COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	6	1	3	8	7	0

COMPANY NAME

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

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
alzona.elaine@ayalaland.com.ph	(02) 7908-3879	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
9	4/14	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Elaine Marie F. Alzona	alzona.elaine@ayalaland.com.ph		N/A

CONTACT PERSON's ADDRESS

28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.* ***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the interim financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company), which comprise the statements of financial position as at March 31, 2020 and December 31, 2019, and the interim statements of comprehensive income, interim statements of changes in equity and interim statements of cash flows for the three months ended March 31, 2020 and 2019, and notes to the interim financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying interim financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the three months ended March 31, 2020 and 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Interim Financial Statements

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

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

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

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

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

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

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

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

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. 8125272, January 7, 2020, Makati City

June 23, 2020

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

STATEMENTS OF FINANCIAL POSITION

	March 31, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash (Notes 4 and 20)	**₱187,203,934**	₱122,180,606
Receivables (Notes 5 and 20)	**2,250,169,159**	1,994,499,843
Other current assets (Note 6)	**593,644,865**	157,602,667
Total Current Assets	**3,031,017,958**	2,274,283,116
Noncurrent Assets		
Noncurrent portion of receivables (Notes 5 and 20)	**2,580,401,534**	2,556,978,813
Investment properties (Note 7)	**6,149,506,454**	6,192,374,393
Right-of-use asset (Note 17)	**849,080,382**	–
Property and equipment (Note 8)	**18,080**	20,089
Other noncurrent assets (Note 6)	**679,934,813**	968,057,313
Total Noncurrent Assets	**10,258,941,263**	9,717,430,608
	₱13,289,959,221	₱11,991,713,724
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 9 and 20)	**₱369,165,616**	₱274,477,842
Current portion of deposits and other liabilities (Notes 11 and 20)	**136,209,755**	166,793,502
Income tax payable	**141,204,525**	71,241,649
Current portion of lease liability (Note 17)	**30,063,858**	–
Construction bonds (Notes 10 and 20)	**12,799,902**	11,105,498
Total Current Liabilities	**689,443,656**	523,618,491
Noncurrent Liabilities		
Deposits and other liabilities - net of current portion (Notes 11 and 20)	**658,235,611**	600,134,138
Lease liability - net of current portion (Note 17)	**832,226,749**	–
Deferred tax liabilities - net (Note 18)	**57,504,468**	67,232,321
Total Noncurrent Liabilities	**1,547,966,828**	667,366,459
Total Liabilities	**2,237,410,484**	1,190,984,950
Equity (Note 12)		
Paid-up capital	**10,451,224,050**	10,451,224,050
Treasury shares	**(673,299,700)**	(673,299,700)
Retained earnings	**1,274,624,387**	1,022,804,424
Total Equity	**11,052,548,737**	10,800,728,774
	₱13,289,959,221	₱11,991,713,724

See accompanying Notes to Interim Financial Statements.

AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)
INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
	2020	2019
REVENUE		
Rental income (Notes 7, 13 and 17)	**₱355,991,861**	₱316,957,381
Dues (Notes 7 and 14)	**53,344,079**	59,548,720
Interest income from finance lease receivables (Notes 14, 17 and 19)	**37,497,499**	–
	446,833,439	376,506,101
COSTS AND EXPENSES		
Direct operating expenses (Notes 7 and 16)	**126,414,026**	103,324,281
General and administrative expenses (Note 16)	**7,751,291**	2,879,566
	134,165,317	106,203,847
OTHER INCOME (CHARGES) - Net		
Interest income (Notes 4, 15 and 19)	**14,618,537**	20,148,300
Interest expense (Notes 11, 15 and 17)	**(18,769,106)**	(3,706,266)
Other income (Note 15)	**3,565,005**	114,229
	(585,564)	16,556,263
INCOME BEFORE INCOME TAX	**312,082,558**	286,858,517
PROVISION FOR INCOME TAX (Note 18)	**60,262,595**	54,031,491
NET INCOME	**251,819,963**	232,827,026
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱251,819,963**	₱232,827,026
Basic/Diluted Earnings Per Share (Note 21)	**₱0.26**	₱0.24

See accompanying Notes to Interim Financial Statements.

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

INTERIM STATEMENTS OF CHANGES IN EQUITY

	Three Months Ended March 31	
	2020	2019
PAID-UP CAPITAL (Note 12)		
Common Shares - ₱10 par value in 2019 and 2018		
Balance at beginning and end of period	**₱10,451,224,050**	₱10,451,224,050
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	**1,022,804,424**	722,691,606
Net income/Total comprehensive income	**251,819,963**	232,827,026
Balance at end of period	**1,274,624,387**	955,518,632
	₱11,052,548,737	₱10,733,442,982

See accompanying Notes to Interim Financial Statements.

AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)
INTERIM STATEMENTS OF CASH FLOWS

	Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱312,082,558**	₱286,858,517
Adjustments for:		
Depreciation (Notes 7, 8 and 16)	**51,457,432**	47,733,090
Interest expense (Notes 11 and 16)	**18,769,106**	3,706,266
Interest income from finance lease receivables (Notes 17)	**(37,497,499)**	–
Interest income (Notes 4, 15 and 19)	**(14,618,537)**	(20,148,300)
Operating income before working capital changes	**330,193,060**	318,149,573
Changes in operating assets and liabilities:		
Increase in:		
Receivables	**(72,294,538)**	(241,089,460)
Other assets	**(147,919,698)**	(85,881,878)
Increase (decrease) in:		
Accounts and other payables	**94,687,774**	(162,728,888)
Deposits and other liabilities	**17,889,218**	14,269,030
Construction bonds	**1,694,404**	3,094,468
Cash generated from (used in) operations	**224,250,220**	(154,187,155)
Interest received	**14,618,537**	20,148,300
Income tax paid	**(27,572)**	(4,852)
Net cash flows provided by (used in) operating activities	**238,841,185**	(134,043,707)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from related parties (Notes 19 and 23)	**(169,300,000)**	184,000,000
Payments for additions to investment properties (Note 7)	**(4,517,857)**	(9,420,118)
Net cash flows provided by (used in) investing activities	**(173,817,857)**	174,579,882
NET INCREASE IN CASH	**65,023,328**	40,536,175
CASH AT BEGINNING OF PERIOD	**122,180,606**	26,129,103
CASH AT END OF PERIOD (Note 4)	**₱187,203,934**	₱66,665,278

See accompanying Notes to Interim Financial Statements.

1. Corporate Information

AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006 with a corporate life of 50 years. 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 90.15%-owned by Ayala Land Inc. (ALI) and 9.85%-owned by AyalaLand Offices, Inc. (ALOI), a wholly owned subsidiary of ALI. ALI's parent is Ayala Corporation (AC). AC is 47.33%-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 operational and administrative functions of the Company are handled by ALI (see Note 19).

On April 12, 2019, the SEC approved the change in the Company's name from One Dela Rosa Property Development, Inc. to AyalaLand REIT, Inc. Subsequently, on June 28, 2019, the SEC further approved the change in the Company's name from AyalaLand REIT, Inc. to AREIT, Inc.

The accompanying interim financial statements were approved and authorized for issue by the BOD on June 23, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation
The interim financial statements of the Company have been prepared on a historical cost basis and 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 financial statements of the Company have been prepared for inclusion in the prospectus in relation to a planned capital-raising activity.

Statement of Compliance
The interim financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2020.

Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 16, *Covid-19-related Rent Concessions*

  The amendments provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of Covid-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the Covid-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

  The amendments had no impact on the interim financial statements of the Company.

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments*, *Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no significant impact on the interim financial statements of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the content of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim financial statements of, nor is there expected to be any future impact to the Company.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim financial statements of the Company.

Standards and Interpretations Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's interim financial statements.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

During its March 2020 Board Meeting, the International Accounting Standards Board (IASB) completed its planned re-deliberations on the Exposure Draft Amendments to PFRS 17, Insurance Contracts. The IASB agreed to defer the effective date of PFRS 17 to annual reporting periods beginning January 1, 2023.

These amendments are not applicable to the Company.

Current and Noncurrent Classification

The Company presents assets and liabilities in the statements of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- Is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash

Cash includes cash on hand and in banks. Cash in banks are stated at face amounts and earn interest at the prevailing bank deposit rates.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at its transaction price.

In order for a debt financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that passes the ‘solely payments of principal and interest’ on the principal amount outstanding (SPPI criterion). This assessment is referred to as the SPPI test and is performed at an instrument level.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) (FVOCI with recycling)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) (FVOCI with no recycling)
- Financial assets at fair value through profit or loss (FVTPL)

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company’s financial assets at amortized cost include cash in banks and receivables.

