



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2021
2. SEC Identification Number **A1997-13456**      3. BIR Tax Identification No. **005-029-401-000**
4. Exact name of issuer as specified in its charter - **CONCEPCION INDUSTRIAL CORPORATION**

5. **Philippines**      6.  (SEC Use Only)  
Province, Country or other jurisdiction of      Industry Classification Code:  
incorporation or organization

7. **308 Sen. Gil Puyat Avenue, Makati City, Philippines**      **1209**  
Address of principal office      Postal Code

8. **+632 7721819**  
Issuer's telephone number, including area code

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

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|---------------------|--|
| COMMON              | <b>407,263,891</b><br>(as of June 30, 2021)                                    |

11. Are any or all of these securities listed on a Stock Exchange.  
Yes [ X ]      No [   ]

If yes, state the name of such stock exchange and the classes of securities listed therein:  
**Philippine Stock Exchange**      **Common Stock**

12. Check whether the issuer:  
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ X ]      No [   ]

- (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [ X ]      No [   ]

13. The aggregate market value of the voting stock held by non-affiliates of the registrant is P2.5 billion. The price used for this computation is the closing price as of July 31, 2021 is P20.85.

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited consolidated financial statements of Concepcion Industrial Corporation (the “Company” or “CIC”) and its subsidiaries, Concepcion-Carrier Air Conditioning Company (“CCAC”), Concepcion Durables, Inc. (“CDI”), Concepcion-Otis Philippines, Inc. (“COPI”), Concepcion Business Services, Inc. (“CBSI”), Cortex Technologies Corporation (“CTC”), Alstra Incorporated (“Alstra”) and Teko Solutions Asia Inc. (“Teko”) (collectively, the “Group”) for the periods ended June 30, 2021 and 2020, and the audited consolidated financial statements of the group as at December 31, 2020 is attached to this 17-Q report, comparing the following:

- 1.1 Consolidated Statements of Financial Position as at June 30, 2021 and December 31, 2020 (Annex A)
- 1.2 Consolidated Statements of Total Comprehensive Income for the periods ended June 30, 2021 and 2020 (Annex B)
- 1.3 Consolidated Statements of Changes in Equity for the periods ended June 30, 2021 and 2020 (Annex C)
- 1.4 Consolidated Statements of Cash Flows for the periods ended June 30, 2021 and 2020 (Annex D)
- 1.5 Notes to Unaudited Consolidated Financial Statements as at June 30, 2021 and December 31, 2020 and for the periods ended June 30, 2021 and 2020 (Annex E)

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations [(based on the Unaudited Consolidated Results for the Period Ended June 30, 2021 (Annex F)]

## PART II – OTHER INFORMATION

The following reports on SEC Form 17-C was filed during the second quarter of 2021:

Date of Report	Items Reported
14 April 2021	Setting of Annual Stockholders’ Meeting
15 April 2021	Material information – Condura Vax Safe Product
14 May 2021	Announcement of Investors’ Briefing

## **SIGNATURES**

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



MA. VICTORIA A. BETITA  
Chief Finance Officer

August 13, 2021

**ANNEX A****Concepcion Industrial Corporation and Subsidiaries**

Consolidated Statements of Financial Position  
As at June 30, 2021 and December 31, 2020  
(All amounts in thousand Philippine Peso)

	Notes	2021	2020
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	2	2,402,989	2,986,668
Trade and other receivables, net	3	4,070,464	3,641,581
Contract assets	3	609,032	670,285
Inventories, net	4	2,548,783	2,462,017
Prepayments and other current assets		102,993	76,258
Total current assets		9,734,261	9,836,809
<b>Non-current assets</b>			
Property and equipment, net	5	598,746	635,933
Investment property	6	40,255	40,255
Investment in associates	7	166,436	151,715
Intangible assets, net	8	175,345	190,244
Goodwill	8	802,362	802,362
Right-of-use assets, net	19	375,968	487,854
Deferred income tax assets, net	9	648,250	476,526
Retirement benefit asset	20	7,945	-
Other non-current assets		73,512	58,132
Total non-current assets		2,888,819	2,843,021
<b>Total assets</b>		<b>12,623,080</b>	<b>12,679,830</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	10	4,163,881	4,003,915
Short-term borrowings	13	210,000	190,000
Lease liabilities	19	102,794	63,308
Provision for warranty	11	77,372	68,152
Other provisions	12	30,169	49,723
Income tax payable		202,764	83,079
Total current liabilities		4,786,980	4,458,177
<b>Non-current liabilities</b>			
Retirement benefit obligation	20	569,199	492,876
Lease liabilities	19	274,059	425,815
Provision for warranty	11	9,636	9,404
Total non-current liabilities		852,892	928,095
Total liabilities		5,639,874	5,386,272
<b>Equity</b>			
Attributable to owners of the Parent Company			
Share capital	21	407,264	407,264
Share premium	21	993,243	993,243
Treasury shares	21	(172,108)	(170,068)
Retained earnings	21	4,044,703	4,251,056
Other comprehensive loss		(86,269)	(86,269)
Total equity		5,186,833	5,395,226
Non-controlling interest		1,796,374	1,898,332
Total equity		6,983,207	7,293,558
<b>Total liabilities and equity</b>		<b>12,623,080</b>	<b>12,679,830</b>

The notes on pages 1 to 48 are integral part of these consolidated financial statements.

**ANNEX B****Concepcion Industrial Corporation and Subsidiaries**

Consolidated Statements of Total Comprehensive Income  
For the periods ended June 30, 2021 and 2020  
(All amounts in thousand Philippine Peso, except earnings per share)

	Notes	For the six months ended		For the three months ended	
		2021	2020	2021	2020
Net sale of goods	24	5,253,733	3,329,059	2,875,747	1,256,404
Sale of services	24	1,184,079	1,108,288	681,946	446,091
<b>Net sales</b>	15, 24	6,437,813	4,437,347	3,557,693	1,702,495
Cost of sales and services	16, 24	(4,186,006)	(2,927,886)	(2,361,886)	(1,179,217)
<b>Gross profit</b>		2,251,807	1,509,461	1,195,807	523,278
Operating expenses	17, 24	(1,755,283)	(1,416,194)	(876,463)	(642,947)
Other operating income, net	18	8,012	16,858	1,559	14,429
<b>Operating income</b>		504,536	110,125	320,903	(105,240)
Interest expense	13, 19, 24	(12,601)	(15,363)	(6,444)	(9,277)
<b>Income before share in net income (loss) of associates and income tax</b>		491,935	94,762	314,460	(114,517)
Share in net income (loss) of associates	7, 24	14,721	(9,949)	12,022	(3,517)
<b>Income before income (loss) tax</b>		506,656	84,813	326,482	(118,034)
Income tax expense	9, 24	(146,449)	(81,469)	(94,740)	(7,489)
<b>Net income (loss) for the period</b>		360,208	3,344	231,741	(125,523)
Other comprehensive income	9	-	-	-	-
<b>Total comprehensive income (loss) for the period</b>	24	360,208	3,344	231,741	(125,523)
<b>Net income (loss) attributable to:</b>					
Owners of the Parent Company	22	195,602	(35,054)	137,142	(104,670)
Non-controlling interest		164,606	38,398	94,599	(20,853)
	24	360,208	3,344	231,741	(125,523)
<b>Total comprehensive income (loss) attributable to:</b>					
Owners of the Parent Company	22	195,602	(35,054)	137,142	(104,670)
Non-controlling interest		164,606	38,398	94,599	(20,853)
	24	360,208	3,344	231,741	(125,523)
Earnings (loss) per share - basic and diluted	22	0.49	(0.09)	0.34	(0.26)

The notes on pages 1 to 48 are integral part of these consolidated financial statements.

## ANNEX C

### Concepcion Industrial Corporation and Subsidiaries

Consolidated Statements of Changes in Equity  
For each of the periods ended June 30, 2021 and 2020

	Attributable to owners of the Parent Company					Non- controlling interest	Total
	Share capital	Share premium	Treasury Shares	Retained earnings	Other comprehensive loss		
<b>Balances as at December 31, 2019</b>	407,264	993,243	(146,528)	4,063,053	(87,105)	2,037,359	7,267,286
<b>Comprehensive income</b>							
Net income for the period	-	-	-	(35,054)	-	38,398	3,344
Total comprehensive income for the period	-	-	-	(35,054)	-	38,398	3,344
<b>Transaction with owners</b>							
Cash dividends declared	-	-	-	(282,252)	-	(341,680)	(623,932)
Treasury Shares	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	(282,252)	-	(341,680)	(623,932)
<b>Balances as at June 30, 2020</b>	407,264	993,243	(146,528)	3,745,747	(87,105)	1,734,077	6,646,698
<b>Balances as at December 31, 2020</b>	407,264	993,243	(170,068)	4,251,056	(86,269)	1,898,332	7,293,558
<b>Comprehensive income</b>							
Net income for the period	-	-	-	195,602	-	164,606	360,208
Total comprehensive income for the period	-	-	-	195,602	-	164,606	360,208
<b>Transaction with owners</b>							
Cash dividends declared	-	-	-	(401,955)	-	(266,564)	(668,519)
Treasury Shares	-	-	(2,040)	-	-	-	(2,040)
Total transactions with owners	-	-	(2,040)	(401,955)	-	(266,564)	(670,559)
<b>Balances as at June 30, 2021</b>	407,264	993,243	(172,108)	4,044,703	(86,269)	1,796,374	6,983,207

The notes on pages 1 to 48 are integral part of these consolidated financial statements.

**ANNEX D****Concepcion Industrial Corporation and Subsidiaries**

Consolidated Statements of Cash Flows  
For each of the periods ended June 30, 2021 and 2020  
(All amounts in thousand Philippine Peso)

	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Income before income tax		506,656	84,813
Adjustments for:			
Provisions for (reversals of):			
Volume rebates, trade discounts and other incentives		453,838	148,139
Warranty cost	11	81,477	35,173
Commission	12	14,967	(293)
Impairment of receivables		5,841	53,570
Contingencies	12	25,629	17,805
Inventory obsolescence		10,279	49,337
Amortization of right-of-use assets	19	117,967	114,114
Depreciation and amortization of property and equipment	5	69,729	69,020
Retirement benefit expense	20	90,889	30,552
Interest expense	24	12,601	12,326
Amortization of intangible assets	8	15,282	14,334
Share in net loss (income) of associates	7	(14,721)	9,949
Unrealized foreign exchange (gains) losses	25	3,789	(10,510)
Gain on disposal of property and equipment		78	-
Interest income on bank deposits and short-term placements	18	(2,418)	(8,092)
Operating income before working capital changes		1,391,883	620,237
Changes in:			
Trade and other receivables		(685,065)	908,100
Inventories		(83,471)	111,973
Prepayments and other current assets		1,185	(79,555)
Other non-current assets		(15,577)	(30,350)
Trade payables and other liabilities		(164,723)	(492,788)
Cash generated from operations		444,232	1,037,617
Income tax paid		(161,757)	(138,935)
Payments of provision for warranty cost		(72,025)	(34,246)
Payments of other provisions	12	(60,149)	(33,727)
Retirement contributions/ benefits directly paid by the Group	20	(22,317)	(1,385)
Interest received on bank deposits		776	648
Net cash provided by (used in) operating activities		128,760	829,972
<b>Cash flows from investing activities</b>			
Interest received from short-term placements		1,642	7,444
Additions to property and equipment	24	(42,264)	(50,142)
Additions to intangibles	24	(383)	
Net cash used in investing activities		(41,005)	(42,698)
<b>Cash flows from financing activities</b>			
Cash distribution of profits	21	(560,355)	(423,919)
Proceeds from short-term borrowings	13	20,000	70,000
Principal repayment of lease liabilities	19	(117,096)	(111,284)
Interest paid on lease liabilities	19	(6,964)	(12,629)
Interest paid on short-term borrowings	13	(5,209)	(2,663)
Acquisitions of treasury shares		(2,040)	-
Net cash used in financing activities		(671,664)	(480,495)
<b>Net increase (decrease) in cash and cash equivalents</b>		(583,909)	306,779
Cash and cash equivalents as at January 1		2,986,668	1,606,096
Effects of foreign exchange rate changes on cash and cash equivalents		230	(369)
<b>Cash and cash equivalents as at December 31</b>	2	2,402,989	1,912,506

The notes on pages 1 to 48 are integral part of these consolidated financial statements.



**Concepcion Industrial Corporation and Subsidiaries**

Notes to the Consolidated Financial Statements

As at June 30, 2021 and December 31, 2020

and for each of the periods ended June 30, 2021 and 2020

(All amounts are shown in thousand Philippine Peso except number of shares,  
per share amounts and unless otherwise stated)

**Note 1 - General information****1.1 Registration and business**

Concepcion Industrial Corporation (the Parent Company or CIC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 17, 1997 primarily to carry on business as a holding company, including but not limited to the acquisition by purchase, exchange, assignment, gift, importation or otherwise, and to hold, own and use for investment or otherwise, and to sell, assign, transfer, exchange, mortgage, pledge, traffic or otherwise to enjoy and dispose of real and personal property of every kind and description, including land, condominium units, buildings, machineries, equipment, bonds, debentures, promissory notes, shares of capital stock or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, foreign or domestic, and while the owner thereof, to exercise all the rights, powers and privileges of ownership, including the right to receive, collect, and dispose of, any and all dividends, rentals, interest and income derived therefrom and generally perform acts or things designed to promote, protect, preserve, improve or enhance the value of any such land, condominium units, buildings, machineries, equipment, bonds, debentures, promissory notes, shares of capital stock, securities or obligations to the extent permitted by law without however engaging in dealership in securities, in the stock brokerage business or in the business of an investment company. The Parent Company's subsidiaries (Note 28.2.1) are engaged in the manufacture, sales (except retail), distribution, installation and service of heating, ventilating and air conditioning (HVAC) products and HVAC services; manufacture, assembly, wholesale, retail, purchase and trade of refrigeration equipment; importation, buy and sell, at wholesale, distribute, maintain and repair, elevators, escalators, moving walkways, and shuttle systems and all supplies, material, tools, machinery and part/components thereof; rendering various corporate back-office support services directly or through duly licensed service providers and/or professionals, where necessary, exclusively for (CIC), its subsidiaries, affiliates and/or related companies, to undertake research, development and commercialization of new, existing or emerging technology to existing or future residential and commercial appliances and equipment, and other products.

