Building better lives and businesses

CONCEPCION
INDUSTRIAL CORPORATION

2019 ANNUAL REPORT

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MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

RAUL JOSEPH A. CONCEPCION

"As we shift to the new normal, we continue to uphold our strong corporate culture and be guided with our growth principles of learning, collaboration and innovation as key drivers of our competitiveness and ability to prevail in this extra ordinary time."

Dear Fellow Shareholders,

I greet all of you under the most unusual and challenging of circumstances. What was supposed to be a new year and a new decade full of promises and excitement seems so far away with everything that has happened so far this year. 2019, which was only 6 months ago seems so old and irrelevant from today's perspective.

It is important to look back into the past years to appreciate how our Company and organization have grown stronger and more resilient weathering the difficulties of the past two years, and as such, prepared us to confront the predicaments of the future.

The year 2018 was challenging for the business, driven mainly by external factors such as high inflation, rising commodity prices and a fluctuating Peso – Dollar rate. It was a painful year for CIC, but weathering those difficulties made us more resilient as stronger as a company.

With our resolve and momentum following a year filled with headwinds, we remained optimistic and welcomed 2019 with a plan to resume our growth trajectory, steadfast in implementing our long-term strategy and vision.

2019 was a milestone year for our Company. It paved many opportunities for us to grow the business and transform the organization. It was the first year that we organized into Divisions consistent with our Go-To-Market strategies, a key strategy aimed at establishing agility and responsiveness within the organization as we acknowledge that volatility, challenges and opportunities will become a way of life for us.

CIC also made significant strides across multiple fronts: We introduced a new brand Toshiba as well a range of Toshiba consumer appliances, boosting Midea's product portfolio and presence in e-commerce. We continuously invested in new products and innovations across both the air-conditioning and refrigeration segments. We made small acquisitions in promising businesses such as Tenex, Teko and All Care to boost both our end-to-end solution proposition, as well as to provide an avenue for learning, familiarization and introduced new business practices into our organization.

There were bumps along the year particularly in Q2, our peak period, which turned out to be unexpectedly tough on both commercial and residential segments. As a response, we adopted expense control and prudent working capital management measures in order to end the year with decent returns and a strong cash position.

We were able to bounce back in Q4 with a double-digit growth both sales and earnings, capping off the year with a record-breaking sale of 17 billion pesos, 12% growth. Cashflow from operations represented over 130% of net income made possible by strong sales, collections and disciplined inventory management.

We have set in motion activities to pave the way for more aggressive growth in 2020, and more importantly, we were evolving towards where we should inevitably be: a company with strong financial fundamentals and revitalized brands; a collaborative, responsive and agile organization that continuously learns how to do business differently in a more digital and connected world. Little did we know the about what was facing us in the near future, highlighting the need for us to further accelerate the direction we were taking.

Staying focused and keeping ahead

2020 was a year envisioned to offer vast opportunities; a year when CIC was set to evolve and ready to embrace change. The multiple adversities at the onset of 2020, however, precisely pictured what change really is – COVID-19 being the greatest disruptor of our time. The future remains unclear, and understandably, uncertainty among all of us exists as we find our way to move forward. It is vital though to realize how the pandemic influences the economy and how it greatly impacts our lives. The only way that we can overcome this adversity is by staying focused on our vision while keeping in mind the need to be healthy and safe in the new environment we live in. We quickly pivoted our 2020 priorities and initiatives in order to face the challenges ahead of us realizing further that we need continue to forge forward and faster if we are to not only overcome but stay ahead once the new normal comes to play.

The following foundation of programs were laid out immediately to keep CIC afloat… then ahead:

1) **Employee Safety & Workplace Readiness.** Safety becomes paramount more than ever. A crisis management team was formed to guard everyone's health and a set of protocols was put in place to keep our workforce healthy, productive, and engaged at the same time keeping our workplace safe.

2) **Business Preservation.** In these trying times, CIC will ensure prudence and sound financial decisions that balance the challenges of today with opportunities to stay ahead and make fundamental business model changes.

3) **Preparation for the New Normal.** Springing forward and anticipating new market scenarios, CIC expands go-to-market strategies sand accelerates digitalization. These are the inevitables under the new reality which we must quickly adapt to.

As we shift to the new normal, we continue to uphold our strong corporate culture and be guided with our growth principles of learning, collaboration and innovation as key drivers of our competitiveness and ability to prevail in this extra ordinary time.

Of the many challenges we have witnessed and mastered for almost 60 years, our company has grown stronger and more resilient, which reassures all of us that we can, and we will get through this.

I would like to sincerely express my gratitude to our Board of Directors, the leadership team, and all our employees for their commitment and dedicated service. We are also extending our gratitude to all our business partners for their continued support, and our dear customers for their unwavering loyalty.

Lastly, we express our deepest appreciation to our shareholders, for their trust and confidence in CIC.

MESSAGE FROM THE

CHIEF FINANCE OFFICER

MARIA VICTORIA A. BETITA

"2019 was a milestone year as it was also when we first organized into autonomous Divisions consistent with our Go-To-Market strategies in order to build agility and responsiveness -- knowing very well that volatility, challenges and opportunities will become a way of life for us."

The year 2019 started on an onward and upward trajectory towards the CIC vision after a challenging landscape in 2018.

In 2019, we targeted bottom-line goals largely driven by topline growth in order to allow us to continuously invest over the long term. We additionally paid extra attention on effective cash conversion having ended 2018 with a large amount of inventory. This brought our cashflow from operations to 131% of net income made possible by strong sales, collections and disciplined inventory management. 2019 was a milestone year as it was also when we first organized into autonomous Divisions consistent with our Go-To-Market strategies in order to build agility and responsiveness -- knowing very well that volatility, challenges and opportunities will become a way of life for us.

Accompanied by a continued strong market in the consumer segment, our performance was further boosted by strong economic fundamentals enabling CIC to deliver topline growth of 12%. The strong peso regime and stable commodity prices helped in keeping our prices stable and competitive.

There were challenges in the early parts of the year particularly for the commercial segment due to delayed government budget approval. Nonetheless, CIC closed 2019 on a high note with overall sales which included Midea growing over 13% in the fourth quarter. This has resulted to a 27% jump in Profit After Tax after minority interest (PATAMI) during this period.

Our commitment in mitigating bad cost and expense control measures reinforced the period's profitability growth. Better working capital management as a result of lower inventory levels and better accounts receivable turnover from improved collection efforts resulted in a stronger cashflow.

Overall sales growth for the year was at 12% (including Midea) with Profit After Tax after minority interest (PATAMI) growing by 4%.

Air Conditioning

On a full year basis, overall revenue was up at 3%. Consumer segment grew 5% while commercial segment was down by 2% for 2019. Although relatively flat on a full year basis, the commercial segment posed a strong recovery from the first half's weakness brought about by delayed infrastructure spend showing robustness towards the second half of the year. PAT was down 7% driven by the lower H1 sales and bad cost as a result of both the challenges in logistics and aftermarket in the first half of the year.

Residential Refrigeration

Overall revenues expanded by 15% on the back of new product introduction, price repositioning and increased trade engagement as Profit after Tax expanded impressively by 36% due to effective cost savings initiatives and better negotiations that offset the price repositioning.

