COVER SHEET

SEC Registration Number

A	1	9	9	7	-	1	3	4	5	6

COMPANY NAME

CONCEPCION INDUSTRIAL CORPORATION

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

308 SEN. GIL PUYAT AVENUE MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, if Applicable
17-Q	CGFD	

COMPANY

Company's Email Address	Company's Telephone Number/s	Mobile Number
sec_cic@cic.ph	87721819	+639178424881

No. of Stockholders	Annual Meeting (Month/Day)	Fiscal Year (Month/Day)
27	Third Wed. of July	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Omar C. Taccad	omar.taccad@cic.ph	87721819	+639985843327

CONTACT PERSON's ADDRESS

Km. 20 East Service Road South Super Highway, Alabang, Muntinlupa City

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

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

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, 2023

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**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

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 Outstanding and Amount of Debt Outstanding
COMMON	**397,912,491** (as of June 30, 2023)

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 P1.7 billion. The price used for this computation is the closing price as of June 30, 2023 is P15.10.

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.

RAJAN KOMARASU
Chief Finance and Operating Officer

July 27, 2023

ANNEX A

Concepcion Industrial Corporation and Subsidiaries

Consolidated Statements of Financial Position
As at June 30, 2023 and December 31, 2022
(All amounts in thousand Philippine Peso)

	Notes	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents	2	1,349,516	1,688,163
Trade and other receivables, net	3	4,065,738	3,455,147
Contract assets		1,197,353	781,668
Inventories, net	4	3,292,932	3,161,979
Prepayments and other current assets		133,511	115,697
Total current assets		10,039,050	9,202,654
Non-current assets			
Property and equipment, net		466,307	474,515
Investment property		40,255	40,255
Investment in associates	5	118,496	90,009
Intangible assets, net	6	126,185	135,843
Goodwill	6	806,682	806,682
Right-of-use assets, net		427,777	360,096
Deferred income tax assets, net		672,369	579,879
Other non-current assets		86,206	80,783
Total non-current assets		2,744,277	2,568,062
Total assets		12,783,327	11,770,716
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other liabilities	7	4,795,614	3,896,259
Short-term borrowings	8	5,000	114,000
Lease liabilities		89,049	136,873
Provision for warranty		85,074	68,077
Other provisions		39,055	38,691
Income tax payable		169,933	-
Total current liabilities		5,183,725	4,253,900
Non-current liabilities			
Retirement benefit obligation	12	593,133	570,502
Lease liabilities		365,356	241,914
Provision for warranty		7,401	5,941
Total non-current liabilities		965,890	818,357
Total liabilities		6,149,615	5,072,257
Equity			
Attributable to owners of the Parent Company			
Share capital	13	407,264	407,264
Share premium	13	993,243	993,243
Treasury shares	13	(241,464)	(241,464)
Retained earnings		3,783,068	3,765,573
Other comprehensive loss		(51,816)	(51,816)
		4,890,295	4,872,800
Non-controlling interest		1,743,417	1,825,659
Total equity		6,633,712	6,698,459
Total liabilities and equity		12,783,327	11,770,716

The notes on pages 1 to 11 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, 2023 and 2022
(All amounts in thousand Philippine Peso, except earnings per share)

	Notes	For the six months ended 2023	For the six months ended 2022	For the three months ended 2023	For the three months ended 2022
Net sale of goods		6,828,472	6,328,343	4,164,874	3,513,160
Sale of services		404,799	397,171	186,678	125,806
Net sales	9	7,233,271	6,725,514	4,351,552	3,638,966
Cost of sales and services	10	(4,958,389)	(4,543,805)	(3,079,191)	(2,445,783)
Gross profit		2,274,882	2,181,709	1,272,361	1,193,183
Operating expenses	11	(1,840,164)	(1,667,714)	(940,221)	(821,268)
Other operating income (loss), net		22,560	(77,674)	5,366	(21,625)
Operating income		457,278	436,321	337,506	350,290
Interest expense		(14,525)	(13,466)	(9,254)	(7,077)
Income before share in net income (loss) of associates and income tax		442,753	422,855	328,252	343,213
Share in net income (loss) of associates	5	28,487	(23,741)	16,003	(1,825)
Income before income tax		471,240	399,114	344,255	341,388
Income tax expense		(120,931)	(135,350)	(87,170)	(108,268)
Net income for the year		350,309	263,764	257,085	233,120
Other comprehensive income (loss) that will not be subsequently reclassified to profit or loss					
Remeasurement gain (loss) on retirement benefits, net of tax		-	-	-	-
Total comprehensive income for the year		350,309	263,764	257,085	233,120
Net income (loss) attributable to:					
Owners of the Parent Company		216,451	112,459	162,796	133,783
Non-controlling interest		133,858	151,305	94,289	99,337
		350,309	263,764	257,085	233,120
Total comprehensive income attributable to:					
Owners of the Parent Company		216,451	112,459	162,796	133,783
Non-controlling interest		133,858	151,305	94,289	99,337
		350,309	263,764	257,085	233,120
Earnings (loss) per share - basic and diluted	14	0.54	0.28	0.41	0.33

The notes on pages 1 to 11 are integral part of these consolidated financial statements.

