313)	(22,165,523)	(111,143,836)
Interest income	(3,926,391)	—	(3,926,391)
Operating income before working capital changes	966,735,387	701,066,860	1,667,802,247
Changes in operating assets and liabilities:			
Increase in:			
Receivables (Note 3.VI.d)	(84,272,638)	(22,165,523)	(106,438,161)
Other assets	(804,642,897)	—	(804,642,897)
Increase (decrease) in:			
Accounts and other payables (Note 3.VI.e)	(64,517,662)	(228,832,820)	(293,350,482)
Deposits and other liabilities (Note 3.VI.f)	144,993,614	687,491,355	832,484,969
Construction bonds (Note 3.VI.g)	—	49,921,269	49,921,269
Cash generated from operations	158,295,804	1,187,481,141	1,345,776,945
Interest received (Note 3.VI.d)	92,904,704	22,165,523	115,070,227
Interest paid	(38,060,272)	—	(38,060,272)
Income tax paid	(25,453)	—	(25,453)
Net cash flows provided by operating activities	213,114,783	1,209,646,664	1,422,761,447
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in due from related parties	1,918,938,726	—	1,918,938,726
Payments for additions to investment properties	(5,694,354,566)	—	(5,694,354,566)
Payments for additions to property and equipment	(227,205)	—	(227,205)
Net cash flows used in investing activities	(3,775,643,045)	—	(3,775,643,045)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans	9,449,000,000	—	9,449,000,000
Payments of short-term loans	(5,026,500,000)	—	(5,026,500,000)
Payments of dividends	(830,781,712)	—	(830,781,712)
Payments of principal portion of lease liability	(17,081,739)	—	(17,081,739)
Net cash flows provided by financing activities	3,574,636,549	—	3,574,636,549
Other pro-forma adjustments (Note 3.VI)	—	(749,392,298)	(749,392,298)
NET INCREASE IN CASH	12,108,287	460,254,366	472,362,653
CASH AT BEGINNING OF YEAR	58,977,547	—	58,977,547
CASH AT END OF YEAR	₱71,085,834	₱460,254,366	₱531,340,200

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.**PRO-FORMA STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	AREIT, Inc. (Audited)	Restatement Adjustments (Unaudited) (Note 2)	Pro-Forma Adjustments (Unaudited) (Note 3.VII)	Pro-forma Balances (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax (Note 3.VII.a)	₱1,333,760,766	₱1,650,175,176	₱2,096,849,624	₱5,080,785,566
Adjustments for:				
Net fair value change in investment properties (Note 3.VII.b)	–	(1,424,645,596)	(379,388,990)	(1,804,034,586)
Depreciation and amortization	225,537,616	(225,529,580)	–	8,036
Interest expense (Note 3.VII.c)	65,419,124	–	23,037,980	88,457,104
Interest income from finance lease receivables (Note 3.VII.d)	(150,814,117)	–	(74,720,975)	(225,535,092)
Interest income	(78,670,585)	–	–	(78,670,585)
Operating income before working capital changes	1,395,232,804	–	1,665,777,639	3,061,010,443
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables (Note 3.VII.d)	(90,137,358)	–	(74,720,975)	(164,858,333)
Other assets	(157,314,964)	–	–	(157,314,964)
Increase (decrease) in:				
Accounts and other payables (Note 3.VII.e)	280,552,617	–	(228,832,820)	51,719,797
Deposits and other liabilities (Note 3.VII.f)	71,237,359	–	687,491,355	758,728,714
Construction bonds (Note 3.VII.g)	(11,105,498)	–	49,921,269	38,815,771
Cash generated from operations	1,488,464,960	–	2,099,636,468	3,588,101,428
Interest received (Note 3.VII.d)	229,484,702	–	74,720,975	304,205,677
Income tax paid	(190,606,074)	–	–	(190,606,074)
Net cash flows provided by operating activities	1,527,343,588	–	2,174,357,443	3,701,701,031
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in due from related parties	(343,300,000)	–	–	(343,300,000)
Payments for additions to investment properties (Note 3.VII.h)	(1,483,807,649)	–	(5,552,312,834)	(7,036,120,483)
Net cash flows used in investing activities	(1,827,107,649)	–	(5,552,312,834)	(7,379,420,483)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of shares	1,223,218,423	–	–	1,223,218,423
Payments of dividends	(953,860,485)	–	–	(953,860,485)
Payments of principal portion of lease liability	(32,796,936)	–	–	(32,796,936)
Net cash flows provided by financing activities	236,561,002	–	–	236,561,002
Other pro-forma adjustments (Note 3.VII)	–	–	3,838,209,757	3,838,209,757
NET INCREASE (DECREASE) IN CASH	(63,203,059)	–	460,254,366	397,051,307
CASH AT BEGINNING OF YEAR	122,180,606	–	–	122,180,606
CASH AT END OF YEAR	₱58,977,547	₱–	₱460,254,366	₱519,231,913

See accompanying Notes to Pro-Forma Condensed Financial Information.



AREIT, INC.

NOTES TO PRO-FORMA CONDENSED FINANCIAL STATEMENTS

1. Corporate Information

AREIT, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006. The Company was organized primarily to engage in the business which includes the following: (1) to own, invest in, purchase, acquire, hold, possess, lease, construct, develop, alter, improve, operate, manage, administer, sell, assign, convey, encumber, in whole or in part, or otherwise deal in and dispose of, income-generating real estate, whether freehold or leasehold, within or outside the Philippines with or to such persons and entities and under such terms and conditions as may be permitted by law; (2) to invest in, purchase, acquire own, hold, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real estate and managed funds; (3) to receive, collect and dispose of the rent, interest, dividends and income rising from its property and investments; and (4) to exercise, carry on or undertake such other powers, acts, activities and transactions as may be deemed necessary, convenient or incidental to or implied from the purposes herein mentioned.

The Company is a publicly-listed company, 40.75%-owned by Ayala Land Inc. (ALI), 9.39%-owned by AyalaLand Offices, Inc. (ALOI), a wholly owned subsidiary of ALI and the rest by the public. ALI's parent is Ayala Corporation (AC). AC is 47.87%-owned by Mermac, Inc. and the rest by the public. Both ALI and AC are publicly listed companies domiciled and incorporated in the Philippines.

The Company's registered office address and principal place of business is 28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company's common stock was listed in The Philippine Stock Exchange on August 13, 2020 as a Real Estate Investment Trust (REIT).

As a REIT entity, the Company is entitled to the following: (a) not subject to 2% minimum corporate income tax (MCIT), (b) exemption from value-added tax (VAT) and documentary stamp tax (DST) on the transfer of property in exchange of its shares, (c) deductibility of dividend distribution from its taxable income, and (d) fifty percent (50%) of the standard DST rate on the transfer of real property into the Company, including the sale or transfer of any and all security interest thereto, provided they have complied with the requirements under Republic Act (RA) No. 9856 and Implementing Rules and Regulations (IRR) of RA No. 9856.

The unaudited pro-forma financial information as at June 30, 2021 and for six months ended June 30, 2021, and for year ended December 31, 2020 were authorized for issue by the BOD on September 1, 2021.

2. Basis of Preparing Pro-Forma Financial Information

The unaudited pro-forma financial information has been prepared in accordance with Section 9, Part II of the Revised Securities Regulation Code Rule 68 (SRC Rule 68).

The unaudited -pro-forma financial information has been prepared solely for the inclusion in the prospectus prepared by the Company's management in connection with its planned bond offering. The unaudited -pro-forma financial information should be read in conjunction with the unaudited interim condensed financial statements as at and for the six months ended June 30, 2021 and the audited financial statements as at and for the year ended December 31, 2020.



The objective of this pro-forma financial information is to show the effects of the transactions described below on the historical financial information of the Company had these occurred at an earlier date. However, the unaudited -pro-forma financial information is not necessarily indicative of the financial performance or related effects on the financial statements that would have been attained, had the transactions described below actually occurred at an earlier date. The pro-forma condensed financial information is not intended to be considered in isolation from, or as a substitute for, financial position or results of operations prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The pro-forma condensed consolidated information has not been prepared in accordance to the requirements of Article 11 of the Recognition S-X under the U.S. Exchange Act.

Significant Transactions

Acquisition of the Laguna Technopark Land Parcels

On January 5, 2021, the Company entered into a Deed of Absolute Sale with Technopark Land, Inc (TLI), a subsidiary of AC, to acquire 98,179 square meters (sqm) of land for ₱987.98 million, exclusive of VAT. Currently, the acquired parcels of land are being leased out to Integrated Micro-Electronics, Inc. (IMI) for a period of 8 years starting from January 1, 2020 to December 31, 2027. The subject properties are the four (4) parcels of land located at Barrio Binan, Laguna.

Acquisition of The 30th Commercial Development

On January 15, 2021, the Company entered into a Deed of Sale with ALI for the acquisition of The 30th Commercial Development for ₱4.56 billion (VAT exclusive). ALI has an existing land lease contract with MBS Development Corporation (MBS) which will expire on September 1, 2056 and such contract of lease shall be assigned to AREIT as part of the sale of the building. Simultaneous to the acquisition, the Company and North Eastern Commercial Corp. (NECC), a wholly-owned subsidiary of ALI under the Ayala Malls brand, entered into a lease agreement for the retail podium of The 30th that is payable on monthly guaranteed lease for a period of 36 years. The retail podium is operated by NECC. NECC will pay a monthly guaranteed building lease to AREIT for a period of 36 years, in line with the land lease term of the property. With this transaction, AREIT will not be subjected to volatility risk from retail operations.

For the purpose of the pro-forma statement of financial position as at June 30, 2021 and the related pro-forma statement of comprehensive income, pro-forma statement of changes in equity and pro-forma statement of cash flows for six months ended June 30, 2021, the acquisitions of the Laguna Technopark Land Parcels and The 30th Commercial Development are no longer considered since these are already reflected in the June 30, 2021 interim statement of comprehensive of the Company. Instead, these transactions are considered in the pro-forma statement of comprehensive income, pro-forma statement of changes in equity and pro-forma statement of cash flows for the year ended December 31, 2020.

Execution of Property-for-Share Swap Agreement

On March 16, 2021 and April 23, 2021, the Company's Board of Directors (BOD) and the Company's stockholders, respectively, approved the increase in authorized capital stock from ₱11.74 billion to ₱29.50 billion, and the issuance of 483,254,375 primary common shares of stock (the "Shares") to ALI, Westview Commercial Venture Corporation (WCVC), and Glensworth Development Corporation (GDI), at an issue price of ₱32.00 per share in exchange for identified properties valued at ₱15.46 billion. On June 8, 2021, the Company, ALI, WCVC, and GDI executed the Deed of Exchange in implementation of the transaction. As of September 1, 2021, the SEC's approval on the increase in authorized capital stock and the subscription of ALI, WCVC, and GDI of shares in exchange for the properties to be transferred to AREIT is still pending.



The Company, WCVV and GDI are subsidiaries of ALI. In the normal conduct of business, the Company has transaction with said subsidiaries consisting mainly of interest-bearing loans for working capital purposes.

The Transferred Properties consist of: (i) the buildings and related immovable property in respect to three Vertis Office Towers and Mall in Quezon City, two Evotech office buildings in Laguna, two office buildings in Bacolod City, (ii) three condominium office units in Makati, and six condominium office units in Alabang.

Certain properties included in the property-for-share swap agreement are located on land parcels which are not owned by ALI, WCVV and GDI. These are under long-term leases with a third party and a related party.

The transaction also includes the execution of Deed of Assignment wherein ALI, WCVV, and GDI will assign, cede, and convey all of its rights, title, contracts, deposits from tenants, construction bonds and interest in the Transferred Properties. Moreover, ALI, WCVV and GDI, will assign the related long-term land lease agreements of the properties to the Company. These consist of five lease arrangement of which two are payable at a monthly rate based on a certain percentage of gross rental income and the rest at a fixed monthly rate. The planned lease term for these lease arrangement ranges from 36 to 41 years.

The Company determined that the Transferred Properties are each considered as a single identifiable asset and substantially all the fair value of each gross assets acquired is concentrated in a single identifiable asset. Thus, the execution of the Property-for-share Swap Agreement is accounted for as purchase of an asset rather than a business.

Execution of Lease Agreement with NECC as Lessee

The pro-forma condensed financial information also includes the execution of the planned long-term lease agreement between the Company, as lessor and NECC, as lessee. The planned lease agreement pertains to the lease of Vertis Mall. It is payable on monthly guaranteed lease for a period of 36 years.