Elevators and Escalators

Concepcion Otis Philippines ended the year with flat sales of over PhP 880 million as a result of project in the early part of 2019.

With customer service being one of our core principles, the team over the year has taken key measures in rebuilding the trust of our key stakeholders through stronger maintenance processes and procedures, all to reinforce safety and quality in every aspect of the business. This was further backed up with a stronger response team as well as pro-active key account engagement.

The success of our response is reflected in the recovery of our orders that is up 6% in Q4.

Other Appliances

It was a flagship year for Concepcion Midea Philippines, our Appliance Division, as it hit PhP 1.9 billion in sales in 2019 with a gross margin of close to 30%. This unconsolidated business hit profitability targets as the group introduced new products, expanded store network as well as key wins in commercial accounts and high traction on e-commerce platforms.

This 2019, the CIC team established a strong foothold into the market as we made significant strides across multiple fronts:

- We introduced Toshiba consumer appliances boosting Midea's product portfolio and presence in e-commerce
- We continuously invested in new products and product innovations across both the airconditioning and refrigeration segments
- We made small acquisitions in promising businesses such as Tenex, Teko and AllCare to boost both our end to end solution proposition as well as provide an avenue for getting familiar with and introducing new business practices into our organization

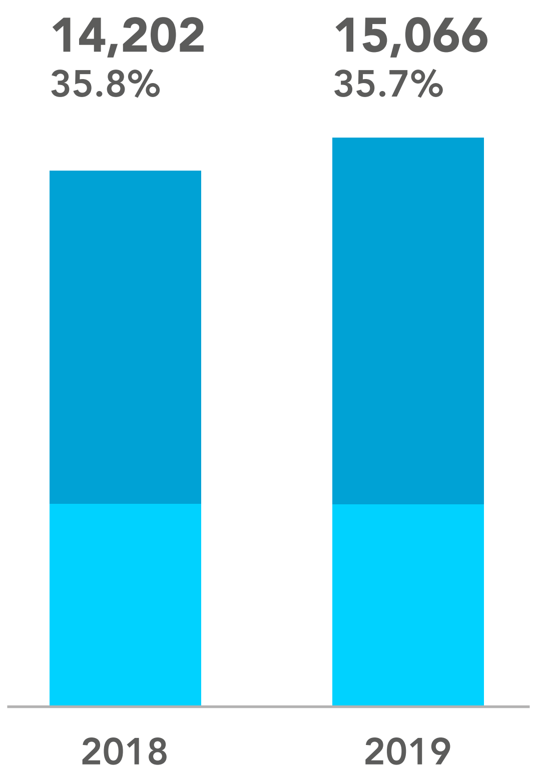
Rising above the pandemic and its challenges

As we move to another year which has been welcomed with severe economic and business disruption caused by the COVID-19 pandemic, CIC faces another inflection point that serves both as a challenge and opportunity. Given the company's strong fundamentals that was cultivated over the decades and embedded upon its leaders, CIC is committed to stay ahead of the situation. Many of the previously perceived no-go areas have already been ventured into, unlocking new partnerships and leveraging on existing networks, especially on the e-commerce landscape. All internal processes are undergoing transformation targeted to support existing and new programs. Brands and products are continuously re-invigorated to deeply connect to the customers towards building better lives.

With the vision of staying ahead and winning post-COVID, CIC as a family has been dedicated to accelerate and integrate innovations in how we do business in order to better serve its purpose of amplifying customer service and value creation for our stakeholders. 2020 may be fraught with unprecedented challenges for the company, but with strong leadership, people-centric culture, and strong financial fundamentals we are confident about the sustainability of and our ability to recover over time as a business.

2019 FINANCIAL HIGHLIGHTS
(IN MILLION PHP)

	2019	2018	vs Prior Yr.
Net Sales	15,066	14,202	6.1%
Gross Profit	5.388	5,082	5.9%
Gross Margin (%)	35.7%	35.8%	(0.1) pts
OPEX	-3,374	-2,942	(15.9%)
% of Sales	-22.4%	-20.7%	(1.9) pts
Profit Before Tax	2,079	2,251	(5.6%)
Return on Sales (%)	13.8%	15.3%	(1.7) pts
Profit After Tax	1,430	1,457	(1.9%)
PAT%	9.5%	10.3%	(0.8) pts
Net Income Attributable to Shareholders	947	913	3.7%
FY Return on Average Equity (%)	18.7%	19.5%	(0.8) pts
FY Return on Average Assets (%)	12.4%	13.7%	(1.3) pts
Earnings per Share	2.3	2.3	4.3%
Number of Shares	403,219	405,505	
Debt to Equity Ratio	0.7	0.6	
Asset to Equity Ratio	1.7	1.6	
Current Ratio	2.3	2.3	
Book Value per Share	12.9	12.0	



Net Sales and Gross Margin

+6%

GROWTH IN SALES

Profit After Tax

-1.9%

GROWTH IN EARNINGS (PAT)

-0.8%

PAT % DECREASE

COMPANY PROFILE

CONCEPCION-CARRIER

CONCEPCION DURABLES, INC.

CONCEPCION MIDEA INC.

OTIS

Concepcion Business Services Inc.

cortex TECHNOLOGIES

Concepcion Industrial Corporation ("CIC") is one of the Philippines' most established and leading providers of airconditioning solutions, refrigerators, consumer appliances and building and industrial solutions. It operates principally through six (6) subsidiaries — Concepcion-Carrier Airconditioning Company (CCAC), Concepcion Durables Inc. (CDI), Concepcion Midea Inc. Philippines (CMIP), Concepcion Otis Philippines Inc. (COPI), Concepcion Business Services Inc. (CBSI), and Cortex Technologies Corporation (CTC).

The business was started by Jose Concepcion Sr. in 1962 with the establishment of Concepcion Industries Inc. ("CII") after obtaining the exclusive license to distribute the Carrier Airconditioning brand in the Philippines. Over the last 50 years, CIC has grown its business to be the largest most experienced provider of airconditioning in the Philippines. It did this by developing leading brands, forming strategic alliances and joint ventures with key partners and investing in facilities and capabilities that continue to build its leadership. It has since then successfully introduced its own brand Condura and introduced the Kelvinator brand, both for airconditioning and domestic refrigerators.

Included in its roster of brands are Toshiba and most recently, Otis, Midean, Carrier, Condura, and Kelvinator. CIC's leadership has been built through in-depth knowledge of the end-user and the industry as well as a proven track record which enabled us to build a strong reputation and a solid customer base.

We have and continue to offer the widest range of products and end-to-end customized solutions to meet the needs of Filipino consumers and businesses through most recognized brand names.

We have manufacturing facilities that have the capacity to produce 500,000 units of airconditioning equipment and 300,000 refrigerators located at LISP in Laguna.

But our operations span beyond manufacturing. With over 50 years of operating history, we have been able to develop the largest nationwide sales, distribution and aftermarket infrastructure spanning across the numerous islands of Luzon, Visayas, and Mindanao. Our products are available in over 90% of all appliance outlets in the Philippines. Our business is supported by: over 170 accredited installer companies; over 130 accredited service centers; over 2,000 technicians; rapid sales facilitation and service turnaround from over 1,000 merchandisers deployed at the point of sale; and 8 dedicated parts stores. Our logistics network is supported by strategically located regional warehouses supported by over 100 delivery trucks and corresponding delivery personnel.