ANNEX C

Concepcion Industrial Corporation and Subsidiaries

Consolidated Statements of Changes in Equity
For the periods ended June 30, 2023 and 2022
(All amount in thousand Philippine Peso)

	Notes	Attributable to owners of the Parent Company						
		Share capital	Share premium	Treasury shares	Retained earnings	Other comprehensive income (loss)	Non-controlling interest	Total
Notes		13	13	13				
Balances as at January 1, 2023		407,264	993,243	(241,464)	3,765,573	(51,816)	1,825,659	6,698,459
Comprehensive income								
Net income for the year		-	-	-	216,451	-	133,858	350,309
Remeasurement gain (loss) on retirement benefits, net of tax		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	216,451	-	133,858	350,309
Transactions with owners								
Cash dividends declared		-	-	-	(198,956)	-	(216,100)	(415,056)
Treasury shares								
Total transactions with owners		-	-	-	(198,956)	-	(216,100)	(415,056)
Balances as at June 30, 2023		407,264	993,243	(241,464)	3,783,068	(51,816)	1,743,417	6,633,712
Balances as at January 1, 2022		407,264	993,243	(172,108)	4,013,851	(55,913)	1,856,869	7,043,206
Comprehensive income								
Net income for the period		-	-	-	112,459	-	151,305	263,764
Remeasurement gain (loss) on retirement benefits, net of tax		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	112,459	-	151,305	263,764
Transactions with owners								
Cash dividends declared		-	-	-	(401,855)	-	(241,300)	(643,155)
Treasury shares		-	-	(18,341)	-	-	-	(18,341)
Total transactions with owners		-	-	(18,341)	(401,855)	-	(241,300)	(661,496)
Balances as at June 30, 2022		407,264	993,243	(190,450)	3,724,455	(55,913)	1,766,874	6,645,473

The notes on pages 1 to 11 are integral part of these consolidated financial statements.

ANNEX D

Concepcion Industrial Corporation and Subsidiaries

Consolidated Statements of Cash Flows
For the periods ended June 30, 2023 and 2022
(All amounts in thousand Philippine Peso)

	2023	2022
Cash flows from operating activities		
Income before income tax	471,240	399,114
Adjustments for:		
Provisions for (reversals of):		
Volume rebates, trade discounts and other incentives	517,927	147,597
Warranty cost	74,536	63,211
Commission	33,413	20,733
Impairment of receivables	16,434	(2,698)
Contingencies	(29,857)	30,793
Inventory obsolescence	5,720	7,921
Amortization of right-of-use assets	127,261	70,764
Retirement benefit expense	50,968	45,221
Depreciation and amortization of property and equipment	82,809	77,490
Amortization of intangible assets	9,659	14,693
Interest expense	14,788	13,466
Share in net loss (income) of associates	(28,487)	23,741
Unrealized foreign exchange losses (gains)	(4,654)	40,116
Loss on disposal of property and equipment	346	104
Interest income on bank deposits, short-term placements	(8,965)	(3,390)
Operating income before working capital changes	1,333,138	948,876
Changes in:		
Trade and other receivables	(696,889)	(540,887)
Inventories	(153,114)	(1,098,468)
Prepayments and other current assets	(390,621)	(62,966)
Other non-current assets	(5,423)	(12,170)
Trade payables and other liabilities	198,552	689,937
Cash generated from operations	285,643	(75,678)
Income tax paid	-	(27,977)
Payments of provision for warranty cost	(57,531)	(55,263)
Payments of other provisions	(22,434)	(18,443)
Retirement contributions/ benefits directly paid by the Group	(28,336)	(66,385)
Interest received on bank deposits	3,287	2,217
Net cash provided by (used in) operating activities	180,629	(241,529)
Cash flows from investing activities		
Interest received from short-term placements	2,879	1,278
Additions to property and equipment	(58,833)	(30,862)
Proceeds from disposal of property and equipment	131	-
Net cash used in investing activities	(55,823)	(29,584)
Cash flows from financing activities		
Cash distributions of profits	(239,057)	(542,105)
Proceeds from short-term borrowings	-	1,000
Payment of short-term borrowings	(109,000)	-
Principal repayment of lease liabilities	(101,858)	(69,214)
Interest paid on lease liabilities	(12,610)	(6,817)
Interest paid on short-term borrowings	(928)	(5,623)
Acquisitions of treasury shares	-	(18,341)
Net cash used in financing activities	(463,453)	(641,100)
Net increase (decrease) in cash and cash equivalents	(338,647)	(912,213)
Cash and cash equivalents as at January 1	1,688,163	2,518,403
Cash and cash equivalents as at June 30	1,349,516	1,606,190

The notes on pages 1 to 11 are integral part of these consolidated financial statements.

Concepcion Industrial Corporation and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements
As at June 30, 2023 and December 31, 2022 and for the
periods ended June 30, 2023 and 2022
(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. CIC's subsidiaries are incorporated and operating in the Philippines. The subsidiaries are engaged in the manufacture, sales, 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, 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.

CIC and its subsidiaries are herein collectively referred to as the "Group".

CIC'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 CIC. These companies are beneficially owned by Filipino individuals.

CIC's registered office address, which is also its principal place of business, is located at 308 Gil Puyat Avenue, Makati City. As at June 30, 2023 and December 31, 2022, CIC has two (2) regular employees.

1.2 Significant business developments

On July 1, 2022, Alstra purchased 9,300,000 additional shares of stock in Tenex for a total purchase price of P9.3 million. These shares represent 31% of the issued and outstanding capital stock of Tenex. Consequent to this purchase, the equity of Alstra in Tenex increased from 49% to 80%. Tenex became a subsidiary of CIC upon the increase in ownership. As at June 30, 2023, the additional shares was recognized from Deposit for Future Stock Subscription to Investment in Subsidiary.

On December 19, 2019, the 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. The application for the increase in share capital was filed with the SEC on November 3, 2021. On July 17, 2020 and February 2, 2021, the Company received deposit for future stock subscription from CIC amounting to P15.6 million and P20 million respectively. On November 9, 2021, CTC obtained the approval of the increase in share capital with the SEC. The corresponding shares relating to the deposit for future stock subscription amounting to P15.6 million in November 2021 and P20 million in April 2023 were both issued to CIC.