Restatement

In 2021, the Company voluntarily changed its accounting policy on investment properties from cost model to fair value model which requires restatement of previous financial statements. The change will provide the users of the financial statements a more relevant information as it reflects the current valuation of the Company as a REIT entity. As a result, the December 31, 2020 statement of comprehensive income, statement of changes in equity and statement of cash flows were restated to reflect the effect of the voluntary change. The impact of the voluntary change is discussed below:

Statement of Comprehensive Income

		As previously reported		As restated
	Ref	December 31, 2020	Adjustment	December 31, 2020
Net fair value change in investment properties	a	P=	P1,424,645,596	P1,424,645,596
Direct operating expenses	b	585,302,407	(225,529,580)	359,772,827
Income before income tax		1,333,760,766	1,650,175,176	2,983,935,942
Provision for (benefit from) income tax	c	106,576,453	(3,387,455,299)	(3,280,878,846)
Net income		1,227,184,313	5,037,630,475	6,264,814,788



Statement of Changes in Equity

		As previously reported		As restated December 31,
	Ref	December 31, 2020	Adjustment	2020
Retained earnings at beginning of year	a	₱1,022,804,424	₱15,431,740,803	₱16,454,545,227
Total comprehensive income/Net income	a	1,227,184,313	5,037,630,475	6,264,814,788
Retained earnings at end of year	a	1,296,128,252	20,469,371,278	21,765,499,530

Statement of Cash Flows

		As previously reported		As restated
	Ref	December 31, 2020	Adjustment	December 31, 2020
Income before income tax		₱1,133,760,766	₱1,650,175,176	₱2,783,935,942
Depreciation	b	225,537,616	(225,529,580)	8,036
Net fair value change in investment properties	a	-	(1,424,645,596)	(1,424,645,596)

Below are the discussions of the adjustments:

- a. Under fair value accounting, investment properties are stated at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts based on the "income approach" which are based on the buildings' discounted future cash flows. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. Gains and losses arising from the fair value accounting are adjusted to retained earnings as at December 31, 2020. This resulted to increase in deferred tax expense .

The effect of the retroactive adjustment from cost method to fair value accounting is adjusted to retained earnings as at December 31, 2020.

- b. Depreciation expense under cost model previously recorded as part of "direct operating expenses" was reversed.
- c. As of January 1, 2020, the Company recognized deferred tax liabilities amounting to ₱3,387.45 million arising from the change in accounting policy from cost to fair value. This was determined by applying the Company's old tax regime using 18% effective tax rate under Optional Standard Deduction to the cumulative fair value increase of ₱18,819.20 million as of January 1, 2020. After the Company's listing on August 13, 2020, deferred taxes are measured using zero effective tax rate based on applicable tax regime under the REIT law and after considering the effect of the expected future dividend distributions. Accordingly, the recognized deferred tax liabilities as of January 1, 2020 is subsequently reversed to the statement of comprehensive income for the year ended December 31, 2020.

3. Pro-Forma Adjustments

The pro-forma financial information is based on the historical information of the Company as shown in



the interim condensed financial statements as at and for the six months ended June 30, 2021 and audited financial statements as at December 31, 2020, and after giving effect to certain assumptions and pro-forma adjustments described in the succeeding paragraphs. The pro-forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances

The pro-forma condensed financial information does not purport to represent what the financial performance and financial position of the Company would have been had the significant transactions discussed in the succeeding paragraphs occurred as at June 30, 2021 or January 1, of each of the periods presented or as the case may be, nor does it purport to project the financial performance of the Company for any future period or date. This has been prepared for illustration purposes only and on the assumption that all relevant conditions precedent have been satisfied.

For the purpose of the pro-forma statements of comprehensive income, changes in equity, cash flows and earnings per share, the transactions are assumed to have occurred on January 1, 2020 and January 1, 2021, which is the beginning of the periods presented. For the purpose of the pro-forma statement of financial position as at June 30, 2021, the transaction is assumed to have occurred on June 30, 2021, the end of the period presented.

I. Pro-forma adjustments in the statement of financial position as of June 30, 2021

For the purpose of the pro-forma statement of financial position as at June 30, 2021, the execution of the Property-for-share Swap Agreement and execution of Lease Agreement with NECC as Lessee are assumed to have occurred on June 30, 2021. The acquisitions of the Laguna Technopark Land Parcels and The 30th Commercial Development are no longer considered since these are already reflected in the June 30, 2021 interim statement of financial position of the Company.

Pro-forma adjustments have been made to the pro-forma statement of financial position which resulted in the recognition of the following:

- a) Cash amounting to ₱460.25 million;
- b) Receivables amounting to ₱4.10 million;
- c) Noncurrent portion of receivables amounting to ₱518.79 million;
- d) Investment properties amounting to ₱15,224.88 million;
- e) Current portion of deposits and other liabilities amounting to ₱13.40 million;
- f) Current portion of lease liability amounting to ₱8.92 million;
- g) Construction bonds amounting to ₱49.92 million;
- h) Noncurrent portion of deposits and other liabilities amounting to ₱674.09 million;
- i) Noncurrent portion of lease liability amounting to ₱249.00 million;
- j) Paid-up capital of ₱4,832.54 million for the issuance of 483.25 million common shares at ₱10 par value; and,
- k) Additional paid-in capital amounting to ₱10,583.27 million, the excess of fair value of the Assigned Properties over shares issued in accordance with Property-for-Share Swap and after deducting the estimated share issuance cost of ₱48.33 million;
- l) Retained earnings amounting to ₱203.14 million pertains to the transaction cost amounting to ₱228.83 million and recognition of gain under finance lease agreement amounting to ₱25.70 million.



II. Pro-forma adjustments to the pro-forma statement of comprehensive income for the six months ended June 30, 2021

For the purpose of the pro-forma statement of comprehensive income for the six months ended June 30, 2021, the execution of the Property-for-share Swap Agreement and execution of Lease Agreement with NECC are assumed to have occurred on January 1, 2021. The acquisitions of the Laguna Technopark Land Parcels and The 30th Commercial Development are no longer considered since these are already reflected in the June 30, 2021 interim statement of comprehensive income of the Company.

Pro-forma adjustments have been made to include the results of the Transferred Properties in the Swap Agreement for the six months ended June 30, 2021 into the pro-forma statement of comprehensive income as follows:

	Pro-forma Adjustment June 30, 2021
REVENUE	
Rental income	P724,429,932
Dues	147,172,183
Interest income from finance lease receivables	22,165,523
	<u>893,767,638</u>
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES	<u>189,917,194</u>
COSTS AND EXPENSES	
Direct operating expenses	167,579,012
General and administrative expenses	2,956,243
	<u>170,535,255</u>
OTHER CHARGES	
Interest expense	<u>(11,518,990)</u>
INCOME BEFORE INCOME TAX	901,630,587
PROVISION FOR INCOME TAX	<u>-</u>
NET INCOME	901,630,587
OTHER COMPREHENSIVE INCOME	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u><u>P901,630,587</u></u>

The Company will enter into a long-term lease agreement for Vertis Mall which will result in recognition of one-time gain arising from the difference between the carrying value of the property leased and the present value of the finance lease receivable amounting to P25.70 million. This is not included in the pro-forma statement of comprehensive income since it is not recurring in nature.



III. Pro-forma adjustments to the pro-forma statement of comprehensive income for the year ended December 31, 2020

For the purpose of the pro-forma statement of comprehensive income for the year ended December 31, 2020, the execution of Property-for-Share Swap Agreement, execution of Lease Agreement with NECC, Acquisition of the Laguna Technopark Land Parcels and The 30th Commercial Development are assumed to have occurred on January 1, 2020.

Pro-forma adjustments have been made to include the results acquired Properties for the year ended December 31, 2020 into the pro-forma statement of comprehensive income as follows:

	Pro-forma Adjustment December 31, 2020
REVENUE	
Rental income	P1,753,869,463
Dues	321,682,056
Interest income from finance lease receivables	74,720,975
	<u>2,150,272,494</u>
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES	<u>379,388,990</u>
COSTS AND EXPENSES	
Direct operating expenses	403,212,458
General and administrative expenses	6,561,422
	<u>409,773,880</u>
OTHER CHARGES	
Interest expense	<u>(23,037,980)</u>
INCOME BEFORE INCOME TAX	2,096,849,624
PROVISION FOR INCOME TAX	<u>213,395,781</u>
NET INCOME	1,883,453,843
OTHER COMPREHENSIVE INCOME	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>P1,883,453,843</u>

The Company has entered into a long-term lease agreement on the retail podium of The 30th Commercial Development building on January 1, 2021 and for the Vertis Mall simultaneous to the execution of the Property-for-Share Swap Agreement which resulted in recognition of one-time gain arising from the difference between the carrying value of the property leased and the present value of the finance lease receivable amounting to P54.01 million. This is not included in the pro-forma statement of comprehensive income since it is not recurring in nature.



IV. Pro-forma adjustments to the pro-forma statement of changes in equity for the six months ended June 30, 2021

1. Pro-forma net income

Included the pro-forma net income as reflected in the pro-forma statement of comprehensive income for the period ended June 30, 2021 as discussed in Section 3.II.

2. Issuance of new shares

Pro-forma adjustments have been made to reflect the issuance of 483,254,375 common shares with an exchange price of ₱32 pesos per share at ₱10 par value related to the execution of Property for Share Swap Agreement which resulted in the recognition of capital stock and additional paid-in capital amounting to ₱4,832.54 million and ₱10,583.27 million, respectively, net of estimated share issuance cost amounting to ₱48.33 million.

3. Other pro-forma amounting to ₱1,104.77 million have been made to take into account the different assumptions in the pro-forma statement of financial position which already include the execution of Property-for-Share Swap Agreement and the pro-forma statement of comprehensive income which assumed the transactions discussed in Section 3.II occurred as of January 1, 2021.

V. Pro-forma adjustments to the pro-forma statement of changes in equity for the year ended December 31, 2020

1. Pro-forma net income

Included the pro-forma net income as reflected in the pro-forma statement of comprehensive income for the year ended December 31, 2020 as discussed in Section 3.III.

2. Issuance of new shares

Pro-forma adjustments have been made to reflect the issuance of 483,254,375 common shares with an exchange price of ₱32 pesos per share at ₱10 par value related to the execution of Property for Share Swap Agreement which resulted to the recognition of capital stock and additional paid-in capital amounting to ₱4,832.54 million and ₱10,583.27 million, respectively, net of estimated share issuance cost amounting to ₱48.33 million.

3. Other pro-forma adjustments amounting to ₱1,883.46 million have been made to take into account the different assumptions in the pro-forma statement of financial position which assumes the significant transactions occurred at end of the period and the pro-forma statement of comprehensive income which assumed the significant transactions discussed in Section 3.III occurred as of January 1, 2020.



VI. Pro-forma adjustments to the pro-forma statement of cash flows for the six months ended June 30, 2021

For the purpose of the pro-forma statement of cash flows for the six months ended June 30, 2021, the execution of the Property-for-share Swap Agreement and execution of Lease Agreement with NECC assumed to have occurred on January 1, 2021. The acquisitions of the Laguna Technopark Land Parcels and The 30th Commercial Development are no longer considered since these are already reflected in the June 30, 2021 interim statement of cash flows of the Company.

1. Pro-forma adjustments have been made to include the balances of the acquired Properties' statement of cash flows for the six months ended June 30, 2021 into the pro-forma statement of cash flow as follows:
 - a) Pro-forma adjustment relating to pro-forma income before income tax as discussed in Section 3.II;
 - b) Pro-forma adjustment for the non-cash gain in fair value change in investment properties amounting to ₱189.92 million;
 - c) Pro-forma adjustment for the non-cash interest expense from accretion of lease liabilities to ₱11.52 million;
 - d) Pro-forma adjustment arising from interest income from finance lease receivables amounting to ₱22.17 million;
 - e) Decrease in accounts and other payables related to the transaction costs paid for the execution of the Property-for-Share Swap Agreement amounting to ₱228.83 million;
 - f) Increase in deposits and other liabilities amounting arising from receipt of advance rent and security deposits amounting to ₱381.60 million and ₱305.89 million, respectively;
 - g) Increase in construction bonds amounting to ₱49.92 million.
2. Other pro-forma adjustments amounting to ₱749.39 million have been made to take into account the different assumptions in the pro-forma statement of financial position which already include the execution of Property-for-Share Swap Agreement, execution of Deed of Assignment and execution of Lease Agreements at the end of the period and the pro-forma statement of cash flows which assumed the transaction occurred on January 1, 2021.

VII. Pro-forma adjustments to the pro-forma statement of cash flows for the period ended December 31, 2020

For the purpose of the pro-forma statement of cash flows for the year ended December 31, 2020, the execution of Property-for-Share Swap Agreement, execution of Lease Agreement with NECC, acquisition of the Laguna Technopark Land Parcels and The 30th Commercial Development are assumed to have occurred on January 1, 2020.