The Company has no financial assets under FVOCI with or without recycling and FVTPL categories.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company’s financial liabilities include accounts and other payables, security deposits and construction bonds.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss. This category generally applies to accounts and other payables, deposits and other liabilities.

Derecognition of Financial Instruments

Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Company recognizes an allowance for expected credit loss (ECL) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For cash in banks, the Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, were there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from a reputable credit rating agency to determine whether the debt instrument has significantly increased credit risk and to estimate ECL.

For trade receivables and finance lease receivable, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix for trade receivables that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due since security deposits are equivalent to 90 days which are paid at the start of the lease term which will cover any defaults. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

<u>Fair Value Measurement</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

Level 1: - quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3: - valuation techniques for which the lowest level input that it is significant to the fair value measurement is unobservable

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

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

Deposits and other liabilities
Deposits and other liabilities which includes security deposits that are initially measured at fair value. After initial recognition, security deposits are subsequently measured at amortized cost using effective interest method.

The difference between the cash received and its fair value is deferred (included in the "Deferred credits" under "Deposits and other liabilities" account in the statement of financial position) and amortized using the straight-line method and recognized as "Amortization of deferred credits" under the "Rental income" account in profit or loss. Accretion of discount is recorded under "Interest expense" account in profit or loss.

Other assets
Other assets include input value-added tax (VAT), prepaid expenses and creditable withholding taxes.

Input VAT
Input VAT represents taxes due or paid on purchases of goods and services subjected to VAT that the Company can claim against future liability to the Bureau of Internal Revenue (BIR) for output VAT received from sale of goods and services which are incurred and billings which has been received as of date. The input VAT can also be recovered as tax credit against future income tax liability of the Company or refunded subject to the approval of the BIR. These are carried at cost less allowance for impairment loss, if any. Impairment loss is recognized when input VAT can no longer be recovered.

Deferred input VAT
Deferred input VAT represents input VAT on purchase of capital goods exceeding ₱1 million. The related input VAT is recognized over five years or the useful life of the capital goods, whichever is shorter.

Prepaid expenses
Prepaid expenses represent paid expenses that are not yet incurred. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

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

Investment properties
Investment properties comprise of construction-in-progress and completed properties that are held to earn rentals or capital appreciation or both and are not occupied by the Company. The initial cost of investment properties consists of any directly attributable costs of bringing the investment properties to their intended location and working condition, including borrowing costs.

These are carried at cost less accumulated depreciation and amortization and any impairment.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Depreciation of investment properties, which consist of buildings, are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful life of the buildings is 40 years.

Investment properties are derecognized when either it has been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in PFRS 15, *Revenue from Contracts with Customers*.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Equity

Paid-up capital and Additional paid-in capital (APIC)

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Amount of contribution in excess of par value is accounted for as APIC.

Stock issuance costs

Stock issuance costs are incremental costs directly attributable to the issuance or subscription of new shares which are shown in equity as a deduction, net of tax, from the proceeds. These costs are charged to APIC or “Retained earnings”, if no available APIC.

Treasury shares
Treasury shares are the Company's own equity instruments which were reacquired. These are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively. When the shares are retired, the capital stock is reduced by its par value and the excess of cost over par value upon retirement is charged to APIC when the shares were issued and to retained earnings for the remaining balance.

Retained earnings
Retained earnings represent the cumulative balance of net income of the Company, net of dividend distribution, if any.

Revenue Recognition
The Company is in the business of leasing its investment property portfolio. The Company's non-lease performance obligations include common area management and administration of utility services.

Revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as a principal or an agent.

Dues
Dues are recognized when the related services are rendered. Common area, air conditioning, electricity and water dues in excess of actual charges and consumption are recorded as revenue. Billing from common area and air conditioning dues is computed based on a fixed rate per square meter of the leasable area occupied by the tenant.

Other income
Other income is recognized when the related services have been rendered and the right to receive payment is established.

Disaggregated revenue information
The non-lease component of the Company's revenue arises from common area charges and utilities dues. The Company's performance obligations are to ensure that common areas are available for general use of its tenants and to provide for uninterrupted utility services such as water and electricity (see Note 14).

Allocation of transaction price to performance obligation
Each of the non-lease component is considered a single performance obligation, therefore it is not necessary to allocate the transaction price. These services are capable of being distinct from the other services and the transaction price for each service is separately identified in the contract.

Timing of revenue recognition
Revenue from common area charges and utilities dues are recognized over time since the tenants simultaneously receives and consumes the services provided by the Company. The Company determined that the output method best represents the recognition pattern for revenue from utilities dues since this is recognized based on the actual consumption of the tenants.

Deferral of Philippine Interpretations Committee Question and Answers (PIC Q&As) on accounting for Common Usage Service Area (CUSA)

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. This includes accounting for CUSA charges discussed in PIC Q&A No. 2018-12-H which concludes that real estate developers are generally acting as principal for CUSA. On October 25, 2018, the SEC decided to provide relief to the real estate industry by deferring the application of the provisions of the PIC Q&A 2018-12 for a period of three years. The deferral will only be applicable for real estate transactions. Effective January 1, 2021, the Company will adopt PIC Q&A No. 2018-12 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Company is currently presenting its common area, air conditioning, electricity and water dues on a net basis. Had the Company opted to not avail of the relief from the deferral and will comply in full requirement of PIC Q&A 2018-12, the Company will be presenting the revenue from common area charges at gross amounts (see Note 14).

Income outside the scope of PFRS 15

Rental income
Rental income under noncancellable and cancellable leases on investment properties is accounted under operating lease and is recognized on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contracts.

Interest income from finance lease receivables
Interest income is recognized as it accrues using the EIR method which pertains to the receivable arising from finance lease agreement.

Interest income
Interest income is recognized as it accrues using the EIR method.

Costs and Expenses
Costs and expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized:
- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Leases
Company as lessor - operating lease
Leases where the Company does not transfer substantially all the risks and benefits of the ownership of the assets are classified as operating leases. Rental income arising from operating lease is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Company as lessor - finance lease
A lease is classified as a finance lease if the Company transfers substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company shall recognize assets held under a finance lease in its statement of financial position and present

them as a receivable at an amount equal to the net investment in the lease. The Company shall use the interest rate implicit in the lease to measure the net investment in the lease. Finance income is recognized over the lease term, based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the lease.

Right-of-use asset
The Company recognizes right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use) except when the rental payment is purely variable linked to the future performance or use of an underlying asset. Right-of-use asset are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asset includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received, and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use asset are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

<u>Income Tax</u>
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred tax
Deferred income tax is provided using the liability method on all temporary differences, with certain exceptions between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and NOLCO can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Segment Reporting
The Company's lease operation is its only segment. Financial information on business segment is presented in Note 22 to the interim financial statements.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation.

Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events After the Reporting Date
Post year-end events up to the date when the interim financial statements are authorized for issue that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the interim financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the interim financial statements when material.

3. Summary of Significant Accounting Estimates, Judgments and Assumptions

The preparation of the accompanying interim financial statements in compliance with PFRSs requires management to make estimates, judgments and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. The estimates, judgments and assumptions used in the accompanying interim financial statements are based upon management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

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 interim financial statements.

Operating lease commitments - 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 - 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. 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 this property to the lessee and accounts for the agreement as finance lease.

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.

Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease agreement for Mckinley Exchange Corporate Center (MECC), therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱862.29 million as of March 31, 2020 (see Note 17; nil as of December 31, 2019).

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 forward-looking information. 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 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 ₱516.80 million and ₱479.28 million as of March 31, 2020 and December 31, 2019, respectively, net of allowance for credit losses amounting to ₱14.92 million and ₱7.66 million as of March 31, 2020 and December 31, 2019, respectively (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. 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 March 31, 2020 and December 31, 2019. The carrying values of the Company's nonfinancial assets follow:

	March 31, 2020	December 31, 2019
Investment properties (Note 7)	**₱6,149,506,454**	₱6,192,374,393
Right-of-use asset (Note 17)	**849,080,382**	–
Deferred input VAT (Note 6)	**581,178,508**	622,744,439
Input VAT (Note 6)	**462,186,376**	436,890,469
	₱8,041,951,720	₱7,252,009,301

Estimating useful life of investment properties
The Company estimates the useful life of its investment properties based on the period over which the asset is expected to be available for use. The estimated useful life of investment properties is reviewed at least annually and is updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of the asset. It is possible that future financial performance could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The carrying value of the Company's investment properties amounted to ₱6,149.51 million and ₱6,192.37 million as of March 31, 2020 and December 31, 2019, respectively (see Note 7).