Key to our success are the lasting strategic alliances we have with United Technologies and Midea as we expand towards the wider spectrum of consumer appliances in harnessing our ability to provide a full range of building and industrial solutions.

OUR BRANDS

Our current line of home and business solutions are our best yet — the fruit of our incessant quest for innovation, excellence, and customer satisfaction.

Carrier CONDURA Midea® TOSHIBA

Kelvinator OTIS TOTALINE®

Tried, tested, trusted.

Carrier continues to leverage its unmatched experience and expertise as an industry leader and pioneer to become the most trusted name in airconditioning. For 110 years, Carrier's first class airconditioners have been cooling the world and have been providing exceptional cooling comfort to countless homes, buildings, and landmark structures around the world, a testament to the inventor of airconditioning's vision of product excellence and legacy of innovation.

Live life with Kelvinator

Kelvinator

The Kelvinator brand has made a name for itself for providing window room airconditioners that combine high U.S. quality at prices affordable to Filipino consumers. The Kelvinator line delivers effcient and quality cooling that gets the job done for everyone.

Real Inspiration. Real Filipinnovation.

CONDURA

Proudly Philippine made, Condura's line of high quality and durable cooling and refrigeration solutions is a product of homegrown ingenuity and innovation, built for Philippine conditions.

Featuring commercial-grade quality materials and solid design, the Condura line can withstand harsh weather conditions, making it an excellent choice for any Filipino home and business.

Make yourself at home

Midea, one of world's largest manufacturers of appliances, covers a complete range of products from electric kettles, microwaves, washing machines to large commercial airconditioning systems. Thriving in over 150 countries, Midea has now arrived in the Philippines!

In partnership with Concepcion Industrial Corporation, Midea's global strength in the appliance industry fused with CIC's values of integrity, excellence and total customer satisfaction give the world class brand a better understanding of the Filipino's needs. This way, with Midea, the Filipino can live different, choose different.

Details matter

TOSHIBA

With its impressive state of the art appliances, Toshiba brings the inimitable Takumi spirit, cognizant of the needs of sensible Filipino consumers who seek nothing less than superior Japanese reliability, durability and harmonized design.

Launched last February 26, 2019 in partnership with Concepcion Midea, Toshiba covers a complete range of products from Refrigerators, Washing machines, Water Dispensers, Microwave ovens and SDAs.

Toshiba remains true to the Japanese heritage — Craftsmanship, Precision, Perfection. This is how Toshiba designs its home appliances, to provide ease, convenience, efficiency, and reliability.

This frees you to focus your time and attention on what really matters — to be able to live your best life and to become the best version of yourself.

A lifestyle of satisfaction, happiness, and peace of mind.

That is the Toshiba lifestyle.

Made to move you

With over 160 years of experience, OTIS is the world's leading manufacturer of elevators, escalators and moving walkways. Currently, Otis operates in over 200 countries and territories worldwide. In the Philippines, the company was renamed Concepcion-Otis Philippines, Inc. (COPI) shortly after entering into a joint venture with Concepcion Industrial Corporation (CIC) in 2014.

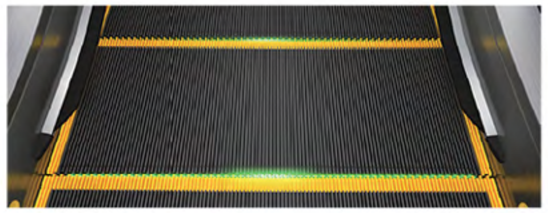
COPI's advanced people-moving technology provides customized solutions for the full range of applications, including low-, mid-, and high-rise commercial, residential and infrastructure projects.

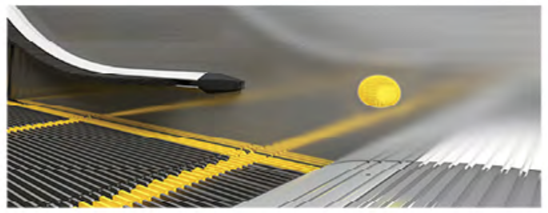











Your aircon parts expert

TOTALINE is the world's largest heating, ventilation, air conditioning and refrigeration parts and supplies company by Carrier Corporation (USA).

In the Philippines, TOTALINE is managed and operated by Concepcion-Carrier Air Conditioning Company and serves as the after sales market of CARRIER, CONDURA, KELVINATOR, MIDEA & TOSHIBA.

CORE VALUES

- Performance
- Customer-centricity
- Environment, Health, and Safety
- Innovation
- Quality
- Employee Engagement
- Integrity
- Ownership

PERFORMANCE

We are a High Performance Organization, and our utmost expectations for ourselves speak of the level of performance we commit to our customers, our colleagues, and our shareholders. Exceeding their expectations is our utmost priority.

Meritocracy is a principle we deeply believe in, and we know that the level of returns we expect is always commensurate to the level of value we deliver to all our stakeholders.

ENVIRONMENT, HEALTH, AND SAFETY

Our output reflects the DNA of who we are, and this is evident in the utmost safety we ensure in all our products and in the delivery of our services.

We provide our employees with a safe and hazard-free workplace where we continuously promote good health, a healthy lifestyle, and an environment that fosters balanced well-being.

CUSTOMER-CENTRICITY

We know that if we focus on our customers, all things that should be important in what we do and how we do it will always follow. We treat each customer, whether internal or external, as integral parts of our business.

We listen to them, deliver on our commitments, and hold their satisfaction at the core of our business. We care for our customers, and our systems and processes make it easier to deal with us.

INNOVATION

Continuous improvement is our way of life, and so we make it a point to always seek new and improved ways of doing things.

We deeply embrace the "Spirit of Entrepreneurship" and commit ourselves to create a working environment where employees are encouraged to always explore new things that will elevate the level of what we do.

QUALITY

We do not take shortcuts and we never compromise on quality. We embrace a culture of excellence in everything that we do. As such, we are able to take pride in the results that we deliver.

EMPLOYEE ENGAGEMENT

In no small measure, we believe that our success depends on the high level of engagement of our employees — our Company's most important asset. The more we remember this, the more successful we have become.

We believe that our capability to do things is a shared responsibility between the Company and employees, and so we work together to develop ourselves and our organization to the fullest of our collective potential.

Our culture is one that ensures that our employees are fully engaged and are capable and empowered to make the right decisions.

INTEGRITY

We do the right thing, the right way, all the time.

We always remember to act with the utmost respect in dealing with all our stakeholders and never forget to preserve the dignity of anyone we interact with. We self-check our own decisions, and immediately escalate potential compliance concerns to those who are able to act on them. We maintain our integrity at all times, especially in challenging situations.

OWNERSHIP

"Malasakit", or a strong sense of ownership, defines everything that we do. We share a sense of loyalty to both the company and the people we work with. We value stewardship, accountability, and responsibility in our work and all of our interactions.