1. Pro-forma adjustments have been made to include the balances of the acquired Properties' statement of cash flows for the period ended December 31, 2020 into the pro-forma statement of cash flows as follows:
 - a) Pro-forma adjustment relating to pro-forma income before income tax as discussed in Section 3.II;
 - b) Pro-forma adjustment for the non-cash gain in fair value change in investment properties amounting to ₱386.25 million;
 - c) Pro-forma adjustment for the non-cash interest expense from accretion of lease liabilities to ₱23.04 million;
 - d) Pro-forma adjustment for the interest income from finance lease receivables amounting to ₱74.72 million;
 - e) Decrease in accounts and other payables related to the transaction costs paid for the execution of the Property-for-Share Swap Agreement amounting to ₱228.83 million;



- f) Increase in deposits and other liabilities amounting arising from receipt of advance rent and security deposits amounting to ₱381.60 million and ₱305.89 million, respectively;
 - g) Increase in construction bonds amounting to ₱49.92 million;
 - h) Pro-forma adjustment for payments made in relation to the acquisition of Laguna Technopark Land Parcels and The 30th Commercial Development amounting to ₱997.98 million and ₱4,564.34 million, respectively.
2. Other pro-forma adjustments amounting to ₱3,838.21 million have been made to take into account the different assumptions in the pro-forma statement of financial position which already include the execution of Property-for-Share Swap Agreement, execution of Lease Agreement with NECC, Acquisition of the Laguna Technopark Land Parcels and The 30th Commercial Development at the end of the period and the pro-forma statement of cash flows which assumed the transaction occurred on January 1, 2020.

4. Pro-Forma Earnings Per Share

The Company's pro-forma basic/diluted earnings per share for the six months ended June 30, 2021 and year ended December 31, 2020 are computed as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Unaudited)
Pro-forma net income	₱2,216,540,215	₱8,148,268,631
Divided by pro-forma weighted average number of common shares	1,508,910,810	1,479,405,605
Pro-forma Basic/Diluted earnings per share	₱1.47	₱5.51

For the purpose of the calculation of pro-forma basic/diluted earnings per share, the issuance of shares of stocks for the share swap transaction is assumed to have occurred on January 1, 2021 and January 1, 2020.

The Company's historical basic/diluted earnings per share is computed as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (As restated, Note 2)
Net income	₱1,314,909,628	₱6,264,814,788
Divided by weighted average number of common shares	1,025,656,435	996,151,230
Basic/Diluted earnings per share	₱1.28	₱6.29

The Company also assessed that there were no potential dilutive common shares as of June 30, 2021 and December 31, 2020.

The adjustment to voluntary change the Company's accounting of investment properties from cost to fair value method includes a reversal of deferred tax liabilities amounting to ₱3.39 billion after its listing on August 13, 2020 (see Note 2). This resulted in an increase in the net income by the same amount with corresponding increase in the restated historical and pro-forma basic/diluted earnings per share by ₱3.40 per share and ₱2.29 per share, respectively.



AREIT, Inc.

Interim Condensed Financial Statements
As at June 30, 2021 and
For the Six Months Ended June 30, 2021 and 2020
*(With Comparative Unaudited Statement of
Financial Position as at December 31, 2020)*

and

Report on Review of Interim Condensed
Financial Statements



REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

The Stockholders and Board of Directors
AREIT Inc.
28th Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Introduction

We have reviewed the accompanying interim condensed financial statements of AREIT, Inc. (the Company), which comprise the interim statement of financial position as at June 30, 2021 and the related interim statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2021 and 2020, and a summary of significant accounting policies and explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting* ("PAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

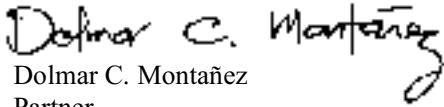
We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* ("PSRE 2410"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing (PSAs) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the entity as at June 30, 2021, and of its financial performance and its cash flows for the six months ended June 30, 2021 and 2020 and three months ended June 30, 2021 and 2020 in accordance with PFRSs.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534336, January 4, 2021, Makati City

September 1, 2021



AREIT, INC.**INTERIM STATEMENTS OF FINANCIAL POSITION**

	June 30, 2021 (Unaudited)	December 31, 2020 (As restated – Note 2)	January 1, 2020 (As restated – Note 2)
ASSETS			
Current Assets			
Cash (Notes 4 and 20)	₱71,085,834	₱58,977,547	₱122,180,606
Receivables (Notes 5, 19 and 20)	528,397,305	2,373,620,721	1,967,170,494
Other current assets (Notes 6 and 20)	400,701,376	281,312,797	157,602,668
Total Current Assets	1,000,184,515	2,713,911,065	2,246,953,768
Noncurrent Assets			
Noncurrent portion of receivables (Notes 5 and 20)	2,614,246,562	2,194,794,056	2,215,249,105
Investment properties (Note 7)	34,811,316,966	29,189,674,985	25,380,629,552
Property and equipment (Note 8)	231,454	12,053	20,089
Other noncurrent assets (Note 6)	1,686,916,465	1,001,662,147	968,057,313
Total Noncurrent Assets	39,112,711,447	32,386,143,241	28,563,956,059
	₱40,112,895,962	₱35,100,054,306	₱30,810,909,827
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Notes 9 and 20)	₱449,414,607	₱513,927,478	₱274,477,842
Short-term loans payable (Notes 10 and 20)	4,422,500,000	–	–
Interest payable (Note 10)	1,782,778	–	–
Current portion of deposits and other liabilities (Notes 11 and 20)	291,143,698	129,399,846	166,793,502
Income tax payable	54,444,350	54,444,350	71,241,650
Current portion of lease liability (Note 17)	36,015,135	34,300,129	–
Construction bonds	–	–	11,105,498
Total Current Liabilities	5,255,300,568	732,071,803	523,618,492
Noncurrent Liabilities			
Deposits and other liabilities - net of current portion (Notes 11 and 20)	718,693,919	722,693,405	600,134,138
Lease liability- net of current portion (Note 17)	847,028,275	837,543,814	–
Deferred tax liabilities - net (Note 18)	–	–	3,454,687,620
Total Noncurrent Liabilities	1,565,722,194	1,560,237,219	4,054,821,758
Total Liabilities	6,821,022,762	2,292,309,022	4,578,440,250
Equity (Note 12)			
Paid-up capital	10,929,864,050	10,929,864,050	10,451,224,050
Treasury shares	(673,299,700)	(673,299,700)	(673,299,700)
Additional paid-in capital	785,681,404	785,681,404	–
Retained earnings	22,249,627,446	21,765,499,530	16,454,545,227
Total Equity	33,291,873,200	32,807,745,284	26,232,469,577
	₱40,112,895,962	₱35,100,054,306	₱30,810,909,827

See accompanying Notes to Interim Condensed Financial Statements.



AREIT, INC.**INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	2021 (Unaudited)		2020 (Unaudited)	
	April 1 to June 30	January 1 to June 30	April 1 to June 30 (Restated - Note 2)	January 1 to June 30 (Restated - Note 2)
REVENUE				
Rental income (Notes 7, 13 and 17)	₱536,276,954	₱1,076,037,132	₱351,670,970	₱707,662,830
Dues (Notes 7 and 14)	98,488,814	199,681,658	74,855,665	128,199,744
Interest income from finance lease receivables (Notes 14 and 17)	45,366,761	88,978,313	37,497,499	74,994,998
	680,132,529	1,364,697,103	464,024,134	910,857,572
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES (Note 7)	140,346,361	307,873,195	243,580,198	475,824,696
COSTS AND EXPENSES				
Direct operating expenses (Notes 7 and 16)	147,496,274	285,947,276	72,160,257	147,118,862
General and administrative expenses (Note 16)	11,640,380	23,043,932	580,160	8,331,449
	159,136,654	308,991,208	72,740,417	155,450,311
OTHER INCOME (CHARGES) - Net				
Gain under finance lease (Notes 15 and 17)	—	28,309,398	—	—
Interest income (Notes 4, 15 and 19)	1,341,314	3,926,391	20,514,159	35,132,696
Interest expense (Notes 10,11 and 16)	(43,536,355)	(80,879,798)	(4,357,924)	(23,127,030)
Other income (Note 15)	—	—	44,037	3,609,042
	(42,195,041)	(48,644,009)	16,200,272	15,614,708
INCOME BEFORE INCOME TAX	619,147,195	1,314,935,081	651,064,187	1,246,846,665
PROVISION FOR INCOME TAX (Note 18)	8,499	25,453	169,267,243	229,529,837
NET INCOME	619,138,696	1,314,909,628	481,796,944	1,017,316,828
OTHER COMPREHENSIVE INCOME	—	—	—	—
TOTAL COMPREHENSIVE INCOME	₱619,138,696	₱1,314,909,628	₱481,796,944	₱1,017,316,828
Basic/Diluted Earnings Per Share (Note 21)	₱0.60	₱1.28	₱0.49	₱1.04

See accompanying Notes to Interim Condensed Financial Statements.



AREIT, INC.**INTERIM STATEMENTS OF CHANGES IN EQUITY**

	Six Months Ended June 30	
		2020
		(Unaudited)
	2021	(Restated - Note
	(Unaudited)	2)
PAID-UP CAPITAL (Note 12)		
Common Shares - ₱10 par value		
Balance at beginning and end of period	₱10,929,864,050	₱10,451,224,050
ADDITIONAL PAID-IN CAPITAL (Note 12)		
Balance at beginning and end of period	785,681,404	—
TREASURY SHARES (Note 12)		
Balance at beginning and end of period	(673,299,700)	(673,299,700)
RETAINED EARNINGS (Note 12)		
Balance at beginning of period	21,765,499,530	1,022,804,424
Restatement (Note 2)	—	15,431,740,803
Balance at beginning of period, as restated	21,765,499,530	16,454,545,227
Total comprehensive income/Net income	1,314,909,628	1,017,316,828
Cash dividends	(830,781,712)	—
Balance at end of period	22,249,627,446	17,471,862,055
	₱33,291,873,200	₱27,249,786,405

See accompanying Notes to Interim Condensed Financial Statements.



AREIT, INC.**INTERIM STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30	
	2021	2020
	(Unaudited)	(Unaudited) (Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,314,935,081	₱1,246,846,665
Adjustments for:		
Net fair value change in investment properties	(307,873,195)	(475,824,696)
Depreciation and amortization (Notes 8 and 16)	7,805	4,018
Interest expense (Notes 10,11 and 16)	80,879,798	23,127,030
Gain under finance lease (Notes 15 and 17)	(28,309,398)	—
Interest income from finance lease receivables (Notes 15 and 17)	(88,978,313)	(74,994,998)
Interest income (Notes 4, 15 and 19)	(3,926,391)	(35,132,696)
Operating income before working capital changes	966,735,387	684,025,323
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(84,272,638)	(86,057,250)
Other assets	(804,642,897)	7,768,521
Increase (decrease) in:		
Accounts and other payables	(64,517,662)	156,087,485
Deposits and other liabilities	144,993,614	(29,143,775)
Construction bonds	—	1,748,073
Cash generated from operations	158,295,804	734,428,377
Interest received	92,904,704	110,127,694
Interest paid	(38,060,272)	—
Income tax paid	(25,453)	(117,086,926)
Net cash flows provided by operating activities	213,114,783	727,469,145
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from related parties (Notes 19 and 23)	1,918,938,726	(735,487,050)
Payments for additions to investment properties (Note 7)	(5,694,354,566)	(11,567,399)
Payments for additions to property and equipment	(227,205)	—
Net cash flows used in investing activities	(3,775,643,045)	(747,054,449)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans (Note 10)	4,422,500,000	—
Payments of dividends (Note 12)	(830,781,712)	—
Payments of principal portion of lease liability (Note 17)	(17,081,739)	—
Net cash flows provided by financing activities	3,574,636,549	—
NET INCREASE (DECREASE) IN CASH	12,108,287	(19,585,304)
CASH AT BEGINNING OF PERIOD	58,977,547	122,180,606
CASH AT END OF PERIOD (Note 4)	₱71,085,834	₱102,595,302

See accompanying Notes to Interim Condensed Financial Statements.



1. Corporate Information

AREIT, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006. The Company was organized primarily to engage in the business which includes the following: (1) to own, invest in, purchase, acquire, hold, possess, lease, construct, develop, alter, improve, operate, manage, administer, sell, assign, convey, encumber, in whole or in part, or otherwise deal in and dispose of, income-generating real estate, whether freehold or leasehold, within or outside the Philippines with or to such persons and entities and under such terms and conditions as may be permitted by law; (2) to invest in, purchase, acquire own, hold, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real estate and managed funds; (3) to receive, collect and dispose of the rent, interest, dividends and income rising from its property and investments; and (4) to exercise, carry on or undertake such other powers, acts, activities and transactions as may be deemed necessary, convenient or incidental to or implied from the purposes herein mentioned.

The Company is publicly-listed company, 40.75%-owned by Ayala Land Inc. (ALI), 9.39%-owned by AyalaLand Offices, Inc. (ALOI), a wholly owned subsidiary of ALI and the rest by the public. ALI's parent is Ayala Corporation (AC). AC is 47.87%-owned by Mermac, Inc. and the rest by the public. Both ALI and AC are publicly listed companies domiciled and incorporated in the Philippines.

The Company's registered office address and principal place of business is 28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company's common stock was listed in The Philippine Stock Exchange on August 13, 2020 as a Real Estate Investment Trust (REIT).