4. Cash

This account consists of:

	March 31, 2020	December 31,2019
Cash on hand	**₱22,500**	₱22,500
Cash in banks	**187,181,434**	122,158,106
	₱187,203,934	₱122,180,606

Cash in banks earn interest at the respective bank deposit rates which ranges from 0.35% to 0.45% in 2020 and 2019. Interest income earned from cash in banks amounted to ₱0.14 million and ₱0.02 million in 2020 and 2019, respectively (see Note 15).

5. Receivables

This account consists of:

	March 31, 2020	December 31, 2019
Finance lease receivable (Notes 17 and 19)	**₱2,305,429,437**	₱2,267,931,937
Due from related parties (Note 19)	**2,007,673,959**	1,803,889,622
Trade receivables		
Accrued rent	**374,066,045**	369,059,057
Billed	**157,656,005**	117,888,650
Other receivables	**669,006**	374,307
	4,845,494,452	4,559,143,573
Less allowance for credit losses	**14,923,759**	7,664,917
	4,830,570,693	4,551,478,656
Less noncurrent portion	**2,580,401,534**	2,556,978,813
	₱2,250,169,159	₱1,994,499,843

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

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.

Noncurrent portion of receivables
This account consists of:

	March 31, 2020	December 31, 2019
Finance lease receivable (Notes 17 and 19)	**₱2,238,103,640**	₱2,215,249,105
Trade receivables	**342,297,894**	341,729,708
	₱2,580,401,534	₱2,556,978,813

The movements in allowance for credit losses follows:

	March 31, 2020	December 31, 2019
Balance at beginning of year	**₱7,664,917**	₱7,664,917
Additions (Note 16)	**7,258,842**	–
Balance at end of year	**₱14,923,759**	₱7,664,917

6. Other Assets

Other Current Assets
This account consists of:

	March 31, 2020	December 31, 2019
Input VAT	**₱363,430,071**	₱91,577,595
Prepaid expenses	**143,286,456**	–
Creditable withholding taxes	**86,928,338**	66,025,072
	₱593,644,865	₱157,602,667

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.

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

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

Other Noncurrent Assets
This account consists of:

	March 31, 2020	December 31, 2019
Deferred input VAT	**₱581,178,508**	₱622,744,439
Input VAT	**98,756,305**	345,312,874
	₱679,934,813	₱968,057,313

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.

7. Investment Properties

	March 31, 2020		
	Building and Improvements	Construction-in-Progress	Total
Cost			
Balance at beginning of period	₱7,047,820,671	₱1,979,866	₱7,049,800,537
Additions	4,517,857	–	4,517,857
Balance at end of period	7,052,338,528	1,979,866	7,054,318,394
Accumulated Depreciation			
Balance at beginning of period	857,426,144	–	857,426,144
Depreciation and amortization (Note 16)	47,385,796	–	47,385,796
Balance at end of period	904,811,940	–	904,811,940
Net Book Value	₱6,147,526,588	₱1,979,866	₱6,149,506,454

	December 31, 2019		
	Building and Improvements	Construction-in-Progress	Total
Cost			
Balance at beginning of period	₱6,134,749,678	₱2,720,149,866	₱8,854,899,544
Transfer	2,718,170,000	(2,718,170,000)	–
Derecognition of portion under finance lease (Note 17)	(1,823,955,000)	–	(1,823,955,000)
Additions	18,855,993	–	18,855,993
Balance at end of period	7,047,820,671	1,979,866	7,049,800,537
Accumulated Depreciation			
Balance at beginning of period	666,850,509	–	666,850,509
Depreciation and amortization (Note 16)	190,575,635	–	190,575,635
Balance at end of period	857,426,144	–	857,426,144
Net Book Value	₱6,190,394,527	₱1,979,866	₱6,192,374,393

Investment properties are composed of one (1) stand-alone building and one (1) mixed-used property, which are being leased out for office and retail and serviced apartment. The stand-alone building, Solaris One building, is located along Dela Rosa St. Legaspi Village, Makati City. The mixed-used property, ANE property, is composed of business process outsourcing and headquarters tower, retail spaces and serviced apartment, which is located along Ayala Avenue cor. Salcedo St., Legaspi Village, Makati City.

Construction-in-progress pertains to ongoing construction, installation and related activities on certain investment property or other items necessary to prepare it for use. These are transferred to the related investment property account once construction is completed and is ready for service.

Additions include initial direct costs which comprise broker's commission paid to various brokers amounting to nil in 2020 and ₱8.46 million in 2019. These are amortized over the lease term on the same basis as the lease income.

The fair value of the Company's investment properties amounting to ₱23,544.12 million was determined using the Income Approach which derives an indication of value for income-producing property by converting anticipated future benefits into current property value. The valuation as of March 31, 2020 was internally determined by the Company through leveraging from the key assumptions used in the most updated appraisal report dated June 17, 2020 adjusted for the information from April to June 2020.

The aggregate fair value disclosed in the financial statements excludes the hotel portion of ANE which is being leased out and accounted for under finance lease, and property being leased by the Company such as MECC. The fair value determination also uses March 31, 2020 inputs to the valuation (e.g., discount rate, cash flows, etc. as of March 31, 2020). Some of the observable inputs (e.g. BVAL rate) significantly changed from March 31, 2020 to the date of the latest appraisal report.

The following table provides the fair value hierarchy of the Company's investment properties as of March 31, 2020:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	March 31, 2020	₱23,544,115,266	₱–	₱–	₱23,544,115,266

Description of valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	Significant unobservable inputs
Solaris	Income approach	The fair value is sensitive to the following unobservable inputs – lease income growth rate and discount rate
ANE	Income approach	The fair value is sensitive to the following unobservable inputs – lease income growth rate and discount rate

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

	2020 (Three months)	2019 (Three months)
Rental income (Note 13)	**₱355,991,861**	₱316,957,381
Dues (Note 14)	**53,344,079**	59,548,720
Direct operating expenses (Note 16)	**126,414,026**	103,324,281

8. Property and Equipment

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

	March 31, 2020	December 31, 2019
Cost		
Balances at beginning and end of period	**₱1,888,872**	₱ 1,888,872
Accumulated Depreciation		
Balances at beginning of period	**1,868,783**	1,837,379
Depreciation (Note 16)	**2,009**	31,404
Balances at end of period	**1,870,792**	1,868,783
Net Book Value	**₱18,080**	₱20,089

There are no items of property and equipment that are pledged as security to liabilities as of March 31, 2020 and December 31, 2019.

There are no contractual purchase commitments for property and equipment as of March 31, 2020 and December 31, 2019.

Costs of fully depreciated electronic data processing equipment still in use amounted to ₱1.55 million as of March 31, 2020 and December 31, 2019.

9. Accounts and Other Payables

This account consists of:

	March 31,2020	December 31,2019
Due to related parties (Note 19)	**₱266,482,914**	₱179,751,118
Accrued expenses		
Rent	**15,752,262**	3,298,736
Repairs and maintenance	**6,467,447**	6,079,597
Light and water	**4,797,482**	12,144,253
Others	**54,466,233**	29,429,565
Taxes payable	**10,826,488**	13,233,473
Accounts payable	**9,587,590**	29,755,900
Retention payable	**785,200**	785,200
	₱369,165,616	₱274,477,842

Accrued expenses others consist mainly of accruals for professional fees, postal and communication, supplies, transportation and travel, security, insurance and representation. These accruals 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. **Construction Bonds**

Construction bonds represent cash bonds to be used as a guarantee against damages to properties resulting from the construction, renovation or improvements being undertaken therein by the lessee. The bond will be refunded after full completion of the construction, renovation or improvements and inspection by the Company.

The carrying value of the Company's construction bonds amounted to ₱12.80 million and ₱11.11 million as of March 31, 2020 and December 31, 2019, respectively.