We know that whatever we do, however big or small our role is in our organization, contributes to Nation Building. This is how we personally find the drive and relevance in "Building Better Lives and Businesses". We always go the extra mile because this is our way of giving back.

OUR PEOPLE

BOARD OF DIRECTORS

RAUL JOSEPH A. CONCEPCION

CHAIRMAN

Mr. Raul Joseph A. Concepcion is the Chairman of the Board and Chief Executive Officer of the Company since 2008. He is also the president of Concepcion-Carrier Airconditioning Company (CCAC) and of Concepcion Industries, Inc. as well as the Chairman Emeritus of the Philippine Appliance Industry Association (PAIA).

He holds a Business Administration degree from Simon Fraser University.

RENNA C. HECHANOVA-ANGELES

VICE CHAIRMAN AND TREASURER

Ms. Renna C. Hechanova-Angeles is the Vice Chairman of the Board and the Treasurer of the Company. She is concurrently the Vice Chairman and Corporate Secretary of CDI, Director of CCAC, Corporate Secretary of Contel Communications, Director of the joint venture company between Ayala Land, Inc. and Concepcion Industries, Inc., corporate secretary of Republic Commodities Corporation (RCC), and Executive Vice President and Corporate Secretary of Concepcion Industries, Inc. (CII). She is also the Corporate Secretary of Hy-land.

Ms. Angeles holds a B.S. Commerce, Major in Management degree from the Assumption College.

RAUL ANTHONY CONCEPCION

DIRECTOR

Mr. Raul Anthony A. Concepcion is a Director of the Board of the Company. He is also the president and chief operations officer of Contel Communications, vice president of the joint venture company between Ayala Land, Inc. and Concepcion Industries, Inc., and president and chief operations officer of CDI. Mr. Concepcion is also the founder and chief event officer of Condura Run, one of the premier running events in the Philippines.

He is finalist in the Ernst and Young Entrepreneur of the Year Awards in 2011 and received the Business Excellence Award for showing exceptional, consistent and systematic application of total quality management principles.

He holds a B.A. Political Science degree from the University of the Philippines-Diliman and an Executive Master of Business Administration degree from the Asian Institute of Management.

JOSE MA. A. CONCEPCION III

DIRECTOR

Mr. Jose Ma. A. Concepcion III is a Director of the Board of the Company. He concurrently serves as the president and CEO of RFM Corporation and chairman of the board of directors of RFM Unilever Ice Cream, Inc. Mr. Concepcion is also the co-chairman of the agri-business and food committee of PCCI. He is likewise a member of various industry associations such as PCCI, Philippine Association of Feed Millers (PAFMI), Philippine Association of Flour Millers (PAFMIL), Philippine Chamber of Food Manufacturers, Inc. (PCFM), Makati Business Club, and Management Association of the Philippines (MAP).

Mr. Concepcion is active in various sociocivic associations such as the Philippine Center for Entrepreneurship Foundation which he founded, The Search for the Ten Outstanding Students of the Philippines (TOSP) and Rotary Club of Makati Central. From 2005 to 2010, he was the presidential consultant for entrepreneurship. Presently, Mr. Concepcion holds the following positions in sociocivic associations: vice chairman and trustee of RFM Foundation, Inc., director of the Laura Vicuna Foundation for Street Children, and vice chairman of the Micro Small and Medium Enterprise Development Council (MSMED).

He holds a B.S. Business Management degree from the De La Salle University.

MA. VICTORIA HERMINIA C. YOUNG

DIRECTOR

Ms. Ma. Victoria Herminia C. Young is a Director of the Board of the Company. She is a director as well as the vicepresident and general manager of the White King Division of RFM Corporation since 2006. She is also a director and general manager of Interbake Commissary Corporation and president of RFM Foundation, Inc.

Ms. Young is likewise a trustee of several charitable organizations such as Soul Mission Organization and Ronald McDonald House of Charities. From 2000-2003, she served as a director of the Assumption Alumnae Association.

Ms. Young holds a B.S. Management and Marketing degree from the Assumption College.

RAISSA C. HECHANOVA-POSADAS

DIRECTOR

Ms. Raissa C. Hechanova-Posadas is a Director of the Board of the Company. She is concurrently a director of RFM Corporation, advisor to the board of directors of BDO Private Bank, and member of the board of trustees of Knowledge Channel Foundation, Inc. and Pinoy ME (MicroEntrepreneurship) Foundation.

Prior to joining the Company, Ms. Hechanova-Posadas had 25 years of experience in corporate and investment banking at Citigroup where she held the positions of managing director, head of corporate finance unit, and designated business senior credit officer. In addition, she was a member of the Citi Philippines senior management team for ten years, and of the board of directors of several Citigroup legal vehicles in the country.

Ms. Hechanova-Posadas holds a B.A. Applied Economics degree from De La Salle University and a Master of Business Administration degree from IMD International Institute for Management Development (formerly IMEDE).

CESAR A. BUENAVENTURA

INDEPENDENT DIRECTOR

Mr. Cesar A. Buenaventura is an Independent Director of the Board of the Company. He is also the vice chairman of the board of directors of DMCI Holdings, Inc, AG&P Company of Manila and Montecito Properties, Inc. Mr. Buenaventura likewise holds a directorship position in the boards of Semirara Coal Company, iPeople, Inc., Petronenergy Resources Corp., and Pilipinas Shell Petroleum Corporation.

The notable positions he previously held include first Filipino CEO and chairman of the Shell Group of Companies, member of the Monetary Board of the Central Bank of the Philippines, member of the board of regents of the University of the Philippines from 1987 to 1994, member of the board of trustees of the Asian Institute of Management from 1994 to 2007, and president of the Benigno Aquino S. Foundation from 1985 to 2000.

Mr. Buenaventura holds a B.S. Civil Engineering from the University of the Philippines and a Master's degree in Civil Engineering, major in Structures from Lehigh University.

ALFREDO E. PASCUAL

INDEPENDENT DIRECTOR

Alfredo E. Pascual, 71, is a nominee for Independent Director of the Company.

Mr. Pascual just finished his six-year term as President of the University of the Philippines (UP). Prior to his involvement in the academe, he worked at the Asian Development Bank (ADB) for nineteen years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. Previous to that, Mr. Pascual held senior executive positions in investment banking companies, such a First Metro Investment Corporation. He likewise took on an educator role as finance professor at the Asian Institute of Management (AIM) for nine years in the 1980's.

Mr. Pascual enrolled in the University of the Philippines Diliman and took up B.S. Chemistry, and graduated cum laude in 1969. He received his Master of Business Administration degree from the same university in 1972.

JAYSON L. FERNANDEZ

CORPORATE SECRETARY

Atty. Jayson L. Fernandez is the Corporate Secretary of the Company. Atty. Fernandez is a Partner in Romulo Mabanta Buenaventura Sayoc & de los Angeles and currently cochairs its tax department.

He obtained his A.B. Management Economics and Juris Doctor degrees from the Ateneo de Manila University and was admitted to the Philippine Bar in 1996.

EXECUTIVE COMMITTEE

RAFAEL C. HECHANOVA, JR.