As a REIT entity, the Company is entitled to the following: (a) not subject to 2% minimum corporate income tax (MCIT), (b) exemption from value-added tax (VAT) and documentary stamp tax (DST) on the transfer of property in exchange of its shares, (c) deductibility of dividend distribution from its taxable income, and (d) fifty percent (50%) of the standard DST rate on the transfer of real property into the Company, including the sale or transfer of any and all security interest thereto, provided they have complied with the requirements under Republic Act (RA) No. 9856 and Implementing Rules and Regulations (IRR) of RA No. 9856.

The operational and administrative functions of the Company are handled by ALI prior to its listing. Beginning August 13, 2020, AREIT Fund Managers, Inc. (AFMI), and AREIT Property Managers, Inc. (APMI), handled the fund manager functions and property management functions of the Company (see Note 19).

On March 16, 2021 and April 23, 2021, the Company's Board of Directors (BOD) and the Company's stockholders, respectively, approved the increase in authorized capital stock from ₱11.74 billion to ₱29.50 billion, and the issuance of 483,254,375 primary common shares of stock (the "Shares") to ALI, Westview Commercial Venture Corporation (WCVC), and Glensworth Development Corporation (GDI), at an issue price of ₱32.00 per share in exchange for identified properties valued at ₱15.46 billion. On June 8, 2021, the Company, ALI, WCVC, and GDI executed the Deed of Exchange in implementation of the transaction. As of September 1, 2021, the SEC's approval on the increase in authorized capital stock and the subscription of ALI, WCVC, and GDI of shares in exchange for the properties to be transferred to AREIT is still pending (See Note 25).



2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim condensed financial statements have been prepared on a historical cost basis, except for the investment properties which are measured at fair value.

The accompanying interim condensed financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

The accompanying interim condensed financial statements have been prepared under the going concern assumption. The Company believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic.

The interim condensed financial statements have been prepared for inclusion in the offering circular to be prepared by the Company for its planned offering transaction.

Statement of Compliance

The unaudited interim condensed financial statements of the Company have been prepared in compliance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

Restatement

In 2021, the Company voluntarily changed its accounting policy on investment properties from cost model to fair value model which requires restatement of previous financial statements. The change will provide the users of the financial statements a more relevant information as it reflects the current valuation of the Company as a REIT entity. As a result, the comparative December 31, 2020 audited statement of financial position and comparative statement of comprehensive income and statement of changes in equity for six-month period ended June 30, 2020 were restated to reflect the effect of the voluntary change. The impact of the voluntary change is discussed below:

Statement of Financial Position

		As previously reported		As restated
	Ref	December 31, 2019	Adjustment	January 1, 2020
Assets				
Receivables	b	₱4,551,478,656	(₱369,059,057)	₱4,182,419,599
Investment properties	a	6,192,374,393	19,188,255,159	25,380,629,552
Liabilities				
Deferred tax liabilities – net	a, d	67,232,321	3,387,455,299	3,454,687,620
Equity				
Retained earnings	a	1,022,804,424	15,431,740,803	16,454,545,227
		As previously reported		As restated
	Ref	December 31, 2020	Adjustment	December 31, 2020
Assets				
Receivables	b	₱4,984,916,013	(₱416,501,236)	₱4,568,414,777
Investment properties	a	8,303,802,471	20,885,872,514	29,189,674,985
Equity				
Retained earnings	a	1,296,128,252	20,469,371,278	21,765,499,530



Statement of Comprehensive Income

	Ref	January 1 to June 30, 2020 (Unaudited)	Adjustment	As restated January 1 to June 30, 2020 (Unaudited)
Direct operating expenses	c	₱252,316,208	(₱105,197,346)	₱147,118,862
Net fair value gain in investment properties	a	—	475,824,696	475,824,696
Income before income tax		665,824,623	581,022,042	1,246,846,665
Provision for income tax	d	119,506,098	110,023,739	229,529,837
Net income		546,318,525	470,998,303	1,017,316,828

	Ref	April 1 to June 30, 2020 (Unaudited)	Adjustment	As restated April 1 to June 30, 2020 (Unaudited)
Direct operating expenses	c	₱125,902,180	(₱53,741,923)	₱72,160,257
Net fair value gain in investment properties	a	—	243,580,198	243,580,198
Income before income tax		353,742,066	297,322,121	651,064,187
Provision for income tax	d	59,243,503	110,023,740	169,267,243
Net income		294,498,563	187,298,381	481,796,944

Below are the discussions of the adjustments:

- Under fair value accounting, investment properties are stated at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts based on the “income approach” which is based on the buildings’ discounted future cash flows. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. Gains and losses arising from the fair value accounting are adjusted to retained earnings as at December 31, 2020. This resulted to an increase in deferred tax liabilities.
- In determining the carrying amount under the fair value model, the Company does not double-count assets or liabilities that are recognized separately. The Company derecognized related accrued rental income which was previously presented under “Receivables” which resulted in a decrease in deferred tax liabilities.
- Depreciation expense under cost model previously recorded as part of “direct operating expenses” was reversed.
- Deferred taxes are recognized based on the effective income tax rate of 0% and 18% as of December 31, 2020 and January 1, 2020, respectively.

The restatements have no significant impact in the statement of cash flows for the six-month period ended June 30, 2020.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2020, except for the adoption of new accounting policies effective starting January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Company’s financial position or performance unless otherwise indicated.



- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Company shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
 - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition
- PIC Q&A 2018-12, PFRS 15 – Accounting for Common Usage Service (CUSA) Charges

The Company opted to adopt PIC Q&A 2018-12, PFRS 15 – Accounting for CUSA in its December 31, 2021 financial statements which concludes that real estate developers are generally acting as principal for CUSA. The impact of the adoption is applied retrospectively.

3. Summary of Significant Accounting Estimates, Judgments and Assumptions

The preparation of the interim condensed financial statements in compliance with PAS 34 requires the Company to make estimates, judgments and assumptions that affect the amounts reported in the interim condensed financial statements and accompanying notes. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates reflected in the interim condensed financial statements as they become reasonably determinable. 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. Among others, the following are the critical judgment and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Judgment

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

Determination of whether the Company is acting as a Principal or an Agent

The contract for the commercial spaces leased out by the Company to its tenants includes the right to charge for the electricity usage, water usage, air-conditioning charges and CUSA like maintenance, janitorial and security services.

For the electricity and water usage, the Company determined that it is acting as an agent because the promise of the Company to the tenants is to arrange for the electricity and water supply to be provided by a utility company. The utility and service companies, and not the Company, are primarily responsible for the provisioning of the utilities while the Company administers the leased spaces and coordinates with the utility and service companies to ensure that tenants have access to these utilities.



For the provision of CUSA and air conditioning, the Company acts as a principal because it retains the right to direct the service provider of air conditioning, maintenance, janitorial and security to the leased premises. The right to the services mentioned never transfers to the tenant and the Company has the discretion on how to price the CUSA and air conditioning charges.

Operating lease commitments – the Company as lessor

The Company has entered into commercial property leases on its investment property portfolios. The Company has determined that it retains all significant risks and rewards of ownership of the property as the Company considered, among others, the length of the lease term as compared with the estimated useful life of the assets.

Finance lease commitments – the Company as lessor

The Company has entered into a lease agreement on the portion (composed of 18 floors stacked on top of the headquarters tower) of ANE building and podium of The 30th Commercial Development (The 30th) building. The Company has determined, based on evaluation of the terms and arrangement, particularly on the economic life, that the Company has transferred substantially all the significant risks and rewards of ownership of these properties to the lessee and accounts for the agreements as finance lease.

Evaluation whether the acquired set of assets constitute a business

The Company and ALI executed a deed of absolute sale wherein ALI sells, conveys, transfer, assigns and delivers to the Company a 23 -storey building, inclusive of three (3) basement floors, (The 30th Commercial Development) located at Meralco Ave., Pasig City. The Company elected to apply the optional concentration test to determine whether the acquired building constitute a business. The Company has determined that the acquisition is a purchase of asset as the acquisition passed the concentration test due to: (a) the building is considered a single identifiable asset (b) substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss pattern.

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with the impact of current COVID environment and other forward-looking information, as applicable. For instance, if forecast economic conditions (i.e., gross domestic product and inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The amount of ECLs is sensitive to changes in circumstances including COVID impact and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

The carrying value of the Company's trade receivables amounted to ₱3,142.64 million and ₱4,568.41 million as of June 30, 2021 and December 31, 2020, respectively, net of allowance for credit losses amounting ₱14.92 million as of June 30, 2021 and December 31, 2020 (see Note 5).



Evaluating impairment of nonfinancial assets

The Company regularly reviews its nonfinancial asset for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends including the impact of COVID. If such indicators are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Company estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect its nonfinancial assets.

The Company's nonfinancial assets are not impaired as of June 30, 2021 and December 31, 2020. The carrying values of the Company's nonfinancial assets follow:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Input VAT (Note 6)	₱819,508,813	₱544,655,980
Deferred input VAT (Note 6)	1,023,401,632	614,857,354
Creditable withholding taxes (Note 6)	147,146,098	112,971,793
	₱1,990,056,543	₱1,272,485,127

Estimating Realizability of Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profit together with future tax planning strategies. However, there is no assurance that the Company will generate sufficient future taxable profit to allow all or part of its deferred tax assets to be utilized.

As of June 30, 2021 and December 31, 2020, the Company did not recognize deferred tax asset on temporary difference of NOLCO amounting to ₱43.49 million as the management believes that it may not be probable that sufficient taxable income will be available against which this can be applied given its tax incentive as a REIT(see Note 18).

Valuation of investment properties held at fair value

The Company makes judgements in respect of the fair value of investment properties. The fair values of these properties are reviewed regularly by management with reference to external independent property valuations and market conditions existing at reporting date, using generally accepted market practices. The assumptions underlying estimated fair values are those relating to the receipt of contractual rents, expected future market rentals, capital expenditure requirements, capitalization rates and discount rates that reflect current market conditions and current or recent property investment prices. The property valuations have been prepared based on the information that is available.

Investment properties amounted to ₱34,811.32 million and ₱29,189.67 million as at June 30, 2021, December 31, 2020, respectively. Net fair value change in investment properties recognized in profit or loss amounted to ₱307.87 million and ₱475.82 million for the six months ended June 30, 2021 and 2020, respectively (see Note 7).



4. Cash

This account consists of:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Cash on hand	₱22,500	₱22,500
Cash in banks	71,063,334	58,955,047
	₱71,085,834	₱58,977,547

Cash in banks earn interest at the respective bank deposit rates which ranges from 0.35% to 0.45% in 2021 and 2020. Interest income earned from cash in banks amounted to ₱0.04 million and ₱0.08 million for the three months ended June 30, 2021 and 2020, respectively, and ₱0.13 million and ₱0.22 million for the six months ended June 30, 2021 and 2020, respectively (see Note 15).

5. Receivables

This account consists of:

	2021 June 30 (Unaudited)	2020 December 31 (As restated - Note 2)	January 1 (As restated - Note 2)
Finance lease receivable (Notes 17 and 19)	₱2,697,346,683	₱2,242,581,055	₱2,267,931,937
Due from related parties (Note 19)	323,605,086	2,242,543,812	1,803,889,622
Trade receivables - billed	136,075,851	97,316,019	117,888,650
Other receivables	540,006	897,650	374,307
	3,157,567,626	4,583,338,536	4,190,084,516
Less allowance for credit losses	14,923,759	14,923,759	7,664,917
	3,142,643,867	4,568,414,777	4,182,419,599
Less noncurrent portion of finance lease receivable	2,614,246,562	2,194,794,056	2,215,249,105
	₱528,397,305	₱2,373,620,721	₱1,967,170,494

Billed receivables arise mainly from tenants for rentals of office and retail spaces and recovery charges for common area and utilities. These are noninterest-bearing and are generally collectible on 30-day term.

Other receivables pertain to noninterest-bearing advances to employees which are subject to liquidation upon completion of the business transaction.

The movements in allowance for credit losses follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Balance at beginning of period	₱14,923,759	₱7,664,917
Provision (Notes 16 and 20)	—	7,258,842
Balance at end of period	₱14,923,759	₱14,923,759



6. Other Assets

Other Current Assets

This account consists of:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Input VAT	₱160,681,142	₱158,306,544
Creditable withholding taxes	147,146,098	112,971,793
Prepaid expenses	82,839,676	-
Recoverable deposits	10,034,460	10,034,460
	₱400,701,376	₱281,312,797

Input VAT is applied against output VAT within 12 months. This includes input VAT claimed for refund amounting to ₱6.39 million which is awaiting approval from the BIR.

Creditable withholding taxes represent the amount withheld by the Company. These are recognized upon collection of the related lease receivable and are utilized as tax credits against income tax due.

Prepaid taxes pertain to payment of real property taxes which is amortized over a year.

Recoverable deposits pertain to various utility deposits.

Other Noncurrent Assets

This account consists of:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Deferred input VAT	₱1,023,401,632	₱614,857,354
Input VAT	658,827,671	386,349,436
Advances to contractors	4,687,162	455,357
	₱1,686,916,465	₱1,001,662,147

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.00 million per transaction which is available for offset against the Company's future output VAT.