Note 2 - Cash and cash equivalents

Cash and cash equivalents as at June 30, 2023 and December 31, 2022 consist of:

	2023	2022
Cash on hand	858	1,909
Cash in banks	897,168	912,691
Short-term placements	451,490	773,563
Total	1,349,516	1,688,163

Cash in banks and short-term placements amounting to P1,022,986 and P325,672 (2022 – P1,281,305 and P404,949) are made with universal and commercial banks, respectively, that earned interest at the prevailing bank deposit rates.

For the period ended June 30, 2023, total interest income earned from cash in banks and short-term placements amounted to P8,965 (2022 – P3,390).

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, 2023 and December 31, 2022 consist of:

	2023	2022
Trade receivables		
Third parties	4,803,268	3,968,815
Related parties	11,809	5,629
Provision for volume rebates, trade discounts and other incentives	(922,578)	(637,424)
Provision for impairment of receivables	(195,276)	(177,158)
Net trade receivables	3,697,223	3,159,862
Non-trade receivables, net		
Advances to/Claims from suppliers	122,109	127,204
Related parties	78,356	46,138
Advances to employees	42,838	40,624
Rental deposits	5,663	5,555
Others	119,549	75,764
	368,515	295,285
Total Trade and Other Receivables, net	4,065,738	3,455,147

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, 2023 and 2022 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, 2023 and December 31, 2022 was determined as follows for both trade receivables and contract assets:

	High performing	Underperforming		Credit impaired	
	Current	Up to 6 months past due	6 to 12 months past due	Over 12 months past due	
Expected loss rate	Within 0% to 12%	Within 1% to 27%	Within 1% to 27%	Within 1% to 100%	Total
2023					
Trade receivables					
Third parties	3,477,538	1,043,396	121,000	161,334	4,803,268
Related parties	2,952	8,857	-	-	11,809
	3,480,490	1,052,253	121,000	161,334	4,815,077
Contract assets	1,197,353	-	-	-	1,197,353
Total	4,677,843	1,052,253	121,000	161,334	6,012,430
Loss allowance	-	-	35,979	159,297	195,276
2022					
Trade receivables					
Third parties	2,653,295	1,016,825	122,608	176,087	3,968,815
Related parties	5,629	-	-	-	5,629
	2,658,924	1,016,825	122,608	176,087	3,974,444
Contract assets	781,668	-	-	-	781,668
Total	3,440,592	1,016,825	122,608	176,087	4,756,112
Loss allowance	-	-	5,392	171,766	177,158

Advances to employees are realized through salary deductions. Rental deposits are expected to be applied to future lease obligations. All these accounts, including non-trade receivables from related parties, and other receivables do not contain impaired assets and are not past due.

The contract assets relate to unbilled work in progress and have 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 maximum exposure to credit risk at the reporting date is 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, 2023 and December 31, 2022 consist of:

	Note	2023	2022
At cost			
Raw materials		1,654,982	1,502,860
Finished goods	10	1,578,138	1,510,893
Work in process	10	1,605	572
Inventories-in-transit		87,381	167,780
Spare-parts and supplies used in business		82,267	84,171
		3,404,373	3,266,276
Provision for inventory obsolescence		(111,441)	(104,297)
Inventories, net		3,292,932	3,161,979

For the period ended June 30, 2023, the cost of inventory recognized as expense and included in cost of sales and services amounted to P4,654,628 (2022 – P4,082,124) (Note 10).

Note 5 - Investments in Associates

Details of movement in investment in associates as at June 30, 2023 and December 31, 2022 follow:

	2023	2022
At cost, beginning	260,000	274,700
Additional investments	-	-
Change of ownership from associate to subsidiary	-	(14,700)
At cost, ending	260,000	260,000
Cumulative share in total comprehensive loss, beginning	(169,991)	(145,948)
Share in net income (loss) for the year	28,487	(31,996)
Share in other comprehensive income (loss) for the year	-	1,126
Reversal of accumulated net loss in Tenex	-	6,827
Cumulative share in total comprehensive loss, ending	(141,504)	(169,991)
Investment in Associates	118,496	90,009

As at June 30, 2023 and December 31, 2022, the investment in associate pertains only to CMIP.

Note 6 - Goodwill and intangible assets, net

6.1 Goodwill

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

Goodwill resulted from CIC's acquisition of COPI in 2014, Teko in 2018 and Tenex in 2022.

For the COPI acquisition, 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.

For Teko acquisition, the Group applied the proportionate interest approach to account for its NCI. The goodwill of P18,379 arising from the acquisition is attributable to Teko's web-based platforms, consisting of its website and mobile application.

In 2022 under acquisition method, the Group recognized a goodwill of P4,320 from the acquisition of Tenex. The Group applied the proportionate interest approach to account for its NCI.

Impairment test for goodwill

Discounted cash flow (DCF) method was used as base for estimating the recoverable value of COPI and Teko as at June 30, 2023 and December 31, 2022. The Group did not recognize impairment losses for the period ended June 30, 2023 and December 31, 2022 as the recoverable value exceeds the carrying amount of the cash-generating unit (CGU). Goodwill arising from the Group's acquisition of Tenex was assessed as not impaired since the current carrying amount approximates its fair value as at June 30, 2023.