EXECUTIVE VICE PRESIDENT FOR CORPORATE MARKETING & BUSINESS DEVELOPMENT

Mr. Rafael Concepcion Hechanova, Jr. is CCAC's Vice President for Business Development and Corporate Marketing. He plays a key role in ensuring that the Company continues to do good business across all its markets. He oversees both the Consumer and Business Solutions Groups, including new business units for corporate marketing and business development. Prior to his tenure in CCAC, Mr. Hechanova served as a Director of the Pacific Basin Development Company in Vancouver, Canada. Upon returning to the Philippines and joining Concepcion Industries in 1994, he became responsible for managing the sales and after market service of chillers and AHUs to institutional and commercial customers.

In 1998, Mr. Hechanova joined the CCAC leadership as an operating partner managing retail sales and marketing for Residential Light Commercial (RLC) airconditioning products ensuring that both product and brand development initiatives were based on unique and demanding Filipino insights. This enabled CCAC to launch highly relevant branded communication messages for Carrier, Condura and Kelvinator as well as product innovations including the patented energy saving plug. Mr. Hechanova is also currently a director of Concepcion-Carrier Realty Holdings, Inc. and of Hy-land. He was a director of CAC from 1998 to 2013 and of CCAC from 2006 to 2009. He took up Mechanical Engineering at the De La Salle University and graduated at the British Columbia Institute of Technology.

MARIA VICTORIA A. BETITA

CHIEF FINANCE OFFICER

Maria Victoria A. Betita is the Chief Finance and Information Officer of the Company. She is concurrently the Chief Finance Officer and Head of the Corporate and Business Service Group in CCAC. Ms. Betita was the Finance Director and Country Controller for Asea Brown Boveri Group from 1996 to 2001. From 2001 to 2005, she was the Chief Financial Officer of CCAC as well as the Treasurer and CFO of several Carrier subsidiaries. Prior to re-joining CIC and CCAC in 2011, Ms. Betita held several positions at Deutsche Knowledge Services, Pte. Ltd.

She holds a B.S. Management Engineering degree from the Ateneo de Manila University and a Masters in Business Management from the Asian Institute of Management.

RAJAN KOMARASU

DIVISION PRESIDENT, BUSINESS SOLUTIONS

Mr. Rajan Komarasu is the Division President of Alstra, the commercial arm of CIC consisting of two units, Climate Control Solutions and Vertical Transport Solutions.

He was the Chief Financial Officer of CCAC from 2007 to 2011.

He held several positions with UTC primarily in the HVAC/R segment. Prior to joining the Company, his last role at UTC was Asia director for financial planning and analysis at the climate control and security department in Shanghai.

He holds a B.S. Business degree from Curtin University. He is also a certified public accountant in Singapore.

HAROLD THOMAS PERNIKAR JR.

DIVISION PRESIDENT, CONSUMER SOLUTIONS

Mr. Harold Pernikar is the Division President of Consumer Lifestyle Solutions.

Prior to joining CCAC, he worked at the various offices of AkzoNobel Car Refinishes and AkzoNobel Automotive & Aerospace Coatings in Asia from 2002 to 2012. He served as a product manager, marketing & logistics manager, global product manager and business development manager at AkzoNobel Car Refinishes, and as a commercial manager at AzkoNobel Automotive & Aerospace Coatings.

He holds a B.S. International Business and Finance degree from Northeastern University.

ALEXANDER T. VILLANUEVA

DIVISION PRESIDENT, PRODUCT SOLUTIONS

Mr. Alexander T. Villanueva is the Director and General Manager for Manufacturing and Supply Chain Management at CCAC since 2009.

From 2006 to 2009, he served as the quality director of CCAC. Previously, he performed roles ranging from quality engineer to head of quality at Ford Motor Company, both in the Philippines and in the U.S., and at Nissan Motor Philippines.

Mr. Villanueva holds a B.S. Mechanical Engineering degree from the Mapua Institute of Technology.

MICHAEL ERIC I. SARMIENTO

DIVISION PRESIDENT, BUSINESS SERVICES

Michael Eric I. Sarmiento was appointed as President & COO of Concepcion Business Services, Inc. (CBSI) on 9 March 2020. CBSI is the Shared Services Co. of CCAC that provides IT, HR, Finance & Accounting, Business Process Re-engineering, & Administrative Services to the Group. Mr. Sarmiento specializes in Finance & IT with almost 20 years of experience in Business & Systems Analysis, Business Intelligence, Data Analytics, IT Project Management & Consulting, and Management Accounting. Prior to joining CIC, hSVP & General Manager of its ROHQ, Primer Resources Corp and Deputy CFO of the Intellectual Property Venture Group (IPVG).

He graduated from University of Sto. Tomas with a degree in Industrial Engineering and then got his MBA from University of the Philippines, Diliman, Q.C.

SHAUN BYRNE

DIVISION PRESIDENT, TECHNOLOGY SOLUTIONS

Mr. Shaun Byrne is the Chief Executive Officer of CIC's Technology Solutions arm, Cortex Technologies, Inc.

He was formerly the IT director of Concepcion Carrier Air Conditioning Company (CCAC) from 2014 to 2015). The Director for Consumer Service and Support (CCAC) from 2009 to 2013.

Prior to joining CCAC, Mr. Byrne owned and managed his own IT consultancy in Sydney and Melbourne from 1999 to 2006.

RICHARD L. PARCIA

CHIEF TECHNOLOGY OFFICER

Mr. Richard L. Parcia is the Chief Information Officer of CIC and concurrent Head of its Business Services Division since November 2018.

Prior to CIC, Richard was CIO of the Asian Institute of Management (AIM). He was based in France as LafargeHolcim's Head of Global IT Operation Center and, prior to that, as Head of IT Operations and Infrastructure for LafargeHolcim's East Asia Business Region. Furthermore, Richard had global roles with Intel Corporation and UnitedHealth Group. Dr. Parcia holds a B.S. degree in Computer Science, and an MBA Letran College-Calamba; and a PhD in Development Studies specializing in Technology Development from the University of Santo Tomas.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

1. Oversight and Approval

It is the duty of the Board to oversee the business affairs of the Company and to exercise sound and objective judgment for its best interest. It relies on the CEO and other senior management in the competent and ethical operation of the Company on a day-to-day basis. Thus, it is the responsibility of the Board to monitor and oversee the performance of senior management in implementing the strategies, policies pertaining to major business activities and enterprise risks throughout the Group. The Board shall ensure that major plans of action, risk policy, annual budgets and business plans, and performance objectives and accountabilities are set to monitor implementation, measure corporate performance and take corrective action as needed pursuant to approved strategic objectives.

2. High Ethical Standards in Doing Business

Our corporate governance practice adheres to basic principles of integrity, transparency, fairness, accountability, and performance. It is the responsibility of the Board including the officers and staff to follow at all times the established governance policies and practices as these are put in place to protect the Company's reputation, assets, and businesses. The Board shall ensure the company's faithful compliance with all applicable laws, regulations, and best business practices including the timely and accurate submission of public disclosures, prudential, and supervisory reports to the relevant regulatory bodies.