The remaining balance of input VAT and deferred input VAT are recoverable in future periods.

Advances to contractors are recouped upon every progress billing payment depending on the percentage of accomplishment or delivery.

7. Investment Properties

	2021	2020	
	June 30 (Unaudited)	December 31 (As restated – Note 2)	January 1 (As restated – Note 2)
Beginning of the period	₱29,189,674,985	₱25,380,629,552	₱25,380,629,552
Acquisitions	5,694,354,566	2,336,957,658	-
Property under finance lease	(389,971,485)	-	-
Gain on fair value adjustment	317,258,900	1,472,087,775	-
End of the period	₱34,811,316,966	₱29,189,674,985	₱25,380,629,552



On January 5, 2021, the Company entered into a Deed of Absolute Sale with Technopark Land, Inc (TLI), a subsidiary of Ayala Corporation (AC), to acquire 98,179 square meters (sqm) of land for ₱987.98 million, exclusive of VAT. Currently, the acquired parcels of land are being leased out to Integrated Micro-Electronics, Inc. (IMI) for a period of 8 years starting from January 1, 2020 to December 31, 2027. The subject properties are the four (4) parcels of land located at Barrio Biñan, Laguna.

On January 15, 2021, the Company entered into a Deed of Sale with ALI for the acquisition of The 30th for ₱4.56 billion (VAT exclusive). ALI has an existing land lease contract with MBS Development Corporation (MBS) which will expire on September 1, 2056 and such contract of lease was assigned to the Company as part of the sale of the building. Simultaneous to the acquisition, the Company and North Eastern Commercial Corp. (NECC), a wholly-owned subsidiary of ALI under the Ayala Malls brand, entered into a lease agreement for the retail podium of The 30th that is payable on monthly guaranteed lease for a period of 36 years. The retail podium is operated by NECC. NECC will pay a monthly guaranteed building lease to the Company for a period of 36 years, in line with the land lease term of the property. The Company derecognized the portion of the property under finance lease.

As of June 30, 2021, the investment properties are composed of three (3) stand-alone buildings, two (2) mixed-used properties, and four (4) land parcels. The stand-alone buildings are Solaris One and McKinley Exchange located in Makati City and Teleperformance Cebu located at Cebu I.T. Park, Cebu City. The mixed-used properties are Ayala North Exchange and The 30th Commercial Development. Ayala North Exchange is located along Ayala Avenue, Makati and composed of two office towers, a retail podium and serviced apartments; while The 30th Commercial Development features a 19-storey office building complemented by a four storey retail podium. The four land parcels in Laguna Technopark are being leased to IMI.

The Company presents its investment properties at fair value and changes on such are recognized in profit or loss. The fair value of the investment properties was determined by independent and professionally qualified appraiser on June 30, 2021.

The fair value of the Company's investment properties was determined using the Income Approach which is a method in which the appraiser derives an indication of value for income-producing property by converting anticipated future benefits into current property value. The fair value is sensitive to the unobservable inputs of lease income growth rate and discount rate.

Fair value of investment properties as of December 31, 2020 was updated from the June 17, 2020 appraisal report to reflect changes in the assumptions as of December 31, 2020.

The following table provides the fair value hierarchy of the Company's investment properties:

June 30, 2021

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	June 30, 2021	₱34,811,316,966	₱--	₱--	₱34,811,316,966



December 31, 2020

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	December 31, 2020	₱29,189,674,985	₱-	₱-	₱29,189,674,985

The components of the net fair value change in investment properties are as follows:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Increase in fair value of investment properties	₱317,258,900	₱500,993,548
Straight-line adjustment	(9,385,705)	(18,119,310)
Lease commissions	-	(7,049,542)
	₱307,873,195	₱475,824,696

Rental income and dues earned from investment properties and direct operating expenses incurred are as follows:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Rental income (Note 13)	₱1,076,037,132	₱707,662,830
Dues (Note 14)	199,681,658	128,199,744
Direct operating expenses (Note 16)	285,947,276	147,118,862

There are no items of investment properties that are pledged as security to liabilities as of June 30, 2021 and December 31, 2020.

There are no contractual purchase commitments for investment properties as of June 30, 2021 and December 31, 2020.

8. Property and Equipment

This account pertains to electronic data processing equipment. The rollforward analyses follow:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Cost		
Balance at beginning of period	₱1,888,872	₱1,888,872
Additions	227,206	-
Balance at the ending of the period	2,116,078	1,888,872
Accumulated Depreciation		
Balance at beginning of period	1,876,819	1,868,783
Depreciation (Note 16)	7,805	8,036
Balance at end of period	1,884,624	1,876,819
Net Book Value	₱231,454	₱12,053

There are no items of property and equipment that are pledged as security to liabilities as of June 30, 2021 and December 31, 2020.



There are no contractual purchase commitments for property and equipment as of June 30, 2021 and December 31, 2020.

9. Accounts and Other Payables

This account consists of:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Due to related parties (Note 19)	₱298,963,900	₱405,111,433
Accrued expenses		
Repairs and maintenance	21,344,597	14,331,615
Light and water	24,027,979	10,770,650
Rent	9,397,728	12,654,660
Others	39,748,685	18,838,974
Taxes payable	33,092,424	24,485,058
Accounts payable	21,575,903	26,949,888
Retention payable	1,263,391	785,200
	₱449,414,607	₱513,927,478

Accrued expenses others consist mainly of accruals for professional fees, postal and communication, supplies, transportation and travel, security, insurance and representation. These are noninterest-bearing.

Taxes payable consist of amounts payable to taxing authority pertaining to expanded withholding taxes.

Accounts payable arises from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on 15- to 60-day terms.

Retention payable pertains to the portion of contractor's progress billings withheld by the Company which will be released after the satisfactory completion of the contractor's work. The retention payable serves as a security from the contractor should there be defects in the project. These are noninterest-bearing and are normally settled upon completion of the relevant contract.

10. Short-term Loans and Interest Payable

The short-term loans payable amounting to ₱4,422.50 million as of June 30, 2021 pertains to unsecured and interest bearing 30-day term loans entered by the Company with different local banks with average interest rate of 2%.

Interest expense recognized in the statement of comprehensive income for the six months ended June 30, 2021 amounted to ₱39.84 million. The remaining interest payable amounted to ₱1.78 million as of June 30, 2021.



11. Deposits and Other Liabilities

This account consists of:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Advance rentals	₱468,372,643	₱406,952,127
Security deposits (Note 20)	482,579,247	383,208,715
Deferred credits	58,885,727	61,932,409
	1,009,837,617	852,093,251
Less current portion	291,143,698	129,399,846
	₱718,693,919	₱722,693,405

The current portion of these accounts follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Security deposits (Note 20)	₱121,901,337	₱83,737,432
Advance rentals	167,527,203	45,536,484
Deferred credits	1,715,158	125,930
	₱291,143,698	₱129,399,846

Advance rentals

Advance rentals from lessees represent cash received in advance representing three (3) months' rent which will be applied to the last three (3) months' rentals on the related lease contracts.

Security deposits

Security deposits represent deposits from lessees to secure the faithful compliance by lessees of their obligation under the lease contract. These are equivalent to three (3) months' rent and will be refunded to the lessee at the end of the lease term.

The rollforward of security deposits follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Gross Amount		
Balance at beginning of period	₱460,762,969	₱394,737,664
Additions	92,542,783	66,025,305
Balance at end of period	553,305,752	460,762,969
Unamortized Discount		
Balance at beginning of period	77,554,254	80,290,248
Additions	5,923,002	11,192,260
Accretion (Note 16)	(12,750,751)	(13,928,254)
Balance at end of period	70,726,505	77,554,254
Net Amount	₱482,579,247	₱383,208,715

Deferred credits

Deferred credits pertain to the difference between the nominal value of the deposits and its fair value. This is initially measured at fair value and subsequently amortized using the straight-line method.



The rollforward of deferred credits follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Balance at beginning of period	₱61,932,409	₱66,465,881
Additions	5,923,002	11,192,260
Amortization (Note 13)	(8,969,684)	(15,725,732)
Balance at end of period	58,885,727	61,932,409
Less current portion	1,715,158	125,930
	₱57,170,569	₱61,806,479

12. Equity

Capital stock

The details of the Company's capital stock as of June 30, 2021 and December 31, 2020 follow:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Authorized	1,174,000,000	1,174,000,000
Par value per share	₱10.00	₱10.00
Issued and outstanding shares	1,025,656,435	1,025,656,435

The changes in the number of shares follow:

	June 30, 2021 (Unaudited) Common	December 31, 2020 (Audited) Common
Authorized number of shares		
Balance at beginning and end of period at ₱1 par value	1,174,000,000	1,174,000,000
Issued shares		
Balance at beginning and end of period	1,092,986,405	1,045,122,405
Issuance of new shares	-	47,864,000
Balance at end of period	1,092,986,405	1,092,986,405
Treasury shares		
Balance at beginning and end of period	(67,329,970)	(67,329,970)
Outstanding	1,025,656,435	1,025,656,435

Retained Earnings

On February 24, 2021, the Company's BOD approved the declaration of cash dividends for the fourth quarter of 2020 of ₱0.39 per outstanding common share to stockholders on record date as of March 15, 2021 amounting to ₱400.00 million. These are paid on March 25, 2021.

On May 26, 2021, the Company's BOD approved the declaration of cash dividends for the first quarter of 2021, of ₱0.42 per outstanding common share to stockholders on record date as of June 11, 2021 amounting to ₱430.78 million. These are paid on June 25, 2021.

Capital Management

The primary objectives of the Company's capital management policies are to afford the financial flexibility to support its business initiatives while providing a sufficient cushion to absorb cyclical industry risks and to maximize stakeholder value. The Company manages its capital structure and make adjustments to it, in light of changes in economic conditions. The Company considers its total equity as capital.



The Company's sources of capital as of June 30, 2021 and December 31, 2020 follow:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Paid-up capital	₱10,929,864,050	₱10,929,864,050
Additional paid-in capital	785,681,404	785,681,404
Treasury shares	(673,299,700)	(673,299,700)
Retained earnings	22,249,627,446	21,765,499,530
	₱33,291,873,200	₱32,807,745,284

No changes were made in the Company's capital management objectives, policies or processes in 2021 and 2020.

13. Rental Income

This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Office and retail (Note 17)	₱1,018,870,913	₱672,290,422
Parking fees (Note 17)	48,196,535	35,372,408
Amortization of deferred credits (Note 11)	8,969,684	—
	₱1,076,037,132	₱707,662,830

Rental income from office, retail and parking includes income from straight-line method of recognizing rental income amounting to ₱9.39 million and ₱18.12 million for the six months ended June 30, 2021 and 2020, respectively.

In line with the rental relief framework implemented by the government to support businesses and the broader economy due to the impact of COVID-19, the Company waived its right to collect rent and other charges as part of various lease concessions it granted to lessees such as lease payment holidays or lease payment reductions. Rent discounts and concessions given vary for merchants that are (1) forced to close and those that are still (2) operational. Rental fees and common charges of merchants who were forced to close during the quarantine period were waived a certain percentage in their common area usage expenses.

14. Dues and Interest Income from Finance Lease Receivables

Dues pertains to net recoveries from tenants for the usage of common areas and utilities. This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Dues	₱364,623,160	₱288,442,569
Direct operating expenses		
Utilities	(107,058,388)	(101,534,783)
Outside services	(26,275,375)	(27,646,817)
Repair maintenance	(29,602,276)	(26,836,225)
Miscellaneous	(2,005,463)	(4,225,000)
	₱199,681,658	₱128,199,744



Set out below is the disaggregation of the Company's revenue from non-lease component:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Dues:		
Common area charges	₱164,192,951	₱92,788,090
Utilities dues	35,488,707	35,411,654
	₱199,681,658	₱128,199,744

Interest income from finance lease receivables

This account pertains to accretion of finance lease receivable amounting to ₱88.98 million and ₱74.99 million for the six months ended June 30, 2021 and 2020, respectively.

15. Interest and Other Income

Interest Income

This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Interest income from intercompany loans (Note 19)	₱3,799,127	₱34,918,720
Interest income from cash in banks (Note 4)	127,264	213,976
	₱3,926,391	₱35,132,696

Gain under Finance Lease

Gain under finance lease pertains to the difference between the fair value of finance lease receivable and the carrying amount of the portion of investment property under finance lease (see Notes 7 and 17).

Other Income

This account pertains to income earned from interest and penalties arising from late payments amounting to ₱3.61 million for six months ended June 30, 2020 (nil in June 30, 2021).