The Parent Company and its subsidiaries are herein collectively referred to as the "Group".

The Parent Company's primary shareholders are Foresight Realty & Development Corp., Hyland Realty & Development Corp., and Horizons Realty Inc., entities registered and doing business in the Philippines, which have equally divided equity over the Parent Company. These companies are beneficially owned by Filipino individuals.

The Parent Company's registered office address, which is also its principal place of business, is located at 308 Gil Puyat Avenue, Makati City.

**1.2 Significant business developments**

On April 2, 2019, the SEC approved CDI's application for increase in authorized share capital to 6.78 million shares at P100 par value per share. Consequently, the corresponding shares related to Parent Company's deposit for future share subscription amounting to P178 million were issued to the Parent Company. On February 12, 2020, the BOD approved the increase in authorized capital stock from P678 million to P1.2 billion consisting of 12 million shares at P100 par value per share. On November 27, 2020, the CDI filed the application for the increase in authorized capital stock with the SEC.

On December 15, 2020, SEC approved the Company's application for the increase in authorized share capital to P1.2 billion or 12 million shares at P100 par value per share and out of the increase in capital, 1,364,040 shares was subscribed to and paid by the Parent Company at a total subscription price of P136.4 million.

On January 31, 2019, the SEC approved CTC's application for the increase in authorized share capital to 200 million shares at P1 par value per share. Consequently, the corresponding shares relating to the Parent Company's deposit for future stock subscription amounting to P60 million were issued to the Parent Company. On December 19, 2019, BOD approved the proposed increase in authorized share capital of CTC from 200 million shares to 450 million shares at P1 par value per share. CTC received deposit for future stock subscription from the Parent Company amounting to P15.6 million and P20 million on July 17, 2020 and February 09, 2021, respectively. As of June 30, 2021, CTC is still in the process of completing the requirements for its application of the proposed increase in authorized share capital with the SEC.

On October 31, 2018, CTC entered into a stock purchase and shareholders agreement (SPSA) for the purchase of 30% of the issued and outstanding shares of Teko Solutions Asia Inc. (Teko) equivalent to 6,000 shares for P19.9 million. The purchase of 30% interest was made on November 27, 2018. The SPSA also provides that additional 21% interest will be subscribed by CTC on November 27, 2018 to increase its total ownership to 51% upon completion of certain provisions in the SPSA. The actual issuance of additional 8,572 shares of Teko equivalent to 21% interest happened on January 17, 2019. Teko was incorporated and registered with the Philippine SEC on September 5, 2017. Teko's primary business is providing information technology solutions, I.T. enabled services, e-commerce, web design, and applications, to enterprise, consumers, businesses, institutions and other end-users without engaging in mass media, advertising nor in telecommunication activities. In the first quarter of 2019, CTC subscribed and paid 21,250 of Teko's preferred shares amounting to P2.1 million. On December 19, 2019, Teko's BOD approved the issuance of 127,500 shares of preferred stock to the CTC at an issue price equal to the par value, payable by applying or offsetting an equivalent amount of the outstanding advances due and payable by Teko to CTC. CTC and Teko's shareholders are in the process of finalizing the terms and conditions regarding the issuance of shares and the offsetting of advances. Hence, the balance of CTC's deposit for future stock subscription was recorded as a liability as at December 31, 2019. The shares were issued on February 3, 2020.

On April 25, 2019, SEC approved the incorporation of Tenex Services, Inc. (Tenex) where Alstra subscribed 6,125,000 common shares at P1 per share, representing 49% ownership of Tenex's issued and outstanding shares. Tenex was organized to undertake and transact all kinds of business relating to installation, servicing sale and distribution of heating, ventilation and air conditioning systems and products, and such other activities related thereto, such as construction and mechanical maintenance services. On July 2, 2020, Tenex issued the 15,500 stock subscription at par value to a shareholder and Alstra amounting to P6.9 million and P8.6 million, respectively.

**Note 2 - Cash and cash equivalents**

Cash and cash equivalents as at June 30, 2021 and December 31, 2020 consist of:

	2021	2020
Cash on hand	67	66
Cash in banks	822,579	1,185,901
Short-term placements	1,580,343	1,800,701
	2,402,989	2,986,668

Cash in banks and short-term placements amounting to P2,122,488 and P280,435 (2020 - P2,762,983 and P223,619) are made with universal and commercial banks, respectively.

Short-term placements are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at rates ranging from 0.075% to 0.30% (2020 - 0.125% to 3%) based on the prevailing bank deposit rates (Note 18).

The carrying values of cash and cash equivalents, and short-term investments represent the maximum exposure to credit risk other than cash on hand. While these are also subject to the impairment of PFRS 9, the identified impairment loss was immaterial.

### **Note 3 - Trade and other receivables, net**

Trade and other receivables as at June 30, 2021 and December 31, 2020 consist of:

	Note	2021	2020
Trade receivables			
Third parties		4,616,780	3,913,244
Related parties	14	4,303	3,781
Provision for volume rebates, trade discounts and other incentives		(711,471)	(386,905)
Provision for impairment of receivables		(166,468)	(165,601)
Net trade receivables		3,743,144	3,364,519
Non-trade receivables, net			
Related parties	14	15,657	30,608
Advances to employees		32,624	36,105
Claims from suppliers		7,282	11,772
Rental deposits		719	10,593
Others		271,038	188,224
		4,070,464	3,641,581

#### *Provisions*

The Group applies PFRS 9 simplified approach in measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 to 60 months before January 1, 2020 and the corresponding historical credit losses experienced within this period.

The Group's financial assets are categorized based on the Group's collection experience with the counterparties as follows:

- a. High performing - settlements are obtained from counterparty following the terms of the contracts without much collection effort.
- b. Underperforming - some reminder/follow-ups are performed to collect accounts from counterparty.
- c. Credit impaired - constant reminder/follow-ups are performed to collect accounts from counterparty.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified inflation rate in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in such rates.

On that basis, the loss allowance as at June 30, 2021 and December 31, 2020 was determined as follows for both trade receivables and contract assets:

	High performing	Underperforming		Credit impaired	Total
	Current Within	Up to 6 months past due Within	6 to 12 months past due Within	Over 12 months past due Within	
Expected loss rate	0% to 12%	1% to 27%	1% to 27%	1% to 100%	
<b>2021</b>					
Trade receivables					
Third parties	3,275,251	1,092,353	84,772	164,404	4,616,780
Related parties	4,303	-	-	-	4,303
	3,279,554	1,092,353	84,772	164,404	4,621,083
Contract assets	609,032	-	-	-	609,032
<b>Total</b>	<b>3,888,586</b>	<b>1,092,353</b>	<b>84,772</b>	<b>164,404</b>	<b>5,230,115</b>
Loss allowance	-	-	2,064	164,404	166,468
<b>2020</b>					
Trade receivables					
Third parties	2,471,821	1,126,438	153,347	161,638	3,913,244
Related parties	3,740	-	-	-	3,740
	2,475,561	1,126,438	153,347	161,638	3,916,984
Contract assets	670,285	-	-	-	670,285
<b>Total</b>	<b>3,145,846</b>	<b>1,126,438</b>	<b>153,347</b>	<b>161,638</b>	<b>4,587,269</b>
Loss allowance	3,290	431	242	16,1638	165,601

Advances to employees are paid through salary deductions. Rental deposits are expected to be applied to future lease obligations. All these accounts and other receivables do not contain impaired assets and are not past due.

The maximum exposure to credit risk at the reporting date are the respective carrying values of trade receivables, contract assets, other receivables and due from related parties as at reporting date.

#### **Note 4 - Inventories, net**

Inventories, net as at June 30, 2021 and December 31, 2020 consist of:

	Note	2021	2020
At cost			
Raw materials		1,581,193	1,000,237
Finished goods	16	894,110	1,295,612
Work in process	16	2,815	4
Inventories-in-transit		65,100	168,394
Spare-parts and supplies used in business		85,183	88,674
		2,628,401	2,552,921
<b>Total Inventories</b>			
Provision for inventory obsolescence		(79,618)	(90,904)
		2,548,783	2,462,017

For the period ended June 30, 2021, the cost of inventory recognized as expense and included in cost of sales and services amounted to P3,915,307 (2020 – P2,678,646) (Note 16).

## **Note 5 - Property and equipment, net**

As at June 30, 2021 and December 31, 2020, the net cost and the net accumulated depreciation of property and equipment consisting of machineries and equipment, transportation equipment, furniture, fixtures and office equipment, tools equipment, leasehold and building improvements, amounted to P32,248 and P69,427 (2020 – P91,051 and P138,128), respectively.

For the period ended June 30, 2021, total depreciation and amortization recognized as part of cost of services (Note 16) and operating expenses (Note 17) amounted to P69,522 (2020 – P69,018).

## **Note 6 - Investment property**

As at June 30, 2021 and December 31, 2020, the Parent Company's investment property consists of parcel of land that it acquired in Davao City, which is held for capital appreciation.

The estimated fair value of the investment property as at June 30, 2021 and December 31, 2020 amounted to P37,520, based on the last known selling price per square meter.

As at June 30, 2021 and December 31, 2020, there were no payments made by the Parent Company, to a sub-contractor for direct costs related to planned construction of an investment property which is booked as CIP under the investment property account. There were no further costs incurred that were considered as additions to investment property as at June 30, 2021 and December 31, 2020.

There was no income earned related to the property for the period ended June 30, 2021 and for the year ended December 31, 2020. Further, direct operating expense for the investment property incurred for the period June 30, 2021 and for the year ended December 31, 2020 amounted to P29 (2020 - P69).

## **Note 7 - Investments in shares of stock**

### **7.1 Associates**

Details of movement in investment in associates for the period ended June 30, 2021 and for the year ended December 31, 2020 follow:

	2021	2020
At cost, beginning	274,700	266,125
Additional investments	-	8,575
At cost, ending	274,700	274,700
Cumulative share in total comprehensive loss, beginning	(122,985)	(147,012)
Share in net income for the year	14,721	22,999
Share in other comprehensive income for the year	-	1,028
Cumulative share in total comprehensive loss, ending	(108,264)	(122,985)
	166,436	151,715

## **Note 8 - Goodwill and intangible assets, net**

### **8.1 Goodwill**

Goodwill is the excess of consideration over proportionate share in fair value of net assets.

As at June 30, 2021, recognized goodwill resulted from the Parent Company's acquisition of COPI in 2014. The Group applied the proportionate interest approach to account for the resulting NCI from this business combination. The goodwill of P783,983 arising from the acquisition is attributable to an established brand, and customer and product base.

In 2019, the Group finalized the Purchase Price Allocation relevant to its acquisition of Teko in 2018. The goodwill of P18,379 arising from the acquisition is attributable to Teko's web-based platforms, consisting of its website and mobile application (Note 7.2.3).

#### *Impairment test for goodwill*

Discounted cash flow (DCF) method was used as base for estimating the recoverable value of COPI and Teko as at December 31, 2020 and 2019. The Group did not recognize impairment losses for the period June 30, 2021 and for the year ended December 31, 2020 as the recoverable value exceeds the carrying amount of the cash-generating unit (CGU) (Note 27.2.1).

## **8.2 Intangible assets, net**

Details and movements of intangible assets account as at June 30, 2021 and December 31, 2020 are shown below:

	Notes	Customer relationship	Customer backlogs	Computer software	Total
<b>Cost</b>					
At January 1, 2021		187,113	13,883	112,513	313,509
Additions		-	-	383	383
At June 30, 2021		187,113	13,883	112,896	313,892
<b>Accumulated amortization</b>					
At January 1, 2021		53,424	13,883	55,958	123,265
Amortization	16, 17	3,742	-	11,540	15,282
At June 30, 2021		57,166	13,883	67,498	138,547
Net book values at June 30, 2021		129,947	-	45,398	175,345
<b>Cost</b>					
At January 1, 2020		187,113	13,883	94,467	295,463
Additions		-	-	18,046	18,046
At December 31, 2020		187,113	13,883	112,513	313,509
<b>Accumulated amortization</b>					
At January 1, 2020		45,940	13,883	34,583	94,406
Amortization	16, 17	7,484	-	21,375	28,859
At December 31, 2020		53,424	13,883	55,958	123,265
Net book values at December 31, 2020		133,689	-	56,555	190,244

### **Note 9 - Deferred income tax/Provision for income tax**

As at June 30, 2021 and December 31, 2020, net deferred income tax assets to be recovered within 12 months amounting to P496,170 (2020 – P282,248) which include among others temporary differences from provision for volume rebates, trade discounts and other incentives, accrued employee-related costs, and provision for impairment of receivables. Net deferred income tax assets to be recovered after 12 months amounting to P152,080 (2020 – P194,278) include temporary differences related to retirement benefits.

Details of income tax expense for the period ended June 30, follow:

	2021	2020
Current	244,490	94,044
Deferred	(98,041)	(12,575)
	146,449	81,469

## **Note 10 - Trade payables and other liabilities**

Trade payables and other liabilities as at June 30, 2021 and December 31, 2020 consist of:

	Note	2021	2020
Trade payables			
Third parties		1,313,534	1,244,388
Related parties	14	208,445	516,135
		1,521,999	1,760,523
Accrued expenses			
Project costs		563,227	569,546
Benefits of directors, officers and employees		324,566	212,222
Outside services		226,261	225,122
Importation costs		67,047	28,378
Professional fees		65,033	52,840
Advertising and promotion		61,135	28,218
Installation and cleaning costs		3,294	39,274
Rental and utilities		41,710	38,806
Freight		26,252	32,079
Repairs and maintenance		4,806	2,076
Commission		3,623	42,242
Others		93,506	106,157
		1,480,460	1,376,960
Other liabilities			
Advances on sales contract		262,487	233,190
Billings in excess of costs incurred and estimated earnings on uncompleted contracts		390,499	242,676
Withholding taxes and other mandatory government remittances		43,390	136,566
Output value-added tax (VAT), net of input VAT		154,057	75,832
Related parties	14	139,809	40,227
Others		171,180	137,941
		1,161,422	866,432
		4,163,881	4,003,915

Project costs represent costs of HVAC related projects incurred but not yet billed as at reporting date.