3. Annual Board and Executive Management Performance Evaluation

The Board, through the Corporate Governance Committee, shall undertake the evaluation of its performance as a collective body, its Committees and senior management to determine whether they are functioning effectively, pinpoint areas for improvement and ensure that the President is providing effective leadership to the Group. The Committee shall report the results of the self- assessment to the Board. It shall likewise implement a process for the selection of Board members who can add value and meaningfully contribute independent judgment to the formulation of sound corporate strategies and policies.

4. Directors' Peer Evaluation

This is intended to encourage improved performance and effectiveness of directors by identifying areas that need improvement. Each director is requested to rate their colleagues on the Board using the prescribed rating scale and questions. The Corporate Governance Committee shall report also the results of the peer evaluations to the Board.

5. Management Succession Planning

The Board, in coordination with the Corporate Governance Committee, shall ensure that the Company has in place an appropriate and updated succession planning for key executives to address emergency in the event of extraordinary circumstances and ensure continuity of operations.

BOARD COMPOSITION

1. The Board of Directors of the Company shall be composed of eight (8) directors. The stockholders of the Company shall elect the members of the Board during the annual meeting in accordance with the Company's articles of incorporation and by-laws.

2. The Board shall be composed of executive and on-executive directors, which include the independent directors. The company shall have two (2) independent directors or such numbers that would constitute at least twenty percent (20%) of the members of the Board, whichever is the lesser.

3. In accordance with Sec. 38 of Republic Act 8799 and SRC Rule 38, the Company shall appoint or elect independent directors who are free of material relations with the management, controllers, or others that might reasonably be expected to interfere withthe independent exercise of his/her best judgment for the exclusive interest of the Company. An independent director of a company may only serve as such for a total of five (5) consecutive years with a "cooling off" period of two years after which, he/she could be elected for another final 5-year term. Selection, nomination and election of independent directors shall be done in accordance with the standard lection procedures of the Company's By-Laws and this Code.

By definition, an independent director shall be any person who:

a. is not or has not been an officer or employee of the company, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

b. is not a director or officer of the related companies of the institution's majority stockholder;

c. is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;

d. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common- law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the company or any of its related companies;

e. is not acting as a nominee or representative of any director or substantial shareholder of the company, any of its related companies or any of its substantial shareholders; and

f. is not retained as professional, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions without prior approval of the Board.

4. Selection of Board members. In evaluating the suitability of individual board members, the Board, through the Nominations Committee, should take into account the relevant qualifications of every candidate nominated for election such as among others, physical/ mental fitness, relevant educational and professional background, personal track record, diversity of related experience/ training, commitment to contribute, willingness to serve and interest to remain engaged and involved. For the re-election of incumbent directors, the Board should also consider the results of the most recent self assessment of the Board and peer evaluation, director's attendance record in meetings, participation in Board activities and overall contribution to the functioning of the Board.

5. Tenure/Term Limits. Elected members of the Boardserve for a one-year term and until their successors are elected except for Independent directors' limits as prescribed by SEC Memorandum Circular No. 9 (2011).

BOARD OF DIRECTORS

The Board is collectively responsible for the long-term shareholder value of the institution. Its role is to approve, oversee and review the implementation of the Group's business and strategic objectives, enterprise risk strategy and senior management performance to ensure the success of the Group and sustain its industry leading position.

It leads in establishing the tone and practices of good corporate governance at the top. It sets the Group's corporate values and high ethical standards of business conduct for itself and all members of the Group. Through its oversight, monitoring and review functions, the Board ensures that the Group is being run in a sound and prudent manner on a going concern basis in order to fulfill its obligations to all majority and minority shareholders while upholding and protecting the interests of different constituencies.

1. Executive Committee

The Executive Committee shall be composed of the Chairman and CEO, the Treasurer, the Managing Directors of its subsidiaries.

The Executive Committee is empowered to exercise the powers of the Board in the management of the business and affairs of the Corporation except with respect to the approval of any action for which stockholders' approval is also required. Company-level executive committees meet at least once a month to discuss performance, forecasts, and key issues.

The group-wide executive committee is convened at least once a year to review overall Company plans and strategies.

Executive Committee

Chief Executive Officer	Raul Joseph A. Concepcion
Treasurer	Renna C. Hechanova-Angeles
Managing Director, CCAC	Raul Joseph Concepcion
Managing Director, CDI	Raul Anthony Concepcion

Non-Director Members

Executive Vice President, Business Development and Marketing, CIC and CCAC	Rafael C. Hechanova, Jr.
Chief Finance Officer	Maria Victoria A. Betita
Division President, Business Solutions	Rajan Komarasu
Division President, Consumer Solutions	Harold Thomas Pernikar, Jr.
Division President, Product Solutions	Alexander T. Villanueva
Division President, Technology Solutions	Shaun Byrne
Division President, Business Services	Michael Eric I. Sarmiento
Chief Technology Officer	Richard L. Parcia

2. Corporate Governance and Audit Committee

The Corporate Governance and Audit Committee leads the Company in defining corporate governance policies and attaining best practices.

It oversees the implementation of the Company's compliance programs and has a nomination function where it reviews and evaluates the qualification of individuals nominated to the Board.

It likewise oversees financial reporting and internal and external audit functions and performs direct interface functions with the internal and external auditors of the Company.

The Committee meets at least two times a year.

Corporate Governance and Audit Committee

Chairman (Independent Board Member)	Alfredo E. Pascual
Board Member	Raissa H. Posadas
Board Member	Marie C. Young
Resources	
CFO	
Legal and Compliance	

3. Compensation and Remuneration Committee

The Compensation and Remuneration Committee provides oversight on directors' compensation and remuneration of senior management and other key personnel as it ensures consistency of the compensation policies and practices across the Group. The committee meets at least once a year and provides overall direction on the compensation and benefits strategy of the Company.

Compensation and Remuneration Committee

Chairman (Independent Board Member)	Cesar A. Buenaventura
Board Member (Independent Board Member)	Alfredo E. Pascual
Board Member	Jose Ma. A. Concepcion III
Resources	
HR Director	
CFO	

4. Nominations Committee

The Nominations Committee formulates screening policies to enable the committee to effectively review the qualification of the nominees for independent directors; and conducts nominations for independent directors prior to the stockholders' meeting in accordance with the procedures set forth in Rule 38.

Nominations Committeee

Chairman	Jose Ma. A. Concepcion III
Board Member (Independent Board Member)	Cesar A. Buenaventura
Board Member	Renna H. Angeles

FINANCIAL STATEMENTS

Concepcion Industrial Corporation

Separate Financial Statements
As at and for the years ended December 31, 2019 and 2018

Isla Lipana & Co.

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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Concepcion Industrial Corporation
308 Gil Puyat Avenue
Makati City

Report on the Audits of the Separate Financial Statements

Our Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of Concepcion Industrial Corporation (the "Company") as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The separate financial statements of the Company comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of total comprehensive income for the years ended December 31, 2019 and 2018;
- the statements of changes in equity for the years ended December 31, 2019 and 2018;
- the statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for our Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Separate Financial Statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audits of the separate financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS and SEC Form 17-A were obtained prior to the date of the audit report while the Annual Report is expected to be made available to us after the date of this auditor's report.

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Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audits of the Separate Financial Statements

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

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

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

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Concepcion Industrial Corporation
Page 3

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

  If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguard.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Concepcion Industrial Corporation
Page 4

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 14 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic separate financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

Isla Lipana & Co.