11. **Deposits and Other Liabilities**

This account consists of:

	March 31, 2020	December 31, 2019
Advance rentals	**₱386,142,189**	₱386,014,343
Security deposits	**343,979,720**	314,447,416
Deferred credits	**64,323,457**	66,465,881
	794,445,366	766,927,640
Less current portion	**136,209,755**	166,793,502
	₱658,235,611	₱600,134,138

The current portion of these accounts follows:

	March 31, 2020	December 31, 2019
Security deposits	**₱82,758,766**	₱84,729,181
Advance rentals	**53,375,178**	81,793,332
Deferred credits	**75,811**	270,989
	₱136,209,755	₱166,793,502

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 analysis of security deposits follows:

	March 31, 2020	December 31, 2019
Gross Amount		
Balance at beginning of period	**₱394,737,664**	₱355,834,182
Additions	**23,459,633**	80,405,744
Refunds	**–**	(41,502,262)
Balance at end of period	**418,197,297**	394,737,664
Unamortized Discount		
Balance at beginning of period	**80,290,248**	77,202,362
Additions	**3,555,837**	15,650,424
Accretion (Note 16)	**(9,628,508)**	(12,562,538)
Balance at end of period	**74,217,577**	80,290,248
Net Amount	**₱343,979,720**	₱314,447,416
Less current portion	**82,758,766**	84,729,181
	₱261,220,954	₱229,718,235

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 analysis of deferred credits follows:

	March 31, 2020	December 31, 2019
Balance at beginning of period	**₱66,465,881**	₱69,069,960
Additions	**3,555,837**	15,650,424
Amortization (Note 13)	**(5,698,261)**	(18,254,503)
Balance at end of period	**64,323,457**	66,465,881
Less current portion	**75,811**	270,989
	₱64,247,646	₱66,194,892

12. **Equity**

Capital stock
The details of the Company’s capital stock as of March 31, 2020 and December 31, 2019 follow:

	Common
Authorized	1,174,000,000
Par value per share	₱10.00
Issued and outstanding shares	977,792,435

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 total capital as of March 31, 2020 and December 31, 2019 follow:

	March 31, 2020	December 31, 2019
Paid-up capital	**₱10,451,224,050**	₱10,451,224,050
Treasury shares	**(673,299,700)**	(673,299,700)
Retained earnings	**1,274,624,387**	1,022,804,424
	₱11,052,548,737	₱10,800,728,774

The Company is currently not subject to any external capital requirement.

No changes were made in the Company's capital management objectives, policies or processes as of March 31, 2020 and December 31, 2019.

13. **Rental Income**

This account consists of:

	2020 (Three Months)	2019 (Three Months)
Office and retail	**₱332,543,715**	₱297,592,417
Parking fees	**17,749,885**	11,697,132
Amortization of deferred credits (Note 11)	**5,698,261**	7,667,832
	₱355,991,861	₱316,957,381

Rental income from office, retail and parking includes income from straight-line method of recognizing rental income amounting to ₱5.01 million and ₱81.38 million for three months ended March 31, 2020 and 2019, respectively.

14. **Dues and Interest Income from Finance Lease Receivables**

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

	2020 (Three Months)	2019 (Three Months)
Dues	**₱147,816,957**	₱114,274,722
Direct operating expenses		
Utilities	**60,320,620**	38,484,973
Outside services	**16,117,179**	7,512,421
Repairs and maintenance	**15,790,219**	7,755,737
Miscellaneous	**2,244,860**	972,871
	94,472,878	54,726,002
	₱53,344,079	₱59,548,720

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

	2020 (Three Months)	2019 (Three Months)
Dues:		
Common area charges	**₱40,950,817**	₱48,601,735
Utilities dues	**12,393,262**	10,946,985
	₱53,344,079	₱59,548,720

Interest income from finance lease receivables
This account pertains to accretion of finance lease receivable amounting to ₱37.50 million for the three months ended March 31, 2020 (see Note 17; nil for the three months ended March 31, 2019).

15. **Interest and Other Income**

Interest Income
This account consists of:

	2020 (Three Months)	2019 (Three Months)
Interest income from intercompany loans (Note 19)	**₱14,480,672**	₱20,124,039
Interest income from cash in banks (Note 4)	**137,865**	24,261
	₱14,618,537	₱20,148,300

Other Income
This account pertains to income earned from interest and penalties arising from late payments amounting to ₱3.57 million and ₱0.11 million for the three months ended March 31, 2020 and 2019, respectively.

16. **Costs and Expenses and Other Charges**

Direct Operating Expenses
This account consists of:

	2020 (Three Months)	2019 (Three Months)
Depreciation and amortization (Notes 7 and 17)	**₱51,455,423**	₱47,718,274
Taxes and licenses	**34,662,129**	24,652,945
Land lease (Notes 17 and 19)	**27,380,539**	18,342,454
Management fees (Note 19)	**9,249,073**	8,839,529
Insurance	**2,125,317**	2,970,425
Others	**1,541,545**	800,654
	₱126,414,026	₱103,324,281

General and Administrative Expenses
This account consists of:

	2020 (Three Months)	2019 (Three Months)
Provision for credit losses (Note 5)	**₱7,258,842**	₱–
Professional fees	**234,400**	1,611,492
Systems costs (Note 19)	**134,523**	417,807
Taxes and licenses	**5,368**	759,000
Depreciation (Note 8)	**2,009**	14,816
Others	**116,149**	76,451
	₱7,751,291	₱2,879,566

Interest Expense

This account consists of:

	2020 (Three Months)	2019 (Three Months)
Accretion of security deposit (Note 11)	**₱9,628,508**	₱3,706,266
Interest expense on lease liabilities (Note 17)	**9,140,598**	–
	₱18,769,106	₱3,706,266

17. **Agreements and Lease Commitments**

Company as lessor - operating lease
In (month/year), 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 3% to 10% annual escalation rate.

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

	March 31, 2020	December 31, 2019
Within one year	**₱1,355,945,077**	₱1,247,102,277
After one year but not more than five years	**4,923,912,369**	5,111,571,372
More than five years	**937,743,614**	341,483,942
	₱7,217,601,060	₱6,700,157,591

Total rental income amounted to ₱355.99 million and ₱316.96 million for the three months ended March 31, 2020 and 2019, respectively (see Note 13). Rental income arising from variable rent based on gross sales amounted to ₱2.66 million and ₱2.12 million for the three months ended March 31, 2020 and 2019, respectively.

Company as lessor - finance lease
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:

	March 31, 2020	December 31, 2019
Within one year	**₱406,560,000**	₱203,280,000
More than one year and not more than five (5)years	**650,496,000**	650,496,000
More than five (5) years	**5,258,176,000**	5,552,653,750
Total undiscounted lease payments and unguaranteed residual value	**6,315,232,000**	6,406,429,750
Less: unearned finance income	**4,009,802,563**	4,138,497,813
Net investment in the lease	**₱2,305,429,437**	₱2,267,931,937

The net investment in the lease consists of the present value of minimum lease payments amounting to ₱2,221.09 million. The Company derecognized the portion of investment property under finance lease amounting to ₱1,823.95 million. The Company also recognized interest income earned amounting to ₱37.50 million for the three months ended March 31, 2020 (see Notes 14 and 19; nil for the three months ended March 31, 2019).

The Company remains to be the legal owner of the portion of ANE building under finance lease.

Company as lessee
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.

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 of ₱2.73 million, subject to 5% annual escalation rate.

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.

Set out below is the carrying amount of right-of-use asset recognized and the movements in 2020:

	2020 (Three Months)
Cost	
Balance at beginning of the period	₱–
Addition	853,150,009
Balance at end of the period	853,150,009
Accumulated Amortization	
Balance at beginning of the period	–
Amortization (Note 16)	4,069,627
Balance at end of the period	4,069,627
Net Book Value	₱849,080,382

The rollforward analysis of lease liability follows:

	2020 (Three Months)
Balance at beginning the period	₱–
Addition	853,150,009
Interest expense (Note 16)	9,140,598
Balance at the end of the period	862,290,607
Current lease liability	30,063,858
Noncurrent lease liabilities	₱832,226,749

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

	2020 (Three Months)	2019 (Three Months)
Rent expense - variable lease payments (Note 16)	**₱27,380,539**	₱18,342,454
Depreciation expense of right-of-use asset (Note 16)	**4,069,627**	–
Accretion of interest expense (Note 16)	**9,140,598**	–
Total amounts recognized in the statement of income	**₱40,590,764**	₱18,342,454

Show below is the maturity analysis of the undiscounted lease payments:

	March 31, 2020
Less than three months	₱13,463,704
Three to twelve months	25,072,696
After one year but not more than five years	149,663,729
More than five years	2,759,671,401
	₱2,947,871,530

Right-of-use asset and lease liability recognized during the period pertains to new 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.

18. Income Tax

Provision for (benefit from) income tax consists of:

	2020 (Three Months)	2019 (Three Months)
Current	**₱69,962,876**	₱45,065,186
Deferred	**(9,727,854)**	8,961,453
Final	**27,573**	4,852
	₱60,262,595	₱54,031,491

The current provision for income tax represents RCIT for the three months ended March 31, 2020 and 2019.

In 2020 and 2019, the Company availed of the optional standard deduction (OSD).