6.2 Intangible assets, net

Details and movements of intangible assets account at June 30, 2023 and December 31, 2022 are shown below:

	Customer relationship	Customer backlogs	Computer software	Total
Cost				
At January 1, 2023	187,113	13,883	118,562	319,557
Additions (adjustments)	-	-	-	-
At June 30, 2023	187,113	13,883	118,562	319,557
Accumulated amortization				
At January 1, 2023	68,392	13,883	101,440	183,714
Amortization	3,742	-	5,916	9,658
At June 30, 2023	72,134	13,883	107,356	193,372
Net book values at June 30, 2023	114,979	-	11,206	126,185
Cost				
At January 1, 2022	187,113	13,883	118,846	319,842
Additions (adjustments)	-	-	(285)	(285)
At December 31, 2022	187,113	13,883	118,562	319,557
Accumulated amortization				
At January 1, 2022	60,908	13,883	80,526	155,317
Amortization	7,484	-	20,913	28,397
At December 31, 2022	68,392	13,883	101,440	183,714
Net book values at December 31, 2022	118,721	-	17,122	135,843

Note 7 - Trade payables and other liabilities

Trade payables and other liabilities as at June 30, 2023 and December 31, 2022 consist of:

	2023	2022
Trade payables		
Third parties	1,295,957	1,036,070
Related parties	419,953	260,196
Total Trade Payables	1,715,910	1,296,266
Accrued expenses		
Project costs	643,576	553,734
Personnel Costs	381,756	344,238
Outside services	234,752	282,688
Freight	76,988	48,574
Advertising and promotion	58,077	44,489
Rental and utilities	45,439	53,420
Importation costs	39,645	46,177
Professional fees	23,881	56,002
Repairs and maintenance	5,382	5,067
Commission	4,149	1,923
Installation and cleaning costs	126	126
Others	223,521	104,502
Total Accrued expenses	1,737,292	1,540,940
Other liabilities		
Advances on sales contract	425,354	284,702
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	266,821	277,572
Output value-added tax (VAT), net of input VAT	315,897	145,778
Withholding taxes and other mandatory government remittances	19,848	90,962
Related parties	7,721	35,140
Others	306,771	224,899
Total Other Liabilities	1,342,412	1,059,053
Total	4,795,614	3,896,259

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

Note 8 - Short-term borrowings

Movements of short-term borrowings as at June 30, 2023 and December 31, 2022 are as follows:

	2023	2022
Beginning	114,000	250,000
Borrowings	-	150,000
Payments	(109,000)	(286,000)
Ending	5,000	114,000

As at June 30, 2023 and December 31, 2022, the Group has unsecured interest-bearing short-term loans ranging from three (3) to six (6) months from 5.35% to 7.98% (2022 -5.35% to 7.25%).

Interest expenses on borrowings recognized and paid during the period ended June 30, 2023 amounted P928 (2022 – P5,623).

Note 9 - Revenue from contracts with customers

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

	2023	2022
Gross sales		
Sale of goods (Point in time)	7,796,251	6,963,479
Sale of services (Over time)	404,799	397,171
	8,201,050	7,360,650
Deductions		
Trade and volume discounts and other incentives	(742,472)	(330,722)
Sales returns	(225,307)	(304,414)
	(967,779)	(635,136)
Net sales and services	7,233,271	6,725,514

The Group revised the breakdown of revenue and related deduction for the period ended June 30, 2022, to conform with current year presentation. The changes did not impact previously reflected net income, financial position and cash flows.

Note 10 - Cost of sales and services

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

	Note	2023	2022
Raw materials used		1,352,109	3,254,974
Labor		96,496	79,193
Overhead		298,774	308,372
Total manufacturing cost		1,747,379	3,642,539
Work-in-process, beginning	4	572	2,587
Work-in-process, ending	4	(1,605)	(5,808)
Cost of goods manufactured		1,746,346	3,639,318
Finished goods inventory, beginning	4	1,510,893	1,140,542
Gross purchases - trading		2,975,527	1,224,483
Finished goods available for sale		6,232,766	6,004,343
Finished goods inventory, ending	4	(1,578,138)	(1,922,219)
Total cost of sales		4,654,628	4,082,124
Cost of installation and services		299,658	450,147
Others		4,103	11,534
Total cost of services		303,761	461,681
Total cost of sales and services		4,958,389	4,543,805

Note 11 - Operating expenses

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

	2023	2022
Personnel costs	681,533	607,083
Outside services and professional fees	414,188	410,071
Outbound freight	199,693	176,079
Advertising and promotion	119,135	67,179
Amortization of right-of-use assets	93,529	93,919
Warranty cost	77,228	63,105
Rent and utilities	52,540	53,495
Depreciation and amortization	31,344	32,187
Transportation and travel	23,611	14,778
Royalty	21,924	16,766
Taxes and licenses	19,638	25,035
Provision for impairment of receivables	16,726	(6,457)
Amortization of intangible assets	9,130	13,633
Repairs and maintenance	8,642	6,659
Provision for (Reversal of) inventory obsolescence	5,244	7,935
Others	66,059	86,247
	1,840,164	1,667,714

The Group reclassified a portion of the rent expense to amortization of right-of-use assets for the period ended June 30, 2022 to align the expense classification in 2023. The changes did not impact previously reflected net income, financial position and cash flows.

Note 12 - Retirement plan

12.1 CIC

CIC has an established retirement plan which is a non-contributory and of the defined benefit type 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 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.

12.2 CCAC

CCAC has an established funded, trusteed 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 trusteed; 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.

12.3 Alstra; Teko; Tenex

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 13th month and the cash equivalent of not more than five (5) days of service incentive leaves.

As at June 30, 2023 and December 31, 2022, estimated retirement benefits and obligations for Alstra is deemed immaterial, hence, not provided for.

12.4 COPI

The Company has a funded, non-contributory defined benefit plan which provides a retirement benefit range of twenty percent (20%) to two hundred percent (200%) of plan salary for every year of service 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 50 or completion of at least ten (10) years of service.

12.5 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.

12.6 CTC

CTC has established an unfunded, defined benefit retirement plan which provides a retirement benefit equivalent to one hundred twenty-five percent (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, 2022.