Cherrylin M. Javier
Partner
CPA Cert. No. 68556
P.T.R. No. 0007703; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 0055-AR-5, Category A; effective until September 4, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 112-071-216
BIR A.N. 08-000745-009-2018; issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 14, 2020

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Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of
Concepcion Industrial Corporation
308 Gil Puyat Avenue
Makati City

None of the partners of the firm has any financial interest in Concepcion Industrial Corporation or any family relationships with its president, manager or principal shareholders.

The supplementary information on taxes and licenses is presented in Note 18 to the financial statements.

Isla Lipana & Co.

Cherrylin M. Javier
Partner
CPA Cert. No. 68556
P.T.R. No. 0007703; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 0055-AR-5, Category A; effective until September 4, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 112-071-216
BIR A.N. 08-000745-009-2018; issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 14, 2020

Concepcion Industrial Corporation

Statements of Financial Position
December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	2	83,298,461	292,427,166
Receivables	3	46,684,140	5,439,281
Prepayments and other current assets	4	15,198,299	14,899,122
Deposit for future stock subscription	1	–	238,000,000
Total current assets		145,180,900	550,765,569
Non-current assets			
Investments in subsidiaries and an associate	5	3,802,773,714	2,589,323,714
Investment property	7	40,254,900	39,067,306
Right-of-use asset	14	377,828	–
Property and equipment, net	6	96,134	–
Due from related parties	9	–	9,575,038
Total non-current assets		3,843,502,576	2,637,966,058
Total assets		3,988,683,476	3,188,731,627
LIABILITIES AND EQUITY			
Current liabilities			
Accrued expenses and other current liabilities	8	94,294,724	79,271,740
Due to related parties	9	5,044,187	4,191,491
Lease liabilities	14	156,824	–
Total current liabilities		99,495,735	83,463,231
Non-current liability			
Retirement benefit obligation	13	20,040,080	18,505,267
Total liabilities		119,535,815	101,968,498
Equity			
Share capital	11	407,263,891	407,263,891
Share premium	11	993,243,008	993,243,008
Retained earnings	11	2,614,589,434	1,760,509,922
Treasury shares	11	(146,528,080)	(73,759,370)
Other comprehensive income (loss)	13	579,408	(494,322)
Total equity		3,869,147,661	3,086,763,129
Total liabilities and equity		3,988,683,476	3,188,731,627

The notes on pages 1 to 40 are integral part of these separate financial statements.

Concepcion Industrial Corporation

Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Share capital (Note 11)	Share premium (Note 11)	Retained earnings (Note 11)	Treasury shares (Note 11)	Other comprehensive income (loss) (Note 13)	Total
Balances as at January 1, 2018	407,263,891	993,243,008	1,396,026,527	(59,824,250)	87,846	2,736,797,022
Comprehensive income (loss)						
Net income for the year	–	–	851,539,144	–	–	851,539,144
Remeasurement loss of retirement benefit	–	–	–	–	(582,168)	(582,168)
Total comprehensive income (loss)	–	–	851,539,144	–	(582,168)	850,956,976
Transactions with owners						
Cash dividends declared	–	–	(487,055,749)	–	–	(487,055,749)
Acquisition of treasury shares	–	–	–	(13,935,120)	–	(13,935,120)
Total transactions with owners	–	–	(487,055,749)	(13,935,120)	–	(500,990,869)
Balances as at December 31, 2018	407,263,89	993,243,008	1,760,509,922	(73,759,370)	(494,322)	3,086,763,129
Effect of adoption of PFRS 16 (Note 14)	–	–	687,548	–	–	687,548
Balances as at January 1, 2019	407,263,89	993,243,008	1,761,197,470	(73,759,370)	(494,322)	3,087,450,677
Comprehensive income						
Net income for the year	–	–	1,339,998,193	–	–	1,339,998,193
Remeasurement gain of retirement benefit	–	–	–	–	1,073,730	1,073,730
Total comprehensive income	–	–	1,339,998,193	–	1,073,730	1,341,071,923
Transactions with owners						
Cash dividends declared	–	–	(486,606,229)	–	–	(486,606,229)
Acquisition of treasury shares	–	–	–	(72,768,710)	–	(72,768,710)
Total transactions with owners	–	–	(486,606,229)	(72,768,710)	–	(559,374,939)
Balances as at December 31, 2019	407,263,891	993,243,008	2,614,589,434	(146,528,080)	579,408	3,869,147,661

The notes on pages 1 to 40 are integral part of these separate financial statements.

Concepcion Industrial Corporation

Statements of Total Comprehensive Income
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
Income			
Dividend income	5	1,453,659,619	971,003,912
Interest income from cash and cash equivalents	2	2,611,978	1,935,463
Miscellaneous income, net		31,100,283	157,187
Total income		1,487,371,880	973,096,562
Expenses			
Personnel costs and commission		(77,301,262)	(77,795,831)
Outside services		(34,001,887)	(10,067,611)
Professional fees		(25,396,099)	(26,606,090)
Rent and utilities		(1,553,885)	(222,196)
Registration		(1,509,876)	(2,018,575)
Transportation and travel		(1,251,407)	(144,891)
Advertising and promotion		(1,000,000)	(833,334)
Amortization of right-of-use asset	14	(799,972)	–
Insurance		(185,113)	(204,450)
Taxes and licenses		(131,368)	(21,094)
Supplies		(103,759)	(325,461)
Others		(3,501,689)	(3,314,739)
Total expenses		(146,736,317)	(121,554,272)
Operating income		1,340,635,563	851,542,290
Finance cost on lease liability	14	(14,762)	–
Income before income tax		1,340,620,801	851,542,290
Income tax expense	10	(622,608)	(3,146)
Net income for the year		1,339,998,193	851,539,144
Other comprehensive loss that will not be subsequently reclassified to profit or loss			
Remeasurement gain/(loss) of retirement benefit obligation	13	1,073,730	(582,168)
Total comprehensive income for the year		1,341,071,923	850,956,976
Earnings per share – basic and diluted	12	3.31	2.10

The notes on pages 1 to 40 are integral part of these separate financial statements.