The components of net deferred tax assets (liabilities) follow:

	March 31, 2020	December 31, 2019
Deferred tax assets on:		
Lease liabilities	**₱154,228,401**	₱–
Advance rentals	**65,457,955**	60,317,256
Accrued expenses	**14,667,016**	10,395,708
Allowance for credit losses	**2,686,277**	1,379,685
	237,039,649	72,092,649
Deferred tax liabilities on:		
Right-of-use asset	**(152,834,469)**	–
Difference between finance and operating lease method	**(74,377,760)**	(72,894,340)
Excess of lease income over collections	**(67,331,888)**	(66,430,630)
	(₱57,504,468)	(₱67,232,321)

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

	2020	2019
Statutory income tax rate	**30.00%**	30.00%
Add (deduct) tax effect of:		
Nondeductible expenses	**3.58**	0.16
Nontaxable income	**(0.56)**	(4.17)
Deductible expenses due to use of OSD	**(13.68)**	(7.07)
Effective income tax rate	**19.34%**	18.92%

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

	March 31, 2020			
Category	Volume	Outstanding Balance	Terms	Conditions
Finance lease receivable				
Makati North Hotel Ventures, Inc. (j)	**₱–**	**₱2,305,429,437**	**Noninterest-bearing; Payable quarterly**	**Unsecured; No impairment**
Due from related parties				
Parent Company				
Ayala Land, Inc. (a) (b)	**23,007,500**	**476,591,815**	**Interest-bearing and noninterest-bearing; Due and demandable**	**Unsecured; No impairment**
Affiliates*				
Bay City Commercial Ventures Corp. (b)	**40,515,933**	**427,407,455**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Central Block Developers, Inc. (b)	**200,572,039**	**316,181,938**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Amaia Land Corp. (b)	**–**	**171,253,613**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Arvo Commercial Corporation (b)	**66,422,589**	**146,962,484**	**Interest-bearing; On demand**	**Unsecured; No impairment**
HLC Development Corporation (b) (c)	**591,040**	**120,235,940**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Capitol Central Commercial Ventures Corp. (b)	**40,674,594**	**72,015,154**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Crans Montana Property Holdings Corporation (b)	**1,545,551**	**50,140,204**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Arca South Commercial Ventures Corp. (b)	**41,870,392**	**41,870,392**	**Interest-bearing; On demand**	**Unsecured; No impairment**
ALI Triangle Hotel Ventures, Inc. (b)	**419,071**	**41,608,549**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Soltea Commercial Corp. (b)	**245,843**	**38,034,536**	**Interest-bearing; On demand**	**Unsecured; No impairment**

(Forward)

Category	March 31, 2020 Volume	Outstanding Balance	Terms	Conditions
Finance lease receivable				
Makati North Hotel Ventures, Inc. (j)	**₱–**	**₱2,305,429,437**	**Noninterest-bearing; Payable quarterly**	**Unsecured; No impairment**
Bank of the Philippine Islands (g)	**–**	**34,668,803**	**Noninterest-bearing; On demand**	**Unsecured; No impairment**
Sunnyfield E-Office Corp. (b)	**–**	**25,289,844**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Leisure and Allied Industries Phils. Inc. (b)	**20,059,400**	**20,059,400**	**Interest-bearing; On demand**	**Unsecured; No impairment**
First Gateway Real Estate Corp. (h)	**–**	**8,432,222**	**Noninterest-bearing; On demand**	**Unsecured; No impairment**
Cebu Holdings, Inc. (b)	**–**	**5,059,141**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Ayalaland Logistics Holdings Corp (b)	**–**	**4,989,801**	**Interest-bearing; On demand**	**Unsecured; No impairment**
Others**	**1,000,677**	**6,872,668**	**Interest and Noninterest-bearing; On demand**	**Unsecured; No impairment**
		₱2,007,673,959		

**Entities under common control*
***Entities with outstanding balances below* ₱2.00 million

Category	March 31, 2020 Volume	Outstanding Balance	Terms	Conditions
Due to related parties				
Parent Company				
Ayala Land Inc. (a)	**₱40,120,265**	**₱225,162,436**	**Noninterest-bearing, due and demandable**	**Unsecured**
Affiliates*				
HLC Development Corporation (c)	**17,225,490**	**22,874,031**	**Noninterest-bearing; On demand**	**Unsecured**
Ayala Property Management, Corp. (e)	**3,990,470**	**8,209,410**	**Noninterest-bearing; On demand**	**Unsecured**
Direct Power Services, Inc. (d)	**–**	**3,968,475**	**Noninterest-bearing; On demand**	**Unsecured**
AyalaLand Offices, Inc. (f)	**–**	**2,922,779**	**Noninterest-bearing; On demand**	**Unsecured**
Makati Development Corp.	**–**	**2,019,459**	**Noninterest-bearing; On demand**	**Unsecured**
Others**	**337,929**	**1,326,324**	**Noninterest-bearing; On demand**	**Unsecured**
		₱266,482,914		

**Entities under common control*
***Entities below* ₱2.00 million

Category	December 31, 2019 Volume	Outstanding Balance	Terms	Conditions
Finance lease receivable				
Makati North Hotel Ventures, Inc. (j)	₱2,267,931,937	₱2,267,931,937	Noninterest-bearing; Payable quarterly	Unsecured; No impairment
Due from related parties				
Parent Company				
Ayala Land, Inc. (a and b)	75,070,139	514,752,540	Interest-bearing and noninterest-bearing; Due and demandable	Unsecured; No impairment
Affiliates*				
Bay City Commercial Ventures Corp. (b)	386,891,522	386,891,522	Interest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp. (b)	319,356,979	170,643,021	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation (b and c)	119,644,900	119,644,900	Interest-bearing; On demand	Unsecured; No impairment
Central Block Developers, Inc. (b)	50,309,899	115,609,899	Interest-bearing; On demand	Unsecured; No impairment
Cavite Commercial Towncenter Inc. (b)	100,217,708	100,217,708	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation (b)	43,715,380	80,539,895	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corporation (b)	48,594,653	48,594,653	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc. (b)	5,218,238	42,018,238	Interest-bearing; On demand	Unsecured; No impairment

(Forward)

Category	December 31, 2019 Volume	Outstanding Balance	Terms	Conditions
ALI Triangle Hotel Ventures, Inc. (b)	41,189,478	41,189,478	Interest-bearing; On demand	Unsecured; No impairment
Bank of the Philippine Islands (h)	38,190,369	38,190,369	Noninterest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp. (b)	37,788,693	37,788,693	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp. (b)	31,340,560	31,340,560	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp. (b)	9,628,326	25,371,674	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp. (b)	1,089,157	21,722,132	Interest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc. (b)	12,026,125	13,582,349	Interest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp. (h)	111,608,067	7,491,933	Noninterest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp (b)	5,688,274	5,688,274	Interest-bearing; On demand	Unsecured; No impairment
Others**	5,415,182	2,611,784	Interest-bearing and noninterest-bearing; On demand	Unsecured; No impairment
		₱1,803,889,622		

**Entities under common control*
***Entities below* ₱2.00 million

Category	December 31, 2019 Volume	Outstanding Balance	Terms	Conditions
Due to related parties				
Parent Company				
Ayala Land Inc. (a)	₱62,736,563	₱153,545,941	Noninterest-bearing, due and demandable	Unsecured
Afiliates*				
Direct Power Services, Inc. (d)	5,811,587	10,334,751	Noninterest-bearing; On demand	Unsecured
HLC Development Corporation (c)	5,648,541	5,648,541	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp. (e)	3,592,279	4,218,940	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc. (f)	2,549,092	2,922,779	Noninterest-bearing; On demand	Unsecured
Makati Development Corp.	–	2,019,459	Noninterest-bearing; On demand	Unsecured
Others**	1,452,570	1,060,707	Noninterest-bearing; On demand	Unsecured
		₱179,751,118		

**Entities under common control*
***Entities below* ₱2.00 million

The following describes the nature of the material transactions of the Company with related parties in 2020 and 2019:

(a) The Company's intercompany receivable from ALI pertains to collection by ALI of lease payments of tenants on behalf of the Company amounting to ₱29.63 million as of March 31, 2020 and December 31, 2019 and payment of operating expenses for and on behalf of ALI amounting to nil and ₱0.02 million, as of March 31, 2020 and December 31, 2019, respectively.

ALI handles the lease management and marketing functions including key management personnel services for the Company and is entitled to receive a management fee. The Company recognized management fees amounting to ₱5.0 million for the three months ended March 31, 2020 and 2019 (see Note 16).