As at June 30, 2021 and December 31, 2020, billings in excess of costs incurred and estimated earnings on uncompleted contracts represent the excess of contract billings amounting to P1,257,288 (2020 - P894,102) over the cumulative costs incurred and margin amounting to P866,789 and P390,499 respectively (2020 - P651,426 and P242,676, respectively).

## **Note 11 - Provision for warranty**

As at June 30, 2021 and December 31, 2020, the provisions net of payment, amounted to P9,452 (2020 - P42,137).

For the period ended June 30, 2021 and 2020, provisions for warranty costs were recognized as part of cost of services (Note 16) and operating expenses (Note 17) amounted to P4,284 and P77,193 (2020 - P301 and P34,872), respectively.

## **Note 12 - Other provisions**

Details of other provisions as at June 30, 2021 and December 31, 2020 consist of:

	2021	2020
Contingencies	7,825	30,763
Commission	22,344	18,960
	30,169	49,723

Movements in provision for contingencies as at June 30, 2021 and December 31, 2020 follow:

	Note	2021	2020
Beginning		30,763	12,307
Provisions	17	25,629	28,113
Payments		(48,567)	(9,657)
Ending		7,825	30,763

Movements in provision for commission as at June 30, 2021 and December 31, 2020 follow:

	2021	2020
Beginning	18,960	30,051
Provisions	14,967	17,224
Payments	(11,583)	(28,315)
Ending	22,344	18,960

Provision for commission was recorded under personnel cost in operating expenses (Note 17). Provision for commission is expected to be settled within twelve (12) months after the reporting date and payment is dependent on whether sales targets are met or exceeded.

## **Note 13 - Short-term borrowings**

Movements of short-term borrowings for the period ended June 30, 2021 and for the year ended December 31, 2020 are as follows:

	2021	2020
Beginning	190,000	45,000
Availments	20,000	145,000
Settlements	-	-
Ending	210,000	190,000

As at June 30, 2021 and December 31, 2020, the Group has unsecured interest-bearing short-term loans ranging from three (3) to six (6) months at 5.25% interest rate (2020 – from 5.25% to 6.15%).

Interest expenses on borrowings recognized during the periods ended June 30, 2021 amounted to P5,209 (2020 – P2,663).



## Note 14 - Related party transactions

In the normal course of business, the Group transacts with related parties. The following are the balances and significant transactions with these entities as at and for the period ended June 30, 2021 and as at and for the year ended December 31, 2020:

	2021		2020		Terms and conditions
	Transactions	Outstanding receivable (payable)	Transactions	Outstanding receivable (payable)	
<b>Shareholders</b>					
Rent and utilities	32,119	(113)	60,666	(2)	Outstanding payables are due within 30 to 60 days from transaction date. These are payable in cash, non-interest bearing and unsecured.
Lease of warehouse	25,233	-	42,129	-	
Advance Rental	-	-	2,730	-	Refer to Note 19.
Security Deposit	-	-	2,671	-	Refer to Note 19.
Dividend declaration	401,955	-	282,253	-	Refer to Note 21.2.
Reimbursements from Shareholders	102	-	303	303	Outstanding receivables/payables are due within 30 to 60 days from transaction date. These are collectible/ payable in cash, non-interest bearing and unsecured.
Reimbursements to Shareholders	-	(1,157)	-	(1,157)	
<b>Associate</b>					
Administrative services	11,290	1,766	21,454	2,728	Outstanding receivables are due within 30 to 60 days from transaction date. These are collectible in cash, non-interest bearing and unsecured.
Transfer of employees	-	(110)	110	(110)	
Transfer of employees	-	2,244	2,537	2,687	Benefits due to the employee transferred up to date of transfer will be paid by the former employer to the receiving company. Outstanding receivables/payables are due within one year from transaction date. The balance is collectible/payable in cash, non-interest bearing and unsecured.
Purchase of goods, net of Returns	28,846	(11,607)	17,236	(1,877)	Outstanding payables are due within 30 to 90 days from transaction date. These are payable in cash, non-interest bearing and unsecured in nature. These receivables are unsecured and non-interest bearing.
Sale of goods	2,538	2,538	2,773	1,053	The outstanding receivables (Note 3) is unsecured in nature and bears no interest and is settled within 60 days after the date of sale.
Product loan	383	(383)	270	-	Payable within the next 12 months after invoice date. Unsecured and non-interest bearing advances.
Transaction fees for the service platform	1,518	253	1,030	1,030	Outstanding receivables/payables are due within 30 to 60 days from transaction date. These are collectible/ payable in cash, non-interest bearing and unsecured.
Reimbursements from Associates	47,708	13,160	164,981	22,617	
Reimbursements to Associates	4,001	(3,600)	1,225	(4,736)	
<b>Entities under common control</b>					
Rent and utilities	19,903	-	34,119	-	Receivables/payables are collectible/payable in cash within 30 to 60 days from billing date. These are unsecured, unguaranteed and non-interest bearing. Balances are fully recoverable with no impairment loss recognized.
<b>Entities with common shareholders</b>					
Sale of goods	-	-	-	-	The outstanding receivables (Note 3) is unsecured in nature and bears no interest and is settled within 60 days after the date of sale.
Commission income	1,469	-	10,558	3,731	Receivables/payables are collectible in cash within 30 to 60 days from billing date. These are unsecured, unguaranteed and non-interest bearing. Balances are fully recoverable with no impairment loss recognized. Advances are primarily cost reimbursements paid on behalf of related parties.
Reimbursements	25	-	-	-	
Dividend declaration	266,564	(108,164)	341,680	-	Refer to Note 21.2.
Purchases, net purchase Returns	544,627	(208,445)	1,973,683	(514,258)	Outstanding payables are due within 30 to 60 days from transaction date. These are payable

	2021		2020		Terms and conditions
	Transactions	Outstanding receivable (payable)	Transactions	Outstanding receivable (payable)	
Collections (Payments) in behalf of a related party	-	(3,912)	-	(4,331)	in cash, non-interest bearing and unsecured (Note 19).
Royalty/Technical fees	29,465	(10,764)	42,697	(29,891)	Payable in cash within 60 days unsecured and bears no interest. Refer to Notes 16 and 17.
Key management personnel					
Short-term					
Directors' fees	1,778	(1,778)	9,412	(9,412)	Payable to employees in cash within 30 days from date of each transaction. Non-interest bearing and not covered by any guarantee. Refer to Note 20.
Salaries and wages	133,156	(48,891)	435,561	(60,772)	
Long-term					
Retirement benefits	8,701	(150,126)	19,034	(122,007)	Refer to Note 20.
Retirement plan					
Contributions to the retirement fund	-	-	854	-	Refer to Note 20.
Claims from the retirement Fund	-	-	25,034	-	Receivables are collectible on demand, unsecured and non-interest bearing.

Shared administrative costs charged to entities under common shareholders are for the accounting services rendered. This is covered by a shared service agreement renewable every year

There were no provisions recognized in relation to receivables from related parties. Balances due are normally settled/collected at gross.

#### **Note 15 - Revenue from contracts with customers**

Details of net sales and services for the periods ended June 30 are as follows:

	Note	2021	2020
Gross sales			
Sale of goods (Point in time)		6,724,194	4,176,129
Sale of services (Over time)		538,187	727,273
		7,262,381	4,903,402
Deductions			
Trade and volume discounts and other incentives	3	(558,011)	(261,239)
Sales returns		(266,557)	(204,816)
		(824,568)	(466,055)
Net sales and services		6,437,813	4,437,347

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time from their major business segments as presented in Note 24.

## **Note 16 - Cost of sales and services**

Details of cost of sales and services for the periods ended June 30 are as follows:

	Note	2021	2020
Raw materials used		2,608,283	1,489,051
Labor		103,246	63,398
Overhead		347,613	291,061
Total manufacturing cost		3,059,142	1,843,510
Work-in-process, beginning	4	4	3,620
Work-in-process, ending	4	(2,815)	(49,462)
Cost of goods manufactured		3,056,331	1,797,668
Finished goods inventory, beginning	4	1,295,612	1,210,302
Gross purchases - trading		457,474	570,279
Finished goods available for sale		4,809,417	3,578,249
Finished goods inventory, ending	4	(894,110)	(899,603)
Total cost of sales		3,915,307	2,678,646
Cost of Installation and maintenance of elevators		5,866	241,290
Others		264,833	7,950
Total cost of services		270,699	249,240
Total cost of sales and services		4,186,006	2,927,886

Details of overhead for the periods ended June 30 are as follows:

	Notes	2021	2020
Indirect labor		147,586	130,636
Depreciation and amortization	5	36,628	38,052
Rent and utilities	14, 19	30,868	22,714
Repairs and maintenance		30,611	16,480
Outside services		29,864	29,582
Taxes and licenses		20,575	28,128
Amortization of right-of-use assets		19,782	17,663
Inbound Storage		16,116	2,550
Travel and transportation		3,611	4,905
Insurance		2,877	3,259
Amortization of intangible assets	8	1,077	991
Others		8,018	(3,899)
		347,613	291,061

Details of cost of services the periods ended June 30 are as follows:

	Notes	2021	2020
Materials and labor	4	183,478	163,643
Personnel costs		48,048	51,605
Royalty/technical fees	14, 19	14,423	14,888
Outside services		7,935	3,084
Rent and utilities	14, 19	4,600	4,941
Amortization of right-of-use assets	19	3,789	3,736
Depreciation and amortization	5	3,209	2,065
Taxes and licenses		1,910	2,226
Transportation and travel		1,335	1,256
Insurance		436	482
Supplies		382	211
Repairs and maintenance		106	112
Others		1,048	991
		270,699	249,240

## **Note 17 - Operating expenses**

Details of operating expenses for the periods ended June 30 are as follows:

	Notes	2021	2020
Personnel costs	12, 20	694,863	554,831
Outside services and professional fees		379,477	257,629
Outbound freight		176,730	118,321
Advertising and promotion		109,437	37,258
Amortization of right-of-use assets	19	87,902	92,896
Warranty cost	11	77,193	34,872
Rent and utilities	14, 19	61,985	45,847
Taxes and licenses		47,951	21,622
Depreciation and amortization	5	29,685	28,901
Royalty/technical fees	14, 19	18,245	10,809
Amortization of intangible assets	8	16,138	13,343
Transportation and travel		8,805	15,629
Provision for impairment of receivables	3	5,841	53,570
Repairs and maintenance		4,307	3,439
Provision for (Reversal of) inventory obsolescence	4	(7,466)	49,337
Others		43,689	77,890
		1,755,283	1,416,194

## **Note 18 - Other operating income, net**

Details of net other operating income for the periods ended June 30 are as follows:

	Notes	2021	2020
Foreign exchange gains (losses), net	25	(12,295)	(1,851)
Interest income		2,418	8,092
Commission income	14	1,469	(1,670)
Miscellaneous		16,420	12,287
		8,012	16,858

Miscellaneous income pertains mainly to interest income from employee loans, expired warranties and sale of old model units.

## **Note 19 - Leases and other agreements**

### **19.1 Leases**

The Group leases various office space, furniture and fixtures, equipment and vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The group has recognized right-of-use assets for these leases, except for short-term and low-value leases. Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions.

19.1.1 CCAC has a three-year lease agreement with Concepcion Industries, Inc., an entity under common control to CCAC, expiring on December 31, 2018 for the lease of its factory located in the Light Industry Science Park, Cabuyao, Laguna to the Partnership. Subject to further renewal or extension on the same terms and conditions as may be agreed upon by the parties. The lease was renewed for another three years up to December 31, 2021.

- 19.1.2 CCAC has a three-year lease contract from January 1, 2017 to December 31, 2019 with LSL Realty Development Corporation, for the lease of warehouse space located in the Light Industry Science Park, Cabuyao Laguna, subject to negotiation upon renewal. The lease was renewed for another three years up to December 31, 2022.
- 19.1.3 CCAC leases an office space in Muntinlupa City and a warehouse space in Cabuyao owned by Foresight Realty and Development Corporation, an entity under common control to CCAC. The contracts are renewable upon mutual agreement of the parties which will expire in August 2022.
- 19.1.4. CCAC and CBSI leases an office and parking space, respectively, in Muntinlupa City from Foresight Realty & Development Corp., a shareholder, for a period of five (5) years from August 2017 to July 2022. The agreements are subject to renewal or extension on such terms and conditions as may be agreed by both parties.
- 19.1.5 CDI leases warehouse space in Cabuyao from Hyland Realty & Dev't. Corp., an entity under common control, for a period of five (5) years commencing on November 3, 2016 and ending on November 2, 2021, subject to renewal or extension on such terms and conditions as may be agreed upon by the parties.
- 19.1.7 Both CCAC and CDI have agreements with various lessors covering office space for its regional offices. Such agreements have terms ranging from one (1) to five (5) years under terms and conditions as agreed with the lessors.
- 19.1.8 COPI has various lease agreements covering offices, warehouses and vehicles under non-cancellable operating leases expiring within 3 to 10 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.
- 19.1.9 CTC has a three-year lease contract from June 16, 2019 to June 15, 2022 with MBS Development Corporation for its office space and parking space in Muntinlupa City. The contract is renewable upon mutual agreement of the parties.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Rental deposits required for these lease agreements are included in other non-current assets account in the consolidated statements of financial position.

