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 September 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 September 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 September 30, 2023 is P15.36.

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"), "Teko Solutions Asia Inc. ("Teko") and "Tenex Services Inc." ("Tenex") (collectively, the "Group") for the periods ended September 30, 2023 and 2022, and the audited consolidated financial statements of the group as at December 31, 2022, are attached to this 17-Q report, comparing the following:

1.1 Consolidated Statements of Financial Position as at September 30, 2023 and December 31, 2022 (Annex A)
1.2 Consolidated Statements of Total Comprehensive Income for the periods ended September 30, 2023 and 2022 (Annex B)
1.3 Consolidated Statements of Changes in Equity for the periods ended September 30, 2023 and 2022 (Annex C)
1.4 Consolidated Statements of Cash Flows for the periods ended September 30, 2023 and 2022 (Annex D)
1.5 Notes to Consolidated Financial Statements as at September 30, 2023 and December 31, 2022 and for the periods ended September 30, 2023 and 2022 (Annex E)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations [(based on the Unaudited Consolidated Results for the Quarters and Periods Ended September 30, 2023 (Annex F)]

PART II – OTHER INFORMATION

The following reports on SEC Form 17-C was filed during the 3rd quarter (Q3) of 2023:

Date of Report	Items Reported
July 11, 2023	Notice of Analysts' and Investors' Briefing
July 27, 2023	Results of the Annual Stockholders' Meeting and Organizational Meeting
July 27, 2023	Press Release on Business Updates
August 8, 2023	Press Release re EPR Act
September 21, 2023	Appointment of Mr. Ariel Fermin as CEO effective January 1, 2024; Notice for a Special Stockholders' Meeting for the Amendment of the By-laws

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

October 24, 2023

ANNEX A

Concepcion Industrial Corporation and Subsidiaries

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

	Notes	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents	2	2,275,678	1,688,163
Trade and other receivables, net	3	3,183,322	3,455,147
Contract assets		1,116,473	781,668
Inventories, net	4	2,951,191	3,161,979
Prepayments and other current assets		157,600	115,697
Total current assets		9,684,264	9,202,654
Non-current assets			
Property and equipment, net		453,540	474,515
Investment property		40,255	40,255
Investment in associates	5	109,227	90,009
Intangible assets, net	6	122,242	135,843
Goodwill	6	806,682	806,682
Right-of-use assets, net		402,573	360,096
Deferred income tax assets, net		668,456	579,879
Other non-current assets		87,905	80,783
Total non-current assets		2,690,880	2,568,062
Total assets		12,375,144	11,770,716
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other liabilities	7	4,394,887	3,896,259
Short-term borrowings	8	4,700	114,000
Lease liabilities		49,748	136,873
Provision for warranty		80,698	68,077
Other provisions		64,751	38,691
Income tax payable		15,983	-
Total current liabilities		4,610,767	4,253,900
Non-current liabilities			
Retirement benefit obligation	12	603,342	570,502
Lease liabilities		381,920	241,914
Provision for warranty		6,364	5,941
Total non-current liabilities		991,626	818,357
Total liabilities		5,602,393	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		3,855,018	3,765,573
Other comprehensive loss		(51,816)	(51,816)
		4,962,245	4,872,800
Non-controlling interest		1,810,506	1,825,659
Total equity		6,772,751	6,698,459
Total liabilities and equity		12,375,144	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 September 30, 2023 and 2022
(All amounts in thousand Philippine Peso, except earnings per share)