12.7 CDI

In February 2021, CDI's BOD approved the establishment of 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 hundred twenty-five percent (125%) of the latest monthly salary per year of service.
The following are the details of the retirement benefit obligation (asset) and retirement benefit expense as at June 30, 2023 and December 31, 2022:

	CIC	CCAC	CDI	CBSI	COPI	CTC	Teko	Tenex	Total
2023									
Retirement benefit obligation	22,661	337,371	145,728	73,800	8,546	952	3,184	891	593,133
Retirement benefit expense	1,013	21,395	13,930	7,469	6,231	67	551	312	50,968
2022									
Retirement benefit obligation	21,647	315,976	148,297	76,832	3,653	885	2,632	580	570,502
Retirement benefit expense	1,383	56,883	26,205	19,115	5,061	317	1,283	625	110,872

Retirement benefit expense is included as part of personnel costs under operating expenses (Note 11).

Note 13 - Equity

13.1 Share capital

As at June 30, 2023 and December 31, 2022, CIC's authorized share capital amounting to P700,000 is composed of 700 million shares with par value of P1 per share.

The details and movement of share capital as at and for the period ended June 30, 2023 and for the year ended December 31, 2022 follows:

	Number of common shares issued and outstanding	Amount		
		Share capital	Share premium	Treasury shares
January 1, 2022	401,855,091	407,264	993,243	(172,108)
Acquisition of treasury shares	(3,942,600)	-	-	(69,356)
December 31, 2022	397,912,491	407,264	993,243	(241,464)
Acquisition of treasury shares	-	-	-	-
June 30, 2023	397,912,491	407,264	993,243	(241,464)

13.2 Dividend declaration

Cash dividends declared, attributable to owners of CIC, for the period ended June 30, 2023 and for the year ended December 31 are as follows:

Date declared	Date paid	Per share	2023	2022	2021
March 29, 2023	April 25, 2023	0.5	198,956	-	-
February 16, 2022	April 12, 2022	1.0	-	401,855	-
February 10, 2021	April 12, 2021	1.0	-	-	401,955
			198,956	401,855	401,955

For the period ended June 30, 2023 and for the year ended December 31, 2022, NCI from profit distribution of CCAC and COPI amounted to P172,000 and P44,100, respectively (2022 - P202,100 and P39,200, respectively).

13.3 Treasury shares

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

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.

On July 27, 2022, the BOD extended the share buyback program to another two years or until September 9, 2024. Out of the approved buyback of P300 million, total amount of shares repurchased was P168 million as at June 30, 2023.

As at June 30, 2023 and December 31, 2022, acquisition of treasury shares amounted to P241 million.

Note 14 - Earnings per share

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

Earnings per share for the periods ended June 30 is calculated as follows:

	2023	2022
Net income (loss) attributable to owners of the Parent Company	216,451	112,459
Weighted average common shares - basic and diluted (in ‘000)	397,912	401,227
Basic and diluted earnings per share	0.54	0.28

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

ANNEX F

Management's Discussion and Analysis of Financial Condition and Results of Operations (based on the Unaudited Consolidated Results)

OVERVIEW OF THE BUSINESS

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. The Company has expanded its business beyond being a trusted expert in air conditioning and refrigeration, towards becoming a complete consumer and commercial solutions company with a range of solutions and aftermarket services across multiple international and Philippine brands including Carrier, Toshiba, Condura, Kelvinator, Midea and Otis. These solutions are designed to serve a wide array of customers from individuals and single families living in residences, to thousands of people spread across large residential towers, office buildings, entertainment facilities, and commercial and industrial sites. These solutions are also designed to meet a variety of diverse needs, such as reliability, durability, comfort, energy efficiency, environmental impact, ease of use, and aesthetic appeal at varying price points with customized features to match the individual requirements. Moreover, the Company continues to develop these technologies to meet the ever-changing needs of its customers. In addition, the Company offers an array of aftermarket services such as periodic maintenance, parts supply, repairs and other services intended to support its products through their entire life cycle. Moving beyond products, CIC invests heavily on strengthening its relationship with its customers through the development of various platforms and applications designed to ensure a better fit between the product and service offerings to the customer's lifestyle. The Company believes that these aftermarket services, combined with its wide range of air conditioning and refrigeration products catering to various customer needs, offer customers enhanced value that distinguishes the Company's air conditioning and refrigeration solutions from those of its competitors.

As of June 30, 2023, CIC has eight major subsidiaries and two associates. For its subsidiaries, the Company owns 60% of CCAC, 100% of CDI, effectively 51% of COPI through its ownership in Alstra Inc., 100% of CBSI, 100% of CTC, 100% of Alstra Inc., effectively 58% of Teko through its ownership in CTC, and 80% of Tenex through its ownership in Alstra Inc. For its associates, the Company owns effectively 40% of CMI through its ownership in CCAC and 33% of Teko SG through its ownership in CTC.

Carrier Air Conditioning Company (CCAC)

CCAC engages in the manufacture, sale, distribution, installation, and service of heating, ventilating, and air conditioning (HVAC) products and services for residential, commercial, and industrial use. CCAC is a joint venture between CIC 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 factory is 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 aftermarket network. The Company believes CCAC has the largest air conditioning market share in the Philippines in terms of revenues, including leading market positions in the residential, commercial and industrial segments.

Concepcion Durables, Inc. (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 factory. The factory has a capacity of 300,000 units per year and a production area of 16,420 sqm. CDI has leadership presence in the residential and light commercial ("RLC") refrigeration market in the Philippines. From 2020 onwards, CDI has continuously expanded its product portfolio from small domestic appliances such as rice cooker, coffee maker, juicer to kitchen and laundry appliances.

Concepcion Midea Inc. (CMI)

CMI is a joint venture between Midea Electric Trading (Singapore) Co. Pte. Ltd. (Midea), and CIC and CCAC. CMI's primary purpose is to introduce Midea brand products in the Philippine market as a supplier of a full range of appliances such as air conditioners, refrigerators, laundry and kitchen appliances. CMI is also a distributor of Toshiba brand such as refrigerator, laundry and kitchen appliances since 2019. 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 Global Fortune 500 company and has joint venture agreements with Carrier Corporation in selected countries.