The Company entered into a contract of lease with ALI to occupy a parcel of land where the building is located. The Company recognized "Land lease" under "Direct operating expenses" in the interim statements of comprehensive income amounting to ₱9.35 million and ₱9.29 million for the three months ended March 31, 2020 and 2019, respectively (see Note 16).

ALI allocated system costs amounting to ₱0.13 million and ₱0.42 million for the three months ended March 31, 2020 and 2019, 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 March 31, 2020 pertain to expenses paid by ALI on behalf of AREIT 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 3.89% to 4.33%, per annum in 2020 and 2019, respectively.

The Company recognized interest income amounting to ₱14.48 million and ₱20.12 million for the three months ended March 31, 2020 and 2019, respectively (see Note 15).

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

(c) HLC, a subsidiary of Amorsedia Development, Corporation, leases a parcel of land to the Company. The Company recognized “Land lease” under “Direct operating expenses” in the interim statements of comprehensive income amounting to ₱18.03 million and ₱9.05 million for the three months ended March 31, 2020 and 2019, 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 ₱13.81 million and ₱17.95 million for the three months ended March 31, 2020 and 2019, of which the remaining payable amounted to ₱3.98 million as of March 31, 2020 and ₱10.33 million as of December 31, 2019.

(e) Ayala Property Management Corporation, a subsidiary of ALI, handles the facilities management of the Company 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, during the term, the occupancy rate of the building shall be 85% or above. If the occupancy rate is 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 ₱4.25 million and ₱3.84 million for the three months ended March 31, 2020 and 2019, respectively (see Note 16).

(f) The Company’s intercompany payable to ALOI pertains to the outstanding balance of accounting shared and legal services billed on behalf of the Company. The Company recognized accounting shared services in “Others” under “Direct operating expenses” in the interim statements of comprehensive income amounting to ₱0.35 million for the three months ended March 31, 2019 (nil for the three months ended March 31, 2020).

(g) Bank of the Philippine Islands, an associate of AC, is a lessee of the Company. The Company recognized “Rental Income” in the interim statements of comprehensive income amounting to ₱29.69 million and ₱18.85 million for the three months ended March 31, 2020 and 2019, respectively, of which the remaining receivable amounted to ₱34.67 million and ₱38.19 million as of March 31, 2020 and December 31, 2019.

(h) First Gateway Real Estate Corporation (FGREC), a subsidiary of AyalaLand Offices, Inc. (ALOI), is a lessee of the Company. The Company recognized “Rental Income” in the interim statements of comprehensive income amounting to ₱2.49 million and nil for the three months ended March 31, 2020 and 2019.

(i) The Company’s intercompany receivable from ALI pertains to payment of operating expenses for and on behalf of FGREC amounting to ₱0.07 million in 2019 (nil in 2020).

(j) This pertains to the receivable arising from lease agreement with MNHVI in September 2019 (see Note 17). The Company recognized finance lease receivable amounting to ₱2,305.43 million (see Note 5). This includes interest income accretion amounting to ₱37.50 million for the three months ended March 31, 2020 (see Note 14).

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 ₱92.03 million and ₱70.61 million as of March 31, 2020 and December 31, 2019, respectively (see Note 4). Interest income earned from these deposits amounted to ₱25,565 and ₱13,461 for the three months ended March 31, 2020 and 2019, respectively (see Note 15).

Compensation of Key Management Personnel
The key management functions of the Company are handled by ALI which charges the Company management fees for such services (see item (a) above).

20. Financial Assets and Liabilities

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

	2020		2019	
	Carrying value	**Fair value**	Carrying value	Fair value
Security deposits	**₱343,979,720**	**₱354,430,046**	₱314,447,416	₱335,432,923

Fair Value Hierarchy
As of March 31, 2020, and December 31, 2019, the Company has no financial instrument measured at fair value. As of March 31, 2020, and December 31, 2019, 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 of March 31, 2020 and December 31, 2019 are shown below:

	Valuation technique	**Significant unobservable inputs**	**Range**	**Sensitivity of the input to fair value**
Security deposits	DCF Method	Discount rate	2020: 3.14%-4.75% 2019: 0.10%-4.36%	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.

ALI's finance and treasury functions operate as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

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 default 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 and finance lease receivable, 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 March 31, 2020, and December 31, 2019, 59.26% and 69.08% of the Company's trade receivables are covered by security deposits, respectively. Trade receivables include receivables as a result of straight-line method amounting to ₱374.07 million and ₱369.06 million as of March 31, 2020 and December 31, 2019, 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 and ₱7.66 million as of March 31, 2020, and December 31, 2019 pertains to receivables aged over 360 days.

As of March 31, 2020, and December 31, 2019, 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 March 31, 2020 and December 31, 2019, 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 for credit loss relating to receivables from related parties since there is no history of default in 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 March 31, 2020 and December 31, 2019 is equal to the carrying values of its financial assets, except for "Trade receivables" under "Receivables" in the statements of financial position. Details follow:

	March 31, 2020			
	Gross maximum exposure	**Fair value of collateral or credit enhancement**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Cash in banks	**₱187,181,434**	**₱–**	**₱187,181,434**	**₱–**
Receivables				
Finance lease receivable	**2,305,429,437**	**2,656,169,000**	**–**	**2,305,429,437**
Due from related parties	**2,007,673,959**	**–**	**2,007,673,959**	**–**
Trade receivables	**531,722,050**	**354,430,046**	**216,598,282**	**315,123,768**
Other receivables	**669,008**	**–**	**669,008**	**–**
	₱5,032,675,888	**₱3,010,599,046**	**₱2,412,122,683**	**₱2,620,553,205**

	December 31, 2019			
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Cash in banks	₱122,158,106	₱–	₱122,158,106	₱–
Receivables				
Finance lease receivable	2,267,931,937	2,461,200,000	–	2,267,931,937
Due from related parties	1,803,889,622	–	1,803,889,622	–
Trade receivables	486,947,707	335,432,923	153,486,192	333,461,515
Other receivables	374,307	–	374,307	–
	₱4,681,301,679	₱2,796,632,923	₱2,079,908,227	₱2,601,393,452

The credit quality of the financial assets was determined as follows:

Cash in banks - based on the nature of the counterparty and the Company's internal rating system.

Receivables - high grade pertains to receivables from counterparties with no default in payment; medium grade pertains to receivables from counterparties with up to three (3) defaults in payment; and low grade pertains to receivables from counterparties with more than three (3) defaults in payment.

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.

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

	March 31, 2020			
	< 1 year	**1 to 5 years**	**> 5 years**	**Total**
Financial assets				
Cash in banks	**₱167,305,492**	**₱–**	**₱–**	**₱167,305,492**
Receivables				
Finance lease receivable	**406,560,000**	**650,496,000**	**5,258,176,000**	**6,315,232,000**
Due from related parties	**2,007,673,959**	**–**	**–**	**2,007,673,959**
Trade receivables*	**174,500,397**	**206,664,706**	**135,633,188**	**516,798,291**
Other receivables	**669,008**	**–**	**–**	**669,008**
	₱2,756,708,856	**₱857,160,706**	**₱5,393,809,188**	**₱9,007,678,750**
Financial liabilities				
Accounts and other payables				
Due to related parties	**₱266,482,914**	**₱–**	**₱–**	**₱266,482,914**
Accrued expenses	**81,483,424**	**–**	**–**	**81,483,424**
Accounts payable	**10,826,488**	**–**	**–**	**10,826,488**
Retention payable	**785,200**	**–**	**–**	**785,200**
Construction bonds	**12,799,901**	**–**	**–**	**12,799,901**
Security deposits	**261,220,954**	**82,758,766**	**–**	**343,979,720**
Lease liability	**38,536,400**	**149,663,729**	**2,759,671,401**	**2,947,871,530**
	₱672,135,281	**₱232,422,495**	**₱2,759,671,401**	**₱3,664,229,177**

**net of allowance for credit losses*

	December 31, 2019			
	< 1 year	1 to 5 years	> 5 years	Total
Financial assets				
Cash in banks	₱122,158,106	₱–	₱–	₱122,158,106
Receivables				
Finance lease receivable	203,280,000	650,496,000	5,552,653,750	6,406,429,750
Due from related parties	1,803,889,622	–	–	1,803,889,622
Trade receivables*	145,217,999	204,213,454	129,851,337	479,282,790
Other receivables	374,307	–	–	374,307
	₱2,274,920,034	₱854,709,454	₱5,682,505,087	₱8,812,134,575
Financial liabilities				
Accounts and other payables				
Due to related parties	₱179,751,118	₱–	₱–	₱179,751,118
Accrued expenses	50,952,151	–	–	50,952,151
Accounts payable	29,755,899	–	–	29,755,899
Retention payable	785,200	–	–	785,200
Construction bonds	11,105,498	–	–	11,105,498
Security deposits	84,729,181	229,718,235	–	314,447,416
	₱357,079,047	₱229,718,235	₱–	₱586,797,282

**net of allowance for credit losses*

21. Earnings Per Share

The Company's earnings per share for the three months ended 2020 and 2019 were computed as follows:

	2020	2019
Net income	**₱251,819,963**	₱232,827,026
Weighted average number of common shares	**977,792,435**	977,792,435
Basic/Diluted earnings per share	**₱0.26**	₱0.24

The Company also assessed that there were no potential dilutive common shares as of March 31, 2020 and 2019.