	Notes	For the nine months ended		For the three months ended	
		2023	2022	2023	2022
Net sale of goods		10,221,082	9,076,427	3,392,610	2,748,084
Sale of services		637,968	621,627	233,169	224,456
Net sales	9	10,859,050	9,698,054	3,625,779	2,972,540
Cost of sales and services	10	(7,454,124)	(6,576,857)	(2,495,734)	(2,033,052)
Gross profit		3,404,926	3,121,196	1,130,045	939,487
Operating expenses	11	(2,763,968)	(2,498,683)	(923,805)	(830,968)
Other operating income (loss), net		25,862	(133,488)	3,303	(55,815)
Operating income		666,820	489,025	209,543	52,704
Interest expense		(20,532)	(20,259)	(6,006)	(6,793)
Income before share in net income (loss) of associates and income tax		646,288	468,766	203,537	45,911
Share in net income (loss) of associates	5	19,218	(31,709)	(9,269)	(7,968)
Income before income tax		665,506	437,057	194,268	37,943
Income tax expense		(176,158)	(139,336)	(55,227)	(3,986)
Net income for the year		489,348	297,721	139,041	33,957
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		489,348	297,721	139,041	33,957
Net income (loss) attributable to:					
Owners of the Parent Company		288,401	131,781	71,951	19,322
Non-controlling interest		200,947	165,940	67,090	14,635
		489,348	297,721	139,041	33,957
Total comprehensive income attributable to:					
Owners of the Parent Company		288,401	131,781	71,951	19,322
Non-controlling interest		200,947	165,940	67,090	14,635
		489,348	297,721	139,041	33,957
Earnings (loss) per share - basic and diluted	14	0.72	0.33	0.18	0.05

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 September 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		-	-	-	288,401	-	200,947	489,348
Remeasurement gain (loss) on retirement benefits, net of tax		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	288,401	-	200,947	489,348
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 September 30, 2023		407,264	993,243	(241,464)	3,855,018	(51,816)	1,810,506	6,772,751
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		-	-	-	131,781	-	165,940	297,721
Remeasurement gain (loss) on retirement benefits, net of tax		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	131,781	-	165,940	297,721
Transactions with owners								
Cash dividends declared		-	-	-	(401,855)	-	(241,300)	(643,155)
Impact of Share Transfer on NCI							(1,105)	(1,105)
Treasury shares		-	-	(69,365)	-	-	-	(69,356)
Total transactions with owners		-	-	(69,365)	(401,855)	-	(242,405)	(713,616)
Balances as at September 30, 2022		407,264	993,243	(241,464)	3,743,776	(55,913)	1,780,404	6,627,311

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

Concepcion Industrial Corporation and Subsidiaries

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

	2023	2022
Cash flows from operating activities		
Income before income tax	665,506	434,908
Adjustments for:		
Provisions for (reversals of):		
Warranty cost	103,244	86,839
Commission	52,330	19,095
Inventory obsolescence	27,544	13,337
Impairment of receivables	3,421	(12,157)
Contingencies	(9,172)	41,146
Amortization of right-of-use assets	171,724	99,006
Depreciation and amortization of property and equipment	107,963	116,200
Retirement benefit expense	87,157	58,938
Interest expense	20,532	20,259
Unrealized foreign exchange losses (gains)	17,501	39,174
Amortization of intangible assets	13,602	21,588
Loss (Gain) on disposal of property and equipment	5,845	102
Interest income on bank deposits, short-term placements	(15,166)	(6,015)
Share in net loss (income) of associates	(19,218)	31,709
Operating income before working capital changes	1,232,811	964,129
Changes in:		
Trade (net of provision)* and other receivables and Contract Assets	(72,945)	142,954
Inventories	183,244	(1,199,615)
Prepayments and other current assets	(106,739)	77,888
Other non-current assets	(7,122)	(11,688)
Trade payables and other liabilities	397,479	(8,699)
Cash generated from operations	1,626,728	(35,031)
Income tax paid	(115,313)	(182,621)
Payments of provision for warranty cost	(89,910)	(93,231)
Payments of other provisions	(36,338)	(19,530)
Retirement contributions/ benefits directly paid by the Group	(54,317)	(73,514)
Interest received on bank deposits	4,296	3,148
Net cash provided by (used in) operating activities	1,335,145	(400,779)
Cash flows from investing activities		
Additions to property and equipment	(91,240)	(44,710)
Interest received from short-term placements	9,526	2,893
Proceeds from disposal of property and equipment	140	-
Cash paid for future stock subscription	-	(9,300)
Additions to intangible assets	-	284
Acquisition of subsidiary, net of cash acquired	-	18,214
Net cash used in investing activities	(81,574)	(32,619)
Cash flows from financing activities		
Cash distributions of profits	(415,056)	(643,155)
Principal repayment of lease liabilities	(121,133)	(95,681)
Payment of short-term borrowings	(109,300)	(71,000)
Interest paid on lease liabilities	(18,735)	(9,773)
Interest paid on short-term borrowings	(1,833)	(10,344)
Acquisitions of treasury shares	-	(69,356)
Proceeds from short-term borrowings	-	150,000
Net cash used in financing activities	(666,057)	(749,309)
Net increase (decrease) in cash and cash equivalents	587,514	(1,182,707)
Cash and cash equivalents as at January 1	1,688,163	2,518,403
Cash and cash equivalents as at September 30	2,275,678	1,335,696