### **Amounts recognized in the statement of financial position**

Right-of-use assets are composed of office, warehouse, vehicle and other leased assets. As at June 30, 2021 and December 31, 2020, total cost and accumulated amortization of ROU assets amounted to P1,042,390 and P666,422 (2020 – P1,036,617 and P548,763), respectively.

For the period ended June 30, 2021, total amortization expense charged to cost of sales and services (Note 16) and operating expenses (Note 17) amounted to P23,571 and P87,902 (2020 – P21,399 and P92,896), respectively.

Lease liabilities as at June 30, 2021 and December 31, 2020 are as follows:

	2021	2020
Current	102,794	63,308
Non-current	274,059	425,815
	376,853	489,123

## **19.2 Trademark and other agreements**

### **19.2.1 Kelvinator trademark**

CCAC and CDI have separate trademark agreements with Kelvinator International Partnership, a division of Electrolux Home Products, Inc. (a Partnership incorporated in the U.S.A.) for the license to use the “Kelvinator” trademark as specified in the agreement for its window type room air conditioners. In consideration thereof, CCAC and CDI are required to pay a trademark fee of 2% of the net selling price of the trademarked products subject to a minimum annual fee of 1.5% of targeted net sales and actual inspection fees. The agreements remain effective unless terminated by both parties.

Royalty/technical fees for the above agreements charged to operations for the periods ended June 30, 2021 amounted to P3,204 (2020- P3,680) (Note 17).

### **19.2.2 Royalty/Technical service agreement with Carrier Corporation**

CCAC has an existing technical service agreement with Carrier Corporation (Carrier), a related party of one of the owners of CCAC, which is co-terminus with the joint venture agreement between Carrier and CCAC. The agreement provides that CCAC will pay royalty fees equivalent to a specified percentage of the net sales depending on the product type, in exchange for non-exclusive and non-transferable rights to make use of technical data, process and assistance to be provided by Carrier Corporation in the manufacture of its products. The agreement remains effective unless terminated by both parties.

Royalty/technical fees for the above agreements charged to operations for the periods ended June 30, 2021 amounted to P15,042 (2020- P7,129) (Note 17).

### **19.2.3 Trademark and Trade Name License Agreement and Technical Assistance Agreements and License to Use Technical Data, Know-how and Patents Agreement with Otis U.S.A.**

COPI has existing Technical Assistance Agreements and License to Use Technical Data, Know-how and Patents Agreement with Otis U.S.A., a related party, for the latter to provide technical data and know-how to improve the technical knowledge of COPI’s personnel and to further impart and transfer technical data and provide technical service to COPI. In consideration thereof, COPI is required to pay, in addition to the costs incurred by Otis U.S.A. in providing the training, a royalty fee equivalent to 3.5% of the net billings of COPI.

COPI also has a Trademark and Trade Name License Agreement with Otis U.S.A. which grants COPI a non-exclusive right and license to market and sell Otis products and to perform service under the licensed marks. As consideration of the rights and licenses granted, COPI shall pay Otis U.S.A. a royalty fee as provided in the Technical Assistance Agreement mentioned above. The agreement remains effective unless terminated by both parties.

Royalty/technical fees for the above agreements charged to operations for the periods ended June 30, 2021 amounted to P14,423 (2020 -P14,888) (Note 16).

### **19.2.4 Assignment Agreement with OECPI**

COPI has an outstanding payable to OECPI as at June 30, 2021 and 2020 amounting to P3,912 (2020- P4,331) which is included under payable to related parties under trade payables and other liabilities (Notes 10 and 14). The payable resulted from transactions subsequent to an Assignment Agreement executed by and between OECPI, as the assignor, and COPI, as the assignee, for the conveyance, transfer assignment and delivery of all the OECPI’s assets, liabilities and contracts to COPI as set out in the agreement.

## **Note 20 - Retirement plan**

### **20.1 CIC**

CIC has an established retirement plan which is a non-contributory and of the defined benefit type which provides a retirement benefits ranging from twenty percent (20%) to one hundred twenty-five percent (125%) of basic monthly salary times number of years of service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan. This retirement plan is in agreement with CCAC's retirement plan that was started on July 1, 1999 since most of the employees of CIC were absorbed from CCAC.

### **20.2 CCAC**

CCAC has an established funded, trustee and non-contributory and of the defined benefit type retirement plan covering all its regular employees. The retirement plan provides lump sum benefits upon retirement, death, total and permanent disability, voluntary separation after completion of ten (10) years of credited service, and involuntary separation (except for cause). Normal retirement age is 60 years or 15 years of credited service, whichever is earlier and provides for retirement benefit equivalent to 125% of the latest monthly salary per year of service.

The Retirement Plan Trustee, as appointed by CCAC in the Trust Agreement executed between CCAC and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek and advice of counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Retirement Fund.

There are no unusual or significant risks to which the Plan exposes CCAC. However, in the event a benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from CCAC to the Retirement Fund.

In accordance with the provisions of Bureau of Internal Revenue (BIR) Regulation No. 1-68, it is required that the Retirement Plan be trustee; that there must be no discrimination in benefits that forfeitures shall be retained in the Retirement Fund and be used as soon as possible to reduce future contributions; and that no part of the corpus or income of the Retirement Fund shall be used for, or divided to, any purpose other than for the exclusive benefit of the Plan members. CCAC is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the CCAC's discretion.

### **20.3 CDI; Alstra; Teko**

These entities have not yet established a formal retirement plan for its employees but pays retirement benefits required under Republic Act (RA) No. 7641 (Retirement Law). RA 7641 provides that all employees between ages 60 to 65 with at least 5 years of service with the entities who may opt to retire are entitled to benefits equivalent to one-half month salary for every year of service, a fraction of at least six (6) months being considered as one whole year. The term one-half month shall mean fifteen (15) days plus one-twelfth (1/12) of the 13<sup>th</sup> month and the cash equivalent of not more than five (5) days of service incentive leaves.

As at June 30, 2021 and December 31, 2020, estimated retirement benefits and obligations for Alstra is deemed immaterial, hence, not provided for.

In February 2021, the CDI's BOD approved to established a non-contributory retirement plan covering all its regular employees. The plan provides lump sum benefits upon retirement, death, total and permanent disability, voluntary separation after completion of at least ten (10) years of credited service, and involuntary separation (except for cause). Normal retirement age is 60 years or 25 years of credited service, whichever is earlier and provides for retirement benefit equivalent to 125% of the latest monthly salary per year of service.

## 20.4 COPI

The Company has a funded, non-contributory defined benefit plan covering the retirement and disability benefits to its qualified employees and is being administered by a trustee bank. The normal retirement age is 60 years and optional retirement date is at age 45 or completion of at least 25 years of service.

## 20.5 CBSI

CBSI has a non-contributory retirement benefit plan which provides a retirement benefit ranging from twenty percent (20%) to one hundred twenty-five percent (125%) of basic monthly salary times number of years of service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

## 20.6 CTC

CTC has established an unfunded, defined benefit retirement plan which provides a retirement benefit equivalent to 125% of basic salary times number of years in service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

The retirement obligation of each entity in the Group is determined using the “Projected Unit Credit” (PUC) method. Under the PUC method, the annual normal cost for the portion of the retirement is determined using the amount necessary to provide for the portion of the retirement benefit accruing during the year. The latest actuarial valuation of the retirement benefits for each entity in the Group was sought from an independent actuary as at December 31, 2020.

Retirement benefit expense is included as part of employee costs under operating expenses (Note 19).

## Note 21 - Equity

### 21.1 Share capital

As at June 30, 2021 and December 31, 2020, the Parent Company’s authorized share capital amounting to P700,000 for both periods is composed of 700 million shares with par value of P1 per.

The details and movement of share capital as at and for the period ended June 30, 2021 and as at and for the year ended December 31, 2020 follow:

	Number of common shares issued and outstanding	Amount		
		Share capital	Share premium	Treasury shares
December 31, 2019	403,218,091	407,264	993,243	(146,528)
Acquisition of treasury shares	(1,263,000)	-	-	(23,540)
December 31, 2020	401,955,091	407,264	993,243	(170,068)
Acquisition of treasury shares	(100,000)	-	-	(2,040)
June 30, 2021	401,855,091	407,264	993,243	(172,108)



## 21.2 Retained earnings

Cash dividends declared, attributable to owners of Parent Company, for the period ended June 30, 2021 and for the year ended December 31, 2020 are as follows:

Date declared	Dates paid	Per share	2021	2020	2019
Feb. 10, 2021	April 12, 2021	1.0	401,955	-	-
May 13, 2020	June 17, 2020	0.7	-	282,253	-
April 3, 2019	May 10, 2019	1.20	-	-	486,606
			401,955	282,253	486,606

For the period ended June 30, 2021 and for the year ended December 31, 2020, NCI from profit distribution of CCAC and COPI amounted to P188,164 and P78,400, respectively (2020 - P341,680 and nil, respectively).

As at June 30, 2021 and December 31, 2020, the Parent Company's unappropriated retained earnings exceeded its paid-in capital by P1,621,800 (2020 - P1,519,668). The Parent Company annually performs an evaluation of the amount to be declared as dividends. Subsequently, on February 10, 2021, the Parent Company's BOD declared cash dividends in the amount of P1.00 per share totaling to P401,955 for shareholders of record as at March 12, 2021, paid on April 12, 2021.

## 21.3 Treasury shares

On February 17, 2016, the Parent Company's BOD approved a non-solicitation share buyback program to be carried out until February 16, 2019. On September 9, 2019, the Parent Company's BOD approved a non-solicitation share buyback program to be carried out until September 9, 2022.

On March 20, 2020, the BOD amended the terms of the share buyback program to increase the limit of the common shares that may be repurchased during the first year of the program from P100 million to P300 million.

Buyback of shares paid for since 2016 are as follows:

Trade Date	Date Paid	Shares	Per share	Absolute amount (in thousand Pesos)
<i>2016</i>				
March 16, 2016	March 21, 2016	500,000	42.00	21,000
March 16, 2016	March 21, 2016	384,100	42.50	16,324
April 05, 2016	April 08, 2016	500,000	45.00	22,500
				59,824
<i>2018</i>				
October 09, 2018	October 12, 2018	250,000	37.20	9,300
October 11, 2018	October 16, 2018	124,600	37.20	4,635
				13,935
<i>2019</i>				
September 10, 2019	September 13, 2019	500,000	32.30	16,150
September 11, 2019	September 16, 2019	500,000	32.50	16,250
September 17, 2019	September 20, 2019	30,000	32.00	960
September 19, 2019	September 24, 2019	152,000	31.99	4,864
September 25, 2019	September 30, 2019	100,000	31.51	3,151
September 26, 2019	October 1, 2019	5,700	30.80	176
September 26, 2019	October 1, 2019	12,500	31.20	390
September 26, 2019	October 1, 2019	5,000	31.30	157
September 26, 2019	October 1, 2019	5,000	31.40	157
September 26, 2019	October 1, 2019	71,800	31.50	2,262
September 27, 2019	October 1, 2019	3,000	30.50	92
September 27, 2019	October 1, 2019	30,800	31.50	970
October 8, 2019	October 10, 2019	300	31.10	9
October 8, 2019	October 10, 2019	500	31.30	16
October 8, 2019	October 10, 2019	2,100	31.35	66
October 8, 2019	October 10, 2019	600	31.40	19
October 8, 2019	October 10, 2019	600	31.50	19

Trade Date	Date Paid	Shares	Per share	Absolute amount (in thousand Pesos)
October 8, 2019	October 10, 2019	300	31.80	10
October 8, 2019	October 10, 2019	700	31.90	22
October 8, 2019	October 10, 2019	7,000	31.95	224
October 8, 2019	October 10, 2019	25,900	32.00	829
October 9, 2019	October 14, 2019	400	31.55	13
October 9, 2019	October 14, 2019	200	31.70	6
October 9, 2019	October 14, 2019	1,400	31.80	45
October 9, 2019	October 14, 2019	9,100	31.90	290
October 9, 2019	October 14, 2019	245,500	32.00	7,856
October 10, 2019	October 14, 2019	5,600	31.00	174
October 10, 2019	October 14, 2019	600	31.80	19
October 10, 2019	October 14, 2019	2,000	31.85	64
October 10, 2019	October 14, 2019	9,200	31.90	293
October 10, 2019	October 14, 2019	9,200	31.95	294
October 10, 2019	October 14, 2019	80,400	32.00	2,573
October 25, 2019	October 29, 2019	700	31.00	22
October 25, 2019	October 29, 2019	2,000	31.45	63
October 25, 2019	October 29, 2019	300	31.50	9
October 25, 2019	October 29, 2019	500	31.60	16
October 25, 2019	October 29, 2019	1,700	31.70	54
October 25, 2019	October 29, 2019	900	31.75	29
October 25, 2019	October 29, 2019	300	31.80	10
October 25, 2019	October 29, 2019	3,000	31.90	96
October 25, 2019	October 29, 2019	2,000	31.95	64
October 25, 2019	October 29, 2019	25,100	32.00	803
October 28, 2019	November 1, 2019	600	30.80	18
October 28, 2019	November 1, 2019	1,300	31.00	40
October 28, 2019	November 1, 2019	9,600	32.00	307
November 5, 2019	November 11, 2019	25,200	30.30	764
November 5, 2019	November 11, 2019	44,800	31.00	1,389
November 6, 2019	November 11, 2019	9,600	30.60	294
November 6, 2019	November 11, 2019	10,000	30.80	308
November 6, 2019	November 11, 2019	45,400	31.00	1,407
November 7, 2019	November 11, 2019	15,000	30.00	450
November 7, 2019	November 11, 2019	5,900	30.80	182
November 7, 2019	November 11, 2019	12,000	30.90	371
November 7, 2019	November 11, 2019	1,000	30.95	31
November 7, 2019	November 11, 2019	41,100	31.00	1,273
November 8, 2019	November 13, 2019	84,700	31.00	2,625
November 14, 2019	November 13, 2019	5,000	31.00	155
November 19, 2019	November 21, 2019	10,000	29.00	290
November 19, 2019	November 21, 2019	11,000	29.50	325
November 19, 2019	November 21, 2019	800	29.60	24
November 19, 2019	November 21, 2019	53,200	30.00	1,595
December 12, 2019	December 19, 2019	38,000	28.10	1,067
December 27, 2019	December 30, 2019	9,000	29.90	268
				72,769
<i>2020</i>				
July 28, 2020	July 29, 2020	200,300	19.00	3,806
July 28, 2020	July 29, 2020	1,400	18.50	26
July 28, 2020	July 29, 2020	1,000	18.48	19
July 28, 2020	July 29, 2020	300	18.46	6
July 29, 2020	July 30, 2020	200,000	19.00	3,800
August 18, 2020	August 20, 2020	200,900	19.00	3,817
August 18, 2020	August 20, 2020	700	18.98	13
August 18, 2020	August 20, 2020	400	18.96	8
August 18, 2020	August 20, 2020	600	18.94	11
August 18, 2020	August 20, 2020	1,400	18.92	26
August 18, 2020	August 20, 2020	1,000	18.90	18
August 27, 2020	September 1, 2020	200,000	19.00	3,800
September 1, 2020	September 3, 2020	455,000	18.00	8,190
				23,540

Trade Date	Date Paid	Shares	Per share	Absolute amount (in thousand Pesos)
<i>2021</i>				
May 26, 2021	May 31, 2021	100,000	20.4	2,040
				2,040
				172,108

### **Note 22 - Earnings per share**

Basic earnings per share is calculated by dividing the net income attributable to owners of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Parent Company and held as treasury shares, if any.