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 three-building lease operation is its only income-generating activity, and such is the measure used by the Chief Operating Decision Maker in allocating resources.

There were revenue transactions with two external customers which accounted for 10% or more of the total revenue amounting to ₱92.44 million and ₱63.41 million for the three months ended March 31, 2020.

23. Notes to Interim Statements of Cash Flow

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

Operating
- Receivable from ALI amounting to ₱75.09 million pertains to security deposits, advance rentals, and fixed charges collected from MECC tenants.
- Interest income from finance lease receivables amounting to ₱37.50 million for three months ended March 31, 2020 (see Notes 14, 17, 19; nil for the three months ended March 31, 2019).
- Interest expense arising from accretion of security deposit amounting to ₱9.63 million and ₱12.56 million in 2020 and 2019, respectively (see Notes 11 and 16).

Investing
- Movement in intercompany loans presented under investing activities amounting to ₱169.30 million and ₱584.71 million for the three months ended March 31, 2020 and 2019 respectively, is a movement in "Receivables" account that is presented under operating activities.
- Recognition of right-of-use asset and lease liability amounting to ₱853.15 million each.

24. Event After Financial Reporting Date

Impact of COVID-19
As at March 31, 2020, the Company had three (3) office and retail building spaces for lease, of which the retail merchants were temporarily closed due to the COVID-19 pandemic. As COVID-19 pandemic-related lockdowns and restrictions were gradually lifted in June 1, 2020, the Company allowed establishments to re-open and the number of retail spaces that were temporarily closed was reduced by nine (9) and fifteen (15) as at April 30, 2020 and May 31, 2020. For retail building spaces that have reopened, the Company is seeing tenants gradually return although still not at pre-COVID-19 pandemic levels. Office spaces remain to be operating during the aforementioned periods.

Since the start of the COVID-19 pandemic, the Company as a lessor has only granted rental reliefs to certain retail tenants and the Company has continuously collected rental receivable from its office tenants. Reliefs granted for the months of April, May, and June 2020 amounted to ₱7.39 million, ₱3.93 million and ₱2.94 million, respectively.

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

We have audited the interim financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at March 31, 2020, and for the three months ended March 31, 2020 and 2019, on which we have rendered the attached report dated June 23, 2020.

In compliance with Revised Securities Regulation Code Rule No. 68, we are stating that the Company has two (2) stockholders owning 100 or more shares each.

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. 8125272, January 7, 2020, Makati City

June 23, 2020

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE

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

We have audited in accordance with Philippine Standards on Auditing, the interim financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019 and have issued our report thereon dated June 23, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Interim Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

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. 8125272, January 7, 2020, Makati City

June 23, 2020

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

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

SCHEDULE A

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

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
March 31, 2020

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	₱75,284,077	₱75,284,077	₱112,300
Bank of Philippine Islands	111,897,357	111,897,357	25,565
	187,181,434	187,181,434	137,865
Receivables			
Related parties	4,313,103,396	4,313,103,396	14,480,671
Third parties	531,722,050	531,722,050	–
Others	669,006	669,006	–
	4,845,494,452	4,845,494,452	14,480,671
	₱5,032,675,886	₱5,032,675,886	₱14,618,536

SCHEDULE B

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)
MARCH 31, 2020

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

SCHEDULE C

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
MARCH 31, 2020

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

SCHEDULE D

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

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
MARCH 31, 2020

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) MARCH 31, 2020

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
MARCH 31, 2020

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

SCHEDULE G

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

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
MARCH 31, 2020

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	−

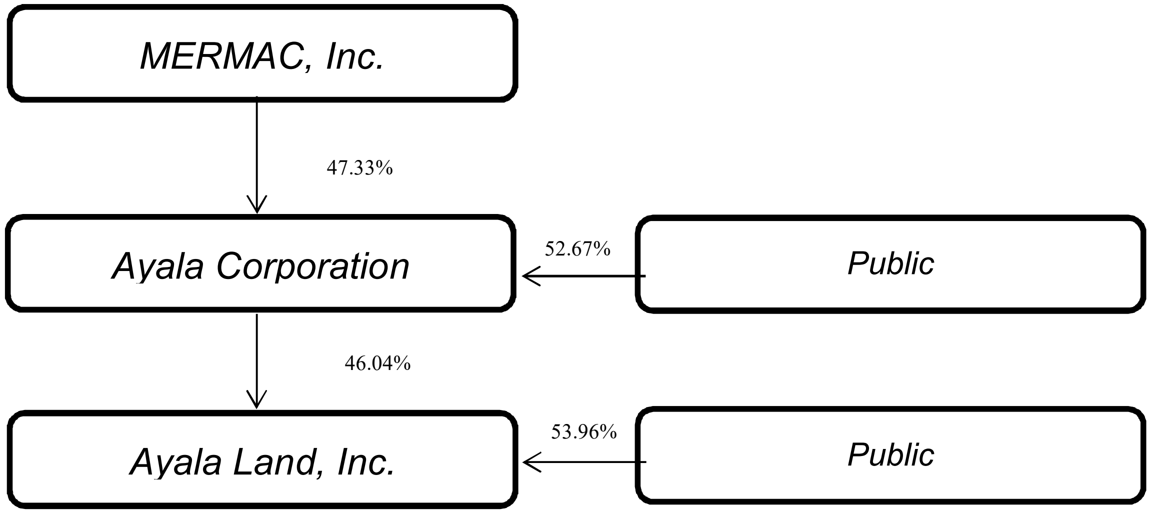
AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)

SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
MARCH 31, 2020

Unappropriated Retained Earnings, beginning		₱1,022,804,424
Less: Deferred tax assets		72,092,649
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		950,711,775
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	₱251,819,963	
Less: Non-actual/unrealized income net of tax		
Amount of provision for deferred tax during the period	(164,947,000)	
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	86,872,963	
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		86,872,963
Add (Less):		
Dividend declarations during the year	–	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
		–
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION		₱1,037,584,738

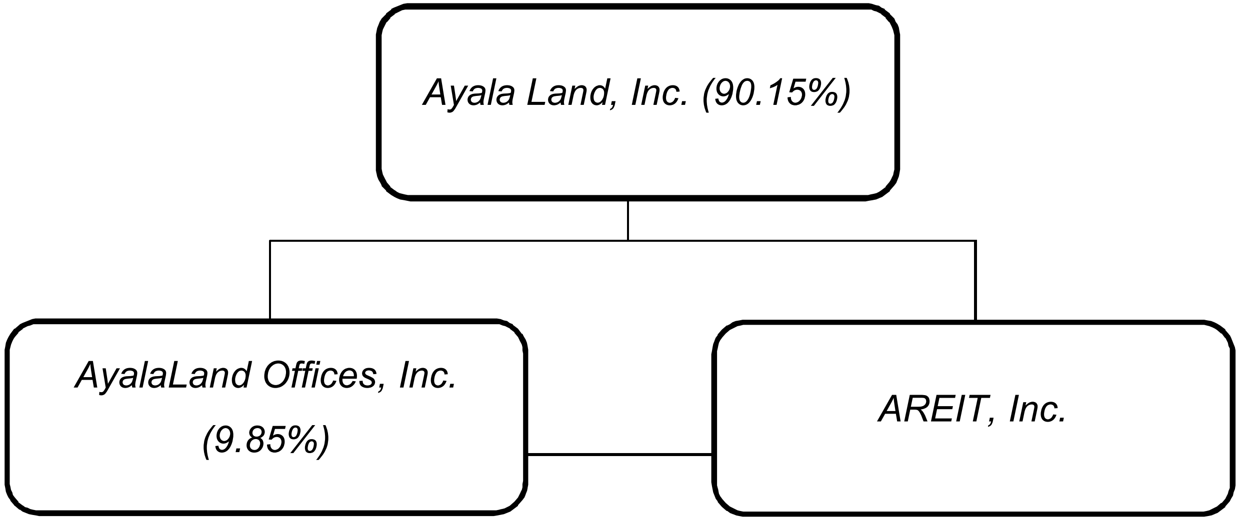
AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
MARCH 31, 2020