**Provision for volume rebates, trade discounts and other incentives is presented as net movement in Trade and other receivables in the Statement of Cash Flow, as allowed by PRFS.*

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 September 30, 2023 and December 31, 2022 and for the
periods ended September 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 collectively called 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 September 30, 2023 and December 31, 2022, CIC has two (2) regular employees.

1.2 Significant business developments

On September 29, 2023, CIC entered into a Distribution Agreement with JS Global Trading HK Limited a Hongkong limited liability company JS Global with its principal office at Sheung Wan, Hongkong, the exclusive right to sell and distribute the products of JS Global brand "Shark" and "Ninja" in the Philippines through CIC's wholly owned subsidiary and appointed distribution arm, CTC.

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 September 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 September 30, 2023 and December 31, 2022 consist of:

	2023	2022
Cash on hand	565	1,909
Cash in banks	1,334,810	912,691
Short-term placements	940,303	773,563
Total	2,275,678	1,688,163

Cash in banks and short-term placements amounting to P1,836,188 and P438,924 (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 September 30, 2023, total interest income earned from cash in banks and short-term placements amounted to P15,166 (2022 –6,015).

Note 3 - Trade and other receivables, net

Trade and other receivables as at September 30, 2023 and December 31, 2022 consist of:

	2023	2022
Trade receivables		
Third parties	3,772,286	3,968,815
Related parties	11,809	5,629
Provision for volume rebates, trade discounts and other incentives	(787,715)	(637,424)
Provision for impairment of receivables	(180,578)	(177,158)
Net trade receivables	2,815,802	3,159,862
Non-trade receivables, net		
Advances to/Claims from suppliers	130,110	127,204
Related parties	76,316	46,138
Advances to employees	32,007	40,624
Rental deposits	853	5,555
Others	128,234	75,764
	367,520	295,285
Total Trade and Other Receivables, net	3,183,322	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 September 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	2,668,493	863,655	89,961	150,177	3,772,286
Related parties	2,952	8,857	-	-	11,809
	2,671,445	872,512	89,961	150,177	3,784,095
Contract assets	1,116,473	-	-	-	1,116,473
Total	3,787,919	872,512	89,961	150,177	4,900,569
Loss allowance	-	-	36,765	143,813	180,578
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 September 30, 2023 and December 31, 2022 consist of:

	Note	2023	2022
At cost			
Raw materials		1,487,286	1,502,860
Finished goods	10	1,294,030	1,510,893
Work in process	10	527	572
Inventories-in-transit		210,073	167,780
Spare-parts and supplies used in business		92,540	84,171
		3,084,456	3,266,276
Provision for inventory obsolescence		(133,265)	(104,297)
Inventories, net		2,951,191	3,161,979

For the period ended September 30, 2023, the cost of inventory recognized under cost of sales and services amounted to P6,851,102 (2022 – 5,953,831) (Note 10).