Earnings per share for the periods ended June 30, 2021 and 2020 is calculated as follows:

	2021	2020
Net income attributable to owners of the Parent Company	195,602	(35,054)
Weighted average common shares - basic and diluted (in '000)	401,895	403,218
Basic and diluted earnings per share	0.49	(0.09)

The basic and diluted earnings per share are the same each for the year presented as there are no potential dilutive common shares.

### **Note 23 - Contingencies**

The Group is a party to various on-going litigation proceedings, to which respective courts and regulatory bodies have not rendered any final decision as at audit report date. The Group's management, with the assistance of third-party counsels, has determined certain loss positions that warranted corresponding provisions to be recorded in the consolidated statements of financial position (Note 12). These were recognized based on existing conditions and available information as at reporting date. Accordingly, annual evaluation is conducted by management to identify possible changes in circumstances that would equally require adjustment in its estimates. The detailed information pertaining to these litigations have not been disclosed as this might prejudice the outcome of the ongoing litigations.

### **Note 24 - Segment information**

The Group's Executive Committee and the BOD review and analyze profit or loss into Consumer Lifestyle Solutions (CLS) business and Alstra business (formerly Building and Industrial Solutions (BIS) business), while assets, liabilities and other accounts are analyzed on a per entity basis - CCAC, CDI and COPI with all other entities as part of others.

#### **24.1 Profit or loss**

##### **24.1.1 CLS business**

The segment's products and related services include air conditioning (HVAC), heating, and ventilation for consumer use as well as domestic refrigeration products. It is supported by a vast network of distributors, dealers, retailers and technicians, who sell, install and service the Group's products primarily in the residential and light commercial segments.

##### **24.1.2 Alstra business (formerly BIS business)**

The segment's products and related services include air conditioning (HVAC), heating, and ventilation as well as service of elevators, escalators, moving walkways and shuttle systems, primarily for industrial and commercial use. It is sold directly to end customers or through a network of accredited sub-contractors.

## 24.2 Assets, liabilities and other accounts

### 24.2.1 CCAC

The segment's products and related services include air conditioning (HVAC), heating, ventilation and refrigeration products. It is supported by a vast network of distributors, dealers, retailers and technicians who sell, install and service the Group's products in the industrial, commercial and residential property sectors. The chief operating decision-maker performs review of gross profit per component, while review of segment operating expenses, income tax, and profit or loss are done in total.

### 24.2.2 CDI

The segment is engaged in manufacturing of refrigerators and freezers for domestic market.

### 24.2.3 COPI

The segment is engaged in distribution and service of elevators, escalators, moving walkways and shuttle system.

Segment information on reported consolidated profit or loss for the six months period ended June 30 are as follows:

	CLS	ALSTRA	Others	Total
<i>2021</i>				
Net sales and services	5,252,964	1,169,485	15,364	6,437,813
Timing of revenue recognition				
At point in time	5,252,964	-	769	5,253,733
Over time	-	1,169,485	14,594	1,184,079
Cost of sales and services	(3,407,072)	(769,436)	(9,498)	(4,186,006)
Gross profit	1,845,892	400,049	5,866	2,251,807
Depreciation and amortization*	(44,005)	(10,974)	(14,543)	(69,522)
Amortization of right-of-use assets	(81,253)	(30,674)	454	(111,473)
Operating expenses	(1,266,781)	(273,068)	(215,434)	(1,755,283)
Interest expense	(4,434)	(2,095)	(6,072)	(12,601)
Interest income	870	738	810	2,418
Share in net income of associates	3,746	-	10,975	14,721
Income tax expense	(153,111)	(30,374)	37,036	(146,449)
Net income for the year	449,114	84,870	(173,776)	360,208
<i>2020</i>				
Net sales and services	3,328,876	1,097,608	10,863	4,437,347
Timing of revenue recognition				
At point in time	3,328,876	-	183	3,329,059
Over time	-	1,097,608	10,680	1,108,288
Cost of sales and services	(2,202,325)	(721,158)	(4,403)	(2,927,886)
Gross profit	1,126,551	376,450	6,460	1,509,461
Depreciation and amortization*	(42,179)	(9,460)	(17,379)	(69,018)
Amortization of right-of-use assets	(80,259)	(26,892)	(7,144)	(114,295)
Operating expenses	(969,637)	(387,602)	(58,955)	(1,416,194)
Interest expense	(7,106)	(4,857)	(3,400)	(15,363)
Interest income	3,183	4,194	715	8,092
Share in net loss of associates	(2,092)	-	(7,857)	(9,949)
Income tax expense	(87,561)	(6,178)	12,270	(81,469)
Net income (loss) for the year	66,997	13,489	(77,142)	3,344

\*Depreciation and amortization referring to total charges to cost of sales and services, and operating expenses

Segment information on reported consolidated profit or loss for the three months period ended June 30 are as follows:

	CLS	ALSTRA	Others	Total
<i>2021</i>				
Net sales and services	2,890,051	663,015	4,627	3,557,693
Timing of revenue recognition				
At point in time	2,890,051	-	(14,304)	2,875,747
Over time	-	663,015	18,931	681,946
Cost of sales and services	(1,888,476)	(468,213)	(5,197)	(2,361,886)
Gross profit	1,001,575	194,802	(570)	1,195,807
Depreciation and amortization*	(22,321)	(7,090)	(7,193)	(36,604)
Amortization of right-of-use assets	(39,098)	(19,763)	260	(58,601)
Operating expenses	(667,893)	(105,061)	(103,509)	(876,463)
Interest expense	(2,698)	(602)	(3,144)	(6,444)
Interest income	404	390	450	1,244
Share in net income of associates	2,908	-	9,114	12,022
Income tax expense	(88,045)	(23,327)	16,632	(94,740)
Net income for the year	254,885	64,233	(87,377)	231,741
<i>2020</i>				
Net sales and services	1,256,284	440,605	5,604	1,702,495
Timing of revenue recognition				
At point in time	1,256,284	-	120	1,256,404
Over time	-	440,605	5,486	446,091
Cost of sales and services	(886,423)	(290,720)	(2,074)	(1,179,217)
Gross profit	369,862	149,886	3,530	523,278
Depreciation and amortization*	(21,261)	(4,713)	(8,173)	(34,147)
Amortization of right-of-use assets	(40,095)	(15,013)	(3,543)	(58,651)
Operating expenses	(423,057)	(213,532)	(6,358)	(642,947)
Interest expense	(4,327)	(2,992)	(1,958)	(9,277)
Interest income	1,337	1,082	325	2,744
Share in net income of associates	(663)	-	(2,854)	(3,517)
Income tax expense	(25,869)	13,797	4,583	(7,489)
Net income (loss) for the year	(64,495)	(47,671)	(13,357)	(125,523)

\*Depreciation and amortization referring to total charges to cost of sales and services, and operating expenses

The balances presented in “Others” are mainly from cost related to emerging technology initiatives, corporate costs, shared services and eliminating entries recognized in the preparation of the consolidated financial statements.

There were no material export sales or transactions made with related parties that require separate disclosure from the above.

Segment information on consolidated assets and liabilities as at June 30, 2021 and December 31, 2020 are as follows:

	CCAC	CDI	COPI	Others	Total
<i>2021</i>					
Current assets	5,577,474	2,667,690	965,764	523,333	9,734,261
Non-current assets	1,089,375	327,260	977,392	494,792	2,888,819
Current liabilities	2,628,521	973,345	681,576	503,538	4,786,980
Non-current liabilities	571,259	114,310	41,125	126,198	852,892
Other information					
Investment in associates	94,010	-	-	72,426	166,436
Additions to non-current assets					
Property and equipment	8,544	16,215	12,514	4,991	42,264
Intangible assets	290	-	-	93	383

	CCAC	CDI	COPI	Others	Total
<i>2020</i>					
Current assets	5,509,372	2,701,729	885,039	740,669	9,836,809
Non-current assets	1,041,490	355,388	969,211	476,932	2,843,021
Current liabilities	2,491,868	1,023,266	486,717	456,326	4,458,177
Non-current liabilities	717,760	58,184	29,821	122,330	928,095
Other information					
Investment in associates	83,397	-	-	68,318	151,715
Additions to non-current assets					
Property and equipment	39,843	28,989	3,350	23,423	95,605
Intangible assets	-	-	-	18,046	18,046

The balances presented in others are composed of the other entities in the Group including the Parent Company's standalone balances.

### **Note 25 - Foreign currency- exchange gains (losses)**

Net foreign exchange gains (losses) credited (charged) to profit or loss for the periods ended June 30 are as follows:

	Note	2021	2020
Realized foreign exchange gains (losses), net		(8,506)	(12,361)
Unrealized foreign exchange gains (losses), net		(3,789)	10,510
	18	(12,295)	(1,851)

### **Note 26 - Financial risk and capital management**

#### **26.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's Chief Finance Officer under policies approved by the Group's BOD. These policies provide written principles for overall risk management. There were no changes in policies and processes in the Group's financial risk management as at reporting date.

##### **26.1.1 Market risk**

###### *(a) Foreign exchange risk*

Currency risk arises when future commercial transactions, and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. In the normal course of business, the Group transacts with certain entities based outside the Philippines particularly for export deliveries, and purchases of raw materials and supplies, and these transactions are being settled in U.S. Dollar and/or other currencies.

However, the foreign exchange risk exposure is brought down to an acceptable level since average trade payment terms approximate each other, which range between 30 and 60 days upon which the risk associated with foreign exchange rates are deemed negligible. The Group enters into foreign exchange forward contracts with average term of a month in order to reduce losses on possible significant fluctuations in the exchange rates.

### *(b) Commodity price risk*

The Group is exposed to the risk that the prices for certain primary raw materials (e.g. copper and aluminum) will increase or fluctuate significantly. Most of these raw materials are global commodities whose prices are cyclical in nature and increase or decrease in line with global market conditions. The Group is exposed to these price changes to the extent that it cannot readily pass on these changes to the customers of its respective businesses, which could adversely affect the Group's margins.

### *(c) Cash flow and fair value interest rate risk*

The Group is not significantly exposed to cash flow and fair value interest rate risk since short-term borrowings are made at fixed interest rates and are settled within 12 months.

The Group's exposure to movements in market interest rate relate primarily to its fixed or short-term deposits placed with local banks and borrowings from local banks. The Group is not significantly exposed to cash flow and fair value interest rate risks since its income and operating cash flows are substantially independent of changes in market interest rates.

#### 26.1.2 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from deposits and short-term placements with banks and financial institutions, as well as credit exposure to trade customers, including other outstanding receivables. For banks, the Group only has existing deposit arrangements with either universal or commercial banks, which are considered top tier banks in terms of capitalization as categorized by the Bangko Sentral ng Pilipinas.

The Group has no significant concentrations of credit risk due to the large number of customers comprising the customer base and it has policies in place to ensure that the sale of goods is made only to customers with an appropriate credit history. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, Credit and Collection (C&C) group of each subsidiary assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal and external ratings in accordance with the credit policy limits. The utilization of credit limits is regularly monitored by the C&C group of each subsidiary. Nonetheless, the Group is still exposed to risk of non-collection arising from disputes and disagreements on billings which may deter the collection of outstanding accounts on a timely basis.

The Group has three (3) types of financial assets that are subject to the expected credit loss model:

- Cash and cash equivalents
- Trade receivables from sale of goods and services
- Contract assets relating to POC contracts

The Group's assessment of its credit risk on cash and cash equivalents, receivables and contract assets are disclosed in Notes 2, 3 and 15, respectively.

#### 26.1.3 Liquidity risk

The Group observes prudent liquidity risk management through available credit lines and efficient collection of its receivables, which enables the Group to maintain sufficient cash to meet working capital requirements, planned capital expenditures, and any short-term debt financing requirements. On top of liquidity risk management above, the Group also performs a monthly review of its financing requirements for working capital and loan capital expenditures and where deemed necessary, the Group obtains short-term bank borrowings to cover for immediate expenses and maturing obligations. Results of management's review are reported to the BOD on a regular basis.