16. Cost and Expenses and Other Charges

Direct Operating Expenses

This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Management fees (Note 19)	₱116,559,146	₱18,635,878
Taxes and licenses	86,291,811	67,765,336
Land lease (Notes 17 and 19)	75,010,872	53,899,375
Insurance	4,708,144	4,250,634
Others	3,377,303	2,567,639
	₱285,947,276	₱147,118,862



General and Administrative Expenses

This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Taxes and licenses	₱15,701,944	₱5,467
System costs (Note 19)	1,443,065	155,250
Professional fees	1,129,541	863,071
Depreciation (Note 8)	7,805	4,018
Provision for doubtful accounts (Note 5)	—	7,258,842
Others	4,761,577	44,801
	₱23,043,932	₱8,331,449

Interest Expense

This account consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Interest expense from loans (Note 10)	₱39,847,841	₱—
Interest expense on lease liabilities (Note 17)	28,281,206	23,127,030
Accretion of security deposit (Note 11)	12,750,751	—
	₱80,879,798	₱23,127,030

17. Agreements and Lease Commitments

The Company as lessor - operating lease

The Company entered into lease agreements with third parties covering its investment properties for a period of two (2) to more than five (5) years. These noncancellable leases are subject to 5% to 10% annual escalation rate.

The future minimum rentals receivable under noncancellable operating leases are as follows:

	June 30, 2021	December 31, 2020
Within one year	₱1,981,451,565	₱1,580,530,864
After one year but not more than five years	5,492,618,369	5,332,899,560
More than five years	45,330,741	492,474,823
	₱7,519,400,675	₱7,405,905,247

Total rental income for the six months ended June 30, 2021 and 2020 amounted to ₱1,076.04 million and ₱707.66 million, respectively. Rental income arising from variable rent based on gross sales for the six months ended June 30, 2021 and 2020 amounted to ₱23.15 million and ₱31.27 million, respectively.

For the six months ended June 30, 2021, the Company granted rent concessions to retail tenants which were affected by the community quarantine imposed by the government amounting to ₱25.40 million. These rent concessions did not qualify as a lease modification, thus, were accounted for as a variable lease payment and reported as reduction of lease income in 2021.

The Company as lessor - finance lease

In 2021, the Company entered into a building lease agreement with NECC for a term of 36 years. The agreement pertains to the lease of a retail podium of The30th. The lease agreement states that the Company shall deliver to NECC the physical possession of the leased premise on January 1, 2021. The lease generally provides for rates based on higher between the a) fixed rent plus 6% of gross rental income or (b) minimum guaranteed rent and shall be subject to 3% escalation every three (3) years.



In 2019, the Company entered into a building lease agreement with Makati North Hotel Ventures, Inc. (MNHVI) for a term of 39 years (see Note 19). The agreement pertains to the lease of a portion, composed of 18 floors stacked on top of the headquarters tower, of ANE building. The lease agreement states that the Company shall deliver to MNHVI the physical possession of the leased premise on July 8, 2019. The lease generally provides for (a) quarterly rent based on a fixed rate for the first five (5) years and (b) fixed rate plus a certain percentage of total revenue of the Lessee for the remaining period of the lease term.

The maturity analysis of finance lease receivables, including the undiscounted lease payments to be received are as follows:

	June 30, 2021	December 31, 2020
Within one year	₱261,371,957	₱189,728,000
More than one year and not more than five years	766,838,676	650,496,000
More than 5 years	6,365,111,783	5,390,029,750
Total undiscounted lease payments and unguaranteed residual value	7,393,322,416	6,230,253,750
Less: unearned finance income	4,695,975,733	3,987,672,695
Net investment in the lease	₱2,697,346,683	₱2,242,581,055

The net investment in the lease with MNHVI and NECC consists of the present value of minimum lease payments amounting to ₱2,221.09 million and ₱418.28 million, respectively. The Company derecognized the portion of investment property under finance lease amounting to ₱389.97 million (see Note 7) which resulted to a gain under finance lease amounting to ₱28.31 million. The Company also recognized interest income earned amounting to ₱88.98 million and ₱74.99 million for the six months ended June 30, 2021 and 2020, respectively (see Note 14).

The Company remains to be the legal owner of the portion of ANE building and retail podium of The 30th under finance lease.

The Company as lessee

On January 31, 2020, the Company entered into a contract of lease with ALI for the lease of land and building commencing on February 1, 2020 for a period of 34 years. The agreement pertains to land and building lease of MECC. The rent is payable at a fixed monthly rate, subject to 5% annual escalation rate.

On October 5, 2018, ALI assigned to the Company the land lease agreement with HLC with a lease term of 40 years. The agreement pertains to land lease of ANE properties. The lease generally provides for a monthly rent based on a certain percentage of gross receipt income.

On January 1, 2016, the Company entered into a land lease agreement with ALI for a term of 50 years (see Note 19). The agreement pertains to land lease of Solaris building. The lease generally provides for a monthly rent based on a certain percentage of gross receipt income. On April 26, 2019, the lease agreement was amended reducing the lease term from 50 years to 33 years.



The rollforward analysis of lease liability follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Balance at beginning the period	₱871,843,943	₱-
Addition	-	853,150,009
Interest expense (Note 16)	28,281,206	51,490,870
Payment	(17,081,739)	(32,796,936)
Balance at the end of the period	883,043,410	871,843,943
Current lease liability	36,015,135	34,300,129
Noncurrent lease liabilities	₱847,028,275	₱837,543,814

The following are the amounts recognized in the statements of comprehensive income from the above lease agreements as lessee:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Rent expense - variable lease payments (Note 16)	₱75,010,872	₱53,899,375
Accretion of interest expense (Note 16)	28,281,206	23,127,030
Total amounts recognized in the statements of income	₱103,292,078	₱77,026,405

Lease liability recognized during the period pertains to lease agreement for which lease payments are fixed. Prior to December 31, 2019, all lease contracts where the Company is a lessee have lease payment terms that is purely variable linked to future performance or use of the underlying asset, therefore no right-of-use asset is recognized. Due to change to fair value accounting, the right-of-use asset is included as part of investment properties.

On October 1, 2020, APRC assigned to the Company its 31-year land lease agreement with ALI. The agreement pertains to lease of the parcels of land wherein the Teleperformance Cebu building is located. The lease generally provides for a monthly rent based on a certain percentage of gross receipt income.

On January 1, 2021, ALI assigned to the Company the land lease agreement with MBS with a lease term of 35 years. The agreement pertains to land lease of The 30th. The lease generally provides for a monthly rent based on a certain percentage of gross rental income.

The Company's contracts of lease for the land spaces that it occupies include dismantling provision clause at the option of the lessor. The Company did not recognize any asset retirement obligation as of the reporting date as the current assessment of the amount of outflow in dismantling the asset in the future is immaterial.

18. Income Tax

Provision for (benefit from) income tax consists of:

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Current	₱-	₱123,571,359
Deferred	-	105,915,266
Final	25,453	43,212
	₱25,453	₱229,529,837



The current provision for income tax represents RCIT for the six months ended June 30, 2021 and 2020. The Company recognized provision for income tax from January 1 to August 13, 2020 amounting to ₱173.74 million prior to its listing date on August 13, 2020. The Company started to avail of its tax incentive as a REIT after its listing.

On June 30, 2021 and 2020 the Company availed of the optional standard deduction (OSD).

As of June 30, 2021 and December 31, 2020, deferred tax assets and liabilities are recognized based on the effective income tax rate of 0% under REIT law.

In 2021, the "Net fair value change in investment properties" recognized in the interim statements of comprehensive income resulted in both future taxable and future deductible temporary differences by the same amount. The deductible temporary difference is deductible in the future once the amount is distributed as dividend in accordance with the REIT law and this is expected to reverse on the same period as the future taxable income is recognized.

The Company did not recognize deferred tax assets on temporary difference of NOLCO amounting to nil and ₱43.49 million as of June 30, 2021 and December 31, 2020, respectively.

The Company has incurred NOLCO in the taxable year 2021 and 2020 which can be claimed as deduction from the regular income tax for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2021	₱205,252,184	₱-	₱205,252,184	2026
2020	481,283,017	-	481,283,017	2025
	₱686,535,201	₱-	₱686,535,201	

The reconciliation between the statutory income tax rate to the effective income tax rate shown in the statements of comprehensive income follows:

	2021 (Unaudited)		2020 (Unaudited)	
	April to June	January to June	April to June	January to June
Statutory income tax rate	25.0%	25.0%	30.0%	30.0%
Add (deduct) tax effect of:				
Nondeductible expenses	0.32	0.32	3.5%	3.5%
Nontaxable income	(0.36)	(0.36)	(0.56)	(0.56)
Deductible expenses due to option to use OSD	(9.47)	(9.47)	(13.68)	(13.68)
Movement in deferred taxes	3.26	3.26	-	-
Unrecognized deferred taxes	1.08	1.08	-	-
Deductible dividends	(19.83)	(19.83)	-	-
Effective income tax rate	0%	0%	19.31%	19.31%

19. Related Party Transactions

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



Terms and Conditions of Transactions with Related Parties

The Company, in its regular conduct of business, has entered into transactions with related parties consisting of advances and development, management, marketing and leasing and administrative service agreements. These are based on terms agreed by the parties.

Outstanding balances at yearend are unsecured, noninterest-bearing and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables.

Material Related Party Transactions ("RPT")

This refers to any related party transaction, either individually, or in aggregate over a 12-month period with the same related party, amounting to 10% or higher of the Company's total assets. All material related party transactions are subject to the review by the RPT Committee.

In the event wherein there are changes in the RPT classification from non-material to material, the material RPT shall be subject to the provisions of the related party transactions policy.

The following tables provide the total balances and amount of transactions that have been entered into with related parties for the relevant financial year:

Category	June 30, 2021 (Unaudited)			
	Volume	Outstanding Balance	Terms	Conditions
Finance lease receivable				
Makati North Hotel Ventures, Inc. (k)	₱2,276,996,199	₱2,276,996,199	Noninterest-bearing;	Unsecured;
North Eastern Commercial Corp. (o)	420,350,484	420,350,484	Payable quarterly	No impairment
Due from related parties				
Parent Company			Interest-bearing and noninterest-bearing;	Unsecured;
Ayala Land, Inc. (a and b)	529,984,926	175,002,906	Due and demandable	No impairment
Affiliates*				
ALO Prime Realty Corporations	53,669,871	53,669,871	Noninterest-bearing; On demand	Unsecured; No impairment
Bay City Commercial Ventures Corp. (b)	7,983,176	14,556,284	Interest-bearing; On demand	Unsecured; No impairment
North Eastern Commercial Corp (o)	13,258,076	13,258,076	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	116,453,869	8,768,252	Interest-bearing; On demand	Unsecured; No impairment
Makati North Hotel Ventures, Inc. (k)	8,605,250	8,605,250	Noninterest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp. (j)	2,091,886	8,432,222	Noninterest-bearing; On demand	Unsecured; No impairment
Integrated Microelectronics Inc	6,185,277	6,185,277	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp (b)	39,220,982	5,687,206	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp. (b)	53,040,056	4,363,618	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation (b and c)	20,625,429	3,768,013	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (g)	1,873,562	2,788,225	Noninterest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc. (b)	2,550,667	2,550,667	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Malls Synergies, Inc. (b)	1,945,589	2,464,491	Interest-bearing; On demand	Unsecured; No impairment
Arca South Commercial Ventures Corp. (b)	116,678,221	2,250,258	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	–	2,032,601	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	–	1,816,394	Interest-bearing; On demand	Unsecured; No impairment
ALI Triangle Hotel Ventures, Inc. (b)	172,533	1,795,182	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corporation (b)	67,002,587	1,490,983	Interest-bearing; On demand	Unsecured; No impairment
ALI Makati Hotel Property, Inc. (b)	76,648,262	1,004,074	Interest-bearing; On demand	Unsecured; No impairment

(Forward)



June 30, 2021 (Unaudited)				
Category	Volume	Outstanding Balance	Terms	Conditions
Ayala Property Management Corporation (b)	₱197,201	₱758,376	Interest-bearing; On demand	Unsecured; No impairment
Cavite Commercial Towncenter Inc. (b)	24,950,003	657,962	Interest-bearing; On demand	Unsecured; No impairment
Cagayan De Oro Gateway Corporation (b)	25,841,449	537,083	Interest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp. (b)	21,452,637	448,078	Interest-bearing; On demand	Unsecured; No impairment
Laguna Technopark Inc. (b)	52,243,886	397,970	Interest-bearing; On demand	Unsecured; No impairment
Econorth Resorts Ventures, Inc. (b)	–	119,225	Interest-bearing; On demand	Unsecured; No impairment
Circuit Makati Hotel Ventures, Inc. (b)	4,291,375	61,579	Interest-bearing; On demand	Unsecured; No impairment
ALI Commercial Center, Inc. (b)	14,970,239	51,916	Interest-bearing; On demand	Unsecured; No impairment
BellaVita Land Corp. (b)	–	39,830	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc. (b)	–	38,382	Interest-bearing; On demand	Unsecured; No impairment
Central Block Developers, Inc. (b)	390,085,003	3,700	Interest-bearing; On demand	Unsecured; No impairment
North Triangle Depot Commercial Corp (b). (b)	985	985	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	–	150	Interest-bearing; On demand	Unsecured; No impairment
		₱323,605,086		