Note 5 - Investments in Associates

Details of movement in investment in associates as at September 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	19,218	(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	(150,773)	(169,991)
Investment in Associates	109,227	90,009

As at September 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 September 30, 2023 and December 31, 2022. The Group did not recognize impairment losses for the period ended September 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 September 30, 2023.

6.2 Intangible assets, net

Details and movements of intangible assets account at September 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 September 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	5,613	-	7,988	13,601
At September 30, 2023	74,005	13,883	109,428	197,315
Net book values at September 30, 2023	113,108	-	9,134	122,242
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 September 30, 2023 and December 31, 2022 consist of:

	2023	2022
Trade payables		
Third parties	1,162,407	1,036,070
Related parties	276,368	260,196
Total Trade Payables	1,438,775	1,296,266
Accrued expenses		
Project costs	617,539	553,734
Personnel Costs	408,406	346,161
Outside services	201,703	282,688
Freight	57,206	48,574
Rental and utilities	49,317	53,420
Professional fees	36,379	56,002
Advertising and promotion	33,924	44,489
Importation costs	23,768	46,177
Repairs and maintenance	3,699	5,067
Installation and cleaning costs	126	126
Others	86,455	104,502
Total Accrued expenses	1,518,522	1,540,940
Other liabilities		
Advances on sales contract	408,675	284,702
Output value-added tax (VAT), net of input VAT	303,598	145,778
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	266,821	277,572
Withholding taxes and other mandatory government remittances	46,434	90,962
Related parties	7,465	35,140
Others	404,597	224,899
Total Other Liabilities	1,437,590	1,059,053
Total	4,394,887	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 September 30, 2023 and December 31, 2022 are as follows:

	2023	2022
Beginning	114,000	250,000
Borrowings	-	150,000
Payments	(109,300)	(286,000)
Ending	4,700	114,000

As at September 30, 2023 and December 31, 2022, the Group has unsecured interest-bearing short-term loans ranging from three (3) to six (6) months from 5.45% to 7.25% (2022 -5.35% to 7.25%).

Interest expenses on borrowings recognized and paid during the period ended September 30, 2023 amounted P1,833 (2022 – P10,486).

Note 9 - Revenue from contracts with customers

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

	2023	2022
Gross sales		
Sale of goods (Point in time)	11,568,192	9,982,143
Sale of services (Over time)	637,968	621,627
	12,206,160	10,603,770
Deductions		
Trade and volume discounts and other incentives	(986,399)	(505,668)
Sales returns	(360,711)	(400,048)
	(1,347,110)	(905,716)
Net sales and services	10,859,050	9,698,054

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

Note 10 - Cost of sales and services

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

	Note	2023	2022
Raw materials used		1,146,580	4,626,789
Labor		124,567	125,054
Overhead		442,986	460,514
Total manufacturing cost		1,714,133	5,212,357
Work-in-process, beginning	4	572	2,587
Work-in-process, ending	4	(527)	(1,472)
Cost of goods manufactured		1,714,178	5,213,472
Finished goods inventory, beginning	4	1,510,893	1,140,542
Gross purchases - trading		4,920,061	1,644,567
Finished goods available for sale		8,145,132	7,998,581
Finished goods inventory, ending	4	(1,294,030)	(2,044,750)
Total cost of sales		6,851,102	5,953,831
Cost of installation and services		576,133	608,650
Others		26,889	14,376
Total cost of services		603,022	623,026
Total cost of sales and services		7,454,124	6,576,857