As at June 30, 2021 and December 31, 2020 the Group has available letters of credit and loan credit facilities from various financial institutions as follows:

Type of credit facility	2021		2020	
	Currency	Amount	Currency	Amount
<b>Bank of Philippine Islands</b>				
Revolving promissory note line	Philippine Peso	2,000,000	Philippine Peso	2,000,000
Lease line	Philippine Peso	150,000	Philippine Peso	150,000
Short-term loan line		-	Philippine Peso	-
Import letters of credit and trust receipt line	Philippine Peso	-	Philippine Peso	-
Bills purchased line	Philippine Peso	100,000	Philippine Peso	100,000
Corporate card guarantee	Philippine Peso	-	Philippine Peso	-
Foreign exchange settlement line	U.S. Dollar	3,000	U.S. Dollar	3,000
Stand-By Letter of Credit				
<b>Citibank</b>				
Bills purchased line	Philippine Peso	45,000	Philippine Peso	45,000
Letters of credit	U.S. Dollar	7,800	U.S. Dollar	7,800
Foreign exchange settlement risk line	U.S. Dollar	1,000	U.S. Dollar	1,000
Foreign exchange pre-settlement risk line	U.S. Dollar	200	U.S. Dollar	200
Short-term loan line	U.S. Dollar	8,080	U.S. Dollar	8,080
Commercial cards	U.S. Dollar	510	U.S. Dollar	510
<b>Banco De Oro</b>				
Short-term loan line	Philippine Peso	500,000	Philippine Peso	500,000
Bills Purchased line	Philippine Peso	50,000	Philippine Peso	50,000
Foreign exchange settlement line	Philippine Peso	20,000	Philippine Peso	20,000

Trade and other payables, and amounts due to related parties are unsecured, non-interest bearing and are normally settled within 30 to 60 days from transaction date.

As at June 30, 2021 and December 31, 2020, all of the Group's financial liabilities are due and demandable within 12 months except for a portion of the lease liabilities which are expected to be settled in regular intervals until the end of the lease term. The Group expects to settle these obligations in accordance with their respective maturity dates. Except for lease liabilities which are discounted using the effective interest rates, these balances equal their carrying amounts as the impact of discounting is not significant. Based on management's assessment, the Group has sufficient level of readily available funds, which do not yet consider expected receipts from collection of current trade receivables, to settle maturing obligations as they fall due.

## 26.2 Capital management

The Group's objectives when managing capital, which is equivalent to the total equity shown in the consolidated statements of financial position, less charges to other comprehensive loss, are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for partners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital which will reduce the need to obtain long-term borrowings and incur higher cost of capital such as interest expense. There were no changes in policies and processes in the Group's capital management in 2021 and 2021.

The details of the Group's capital as at June 30, 2021 and December 31, 2020 are as follows:

	2021	2020
Share capital	407,264	407,264
Share premium	993,243	993,243
Treasury shares	(172,108)	(170,068)
Retained earnings	4,044,703	4,251,056
	5,273,102	5,481,495

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends, increase capital through additional contributions or sell assets in lieu of third party financing. No changes were made in the objectives, policies and processes as at June 30, 2021 and December 31, 2020.



The Group has no significant capital risk exposure given the level of financial assets available to finance its current liabilities. Also, the Group is not subject to externally imposed capital requirements arising from debt covenants and other similar instruments since it has no long-term borrowings from banks and financial institutions. Moreover, the Group is not subject to specific regulatory restrictions on its capital other than required public float of at least 10% of issued and outstanding shares, exclusive of any treasury shares. The Parent Company is compliant with this requirement as at June 30, 2021 and December 31, 2020.

### **26.3 Fair value estimation of financial assets and liabilities**

The Group's financial assets at fair value through profit or loss and foreign exchange forward contracts, which are measured at fair value, qualify under Level 1 and Level 2, respectively. Accordingly, the fair values of these financial liabilities are based on published closing rate with any resulting value no longer subject to discounting due to the relative short-term maturity of these instruments. The Group does not account these contracts under hedge accounting; and accordingly recognizes fluctuations in fair value directly to profit or loss. As at June 30, 2021 and December 31, 2020, the Group has no other financial assets or liabilities measured and carried at fair value that would qualify as Level 3.

### **Note 27 - Critical accounting estimates, assumptions and judgments**

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions, and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

#### **27.1 Critical accounting estimates and assumptions**

##### **27.1.1 Useful lives of property and equipment**

The useful life of each of the Group's property and equipment is estimated based on the period over which these assets are expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought by changes in the factors mentioned above. The amounts and timing of recording of expenses for any reporting period would be affected by changes in these factors and circumstances.

The sensitivity rate used above represents management's assessment of the reasonably possible change in estimated useful lives of the Group's property and equipment with the more significant composition (e.g., machineries and equipment). The sensitivity analysis includes all of the Group's property and equipment.

##### **27.1.2 Provision for warranty cost**

The provision for warranty cost is estimated using a determined weighted average rate applied to actual sales, which is based on the Group's past actual warranty cost and current year's reassessment of trends and cost. An increase in number of incidents of warranty utilization at the current year would increase provision recognized at reporting date in anticipation of similar trend in subsequent periods. The details of the provision for warranty are shown in Note 11.

### 27.1.3 Provision for retirement benefits

The determination of each subsidiary's retirement obligation and benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. These assumptions, as described in Note 20, include among others, discount rate and salary increase rate.

The sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement benefit obligation at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the retirement benefit obligation was expressed as a percentage change from the base retirement benefit obligation.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed the base retirement benefit obligation. Moreover, separate sensitivity was performed for each subsidiary in consideration of varying terms, scope, employee profile, and others.

### 27.1.4 Provision for volume rebates, trade discounts and other incentives

Revenue is recognized when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross sale is reduced by rebates, discounts, and other incentives given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organizations are dependent upon the submission of claims sometime after the initial recognition of the sale. Provisions are made at the time of sale for the estimated rebates, discounts or incentives to be made, based on available market information and historical experience. Because the amounts are estimated, they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

The level of provision is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group. The details of the provision for volume rebates, trade discounts, and other incentives are shown in Note 3.

### 27.1.5 Provision for contingencies

Provision for contingencies is estimated based on consultation with third party counsels with reference to probability of winning the case. A higher probability of winning would decrease provision. The Group considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the provision for contingencies at the reporting date. The details of the provision for contingencies matters are shown in Note 12.

### 27.1.6 Percentage of completion on installation contracts

Revenues from contracts are recognized under the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs of each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. The Group considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding percentage of completion of contracts (Note 15).

#### 27.1.7 Incremental borrowing rate of lease liabilities

The lease payments for lease of vehicles are discounted using the interest rate implicit in the lease. Payments for leases of properties and office equipment are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. Where third party financing cannot be obtained, the Group uses the government bond yield, adjusted for the (1) credit spread specific to each entity under the Group and (2) security using the right-of-use asset. The discount rates applied by the Group are disclosed in Note 19.

#### 27.1.8 Extension and termination options of lease agreements

Extension and termination options are included in a number of property and equipment leases of the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

### **27.2 Critical judgments in applying the Group's accounting policies**

#### 27.2.1 Impairment of goodwill

The Group reviews the goodwill annually for impairment and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, and at the end of the first full year following acquisition (Note 8). Goodwill is monitored by management at COPI's business level (lowest level of CGU identified) following its acquisition by Parent Company.

As at June 30, 2021 and December 31, 2020, based on management's assessment and judgment, there is no indication of impairment of goodwill since the recoverable amount of the CGU is higher than the carrying value.

As at June 30, 2021 and December 31, 2020, the recoverable amount of COPI's business was determined based on value in use calculation (using Level 3 inputs) using certain assumptions. Management has engaged a third party which employed the discounted cash flow method in computing for the value in use. The calculations made use of cash flow projections based on financial forecasts approved by the BOD covering a five-year period beginning 2020.

The cash flow forecasts reflect management's expectations of revenue growth, operating costs and margins based on past experience and outlook, consistent with internal measurements and monitoring.

In 2020, management has also considered the impact of the COVID-19 pandemic on COPI's ongoing and future projects in assessing its forecasted revenue growth.

Cash flows beyond the five-year period are extrapolated using the average free cash flows to equity from 2021 to 2025 and the annuity and present value factors using the computed discount rates (and sensitivities) to determine the value of COPI's business beyond five-year projections.

Pre-tax adjusted discount rate applied to the cash flow forecasts is derived using the weighted average cost of capital as at June 30, 2021 and December 31, 2020.

#### 27.2.2 Impairment of intangibles - customer relationships and customer contract backlogs

The Group's intangibles include customer relationships and customer contract backlogs from acquisition of COPI (Note 8). These intangibles are carried at cost. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In calculating the fair value of customer relationships and customer contract backlogs, the Group used the same revenue growth and discount rate in calculating the value in use of COPI. Changes in those judgments could have a significant effect on the carrying value of intangible assets and the amount and timing of recorded impairment provision for any period.

#### 27.2.3 Impairment of investment in associates

The Group's investment in associates is carried using the equity method in this consolidated financial statements. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those management judgments and assessments could have a significant effect on the carrying value of investment in associate and the amount and timing of recorded provision for impairment for any period.

As at June 30, 2021 and December 31, 2020, based on management's assessment and judgment, the carrying value of its investment in associates is not impaired. CMI is already profitable while the newly acquired Tenex, management has assessed that its losses would be temporary.

#### 27.2.4 Provision for impairment of receivables

The provision for impairment of receivables is based on assumptions about risk of default and expected loss rates. The Group uses estimates in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.

Management believes the carrying amount of receivables is fully recoverable. The Group's policy in estimating provision for impairment of receivables is presented in Notes 28.4 and 28.5. The carrying amounts of trade and other receivables and other information are disclosed in Note 3.

#### 27.2.5 Provision for inventory obsolescence and losses

The Group recognizes a provision for inventory obsolescence and losses based on a review of the movements and current condition of each inventory item with adequate consideration on identified damages, physical deterioration, technological and commercial obsolescence or other causes. The provision account is reviewed on a periodic basis to reflect the accurate valuation of the Group's inventories. Inventory items identified to be obsolete and unusable is written-off, and charged as expense for the period. Management determines on a regular basis the necessity of providing for impairment.

#### 27.2.6 Impairment of property and equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. Accordingly, results of management's most recent assessment disclosed the absence of any conditions such as physical damage or significant change in manufacturing operations; rendering certain property and equipment as obsolete and would warrant assessment for impairment and/or recognition of an impairment provision in its carrying amount as at reporting date. The details of property and equipment are shown in Note 5.

#### 27.2.7 Income taxes

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Further, recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied.

The Group assesses the recoverability of outstanding balances of deferred income tax assets up to the extent that is more likely than not will be realized. The Group reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Except for NOLCO and MCIT of certain entities, management believes that deferred income tax assets are fully recoverable at the reporting date. The details of deferred income tax assets are shown in Note 9.

#### 27.2.8 Contingencies

The Group has legal cases still pending with the courts and tax assessments pending with the BIR. Management and in consultation with third party counsels believes, however, that its position on each case has legal merits and for certain loss positions, if any, corresponding provisions were recognized based on existing conditions and available information as at reporting date. Annual assessment is made and actual results may differ significantly from the amount recorded. The details of provisions are shown in Note 12.

#### 27.2.9 Determining lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) (Note 19). The Group considers the factors below as the most relevant in assessing the options:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

#### 27.2.10 Determining control over a subsidiary

The Parent Company follows the guidance of PFRS 10, '*Consolidated Financial Statements*' in determining if control exists for investments with ownership of less than half of its total equity. In making this judgment, the Parent Company considers the power over more than half of the voting rights by virtue of an agreement with other investors, power to govern the financial and operating policies of the entity under a statute or an agreement, power to appoint or remove the majority of the members of the BOD, or power to cast the majority of votes at meetings of the BOD.

## **Note 28 - Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies used have been consistently applied to all the years presented, unless otherwise stated.

### **28.1 Basis of preparation**

These consolidated financial statements of the Group have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, PAS, and interpretations of the Philippine Interpretations Committee (PIC)/Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These consolidated financial statements have been prepared under the historical cost convention, except for:

- forward contracts payable under financial liabilities at FVPL, and;
- the pension asset recognized as the total of the fair value of plan assets less the present value of the defined benefit obligation.

The preparation of these consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 27.

### **Changes in accounting policy and disclosures**

#### *(a) New standards, amendments to existing standards and interpretations adopted*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020:

- Definition of Material - amendments to IAS 1 and IAS 8
- Definition of a Business - amendments to IFRS 3
- Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting
- COVID-19-related Concessions - Amendments to IFRS 16

The Group also elected to adopt Annual Improvements to IFRS Standards 2018-2020 Cycle early.

The amendments listed above did not have a significant impact on the consolidated financial statements.

#### *(b) New standards, amendments and interpretations to existing standards not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 28.2 Consolidation

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. The Group uses uniform accounting policies and any difference is adjusted accordingly.

### 28.2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Parent Company has control. The Parent Company controls an entity when the Parent Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date on which control ceases.

The details of the Parent Company's subsidiaries as at June 30, 2021 and December 31, 2020 are as follows:

Entity	2021		2020	
	Percentage of Ownership		Percentage of Ownership	
	Direct	Indirect	Direct	Indirect
CCAC	60	-	60	-
CDI	100	-	100	-
CBSI	100	-	100	-
CTC	100	-	100	-
Alstra	100	-	100	-
COPI	-	51	-	51
Teko	-	58	-	58

Percentage of ownership held by the NCI in COPI is 49%; CCAC is 40%; and Teko is 42% as at June 30, 2021 and December 31, 2020.

NCI is the residual equity in CCAC, COPI and Teko not attributable, directly or indirectly, to the Parent Company as shown in the table above.

#### (a) Business combination through acquisition of business

The Group applies the acquisition method to account for business combinations that are not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree either at fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, NCI recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Intercompany transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated (Note 14).

Investment in subsidiary is derecognized upon disposal or loss of control over a subsidiary. Any gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss. Upon loss of control, the investment account is measured at fair value, any difference between carrying amount and the fair value of investment is recognized in profit or loss.

*(b) Business combinations under common control*

Business combinations under common control, which include those entities under common shareholding, are accounted for using the predecessor cost method (similar to merger accounting/pooling of interest method). Under this method, the Group does not restate the acquired businesses or assets and liabilities to their fair values. The net assets of the combining entities or businesses are combined using the carrying amounts of assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which financial statements are prepared. No amount is recognized in consideration for goodwill or the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over their cost at the time of the common control combination.