Concepcion-Otis Philippines, Inc. (COPI)

COPI is a joint venture between Alstra Inc., a wholly owned subsidiary of CIC, and Otis Elevator Company (Philippines). COPI sells, installs and service Otis brand elevators and escalators in the Philippines. Its solutions include engineering design, supply and installation, project management, testing and commissioning, service repairs and parts, retrofit services on vertical transportation equipment. Otis is the world's leading brand for elevator and escalator equipment, installation and service.

Concepcion Business Services, Inc. (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, called Concepstore, to enable other subsidiaries to sell directly to consumers.

Cortex Technologies Corporation (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 Incorporated (Alstra)

Alstra Inc. was organized primarily as a holding company to make investments in solutions for buildings and the industrial markets. 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 Solutions Asia Inc. (Teko)

Teko is focused on building and operating a platform to provide appliance repair and maintenance services. It leverages on information technology solutions and innovative business models to transform the appliance services market.

Tenex Services, Inc. (Tenex)

Tenex is positioned to provide HVAC installation, repairs and maintenance services to commercial and business establishments. Effective July 1, 2022, Tenex became a subsidiary of the Company through its ownership in Alstra, Inc. from the latter's purchase of shares from 49% to 80%.

Teko Solutions Pte. Ltd. (Teko SG)

Teko SG is a company incorporated in Singapore. Its purpose of business is to be a holding company for the regional expansion of Teko across Southeast Asia.

Factors Affecting the Company's Results of Operations

Factors affecting the Company's financial and operational results in the first six months of 2023

Macroeconomic Fundamentals: Inflation continued to slow down in June 2023 at 5.4%, coming from 6.1% in May. Based on Philippine Statistics Office, this marked the fifth consecutive month of deceleration in the headline inflation and the lowest in the past 13 months. The Philippine economy is expected to post slower growth, as full-year GDP is seen below 2022 level. Against this macroeconomic backdrop, consumers are expected to shift focus on basic necessities, as the lagged effect of inflation is seen to continue exerting pressure on domestic purchasing power. However, the recently announced wage hike in Metro Manila, which took effect last July 16, may cushion this impact on consumer behavior.

Construction Sector Developments: The construction industry is expected to continue improving gradually with the increasing economic activities, as the government relaxed most of mobility restrictions in the country. Moreover, the government is eyeing to spend 5% to 6% of GDP on infrastructure and is seen to increase up to 12% with the passage of the proposed Public-Private Partnership Act and the enactment of the Republic Act 11954: Maharlika Investment Fund Law.

Commodity Prices: The Company depends on raw materials sourced from third parties to produce the majority of its products. Raw materials represent about 77% of the Company's manufactured cost of sales. Commodity prices have eased slightly from last year's highs; however, the prices remain at elevated levels and continue to affect most businesses and consumer spending. Copper prices have held up well as the market is well-balanced. Muted economic sentiment is seen to continue impacting short-term price dynamics.

Description of Selected Income Statement Items

Net Sales

The Company generates revenues from sales of its heating, ventilation and air conditioning (HVAC) including repairs and maintenance services, refrigeration units, laundry and kitchen appliances through its subsidiaries, CCAC, Tenex, and CDI, including sales and service of elevators and escalators in COPI, and building and operating a platform to provide appliance repair and maintenance services in Teko.

Costs and Expenses

- Cost of sales and services

  The Company's cost of sales and services comprises the cost of finished goods, raw materials used for the Company's manufactured products, installation costs, labor, and manufacturing and service overhead.

- Expenses

  The Company's operating expenses include employee costs, outside services, freight out, rent and utilities, warranty costs, marketing and advertising costs, transportation, travel and entertainment, provisions for commission, impairment of receivables, inventory obsolescence, legal disputes and assessments, repairs and maintenance, royalties, non-income taxes and licenses, depreciation and amortization, commission expense, supplies, insurance, and professional fees.

- Other net operating income (loss)

  The Company's other operating income (loss) comprises of interest expense on loans, foreign exchange losses, net of interest income on bank deposits and short-term placements, commission and service income.

Income tax expense (benefit)

The Company's income tax expense comprises the income taxes accrued and/or paid by the Company and its respective subsidiaries including the deferred income tax assets or tax related to future tax benefits.

Net Income

Net income represents the earnings of the Company and its respective subsidiaries.

Net Income Attributable to Parent

Net income attributable to Parent represents the Company's share at 60% of the net income of CCAC, 100% of the net income of CDI, 100% of the net income of CBSI, 100% of the net loss of CTC, 100% of the net income of Alstra, effectively 51% of the net income of COPI, effectively 58% of the net loss of Teko, and effectively 80% of net loss of Tenex.

Segment information

The Company reviews and analyzes profit or loss into Consumer and Commercial 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.

a. Profit or loss

Segment information on reported consolidated profit or loss for the periods ended June 30, as follows (amounts are in millions):

	Consumer business	Commercial business	Others	Total
2023				
Net sales and services	5,340	1,854	39	7,233
Timing of revenue recognition				
Point in time	5,340	1,475	13	6,828
Over time	-	379	26	405
Cost of sales and services	(3,709)	(1,230)	(19)	(4,958)
Gross profit	1,631	624	20	2,275
Operating expenses	(1,399)	(424)	(17)	(1,840)
Other operating income (loss)	14	6	3	23
*Interest income**	*2*	*5*	*2*	*9*
Interest expense	(11)	(3)	(1)	(15)
Share in net loss of associates	28	-	-	28
Income tax benefit (expense)	(59)	(51)	(11)	(121)
Net income (loss) for the six months ended	204	152	(6)	350
2022				
Net sales and services	5,200	1,503	23	6,726
Timing of revenue recognition				
Point in time	5,200	1,122	7	6,329
Over time	-	381	16	397
Cost of sales and services	(3,504)	(1,027)	(13)	(4,544)
Gross profit	1,696	476	10	2,182
Operating expenses	(1,315)	(286)	(67)	(1,668)
Other operating income (loss)	(77)	(9)	8	(78)
*Interest income**	*1*	*1*	*1*	*3*
Interest expense	(6)	-	(7)	(13)
Share in net income of associates	(23)	(1)	-	(24)
Income tax expense (benefit)	(82)	(47)	(6)	(135)
Net income (loss) for the six months ended	193	133	(62)	264

**account included in other operating income (loss)*

Consumer business pertains to heating, ventilation and air conditioning (HVAC) products, aftermarket parts and related services 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.