*Entities under common control

June 30, 2021 (Unaudited)				
Category	Volume	Outstanding Balance	Terms	Conditions
Due to related parties				
Parent Company				
Ayala Land, Inc. (a)	₱17,081,739	₱17,081,739	Noninterest-bearing; Due and demandable	Unsecured
Affiliates*				
AREIT Fund Managers, Inc. (m)	114,683,617	152,056,741	Noninterest-bearing; On demand	Unsecured
AREIT Property Managers, Inc. (n)	76,609,020	76,609,020	Noninterest-bearing; On demand	Unsecured
HLC Development Corporation €	8,147,778	21,920,988	Noninterest-bearing; On demand	Unsecured
Direct Power Services, Inc. (d)	16,147,290	12,830,226	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (f)	7,416,455	7,416,455	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (h)	–	4,157,942	Noninterest-bearing; On demand	Unsecured
North Eastern Commercial Corp. (o)	3,783,479	3,783,479	Noninterest-bearing; On demand	Unsecured
Makati Development Cor€(e)	–	2,019,459	Noninterest-bearing; On demand	Unsecured
Others**	1,087,851	1,087,851	Interest-bearing and noninterest-bearing; On demand	Unsecured
		₱298,963,900		

*Entities under common control

**Entities below ₱2.00 million

December 31, 2020 (Audited)				
Category	Volume	Outstanding Balance	Terms	Conditions
Finance lease receivable				
Makati North Hotel Ventures, Inc. (k)	₱2,267,931,937	₱2,242,581,055	Noninterest-bearing; Payable quarterly	Unsecured; No impairment
Due from related parties				
Parent Company				
Ayala Land, Inc. (a and b)	213,486,694	704,987,832	Interest-bearing and noninterest-bearing; Due and demandable	Unsecured; No impairment
Affiliates*				
Central Block Developers, Inc. (b)	274,478,804	390,088,703	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	125,222,121	205,762,016	Interest-bearing; On demand	Unsecured; No impairment

(Forward)



December 31, 2020 (Audited)				
Category	Volume	Outstanding Balance	Terms	Conditions
Ten Knots Philippines, Inc. (b)	₱121,237,212	₱121,237,212	Interest-bearing; On demand	Unsecured; No impairment
Arca South Commercial Ventures Corp. (b)	118,928,479	118,928,479	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corporation (b)	68,493,570	117,088,223	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp. (b)	57,403,674	88,744,234	Interest-bearing; On demand	Unsecured; No impairment
ALI Makati Hotel Property, Inc. (b)	77,652,336	77,652,336	Interest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp. (b)	21,900,715	59,689,408	Interest-bearing; On demand	Unsecured; No impairment
Laguna Technopark Inc. (b)	52,641,856	52,641,856	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp (b)	44,908,188	50,596,462	Interest-bearing; On demand	Unsecured; No impairment
ALI Triangle Hotel Ventures, Inc. (b)	1,622,649	42,812,127	Interest-bearing; On demand	Unsecured; No impairment
Cagayan De Oro Gateway Corporation (b)	26,378,532	26,479,453	Interest-bearing; On demand	Unsecured; No impairment
Cavite Commercial Towncenter Inc. (b)	25,607,965	25,607,965	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation (b and c)	24,393,442	24,393,442	Interest-bearing; On demand	Unsecured; No impairment
Bay City Commercial Ventures Corp. (b)	22,539,460	22,539,460	Interest-bearing; On demand	Unsecured; No impairment
Leisure and Allied Industries Phils. Inc. (b)	20,050,000	20,050,000	Interest-bearing; On demand	Unsecured; No impairment
Sicogon Island Tourism Estate Corp. (b)	18,027,500	18,027,500	Interest-bearing; On demand	Unsecured; No impairment
ALI Commercial Center, Inc. (b)	15,022,155	15,022,155	Interest-bearing; On demand	Unsecured; No impairment
Nuevocentro, Inc. (b)	11,072,450	11,072,450	Interest-bearing; On demand	Unsecured; No impairment
Hillsford Property Corporation (b)	10,009,511	10,009,511	Interest-bearing; On demand	Unsecured; No impairment
Makati North Hotel Ventures, Inc. (k)	8,605,250	8,605,250	Noninterest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp. (j)	10,524,108	8,432,222	Noninterest-bearing; On demand	Unsecured; No impairment
Sicogon Town Hotel, Inc. (b)	8,014,056	8,014,056	Interest-bearing; On demand	Unsecured; No impairment
Circuit Makati Hotel Ventures, Inc. (b)	4,352,954	4,352,954	Interest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc. (b)	2,550,667	2,550,667	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Malls Synergies, Inc. (b)	518,902	2,507,137	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	2,030,502	2,030,502	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	1,816,394	1,816,394	Interest-bearing; On demand	Unsecured; No impairment
Ayala Property Management Corporation (b)	561,175	561,175	Interest-bearing; On demand	Unsecured; No impairment
Econorth Resorts Ventures, Inc. (b)	119,225	119,225	Interest-bearing; On demand	Unsecured; No impairment
BellaVita Land Corp. (b)	39,830	39,830	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc. (b)	38,382	38,382	Interest-bearing; On demand	Unsecured; No impairment
Alveo Land Corp. (g)	4,661,787	33,114	Noninterest-bearing; On demand	Unsecured; No impairment
Accendo Commercial Corp (b)	11,930	11,930	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	150	150	Interest-bearing; On demand	Unsecured; No impairment
		₱2,242,543,812		

*Entities under common control



Category	December 31, 2020 (Audited)			
	Volume	Outstanding Balance	Terms	Conditions
Due to related parties				
Parent Company				
Ayala Land Inc. (a)	₱86,040,072	₱306,091,203	Noninterest-bearing, due and demandable	Unsecured
Affiliates*				
AREIT Fund Managers, Inc. (m)	37,373,124	37,373,124	Noninterest-bearing; On demand	Unsecured
AREIT Property Managers, Inc. (n)	28,598,120	28,598,120	Noninterest-bearing; On demand	Unsecured
HLC Development Corporation (c)	20,987,186	13,773,210	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (f)	6,720,868	6,720,868	Noninterest-bearing; On demand	Unsecured
Direct Power Services, Inc. (d)	42,535,151	3,317,064	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (h)	4,157,942	4,157,942	Noninterest-bearing; On demand	Unsecured
Makati Development Corp. (e)	–	2,019,459	Noninterest-bearing; On demand	Unsecured
Manila Water Company, Inc. (l)	2,061,853	2,061,853	Noninterest-bearing; On demand	Unsecured
Others**	998,590	998,590	Interest-bearing and noninterest-bearing; On demand	Unsecured
		₱405,111,433		

*Entities under common control

**Entities below ₱2.00 million

The following describes the nature of the material transactions of the Company with related parties as of June 30, 2020 and December 30, 2020:

- (a) The Company's intercompany receivable from ALI pertains to collection of lease payments of tenant on behalf of the Company amounting to ₱29.63 million as of December 31, 2020 (nil in June 30, 2021) and payment of operating expenses for and on behalf of ALI amounting to ₱0.03 million and ₱0.02 million as of June 30, 2021 and December 31, 2020, respectively.

ALI handles the lease management and marketing functions including key management personnel services of the Company and is entitled to receive a management fee. The Company recognized management fee amounting to ₱10.00 million for the six months ended June 30, 2020, respectively (nil in 2021, see Note 16).

The Company entered into contracts of lease with ALI to occupy parcels of land where the Solaris and Teleperformance Cebu buildings are located. The Company recognized "Land lease" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱19.83 million and ₱18.19 million for the six months ended June 30, 2021 and 2020, respectively (see Note 16).

On January 31, 2020, the Company entered into a contract of lease with ALI wherein ALI assigned, transferred, conveyed into the Company all of its rights and interests under existing tenant contracts which ALI had entered into with retail merchants and office tenants in connection with the development of MECC property. In addition, the contract of lease with ALI also contains the assumption of obligations wherein the Company thereby assumed all obligations of the ALI under the existing tenant contracts in MECC property.

On February 1, 2020, ALI transferred the advance rent, security deposits and initial direct cost incurred for existing tenants of MECC property amounting to ₱75.09 million. Furthermore, payable amounting to ₱9.14 million as of December 31, 2020 (nil in June 30, 2021), pertain to expenses paid by ALI on behalf of the Company for MECC operations.

- (b) The Company provides interest-bearing loan to related parties which are subject to monthly repricing and maturing in one month with interest ranging from 2.00% to 2.30% and 2.63% to 5.50% per annum in 2021 and 2020, respectively.



The Company recognized interest income amounting to ₱3.80 million and ₱34.92 million for the six months ended June 30, 2021 and 2020, respectively.

Documentary stamp tax is paid by the borrowers at the time of the loan.

- (c) HLC, a subsidiary of Amorsedia Development, Corporation, leases a land to the Company. The Company recognized "Land lease" under "Direct operating expenses" in the statements of comprehensive income amounting to ₱36.95 million and ₱35.71 million for the six months ended June 30, 2021 and 2020, respectively (see Note 16).
- (d) Direct Power Services, Inc., a subsidiary of ALI, provides energy distribution service to the Company. Energy distribution expense incurred amounted to ₱83.60 million and ₱20.55 million for the six months ended June 30, 2021 and 2020, respectively, of which the remaining payable amounted to ₱12.83 million and ₱3.32 million as of June 30, 2021 and December 31, 2020, respectively.
- (e) On December 19, 2006, the Company and Makati Development Corp. (the 'Contractor') signed a construction contract agreement for a specific project. The Company has an outstanding retention payable to the contractor amounting to ₱2.02 million as of June 30, 2021 and December 31, 2020.
- (f) Ayala Property Management Corporation, a subsidiary of ALI, handles the facilities management of the Company prior to its listing in exchange for a fee equivalent to ₱12.00 per square meter of the total gross leasable area of units accepted by tenants subject to an annual escalation of 5% of the immediate succeeding year's rate. Provided, that if during the term, the occupancy rate of the building shall be 85% or above. If below 85%, the actual management fee for any given year shall be subject to approval of the BOD as part of the annual operating maintenance budget process. In the event no such approval is obtained, the management fee prevailing for the immediately preceding year shall apply. The Company recognized management fees amounting to ₱8.85 million and ₱7.95 million for the six months ended June 30, 2021 and 2020, respectively (see Note 16).
- (g) Alveo Land Corp., a subsidiary of ALI, is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to amounting to ₱2.33 million and ₱4.66 million on June 30, 2021 and December 30, 2020, respectively, of which the remaining receivable amounted ₱2.79 million and ₱0.03 million as of June 30, 2021 and December 31, 2020, respectively.
- (h) The Company's intercompany payable to ALOI pertains to outstanding balance of accounting shared services billed on behalf of the Company amounting to ₱4.16 million as of December 31, 2020 (nil in June 30, 2021).
- (i) Bank of the Philippine Islands, an associate of AC, is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to ₱63.37 million and ₱60.35 million for the six months ended June 30, 2021 and 2020, respectively.
- (j) First Gateway Real Estate Corporation (FGREC), a subsidiary of ALOI, is a lessee of the Company. The Company recognized "Rental Income" in the statements of comprehensive income amounting to ₱5.26 million and ₱5.00 million for the six months ended June 30, 2021 and 2020, respectively.



- (k) This pertains to the receivable arising from lease agreement with MNHVI (see Note 17). The Company recognized finance lease receivable amounting to ₱2,277.00 million and ₱2,242.58 million as of June 30, 2021 and December 31, 2020, respectively. This includes interest income accretion amounting to ₱75.07 million and ₱75.41 million for the six months ended June 30, 2021 and 2020 (see Note 15).

The Company also recognized receivable amounting to ₱8.61 million pertaining to payment for land lease on behalf of MNHVI.

- (l) The Company's intercompany payable to Manila Water Company, Inc. pertains to outstanding balance of water consumption incurred by the Company amounting to ₱2.06 million December 31, 2020 (nil in June 30, 2021).

The Company recognized utility services in "Utilities" under "Dues" in the statements of comprehensive income amounting to ₱12.27 million and ₱11.87 million for the six months ended June 30, 2021 and 2020, respectively.

- (m) AREIT Fund Managers, Inc., a subsidiary of ALI, handles the fund manager functions of the Company starting August 13, 2020, in exchange for a fee computed based on 0.10% of deposited property value plus 3.5% of the earnings before interest, taxes, depreciation, and amortization (EBITDA) before deduction of fees payable to fund manager and property manager and after deducting interest expense on lease liabilities for the period, exclusive of VAT. The Company recognized management fees amounting to ₱59.16 million for the six months ended June 30, 2021 (nil in 2020).
- (n) AREIT Property Managers, Inc., a subsidiary of ALI, handles the property management functions of the Company starting August 13, 2020 in exchange for a fee equivalent to 3% of gross rental income and interest income from finance lease per year plus 2% of EBITDA before deduction of fees payable to fund manager and property manager and after deducting interest expense from lease liabilities for the period, provided that such fee shall not exceed 1% of the net asset value of the properties being managed. The Company recognized management fees amounting to ₱48.55 million for the six months ended June 30, 2021 (nil in 2020).
- (o) This pertains to the receivable arising from lease agreement with NECC (see Note 17). The Company recognized finance lease receivable amounting to ₱420.35 million as of June 30, 2021. This includes interest income accretion amounting to ₱13.91 million for the six months ended June 30, 2021 (nil in 2020, see Note 14).