The consolidated financial statements incorporate the assets, liabilities and results of operations of the combining entities or businesses as if they had always been combined or from the date when the combining entities or businesses first became under common control, whichever period is shorter. The difference between the consideration given and the aggregate book value of the assets and liabilities acquired as at the date of the transaction are offset against other reserves, which is presented as a separate line item under equity in the consolidated statements of financial position. The effect of the Parent Company's equity in the subsidiaries, and intercompany transactions and balances were eliminated in the consolidated financial position and results of operations.

28.2.2 Associates

Associate are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. An investment in associate is accounted for using the equity method of accounting in this consolidated financial statements. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of an associate's post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group recognizes dividend from associate as a reduction in carrying amount of investment when its right to receive dividends has been established.



The Group determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share in net profit (loss) of associate' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **28.3 Cash and cash equivalents**

Cash and cash equivalents, which are carried at amortized cost, include deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less from the date of acquisition. Short-term highly liquid investments with original maturities of more than three (3) months are booked as part of prepayments and other current assets (Note 28.7).

### **28.4 Receivables**

Receivables are amounts due from customers for merchandise sold or services performed and amounts due from other debtors in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30-60 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

Other receivable amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained. The non-current other receivables are due and payable within three years from the end of the reporting period.

Policy on impairment and other relevant policies on receivables are disclosed in Note 28.5. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversal of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited to operating expenses in profit or loss.

A provision for incentives on trade receivables (volume rebates, discounts and other incentives) is recognized once pre-determined conditions such as realization of volume targets and early payment dates have been reliably estimated. The amount of provision is estimated based on agreed rates stipulated in contracts with dealers as applied to total sales for volume rebates as approved by the Chief Finance Officer or Chief Operating Officer or the head of the Strategic Unit. These are deducted from revenues in profit or loss and from trade receivables in the consolidated statements of financial position.

## 28.5 Investments and other financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity. The Group recognizes a financial instrument in the consolidated statements of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

### 28.5.1 Financial assets

#### *(a) Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *(b) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *(c) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### *(i) Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(ii) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) *Impairment*

The Group assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3 for further details.

## 28.5.2 Financial liabilities

(a) *Classification*

The Group classifies its financial liabilities at initial recognition in the following categories: at FVPL and other financial liabilities.

(i) Financial liabilities at FVPL

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at FVPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

A financial liability is classified as financial liability at FVPL upon initial recognition if: such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms part of group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and PFRS 9 permits the entire combined contract (asset or liability) to be designated as FVPL.

The Group's foreign exchange forward contracts included under trade payables and other liabilities account in the consolidated statements of financial position qualify as a derivative and are accounted for at FVPL.

(ii) Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. Other financial liabilities include trade payables and other liabilities (Note 28.14) (excluding balances payable to government agencies arising from withholding taxes, payroll deductions and provisions) and borrowings (Note 28.15).

*(b) Initial recognition and derecognition*

Financial liabilities are carried at FVPL are initially recognized at fair value and transaction costs are recognized as expense in profit or loss. Other financial liabilities are initially recognized at fair value of the consideration received plus directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*(c) Subsequent measurement*

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Derivatives are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Gains or losses arising from changes in the fair value are presented in profit or loss.

28.5.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counter party. As at June 30, 2021 and December 31, 2020, there are no financial assets and liabilities that were offset.

## **28.6 Fair value measurement**

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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

As at June 30, 2021 and December 31, 2020, the Group does not hold financial and non-financial assets and liabilities at fair value other than foreign exchange forward contracts (Note 28.5).

## **28.7 Prepayments and other current assets**

Prepayments, which are carried at cost, are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Prepayments and other current assets include short-term investments, input VAT and creditable withholding taxes.

Input VAT and creditable withholding taxes are recognized as assets in the period such input VAT and income tax payments become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group.

## **28.8 Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of raw materials, finished goods, work-in-process and spare parts and supplies is determined using the standard cost method adjusted on a regular basis to approximate actual cost using the moving average cost method. Cost of finished goods and work-in-process includes raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Inventories-in-transit are valued at invoice cost plus incidental charges. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories are derecognized either when sold or written-off. When inventories are sold, the carrying amount of those inventories is recognized as an expense (under cost of sales and services) in the period in which the related revenue is recognized.

Provisions for inventory obsolescence and losses are set-up, if necessary, based on a review of the movements and current condition of each inventory item. Inventories are periodically reviewed and evaluated for obsolescence. Provisions for inventory obsolescence are made to reduce all slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value is recognized as income in the period in which the reversal occurs.

## 28.9 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and amortization and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items, which comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Costs of assets under construction are accumulated in CIP account until these projects are completed upon which they are transferred to appropriate property and equipment accounts.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives (in years), as follows:

Machinery and equipment	3 to 10
Transportation equipment	3 to 10
Furniture, fixtures and office equipment	2 to 5
Tools and equipment	3 to 5

Building and leasehold improvements are amortized over term of the lease or estimated useful life of five (5) years, whichever is shorter. Major renovations are depreciated over the remaining useful life of the related asset.

CIP is not depreciated until they are classified to appropriate asset category and used in operation. The assets' residual values, useful lives and depreciation and amortization method are reviewed and adjusted, as appropriate, at each reporting date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount (Note 28.12).

The carrying amount of an item of property and equipment is derecognized on disposal; or when no future economic benefits are expected from its disposal at which time the cost and related accumulated depreciation are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss under other operating income (expense).

## 28.10 Investment property

Investment property, consisting of a parcel of land, is recognized at cost less impairment, if any. Land is not depreciated. Investment property is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment properties will flow to the Group and cost of the investment can be measured reliably. The cost of investment property includes costs incurred initially to acquire the asset and costs incurred subsequently to add to, replace part of, or service a property.

Investment property is tested for impairment once indicators of impairment are present. The carrying amount of the investment property is written down immediately to its recoverable amount if the former is greater than its estimated recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For purposes of assessing impairment of the investment property, fair value less cost to sell is based on the best information available to reflect the amount that the Group would obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the cost of disposal. In determining this amount, the Group considers the outcome of recent transaction for similar property within the same location. In assessing the value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Investment property is derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no further economic benefit is expected from their use or disposal. Any gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized through profit or loss in the year of disposal.

## **28.11 Intangible assets**

### **28.11.1 Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any NCI in the acquired company and the acquisition-date fair value of any previously-held interest in the acquired company over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

Goodwill impairment reviews are undertaken annually or more frequently through independent parties if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### **28.11.2 Customer relationships and customer contract backlogs**

Customer relationships and backlogs acquired in a business combination are recognized at the fair value at the acquisition date. The contractual customer relations and backlogs have a finite useful lives of 25 years and 2 to 3 years, respectively, and are carried at cost less accumulated amortization.

### **28.11.3 Computer software**

Computer software cost is measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over its estimated useful lives of 3 to 5 years.

An intangible asset is derecognized on disposal, by sale or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is recognized in profit or loss when the asset is derecognized.

### **28.12 Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use requires the Group to make estimates of future cash flows to be derived from the particular asset, and to discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increase should not exceed the carrying amount that would have been determined had not the impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized as income immediately.

### **28.13 Current and deferred income tax**

The provision for income tax for the period comprises current and deferred tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess MCIT) to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except that the deferred income tax liability arises from initial recognition of goodwill.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets and liabilities are derecognized when the relevant temporary differences are realized/settled or recoverability is no longer probable.



On March 26, 2021, (RA No.11534), otherwise known as CREATE, was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

- RCIT rate of 20% (from 30%) shall be applicable to domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding land on which the business entity's office, plant and equipment are situated) from July 1, 2020;
- RCIT rate of 25% (from 30%) shall be applicable to all other domestic and foreign corporations from July 1, 2020; and
- For the period beginning July 1, 2020 until June 30, 2023, the MCIT rate shall be 1%, instead of 2%.

The CREATE bill was approved by the President of the Republic of the Philippines on March 26, 2021. The enacted income tax rate resulted in lower deferred tax assets, and lower income tax expense as at June 30, 2021.

#### **28.14 Trade payables and other liabilities**

Trade payables and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. Payables are generally due within 30-60 days and therefore are all classified as current. Trade payables and other liabilities are classified as current liabilities if payment is due within one (1) year or less. If not, they are presented as non-current liabilities. These are unsecured, non-interest bearing and are recognized initially at fair value and subsequently measured at amortized cost which is normally equal to their nominal value. Other relevant policies are disclosed in Note 28.5.

#### **28.15 Borrowings and borrowing costs**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss within finance costs over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use when it is probable that they will result in future economic benefits to the Group and costs can be measured reliably. Other borrowing costs are expensed as incurred.

Borrowings are derecognized upon payment, cancellation or expiration of the obligation. Other relevant policies are disclosed in Note 28.5.

#### **28.16 Provisions**

Provisions are recognized when: (a) the Group has a present legal or constructive obligation as a result of past events; (b) it is more likely than not that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Provisions are derecognized when the obligation is settled, cancelled or has expired. Provisions are not recognized for future operating losses. Provisions include those for contingencies and commissions.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

The Group recognizes warranty provision, which represents estimated costs including replacement parts and labor that will be incurred in relation to requested service for reported damages and required rework of defective finished goods within the allowable period. The provision is evaluated on an annual basis; and adjusted accordingly which includes actual utilization of warranty provisions. Any increase or decrease in the amount based on reassessment of existing trends and circumstances are charged against or credited to operating expenses in profit or loss. Warranty provisions are classified as current liabilities if the warranty period is due within one (1) year. If not, they are presented as non-current liabilities.

## **28.17 Equity**

### **28.17.1 Share capital and share premium**

Common shares are stated at par value and are classified as share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. The excess of proceeds from issuance of shares over the par value of shares are credited to share premium.

### **28.17.2 Retained earnings**

Retained earnings include current and prior years' results of operations, and reduced by dividends declared, if any. Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Parent Company's BOD.

### **28.17.3 Dividends**

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Parent Company's financial statements in the period in which the dividends are approved by the Parent Company's BOD.

Share dividend represents dividend payment made in the form of additional shares rather than a cash payout. Dividend distribution to the Parent Company's shareholders is recognized as an addition to share capital in the Parent Company's financial statements in the period in which the dividends are approved by the Parent Company's BOD.

### **28.17.4 Treasury Shares**

Where the Parent Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

## **28.18 Earnings per share**

### **28.18.1 Basic**

Basic earnings per share is calculated by dividing the income attributable to owners of the Parent Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Parent Company and held as treasury shares. In a capitalisation or bonus issue or a share split, common shares are issued to existing shareholders for no additional consideration. Therefore, the number of common shares outstanding is increased without an increase in resources. The number of common shares outstanding before the event is adjusted for the proportionate change in the number of common shares outstanding as if the event had occurred at the beginning of the earliest period presented.

## 28.18.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. As at report date, the Parent Company has no dilutive potential common shares including convertible debt and share options.

## **28.19 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee and BOD. The Executive Committee and the BOD analyze the Group's results of operation after considering eliminating entries.

The accounting policies used to recognize and measure the segment's assets, liabilities and profit or loss is consistent with those of the consolidated financial statements.

## **28.20 Revenue, cost and expense recognition**

### 28.20.1 Revenues

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured and it is possible that future economic benefits will flow into the entity and specific criteria have been met. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, trade and volume discounts, returns and other incentives.

#### *(a) Sale of goods*

##### *(i) Sale of goods - wholesale*

The Group manufactures and sells a range of air-conditioning, refrigeration and other electronic equipment in the wholesale market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 to 60 days, which is consistent with market practice. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a provision, see Note 11.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

*(b) Sale of services*

The Group provides installation services and preventive maintenance services of products purchased by its customers. These services are provided on a time-basis or as a fixed-price contract. Contract terms of preventive maintenance services of equipment generally range from less than a year to three (3) years, subject to renewal. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Some contracts include multiple deliverables, such as the sale of elevators/escalators and related installation services. However, the installation is simple, since it does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of elevators/escalators, revenue for the goods is recognized at a point in time when the goods is delivered, the legal title has passed and the customer has accepted the goods.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

*(c) Financing components*

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

*(d) Commission, interest and other operating income*

The Group recognizes commission income upon actual receipt of inventory deliveries made to both domestic and offshore customers on behalf of a counterparty, which normally is a related party, based on pre-agreed rates.

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

**28.20.2 Cost and expenses**

Cost and expenses are recognized in profit or loss when incurred. Interest expense is recognized on a time-proportion basis using the effective interest method.

**28.21 Leases - Group as lessee**

The Group recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

### *(a) Measurement of lease liabilities*

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### *(b) Measurement of right-of-use assets*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life of between 3 to 10 years and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

### *(c) Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

*(d) Short-term leases and leases of low-value assets*

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

## **28.22 Employee benefits**

### **28.22.1 Retirement benefit obligation**

CIC, CCAC, CBSI, CTC and COPI maintains a non-contributory defined benefit retirement plan which is a retirement plan that defines an amount of pension benefit that an employee will receive upon retirement, dependent on certain factors such as age, years of credited service, and compensation. CDI, Alstra and Teko recognizes retirement benefit cost in accordance with RA 7641 (Retirement Law) which is also classified as a defined benefit plan.

The liability recognized in the consolidated statements of financial position in respect of the defined benefit retirement plan is the present value of the defined benefit obligations at the reporting date less the fair value of plan assets. In cases when the amount determined results in a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), each subsidiary measures the resulting asset at the lower of (a) such amount determined, and (b) the present value of any economic benefits available to each subsidiary in the form of refunds or reduction in future contributions to the plan. The defined benefit obligation is calculated on a regular periodic basis by an independent actuary using the “projected unit credit cost” method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income during the period in which they arise. Past service costs are recognized immediately in profit or loss.