Commercial business pertains to heating, ventilation and air conditioning (HVAC) products and services as well as sales and services of elevators and escalators, primarily for industrial and commercial use. It is sold directly to end customers and through a network of accredited sub-contractors.

b. Assets, Liabilities and Other Accounts

Segment information on consolidated assets and liabilities as at June 30, 2023 and December 31, 2022 (in millions) are as follows:

	CCAC	CDI	COPI	Others	Total
2023					
Current assets	6,431	2,152	994	462	10,039
Non-current assets	948	486	904	406	2,744
Current liabilities	3,397	558	670	559	5,184
Non-current liabilities	567	275	9	115	966
2022					
Current assets	5,412	2,376	957	458	9,203
Non-current assets	742	493	918	415	2,568
Current liabilities	2,299	768	585	602	4,254
Non-current liabilities	431	268	4	115	818

CCAC's products and related services include HVAC, and air conditioning 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 management performs review of gross profit per component, while review of segment operating expenses, income tax, and profit or loss are done in total.

CDI is engaged in the manufacturing of refrigerators and freezers and distribution of laundry and kitchen appliances for domestic market.

COPI is engaged in distribution and service of elevators and escalators.

The balances presented in Others are composed of the other entities in the Group including CIC standalone balances.

RESULTS OF OPERATIONS

<u>Quarter Ended June 30, 2023 vs. Quarter Ended June 30, 2022</u>

CIC benefitted from the extreme summer season resulting in Q2 net sales growth of 19.6% versus same period last year. This was mainly coming from the air conditioning business with 35.6% overall Q2 sales growth. This was partly hampered by the decline in elevator and refrigerator sales. The Company's performance was also supported by lower loss from foreign exchange. Impact of higher sales volume was partly offset by lower margins due to aggressive promotions and higher OPEX.

Net sales and services

Consolidated net sales and services for the quarter was at P4.4 billion. This was 51.0% higher than Q1 sales.

Consumer Business generated sales of P3.2 billion, an increase of 11.3% versus same period last year. This was primarily attributed to increase in demand for window room air conditioner inverter models in Q2, thereby reversing the sales decline in Q1. Last quarter's performance was affected by rising inflation and logistical challenges in the last week of March. The summer heat and slowdown in inflation also favorably impacted consumer spending this quarter. Laundry and parts sales also contributed to the higher sales. This was, however, partly offset by lower sales volume of direct cool refrigerator due to overall market decline and lower sales volume of no frost refrigerators brought about by the transition to new models.

Commercial equipment sales reached P1.1 billion for the quarter, a 50.1% increase versus same period last year. This was mainly due to higher project deliveries on VRF ranges and commercial systems. The aftermarket service sales for both air conditioner and elevator businesses also continued to show steady growth at 19.9% for Q2. This was partly offset by lower elevator equipment sales due to a higher base coming from a large project last year.

Gross Profit

CIC registered Q2 consolidated gross profit of P1.3 billion, a 6.6% increase from comparable period in 2022, lifted by higher sales volume of air conditioners. However, as a percentage of sales, margin declined by 3.5 ppts versus last year due to pricing promotions to compete in the market and transitioning to newer models.

Operating Expenses

CIC's total operating expenses stood at P940.2 million for the 3 months ended June 30, 2023, a 14.5% increase versus the same period last year, driven largely by higher volume-related costs, employee costs and advertising and promotions.

Other Operating Income (loss) and Finance Costs

Other operating income ended at P5.3 million, mainly from interest income on time deposits and other income partly offset by foreign exchange loss, but notably lower than last year's recorded loss. Finance cost of P9.3 million pertained to interest expense on lease liabilities and short-term borrowings.

Net Income

CIC recorded a Q2 net income of P257.1 million, a 10.3% growth compared to last year. The favorable result was attributed to higher sales volume for the quarter, lower foreign exchange loss and associate income coming from good CMI sales performance. Profit after tax after minority interest (PATAMI) was P162.8 million, P29.0 million higher than same period in 2022.

<u>Period Ended June 30, 2023 vs. Period ended June 30, 2022</u>

For the first half of the year, the Company achieved 7.5% consolidated sales growth due to better performance in Q2, offsetting the slowdown in Q1. The air conditioning business posted an 18% overall sales growth YTD, offsetting the decline in the elevator equipment and refrigerator businesses. Lesser fluctuations of the Philippine Peso versus the US Dollar and Chinese Yuan yielded lower foreign exchange losses this year versus recorded losses last year. Impact of higher sales volume was partly offset by lower margins due to product mix and aggressive promotions and higher OPEX.

Net sales and services

For the period ended June 30, 2023, the consolidated net sales and services was at P7.2 billion.

Consumer Business in the first half generated sales of P5.3 billion, which accounts for 73.8% of the Company's total sales. This is an increase of 2.7% versus same period last year and primarily attributed to the higher sales of window room air conditioner inverter models in Q2. Laundry and Parts sales continued to show steady quarterly sales growth that contributed to the increase in sales. This was, however, partly offset by lower sales volume of refrigerators due to overall direct cool market decline and transition to new models for no frost.