The Company also recognized payable amounting to ₱3.78 million pertaining to the maintenance of sewer charges.

Cash in bank

The Company has entered into transactions with Bank of the Philippine Islands, an associate of AC, consisting of cash in bank amounting to ₱62.48 million and ₱22.21 million as of June 30, 2021 and December 31, 2020, respectively (see Note 4). Interest income earned from these deposits amounted to ₱0.13 million and ₱0.21 million for the six months ended June 30, 2021 and 2020 (see Note 15).

Compensation of Key Management Personnel

The key management functions of the Company are handled by ALI, AREIT Fund Managers, Inc. and AREIT Property Managers, Inc. which charge management fees for such services. See items (a), (m) and (n) above.



20. Financial Assets and Liabilities

Fair Value Information

Except for the Company's security deposits, which are disclosed below, carrying values of the other financial instruments of the Company approximate their fair values due to the short-term nature of the transactions.

	As of June 30, 2021		As of December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Security deposits	₱482,579,247	₱503,097,749	₱383,208,715	₱370,671,041

Fair Value Hierarchy

As of June 30, 2021 and December 31, 2020 the Company has no financial instrument measured at fair value. On June 30, 2021 and December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The fair value of the Company's security deposits is categorized under Level 3 in the fair value hierarchy.

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy as at June 30, 2021 and December 31, 2020 are shown below:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Security deposits	DCF Method	Discount rate	June 30, 2021: 0.48%-3.62% December 31, 2020: 3.14%-4.75%	Increase (decrease) in the discount would decrease (increase) the fair value

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, receivables, accounts and other payables and security deposits which arise directly from the conduct of its operations. The main risks arising from the use of financial instruments are liquidity risk and credit risk.

The Company reviews policies for managing each of these risks. The Company monitors market price risk from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

Exposure to credit, interest rate and liquidity risks arise in the normal course of the Company's business activities. The main objectives of the Company's financial risk management follow:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

Prior to Company's listing, ALI's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company. Effective August 13, 2020, AREIT Fund Manager's, Inc. handles fund manager functions of the Company (see Note 19).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's credit risks are primarily attributable to cash, receivables and other financial assets. To manage credit risks, the Company maintains defined credit policies and monitors on a continuous basis its exposure to credit risks.



Credit risk arising from rental income from leased properties is primarily managed through a tenant selection process. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Company security deposits and advance rentals which helps reduce the Company's credit risk exposure in case of defaults by the tenants. For existing tenants, the Company has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of financial capacity. Except for the trade receivables, the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due of all customers as they have similar loss patterns. The security deposits are considered in the calculation of impairment as recoveries. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As of June 30, 2021 and December 31, 2020, 59% and 70% of the Company's trade receivables are covered by security deposits, respectively. ECL related to trade receivables is minimal given its low credit risk and are generally covered by security deposits. The resulting ECL of ₱14.92 million as of June 30, 2021 and December 31, 2020 pertains to receivables aged over 360 days.

As of June 30, 2021 and December 31, 2020 the ECL relating to cash in banks is minimal as these are considered as low credit risk.

The Company has applied the simplified approach and has calculated ECLs based on lifetime ECL for finance lease receivable. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. As of June 30, 2021 and December 31, 2020 ECL related to the Company's finance lease receivable is minimal given that the receivable is fully covered by the value of the underlying asset (as title to the asset is not transferred to the lessee) in the event of default by the counterparty and the counterparty is of good credit standing.

The Company did not provide any allowance relating to receivable from related parties in prior year. There are also no ECL recognized in the current year for related party receivables since there are no history of default payments. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

The Company's maximum exposure to credit risk as of June 30, 2021 and December 31, 2020 is equal to the carrying values of its financial assets, except for "Trade receivables" under "Receivables" in the statements of financial position. Details as follows:

	June 30, 2021			Financial effect
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	of collateral or credit enhancement
Cash in banks	₱71,063,334	₱-	₱71,063,334	₱-
Receivables				
Finance lease receivable	2,697,346,683	2,703,941,486	-	2,697,346,683
Due from related parties	323,605,086	-	323,605,086	-
Trade receivables	136,075,851	503,097,749	-	136,075,851
Recoverable deposits	10,034,460	-	10,034,460	-
	₱3,238,125,414	₱3,207,039,235	₱404,702,880	₱2,833,422,534



December 31, 2020				
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Cash in banks	P58,955,047	P—	P58,955,047	P—
Receivables				
Finance lease receivable	2,242,581,055	2,677,510,000	—	2,242,581,055
Due from related parties	2,242,543,812	—	2,242,543,812	—
Trade receivables	97,316,019	370,671,041	—	97,316,019
Recoverable deposits	10,034,460	—	10,034,460	—
Total	P4,651,430,393	P3,048,181,041	P2,311,533,319	P2,339,897,074

The aging analysis of the Company's receivable presented per class is as follows:

June 30, 2021

	Neither Past Due nor Impaired	Past due but not impaired				Impaired	Total
		<30 days	31-60 days	61-90 days	>90 Days		
Finance lease receivable	P2,697,346,683	P—	P—	P—	P—	P—	P2,697,346,683
Due from related parties	265,657,812	37,406,433	9,785,245	2,575,649	8,179,947	—	323,605,086
Trade receivables – billed	23,655,587	1,971,315	8,145,579	33,596,051	53,783,560	14,923,759	136,075,851
Total	P2,986,660,082	P39,377,748	P17,930,824	P36,171,700	P61,963,507	P14,923,759	P3,157,027,620

December 31, 2020

	Neither Past Due nor Impaired	Past due but not impaired				Impaired	Total
		<30 days	31-60 days	61-90 days	>90 Days		
Finance lease receivable	P2,242,581,055	P—	P—	P—	P—	P—	P2,242,581,055
Due from related parties	378,311,003	334,700	83,995,847	196,017,361	1,583,884,901	—	2,242,543,812
Trade receivables – billed	31,811,441	206,716	12,501,473	6,059,795	31,812,835	14,923,759	97,316,019
Total	P2,652,703,499	P541,416	P96,497,320	P202,077,156	P1,615,697,736	P14,923,759	P4,582,440,886

Liquidity risk

The Company actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. The Company's policy is to maintain a level of cash deemed sufficient to fund its monthly cash requirements, at least for the next two months. Capital expenditures are funded through long-term debt, while working capital requirements are sufficiently funded through cash collections and capital infusion by stockholders.

Through scenario analysis and contingency planning, the Company also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost and ensures the availability of ample unused credit facilities as back-up liquidity.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments:

June 30, 2021				
	< 1 year	1 to 5 years	> 5 years	Total
Financial assets				
Cash in banks	P71,063,334	P—	P—	P71,063,334
Receivables				
Finance lease receivable	52,682,832	56,549,854	2,588,113,997	2,697,346,683
Due from related parties	323,605,086	—	—	323,605,086
Trade receivables*	121,152,093	—	—	121,152,093
Recoverable deposits	10,034,460	—	—	10,034,460
Total	P578,537,805	P56,549,854	P2,588,113,997	P3,223,201,656
Financial liabilities				
Accounts and other payables				
Due to related parties	P298,963,900	P—	P—	P298,963,900
Accrued expenses	94,518,989	—	—	94,518,989
Accounts payable	21,575,903	—	—	21,575,903
Retention payable	1,263,391	—	—	1,263,391
Short-term loans payable	4,422,500,000	—	—	4,422,500,000
Security deposits	121,901,337	338,172,254	22,505,656	482,579,247
Total	P4,960,723,520	P338,172,254	P22,505,656	P5,321,401,430

*net of allowance for expected credit losses



	December 31, 2020			Total
	< 1 year	1 to 5 years	> 5 years	
<i>Financial assets</i>				
Cash in banks	P58,955,047	P—	P—	P58,955,047
Receivables				
Finance lease receivable	52,682,832	56,549,854	2,133,348,369	2,242,581,055
Due from related parties	2,242,543,812	—	—	2,242,543,812
Trade receivables*	82,392,261	—	—	82,392,261
Recoverable deposits	10,034,460	—	—	10,034,460
	P2,446,608,412	P56,549,854	P2,133,348,369	P4,636,506,635
<i>Financial liabilities</i>				
Accounts and other payables				
Due to related parties	P405,111,433	P—	P—	P405,111,433
Accrued expenses	56,595,899	—	—	56,595,899
Accounts payable	26,949,888	—	—	26,949,888
Retention payable	785,200	—	—	785,200
Security deposits	83,737,432	296,025,357	3,445,926	383,208,715
	P573,179,852	P296,025,357	P3,445,926	P872,651,135

*net of allowance for credit losses

21. Earnings Per Share

The Company's earnings per share for the three months ended and six months ended June 30, 2021 and 2020 were computed as follows:

	2021 (Unaudited)		2020 (Unaudited)	
	April 1 to June 30	January 1 to June 30	April 1 to June 30	January 1 to June 30
Net income	P614,324,442	P1,314,909,628	P477,732,174	P1,013,252,057
Weighted average number of common shares	1,025,656,435	1,025,656,435	977,792,435	977,792,435
Basic/Diluted earnings per share	P0.60	P1.28	P0.49	P1.04

The Company also assessed that there were no potential dilutive common shares in 2021 and 2020.

22. Segment Reporting

The Company has determined that it is currently operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8, *Operating Segments*.

The Company's four parcels of land and five-building lease operations are its only income-generating activity, and such is the measure used by the Chief Operating Decision Maker in allocating resources.

There are revenue transactions with two external customers which accounted for 10% or more of the total revenue amounting to P189.22 million and P126.61 million for the six months ended June 30, 2021 and P187.37 million and P127.31 million for the six months ended June 30, 2020.

23. Seasonality of Operations

There were no operations subject to seasonality or cyclicity except for the retail operations of the Company. The Company generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter of every year from shopping centers due to holiday spending. This information is provided to allow for a better understanding of the results; however, management has concluded that this is not 'highly seasonal' in accordance with PAS 34.



24. Notes to Interim Condensed Statements of Cash Flows

The Company's noncash operating, investing and financing activities are as follows:

Operating

- Noncash movement in "Receivables" amounting to ₱418.28 million composed of ₱389.97 million carrying value of property under finance lease and ₱28.31 million gain arising from the difference between the carrying value of the property leased to NECC in 2021 and the present value of the finance lease receivable (see Note 17).

Investing

- Noncash movement in "Investment Properties" amounting to ₱389.97 million arising from lease agreement with NECC in 2021 (nil in 2020; see Note 17).
- Increase in fair value of investment properties net of lease commissions amounting to ₱317.26 million and ₱493.94 million for six months ended June 30, 2021 and 2020 (See Note 7).

Financing

- Interest expense pertaining to the accretion of interest related to lease liabilities amounting to ₱28.28 million and ₱23.13 million for six months ended June 30, 2021 and 2020 (see Notes 16 and 17).

25. Events After the End of the Reporting Period

On August 12, 2021, the Board of Directors of the Company at its regular meeting, approved the declaration of cash dividends of ₱0.44 per outstanding common share for the second quarter of 2021. The cash dividends amounting to ₱451.29 million will be payable on September 10, 2021 to stockholders on record as of August 26, 2021

As of September 1, 2021, the SEC's approval on the increase in authorized capital stock and the subscription of ALI, WCVF, and GDI of shares in exchange for the identified properties valued at ₱15,464,140,000 to be transferred to AREIT is still pending (see Note 1).



ISSUER

AREIT, Inc.
28/F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1226

REGISTRAR

Philippine Depository & Trust Corp.
29th Floor, BDO Equitable Tower,
Paseo de Roxas, Makati City

TRUSTEE

China Banking Corporation
(Trust and Asset Management Group)
8745 Paseo de Roxas corner Villar St.
Makati City

JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

BDO Capital & Investment Corporation
33rd Floor BDO Towers Valero
8741 Paseo de Roxas, Salcedo Village,
Makati City, 1226

BPI Capital Corporation
11/F Tower One, Ayala North Exchange
6796 Ayala Avenue corner Salcedo Street
Legaspi Village, Makati City 1229

LEGAL COUNSEL

To the Issuer
Co Ferrer Ang-Co & Gonzales
11th Floor, Atlanta Centre 31 Annapolis St.
Greenhills, San Juan City

To the Joint Lead Underwriters and Bookrunners
Romulo Mabanta Buenaventura
Sayoc & de los Angeles
21/F Philamlife Tower, 8767 Paseo de Roxas
Makati City 1226

INDEPENDENT AUDITOR

SyCip Gorres Velayo & Co.
SGV & Co.
6760 Ayala Avenue
1226 Makati City