### **28.22.2 Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### **28.22.3 Bonus incentives**

The Group recognizes a liability and an expense for performance-related bonuses, based on a formula that takes into consideration the profit attributable to the Group after certain adjustments and employee's performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### **28.22.4 Other benefits**

Wages, salaries, paid annual vacation and sick leave credits and other non-monetary benefits are accrued during the period in which the related services are rendered by employees of the Group. Short-term employee benefit obligations are measured on an undiscounted basis.

On June 11, 2018, the BOD approved the 2018 Long Term Share Incentive Plan. Under the Plan, a percentage of the Group's profit will be used to buy its existing shares in the stock market, which will then be given to entitled employees as an award based on pre-determined conditions. The program will be funded annually based on 1% to 2% of CIC profit based on the financial measure of Profit After Tax and Minority Interest. There were no incentives granted as at June 30, 2021 and December 31, 2020.

## **28.23 Foreign currency transactions and translation**

### **28.23.1 Functional and presentation currency**

Items included in the financial statements of each of the Parent Company's subsidiaries are measured using the currency of the primary economic environment in which the Parent Company's subsidiaries operate (the "functional currency"). The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company and subsidiaries' functional and presentation currency.

### **28.23.2 Transactions and balances**

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

For income tax purposes, foreign exchange gains or losses are treated as taxable income or deductible expense in the period such are realized/sustained.

## **28.24 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **28.25 Contingencies**

Contingent liabilities are not recognized in the consolidated 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 consolidated financial statements but disclosed when an economic benefit is probable.

## **28.26 Subsequent events**

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

## **28.27 Impact of Coronavirus disease (Covid-19)**

Subsequent to the outbreak of the COVID-19 pandemic in early 2020, a series of measures to curb the COVID-19 outbreak has been and continues to be implemented in countries where the Group and its related parties operates. The Group has taken appropriate measures to preserve the health and safety of its employees and stakeholders as well as the business operations and in compliance with government mandated issuances and regulations.

The pandemic has slowed down the Group's sales as a result of government-imposed restrictions in the country starting March 17, 2020. Recovery was seen in the demand of its products starting the third quarter of 2020 as more consumers remained on lockdown. The Group did not have major difficulties in the collection of outstanding receivables for sales earned in 2020 and for the first half of 2021.

The Group is closely monitoring the status of the COVID-19 pandemic and its continuing impact on its business operations and is optimistic that the pandemic would not have a significant long-term impact on the Group's financials. The Group will continue to address the issues that directly affect its business operations and to look for measures to mitigate and reduce impact to its profitability. Management has also considered the impact of the pandemic in determining the recoverability of its assets and sufficiency of provisions as at June 30, 2021 and December 31, 2020.



**Management's Discussion and Analysis of Financial Condition and Results of Operations  
(based on the Unaudited Consolidated Results for the Period Ended June 30, 2021)**

Concepcion Industrial Corporation (the "Company" or "CIC"), formerly Concepcion Airconditioning Corporation ("CAC"), is one of the Philippines' most established and leading suppliers of air conditioners, air conditioning solutions, and refrigerators, and has expanded into other consumer appliance products and building solutions, i.e., elevators and escalators. The Company is primarily a holding company which operates principally through its seven subsidiaries, Concepcion-Carrier Air Conditioning Company ("CCAC"), Concepcion Durables, Inc. ("CDI"), Concepcion-Otis Philippines, Inc. ("COPI"), Concepcion Business Services, Inc. ("CBSI"), Cortex Technologies Corporation ("CTC"), Alstra Incorporated ("Alstra"), Teko Solutions Asia Inc. ("Teko") and its two associates, Concepcion Midea Inc. ("CMIP") and Tenex Services, Inc. ("Tenex").

**CCAC**

CCAC engages in the manufacture, sale, distribution, installation, and service of heating, ventilating, and air conditioning products and services for residential, commercial, and industrial use. CCAC is a joint venture between the Company and Carrier Air Conditioning Philippines, Inc. (CACPI), which allows it to offer Carrier and Toshiba brand air conditioners and Totaline parts. CCAC also offers other brands such as Condura and Kelvinator. CCAC manufactures a select range of its air conditioning equipment at its factory in Light Industry and Science Park in Cabuyao, Laguna, Philippines, the Philippines' largest air conditioning facility with a capacity of approximately 500,000 units per year and a production area of 19,620 sqm. CCAC's products are distributed and sold primarily in the Philippines. It has a nationwide distribution reach supported by a nationwide after-market network. The Company believes CCAC has the largest share of the total air conditioning market in the Philippines as measured by revenues, including leading market positions in the residential, light commercial and commercial and industrial segments.

**CDI**

CDI engages primarily in the manufacture, assembly, wholesale, retail, purchase, and trade of refrigeration equipment, including Condura and Kelvinator brand refrigerators and freezers. CDI manufactures a select range of its products at its factory at Light Industry and Science Park in Cabuyao, Laguna, adjacent to CCAC's air conditioning and commercial refrigeration factory. CDI factory has a capacity of 300,000 units per year and a production area of 16,420 sqm. CDI has the largest share of the residential and light commercial ("RLC") refrigeration market in the Philippines. In 2020, CDI introduced other small home appliances such as rice cookers, grillers, and coffee makers.

**CMIP**

CMIP is a joint venture between Midea Electric Trading (Singapore) Co. Pte. Ltd. (Midea), and CIC and CCAC. CMIP's primary purpose is to introduce Midea brand products in the Philippine market as a supplier of a whole range of appliances such as air conditioners, refrigerators, and laundry and kitchen appliances. This will not only expand the Company's multi-brand offering to the Philippine market but will also allow it to expand into the wider white goods market. Established in 1968, Midea is a leading global white goods and air conditioning systems manufacturer, with operations around the world. Midea is a brand leader in China and has various domestic production bases in China as well as overseas production bases in Vietnam, Belarus, Egypt, Brazil, Argentina, and India. It is also a joint venture and/or business partner of Carrier Corporation in selected countries worldwide.

**COPI**

COPI's primary business is to import, buy and sell, at wholesale, distribute, maintain and repair, elevators, escalators, moving walkways, and shuttle systems and all supplies, material, tools, machinery and part/components.

## **CBSI**

CBSI's primary business purpose is to consolidate support services across CIC and its subsidiaries and affiliates particularly in the areas of Finance, Human Resources, Information and Communications Technology, Legal and Compliance, as well as Facilities Management. In 2020, CBSI introduced an online platform to allow other subsidiaries to sell directly to consumers (Conceptstore).

## **CTC**

CTC engages in the research, development and commercialization of new and emerging technologies. CTC also develops strategic partnerships and identifies potential acquisitions, both locally and abroad, to develop solutions that are aligned with CIC's broader vision of building better lives and businesses and owning the home. CTC works across the enterprise to help facilitate innovation, and maintain CIC's position as a market leader.

## **Alstra**

Alstra was organized primarily to carry on business as a holding company. Alstra may also engage in the business of installation, construction, maintenance and supply of equipment for mechanical, electrical, plumbing and fire protection services, facilities management, civil construction, technology services, electronics, devices and equipment in relation to building services and other building solutions-related services, among others.

## **Teko**

Teko's primary business is to provide information technology solutions, I.T. enabled services, e-commerce, web design, and applications, to enterprise, consumers, businesses, institutions and other end-users. Teko built and operates a proprietary platform that matches homes and businesses with service providers for the repair and maintenance of airconditioners, mobile phones, washing machines, refs, and other appliances.

## **Tenex**

Tenex is a joint venture company of Alstra and Mr. Joey P. Penaflor and is positioned to provide HVAC installation, repairs and maintenance services to commercial and business establishments.

## **Key Performance Indicators**

The Company monitors its financial and operating performance in terms of the following indicators:

	<b>For the period ended June 30, 2021</b>	<b>For the period ended June 30, 2020</b>
<b>Gross Profit Margin (%)</b>	35.0%	34.0%
<b>Profit Before Tax (%)</b>	7.9%	1.9%
<b>Net Income Attributable to Shareholders (Php Millions)</b>	195.6	(35.1)
<b>Net Income Attributable to Shareholders (% to Sales)</b>	3.0%	(0.8%)
<b>Return on Average Equity (%)</b>	7.7%	(1.4%)
<b>Return on Average Assets (%)</b>	6.0%	0.1%
<b>Earnings per share*</b>	0.49	(0.09)
	<b>As at June 30, 2021</b>	<b>As at June 30, 2020</b>
<b>Debt to Equity Ratio</b>	0.8	0.7
<b>Asset to Equity Ratio</b>	1.8	1.7
<b>Current Ratio</b>	2.0	2.3
<b>Book Value Per Share*</b>	12.9	12.2

\*Total weighted average number of shares used for the period and as at June 30, 2021: 401,895,091 (2020 - 403,218,091).

Key Performance Indicator	Definition
Gross Profit Margin %	Gross Profit/Net Sales
Profit Before Tax %	Profit before Tax/Net Sales
Return on Average Equity	Net Income after Minority Interest/ Average Shareholder's Equity net of Minority Interest
Return on Average Assets	Net Income/Average Assets
Debt to Equity Ratio	Total Liabilities/Total Equity
Asset-to-Equity Ratio	Total Assets/Total Equity
Current Ratio	Current Assets/Current Liabilities
Earnings Per Share	Net Income after Minority Interest/Total Shares Outstanding
Book Value Per Share	Shareholder's Equity net of Minority Interest/ Total Shares Outstanding

## RESULTS OF OPERATIONS

### Factors affecting the Company's financial and operational results in the first six months of 2021

**Macroeconomic Fundamentals:** The Philippine economy recovered with a growth of 11.8% % in Q2 due to the low base, as well as better management of risks. The growth remained conservative due to heightened quarantine measures implemented in major areas such as National Capital Region (NCR) and nearby provinces in NCR. This was compounded by low vaccination rate, the emergence of the Delta variant, and the restrained economic activity from continuing low consumer activity. The average inflation rate remained high at 4.5% for April and May, but slowed down to 4.1% on June, hitting an average of 4.4% for H1 2021. This is primarily due to continuing supply side pressures and higher global oil prices.

**Construction Sector Developments:** The Company's commercial AC segment revenue as well as its elevator and escalator brands are dependent upon its ability to secure and retain the business of large property developers as well as industrial institutes and material accounts. The slow pace of vaccination, and the surge during Q2 brought about the imposition of an Enhanced Community Quarantine (ECQ) resulted to limited construction activity causing slow conversion of backlogs. Nevertheless, public construction has rebounded and while private construction is registering a slow recovery.

**Commodity Prices and Foreign Exchange Fluctuation:** The Company depends on raw materials sourced from third parties to produce majority of its products. Raw materials expense represents about 67% of the Company's manufactured cost of sales. While FX has been slow, it has climbed steadily from Php 48.46 to hit the Php 50 mark. Commodity prices for copper, silver, and aluminum have continued to be on an uptrend due to increased demand in the China domestic market. Fuel prices have also increased due to OPEC members' constriction of supply and the continued increase in global economic activity. Challenges arose from material sourcing especially imported raw materials due to port and logistics restrictions, as well as the container shortage in Asia.

### Six months ended June 30, 2021 compared with six months ended June 30, 2020

CIC's consolidated profit after tax (PAT) as at June 30, 2021 WAS at P360.2 million, an increase of P356.9 million or 10,671.8% from the same period in 2020. Profit after tax after minority interest (PATAMI) was at P195.6M or a 658.0% increase from 2020. The growth in earnings was mainly driven by the increase in sales volume and lower income tax expense due to adjustment in the income tax rate from 30% to 25% based on Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

### **Net sales and services**

The consolidated net sales and services for the first half of 2021 WAS at P6.4 billion, a 45.1% increase from P4.4 billion from the same period last year.

The Consumer Lifestyle Solutions (CLS) Division posted a comparative period increase in sales of 57.8%, to P5.3 billion. The increase in sales was mainly due to higher volume driven by eased quarantine restrictions coupled by our investment in digital channels and an enhanced fulfillment capability to operate despite of pandemic. This was further supported by our rebranding, new product introductions, service innovations, and programs launched to support our sales drive. The digital investments also bore fruit as ecommerce revenues increased by 106% between Q1 and Q2 to P44.6M. The digital channels include both external channels such as Lazada and Shoppee, and internal brand websites such as Concepstore.

The Alstra Division consisting of commercial AC, elevators and escalators posted a comparative period increase in sales of 6.5% to P1.2 billion due to eased restrictions, and the slow recovery of the commercial sector as the recovery continues.

### **Gross Profit and Margins**

CIC registered consolidated gross profit of P2.3 billion for the period ended June 30, 2021, a 49.2% increase from same period last year. The increase was attributable by the higher volume of sales in first half of 2021, low and stable FX rates, and higher production which allowed improved absorption of fixed costs.

### **Operating Expenses**

CIC's total operating expenses were at P1.8 billion in 2021, 23.9% increase compared to same period last year, due to due to increase in volume driven costs, normalized employee costs and provisioning, as well as strategic investments for advertising, brand building and digital assets. This was offset by structural changes in the cost structure aimed at improving efficiencies.

CIC made several investments in digital platforms. These include internal and external ecommerce platforms, CX data and engagement enablers, and shared services and logistics platforms. We expect our investments to improve our responsiveness in meeting our customer needs, while providing superior analytics, and greater efficiency in our operations.

### **Other Operating Income and Finance Costs**

Other operating income of P8.0 million was mainly related to commission income, interest income from bank deposits and short-term placements. The finance cost of P12.6 million was composed of interest expense on short-term borrowings and amortization of lease liabilities.

## **FINANCIAL CONDITION**

### **As at June 30, 2021 compared with as at December 31, 2020**

Consolidated total assets as at June 30, 2021 WAS at P12.6 billion, decline by P56.7 million from end of 2020 of P12.7 billion. The decrease in assets was coming from cash and cash equivalents, and right of use of assets. Consolidated net cash position decreased by P583.7 million to P2.4 billion as at June 30, 2021.

Total liabilities as at June 30, 2021 amounted to P5.6 billion, an increase of P253.6 million from December 31, 2020 mainly driven from the payables in short-term borrowings and trade payables and other liabilities.