Commercial Business achieved sales of P1.9 billion, an increase of 23.4% mainly due to higher air conditioning equipment and aftermarket service sales for both air conditioner and elevator businesses. This was partly offset by lower elevator equipment sales due to a higher base coming from a large project last year.

Gross Profit

CIC registered consolidated gross profit of P2.3 billion for the period ended June 30, 2023, a 4.3% increase from comparable period in 2022, lifted by higher sales volume of air conditioners. However, as a percent of sales, margin declined by 1.0 ppts, due to aggressive pricing to compete in the market and transitioning to newer models.

Operating Expenses

CIC's total operating expenses stood at P1.8 billion for the period ended June 30, 2023, a 10.3% increase versus last year, driven largely by higher volume-related costs, employee costs and advertising and promotions.

Other Operating Income (loss) and Finance Costs

Other operating income ended at P22.6 million, mainly from interest income on time deposits and other income partly offset by foreign exchange loss, but notably lower than last year's recorded loss. Finance cost of P14.5 million pertained to interest expense on lease liabilities and short-term borrowings.

Net Income

CIC recorded first half net income of P350.3 million, a 32.8% growth versus last year. The favorable result was attributed to higher sales volume in Q2, lower foreign exchange losses and associate income coming from good CMI sales performance. Profit after tax after minority interest (PATAMI) was P216.5 million, P104.0 million higher than same period in 2022.

CONSOLIDATED FINANCIAL CONDITION

As at June 30, 2023 compared with as at December 31, 2022

The Company's financial and operating strategy enabled it to maintain an optimal and healthy financial condition to weather any external adversities and allowed it to thrive in an increasingly volatile market environment.

Consolidated total assets as at June 30, 2023 amounted to P12.8 billion, an increase of P1.0 billion from end of 2022 of P11.8 billion. The increase in assets was mainly from trade receivables, contract assets and inventory. Consolidated net cash position decreased by P338.6 million from end of 2022.

Total liabilities as at June 30, 2023, amounted to P6.1 billion, an increase of P1.1 billion from December 31, 2022, mainly due to trade payables from inventory purchase.

CONSOLIDATED CAPITAL EXPENDITURES

The Company makes regular capital expenditures annually to support its business goals and objectives, investing in the ongoing upgrade, expansion, and maintenance of its property and equipment relating primarily to machinery and equipment, office equipment and leasehold and building improvements. The Company has historically funded its capital expenditures primarily through working capital derived from operating income.

Year to date June 30, 2023, CIC's capital expenditures totaled to P58.8 million, of that amount the majority was spent on the purchase of machinery and equipment, and software upgrades which represent 78.1% of the total capital expenditures.

WORKING CAPITAL

As at June 30, 2023 and December 31, 2022, the Company's net current assets (the difference between total current assets, including cash and cash equivalents, and total current liabilities), was at P4.9 billion for both years, representing working capital sufficiency.

The Company's current assets consist of cash and cash equivalents, trade and other receivables, contract assets, inventories and prepayments and other current assets. The Company's current liabilities consist of trade payables and other liabilities, short-term borrowings, lease liabilities, provisions for warranty, other provisions, and income tax payable.

CASH FLOWS

The following table sets forth information from the Company's consolidated statements of cash flows for the period indicated (amounts in millions):

	For the periods ended June 30	
	2023	**2022**
Net cash flows provided by (used in) operating activities	180.6	(241.5)
Net cash flows used in investing activities	(55.8)	(29.6)
Net cash flows used in financing activities	(463.5)	(641.1)
Net increase (decrease) in cash and cash equivalents	(338.6)	(912.2)

The net cash flows provided by operating activities for the period ended June 30, 2023, was at P180.6 million composed of income before provision for income tax of P471.2 million excluding adjustments, changes in working capital, interest received and including actual income tax paid. The increase in cash flow from operating activities was due to the buildup of inventory and higher settlement of payables.

The net cash flows used in investing activities for the period ended June 30, 2023, was at P55.8 million mainly for the acquisition of property and equipment.

The net cash flows used in financing activities for the period ended June 30, 2023, was at P463.5 million relating to dividend payout, short-term borrowings and lease liabilities.

Key Performance Indicators

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

	Definition	Unaudited for the periods ended	
		June 30, 2023	June 30, 2022
Gross Profit Margin	Gross Profit/Net Sales	31.5%	32.4%
Profit Before Tax	Profit before Tax/Net Sales	6.5%	5.9%
Net Income (% to Sales)	Net Income/Net Sales	4.8%	3.9%
Net Income/(Loss) Attributable to Shareholders (% to Sales)		3.0%	1.7%
Net Income/(Loss) Attributable to Shareholders (Php Millions)	Net Income/(Loss) Attributable to Shareholders / Net Sales	216.5	112.5
Return on Average Equity	Net Income after Non-Controlling Interest / Average Shareholder's Equity net of Non-Controlling Interest	4.4%	2.2%
Return on Average Assets	Net Income/Average Assets	2.7%	2.1%
Earnings per Share*	Net Income after Non-Controlling Interest / Average Shares Outstanding	0.54	0.28

		Unaudited as at	
		June 30, 2023	June 30, 2022
Current Ratio	Current Assets/Current Liabilities	1.9	1.9
Debt-to-Equity-Ratio	Total Liabilities/Total Equity	0.9	0.9
Asset-to-Equity Ratio	Total Assets/Total Equity	1.9	1.9
Book Value Per Share*	Shareholder's Equity net of Non-Controlling Interest / Total Shares Outstanding	12.3	12.2

**Total Number of Shares (weighted average) as at June 30, 2023, was 397,912,491 (2022 - 401,227,425)*