Note 11 - Operating expenses

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

	2023	2022
Personnel costs	1,077,222	957,943
Outside services and professional fees	627,782	578,021
Outbound freight	290,389	265,265
Advertising and promotion	142,661	87,292
Amortization of right-of-use assets	138,360	134,336
Warranty cost	105,098	83,405
Rent and utilities	75,231	97,626
Depreciation and amortization	47,623	49,812
Transportation and travel	38,873	24,343
Taxes and licenses	31,527	30,662
Royalty	28,958	23,478
Provision for (Reversal of) inventory obsolescence	27,080	11,785
Amortization of intangible assets	12,987	19,997
Repairs and maintenance	12,352	11,884
Provision for impairment of receivables	2,028	(20,228)
Others	105,797	143,061
	2,763,968	2,498,683

The Group reclassified a portion of the rent expense to amortization of right-of-use assets for the period ended September 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 September 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 September 30, 2023 and December 31, 2022:

	CIC	CCAC	CDI	CBSI	COPI	CTC	Teko	Tenex	Total
2023									
Retirement benefit obligation	23,168	366,245	127,179	76,867	4,347	986	3,501	1,048	603,342
Retirement benefit expense	1,521	50,269	20,756	11,141	2,031	101	869	469	87,157
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 September 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 September 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	-	-	-	-
September 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 September 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 September 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.

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.
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, the total amount of shares repurchased was P168 million as at September 30, 2023.

As at September 30, 2023 and December 31, 2022, 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 September 30 is calculated as follows:

	2023	2022
Net income (loss) attributable to owners of the Parent Company	288,401	131,781
Weighted average common shares - basic and diluted (in '000)	397,912	400,161
Basic and diluted earnings per share	0.72	0.33

The basic and diluted earnings per share are the same for each 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 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 in 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 September 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 cookers, coffee makers and juicers 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 services 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. On September 29, 2023, CTC was appointed as the distribution arm of CIC for its strategic partnership with JS Global to market and sell home appliances branded under "Shark" and "Ninja".

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 nine months of 2023

Macroeconomic Fundamentals: Overall inflation increased to 6% in September, making the national average for the 9 months at 7%. This was primarily brought by higher food and transport inflation. Despite elevated inflation, the Philippine economy is expected to rebound in Q3 from catch up on government spending. Consumer sentiment in Q3 was less pessimistic coming from the low-income group due to more available jobs, government livelihood assistance and lifting of COVID-19 restrictions.

Construction Sector Developments: The increase in construction activities is expected to continue due to the government's catch-up plans on its infrastructure projects and the rise in residential developments. Construction price growth rates are also slowing down which makes it favorable for the industry. Due to new projects in the pipeline, business sentiment has been more upbeat in the construction sector versus the others.

Commodity Prices: The Company depends on raw materials sourced from third parties to produce the majority of its products. Raw materials represent about 67% 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 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 income 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 at entity level - 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 September 30, as follows (amounts are in millions):

	Consumer business	Commercial business	Others	Total
2023				
Net sales and services	7,641	3,157	61	10,859
Timing of revenue recognition				
Point in time	7,641	2,559	21	10,221
Over time	-	598	40	638
Cost of sales and services	(5,303)	(2,124)	(27)	(7,454)
Gross profit	2,338	1,033	34	3,405
Operating expenses	(2,062)	(669)	(33)	(2,764)
Other operating income (loss)	16	8	2	26
*Interest income**	*5*	*8*	*2*	*15*
Interest expense	(15)	(4)	(2)	(21)
Share in net income of associates	19	-	-	19
Income tax benefit (expense)	(85)	(91)	1	(176)
Net income (loss) for the nine months ended	210	277	1	489
2022				
Net sales and services	7,362	2,300	36	9,698
Timing of revenue recognition				
Point in time	7,362	1,709	5	9,076
Over time	-	591	31	622
Cost of sales and services	(4,984)	(1,570)	(23)	(6,577)
Gross profit	2,378	730	13	3,121
Operating expenses	(1,929)	(463)	(107)	(2,499)
Other operating income (loss)	(115)	(25)	7	(133)
*Interest income**	*2*	*2*	*2*	*6*
Interest expense	(10)	(1)	(9)	(20)
Share in net loss of associates	(31)	(1)	-	(32)
Income tax expense (benefit)	(86)	(61)	8	(139)
Net income (loss) for the nine months ended	207	179	(88)	298