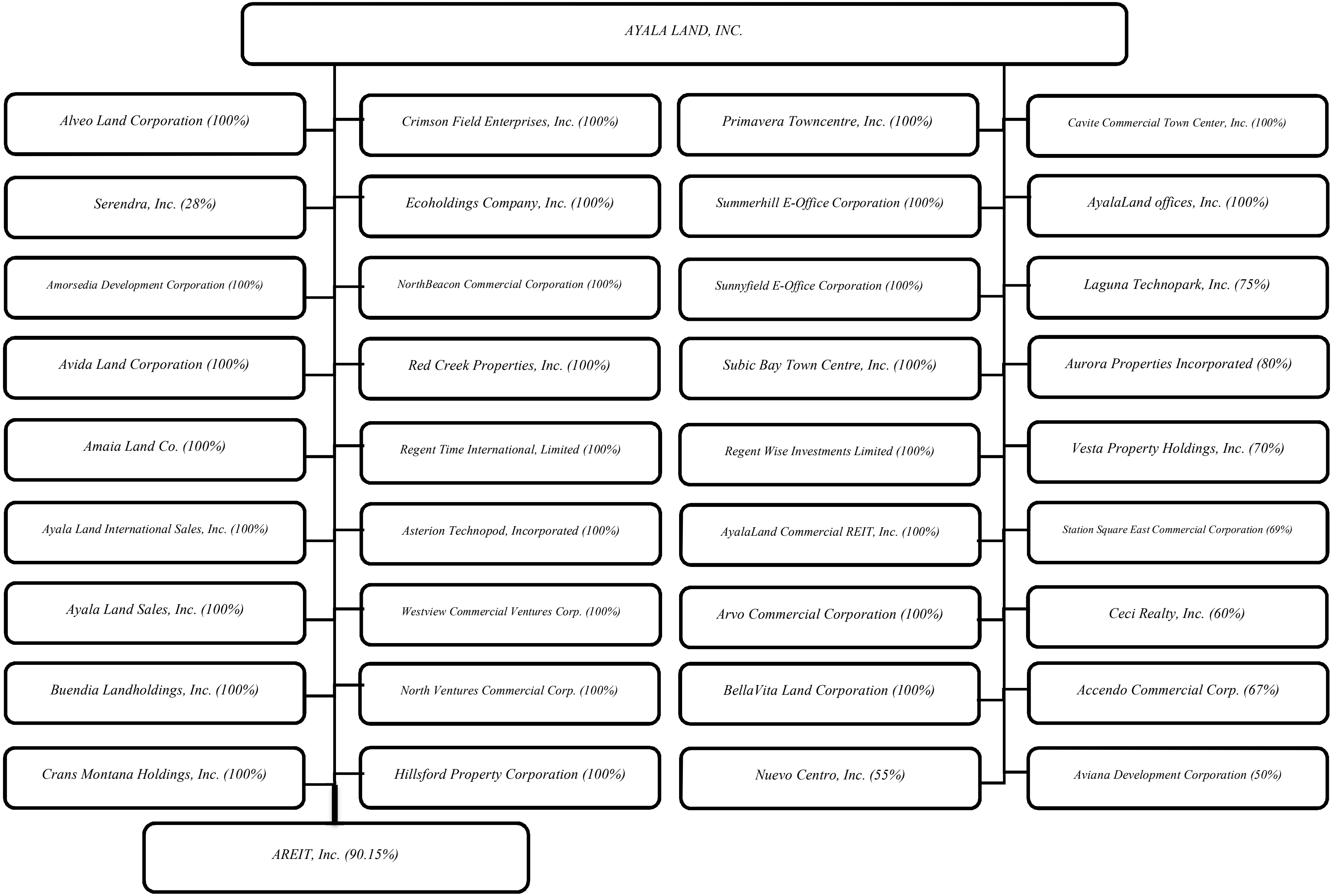
AREIT, INC.
(Formerly One Dela Rosa Property Development, Inc.)

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
MARCH 31, 2010



AYALA LAND, INC.

Cagayan de Oro Gateway Corp. (70%)	Adauge Commercial Corporation (60%)	Alabang Commercial Corporation (50%)	Ayala Property Management Corp. (100%)
Soltea Commercial Corp. (60%)	Southgateway Development Corp. (100%)	Makati Development Corporation (100%)	Ayala Theatres Management, Inc. & S. (100%)
CMPI Holdings, Inc. (60%)	Ayalaland MetroNorth, Inc. (100%)	Ayala Hotels, Inc. (50%)	DirectPower Services, Inc. (100%)
ALI-CII Development Corporation (50%)	North Triangle Depot Commercial Corp. (73%)	AyalaLand Hotels and Resorts Corp. (100%)	Phil. Integrated Energy Solutions, Inc. (100%)
Roxas Land Corporation (50%)	BGWest Properties, Inc. (50%)	Lagdigan Land Corp. (60%)	Five Star Cinema, Inc. (100%)
Ten Knots Phils, Inc. (60%)	Ten Knots Development, Corp. (60%)	Southportal Properties Inc. (65%)	Leisure and Allied Industries Philippines, Inc. (50%)
ALInet.com, Inc. (100%)	First Longfield Investments Limited (100%)	Aprisa Business Process Solutions, Inc. (100%)	AyalaLand Club Management, Inc. (100%)
Varejo Corp. (100%)	Ayala Land Malls, Inc. (100%)	Verde Golf Development Corporation (100%)	Whiteknight Holdings, Inc. (100%)
ALI Commercial Center Inc. (100%)	Cebu Holdings Inc. (50%)	AREIT, Inc. (90.15%)	


AYALA LAND, INC.
Alveo Land Corporation (100%)
Serendra, Inc. (28%)
Amorsedia Development Corporation (100%)
Avida Land Corporation (100%)
Amaia Land Co. (100%)
Ayala Land International Sales, Inc. (100%)
Ayala Land Sales, Inc. (100%)
Buendia Landholdings, Inc. (100%)
Crans Montana Holdings, Inc. (100%)
AREIT, Inc. (90.15%)
Crimson Field Enterprises, Inc. (100%)
Ecoholdings Company, Inc. (100%)
NorthBeacon Commercial Corporation (100%)
Red Creek Properties, Inc. (100%)
Regent Time International, Limited (100%)
Asterion Technopod, Incorporated (100%)
Westview Commercial Ventures Corp. (100%)
North Ventures Commercial Corp. (100%)
Hillsford Property Corporation (100%)
Primavera Towncentre, Inc. (100%)
Summerhill E-Office Corporation (100%)
Sunnyfield E-Office Corporation (100%)
Subic Bay Town Centre, Inc. (100%)
Regent Wise Investments Limited (100%)
AyalaLand Commercial REIT, Inc. (100%)
Arvo Commercial Corporation (100%)
BellaVita Land Corporation (100%)
Nuevo Centro, Inc. (55%)
Cavite Commercial Town Center, Inc. (100%)
AyalaLand offices, Inc. (100%)
Laguna Technopark, Inc. (75%)
Aurora Properties Incorporated (80%)
Vesta Property Holdings, Inc. (70%)
Station Square East Commercial Corporation (69%)
Ceci Realty, Inc. (60%)
Accendo Commercial Corp. (67%)
Aviana Development Corporation (50%)

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited in accordance with Philippine Standards on Auditing, the interim financial statements of AREIT, Inc. (formerly One Dela Rosa Property Development, Inc.) (the Company) as at March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019 and have issued our report thereon dated June 23, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Company's interim financial statements as at March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

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. 8125272, January 7, 2020, Makati City

June 23, 2020

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

COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS
MARCH 31, 2020

Ratio	Formula	March 31, 2020	December 31, 2019
Current ratio	Current assets / Current liabilities	**4.40**	**4.34**
Acid test ratio	Quick assets / Current liabilities (Quick assets includes cash)	**0.27**	**0.23**
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**
Debt-to-equity ratio	Total debt / Stockholders' equity	**0.00**	**0.00**
Asset-to-equity ratio	Total assets / Stockholders' equity	**1.20**	**1.11**
Interest rate coverage ratio	EBITDA / Interest expense	**19.59**	**100.04**
Return on equity	Net income / Average total stockholders' equity	**0.02**	**0.12**
Return on assets	Net income after tax / Average total assets	**0.02**	**0.11**
Net profit margin	Net income / Total revenue	**0.56**	**0.83**