**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 September 30, 2023 and December 31, 2022 (in millions) are as follows:

	CCAC	CDI	COPI	Others	Total
2023					
Current assets	5,624	2,352	1,145	563	9,684
Non-current assets	912	481	896	402	2,691
Current liabilities	2,524	771	776	539	4,611
Non-current liabilities	618	250	4	120	992
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 the review of gross profit per component, while the review of segment operating expenses, income tax, and profit or loss is done in total.

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

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

The balances presented in Others are composed of the other entities in the Group including CIC as a legal entity.

RESULTS OF OPERATIONS

<u>Quarter Ended September 30, 2023 (Q3)</u>

CIC delivered solid results in Q3 fueled by sustained growth in the commercial business and higher sales in air conditioning products despite macro-economic concerns. Consolidated net sales registered P3.6 billion, 22% higher compared to same period last year. Earnings at P139 million quadrupled versus last year.

Segment net sales

Consumer business generated P2.3 billion in net sales, an increase of 6% year over year. Air conditioning product sales which represent 46% of the consumer business, grew 19% versus last year. No frost refrigerators sales increased by 25% driven by introduction of competitively priced models. However overall refrigeration business sales were down by 8% primarily due to lower demand for direct cool refrigerators. Other appliances continued its growth momentum posting a growth of 27% primarily from laundry product sales.

Commercial business delivered a solid performance with sales at P1.3 billion, posting 63% growth versus last year. Air conditioning business which represents 72% of the commercial sales posted growth of 61%, while sales in the elevator & escalator business increased by 66% due to higher project deliveries during the quarter.

Gross Profit

CIC registered Q3 gross profit of P1.1 billion, a 20% increase from comparable period in 2022, lifted by higher sales in the air conditioning and elevator business.

Operating Expenses

CIC's total operating expenses stood at P923.8 million for the quarter, an 11% increase versus the same period last year. While expenses grew at a slower rate than sales growth, the increase was driven by employee costs, promodiser incentives and provision for inventory obsolescence.

Other Operating Income (loss) and Finance Costs

Other operating income ended at P3.3 million, mainly from interest income on time deposits and other income partially reduced by foreign exchange loss which was notably lower than same period last year. Finance cost of P6.0 million pertained to interest expense on lease liabilities and short-term borrowings.

Net Income

CIC recorded a Q3 net income of P139.0 million, a 309% growth compared to last year. The favorable result was attributed to higher sales for the quarter and lower foreign exchange loss. Profit after tax after minority interest (PATAMI) was P72.0 million, P52.6 million higher than same period in 2022.

<u>Year to Date September 30, 2023 (YTD)</u>

For the first nine months of the year, CIC delivered P10.9 billion of sales, achieving 12% growth due to solid performance in the last two quarters. The air conditioning business posted a 23% overall sales growth, offsetting the decline in the elevator equipment and refrigerator businesses. Including CMI, net sales at P13.5 billion grew 16%. Consolidated earnings posted P489.3 million, 64% increase year over year.

Segment net sales

Consumer Business generated sales of P7.6 billion YTD, which accounted for 70% of CIC's total net sales. This was an increase of 4% versus same period last year and primarily attributed to strong sales of window room air conditioners, laundry equipment partly offset by lower sales volume of refrigerators due to overall decline in direct cool market and transition to new models for no frost.

Commercial Business achieved sales of P3.2 billion, posting a solid growth of 38% mainly from higher air conditioning equipment sales 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 large projects last year.

Gross Profit

CIC registered consolidated gross profit of P3.4 billion YTD, a 9% increase over the same period in 2022, lifted by higher sales volume of air conditioners. However, as a percentage of sales, margins declined by 0.8 pts, due to aggressive pricing to compete in the market and transitioning to newer models in the first half of the year.

Operating Expenses

CIC's total operating expenses stood at P2.8 billion for the period ended September 30, 2023, a 11% increase versus last year, driven largely by higher volume-related costs, employee costs, promodiser costs and advertising and promotions.

Other Operating Income (loss) and Finance Costs

Other operating income ended at P25.9 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 P20.5 million pertained to interest expense on lease liabilities and short-term borrowings.

Net Income

CIC recorded nine months' net income of P489.3 million, a 64% growth versus last year. The favorable result was attributed to higher sales, lower foreign exchange losses and associate income coming from good CMI sales performance. Profit after tax after minority interest (PATAMI) was P288.4 million, P156.6 million higher than same period in 2022.

CONSOLIDATED FINANCIAL CONDITION

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

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

Consolidated total assets as at September 30, 2023 amounted to P12.4 billion, an increase of P604.4 million from end of 2022 of P11.8 billion. The increase in assets was mainly from cash and contract assets. Consolidated net cash position was at P2.3 billion an increase by P587.5 million from end of 2022.

Total liabilities as at September 30, 2023, amounted to P5.6 billion, an increase of P530.1 million 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 September 30, 2023, CIC's capital expenditures totaled to P91.2 million relating to renovation, purchase of machinery and equipment and software upgrades.

WORKING CAPITAL

As at September 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), were at P5.1 billion and P4.9 billion, respectively, representing working capital sufficiency.

The Company's current assets consist of cash and cash equivalents, trade and other receivables, contract assets, inventories, 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 September 30	
	2023	**2022**
Net cash flows provided by (used in) operating activities	1,335.1	(400.8)
Net cash flows used in investing activities	(81.6)	(32.6)
Net cash flows used in financing activities	(666.1)	(749.3)
Net increase (decrease) in cash and cash equivalents	587.5	(1,182.7)

The net cash flows provided by operating activities for the period ended September 30, 2023, was at P1.3 billion composed of income before provision for income tax of 665.5 million excluding adjustments, changes in working capital, interest received and including actual income tax paid. The increase in cash flow from operating activities was mainly due to the decline in inventory.

The net cash flows used in investing activities for the period ended September 30, 2023, was at P81.6 million mainly due to capital expenditures.

The net cash flows used in financing activities for the period ended September 30, 2023, was at P666.1 million relating to dividend payout, payment of 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 September 30	
		2023	2022
Gross Profit Margin	Gross Profit/Net Sales	31.4%	32.2%
Profit Before Tax	Profit before Tax/Net Sales	6.1%	4.5%
Net Income (% to Sales)	Net Income/Net Sales	4.5%	3.1%
Net Income/(Loss) Attributable to Shareholders (% to Sales)	Profit After Tax Attributable to Shareholders/Net Sales	2.7%	1.4%
Net Income/(Loss) Attributable to Shareholders (Php Millions)	Net Income/(Loss) Attributable to Shareholders / Net Sales	288.4	131.8
Return on Average Equity	Net Income after Non-Controlling Interest / Average Shareholder's Equity net of Non-Controlling Interest	5.9%	2.6%
Return on Average Assets	Net Income/Average Assets	4.0%	2.5%
Earnings per Share*	Net Income after Non-Controlling Interest / Average Shares Outstanding	0.72	0.33

**Total Number of Shares (weighted average) as at September 30, 2023, was 397,912,491 (2022 - 400,161,134)*

		Unaudited as at September 30	
		2023	2022
Current Ratio	Current Assets/Current Liabilities	2.1	2.1
Debt-to-Equity-Ratio	Total Liabilities/Total Equity	0.8	0.8
Asset-to-Equity Ratio	Total Assets/Total Equity	1.8	1.8
Book Value Per Share*	Shareholder's Equity net of Non-Controlling Interest / Total Shares Outstanding	12.5	12.1