Concepcion Industrial Corporation

Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(All amount in Philippine Peso)

	Notes	2019	2018
Cash flows from operating activities			
Income before income tax		1,340,620,801	851,542,290
Adjustments for:			
Dividend income	5	(1,453,659,619)	(971,003,912)
Provision for bonus	8	46,611,513	49,194,434
Retirement benefit expense	13	2,608,543	1,966,178
Interest income on bank deposits and short-term placements	2	(2,611,978)	(1,935,463)
Depreciation and amortization	6, 14	811,989	–
Interest expense from lease liability	14	14,762	–
Operating loss before changes in working capital		(65,603,989)	(70,236,473)
Changes in working capital:			
Receivables		(41,577,087)	(2,880,626)
Accrued expenses and other current liabilities		(32,211,136)	(44,787,113)
Prepayments and other current assets		(299,177)	(862,815)
Due to related parties		10,427,734	12,045
Cash absorbed by operations		(129,263,655)	(118,754,982)
Interest received from bank deposits		278,183	28,001
Net cash used in operating activities		(128,985,472)	(118,726,981)
Cash flows from investing activities			
Dividends received	5	1,453,659,619	979,974,481
Subscription of shares of subsidiaries	1,5	(975,450,000)	(165,000,000)
Interest received from short-term placements		2,666,023	1,548,990
Deposit for future stock subscription		–	(238,000,000)
Acquisition / improvement cost of investment property		(1,187,594)	(1,547,306)
Acquisition of property and equipment		(108,151)	–
Net cash provided by investing activities		479,579,897	576,976,165
Cash flows from financing activities			
Dividends paid	11	(486,606,229)	(487,055,749)
Cash paid for acquisition of treasury shares	11	(72,768,710)	(13,935,120)
Principal repayment of lease liability	14	(333,429)	–
Interest paid for lease liability	14	(14,762)	–
Net cash used in financing activities		(559,723,130)	(500,990,869)
Net decrease in cash and cash equivalents		(209,128,705)	(42,741,685)
Cash and cash equivalents as at January 1		292,427,166	335,168,851
Cash and cash equivalents as at December 31	2	83,298,461	292,427,166

The notes on pages 1 to 40 are integral part of these separate financial statements.

Concepcion Industrial Corporation

Notes to Separate Financial Statements
As at and for the years ended December 31, 2019 and 2018
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General Information

1.1 Registration and business

Concepcion Industrial Corporation (the Company, Parent Company or CIC), formerly Concepcion Airconditioning Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 17, 1997 primarily to carry on business as a holding company, including but not limited to the acquisition by purchase, exchange, assignment, gift, importation or otherwise, and to hold, own and use for investment or otherwise, and to sell, assign, transfer, exchange, mortgage, pledge, traffic or otherwise to enjoy and dispose of real and personal property of every kind and description, including land, condominium units, buildings, machineries, equipment, bonds, debentures, promissory notes, shares of capital stock or other securities or obligations, created, negotiated or issued by any corporation, association or other entity, foreign or domestic, and while the owner thereof, to exercise all the rights, powers and privileges of ownership, including the right to receive, collect, and dispose of, any and all dividends, rentals, interest and income derived therefrom and generally perform acts or things designed to promote, protect, preserve, improve or enhance the value of any such land, condominium units, buildings, machineries, equipment, bonds, debentures, promissory notes, shares of capital stock, securities or obligations to the extent permitted by law without however engaging in dealership in securities, in the stock brokerage business or in the business of an investment company.

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

The Company's shares are publicly traded in the Philippine Stock Exchange. Accordingly, the Company is considered a public company under the Implementing Rules and Regulations of the Securities Regulation Code (SRC), which, among others, defines a public corporation as any corporation with a class of equity securities listed on an exchange, or with assets in excess of P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities.

As at December 31, 2019, the Company has at least 27 shareholders (2018 - 819) each holding 100 or more shares with certain securities still held by nominees and brokers and have not been dislodged as at report date.

The Company's registered office address, which is also its principal place of business, is located at 308 Sen. Gil Puyat Avenue, Makati City, Metro Manila. The Company has three (3) regular employees as at December 31, 2019 and 2018.

1.2 Significant business developments

On March 28, 2018, CIC subscribed to additional 40 million shares of Cortex Technologies Corporation (CTC), a wholly-owned subsidiary of CIC registered with the SEC on September 19, 2017, amounting to P40 million which represents the balance of CTC's unissued share capital. Moreover, on September 6, 2018, the BOD and stockholders of CTC approved the increase in authorized share capital from P80 million to P200 million divided into 200 million shares at par value of P1 per share. The increase is to fund potential partnerships and business ventures. CIC subscribed for the full amount of the increase totaling P120 million. On January 31, 2019, the SEC approved CTC's application for the increase in authorized share capital. Consequently, the corresponding shares relating to the Company's deposit for future stock subscription amounting to P60 million were issued to the Company.

On April 6, 2018, the BOD and stockholders of Concepcion Durables, Inc. (CDI) approved the increase in its authorized share capital from P500 million to P678 million divided into 6.78 million shares with par value of P100 per share. CIC subscribed for the full amount of the increase totaling P178 million. On April 2, 2019, the SEC approved CDI's application for the increase in authorized share capital. Consequently, the corresponding shares relating to the Company's deposit for future stock subscription amounting to P178 million were issued to the Company.

On April 25, 2019, Tenex Services, Inc. (Tenex), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC), primarily to undertake and transact all kinds of business relating to installation, servicing sale and distribution of heating, ventilation and air conditioning systems and products, and such other activities related thereto, such as but not limited to construction and mechanical maintenance services, including emergency works and repairs/replacements, preventive maintenance on equipment and associated devices related to heating, ventilation and air conditioning systems. Tenex is 49% owned by Alstra Incorporated (Alstra), a wholly-owned subsidiary of the Company.

On October 15, 2018, CIC incorporated Alstra, Inc. (Alstra), a holding company with authorized share capital of P500 million divided into 500 million shares at par value of P1 per share and paid up capital of P125 million subscribed wholly by CIC. On July 23, 2019 the Securities and Exchange Commission approved the reclassification of 50,000,000 unissued shares of common stock to preferred stock and the corresponding amendment of Alstra's Articles of Incorporation.

On August 28, 2019, the BOD of Alstra authorized the acquisition of 73,950 shares of stock, which represents 51% of the issued and outstanding capital stock, of Concepcion-Otis Philippines, Inc. (COPI) from CCAC. COPI is a joint venture between CCAC and United Technologies International Corporation Asia PVT LTD. (UTICA). On August 30, 2019, the BOD of CCAC authorized the sale and transfer of all its shares of stock in COPI to Alstra and Otis Elevator Company (Philippines), Inc. (OECPI) for a total selling price of P1,526 million.

1.3 Approval of financial statements

On March 20, 2020, the Company's BOD authorized the Audit and Risk Oversight Committee (Audit Com) to approve and authorize the issuance of the separate financial statements of the Company for the year ended December 31, 2019.

On April 7, 2020, pursuant to the authority granted to it by the BOD, the Audit Com approved and authorized the issuance of the separate financial statements of the Company for the year ended December 31, 2019.

Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2019	2018
Cash on hand	20,000	10,000
Cash in banks	14,278,461	3,601,899
Short term placements	69,000,000	288,815,267
	83,298,461	292,427,166

Cash in banks earn interest at the prevailing bank deposit rates while cash equivalents represent short-term placements that earn an average interest of 2.68% and 2.75% in 2019 and 2018, respectively. Interest income earned from cash and cash equivalents for the year ended December 31, 2019 amounted to P2,611,978 (2018 - P1,935,463).

(2)

Note 3 - Receivables

Receivables as at December 31 consist of:

	Note	2019	2018
Non-trade receivable		35,105,717	–
Advances to third party		8,836,075	–
Due from related parties	9	746,631	3,483,999
Advances to employees		130,196	20,492
Accrued interest		26,244	358,472
Others		1,839,277	1,576,318
		46,684,140	5,439,281

On October 3, 2019, Carrier Air Conditioning Philippines, Inc. agreed to indemnify the Company amounting to P30.9 million, for and against all payments, charges, demands, and/or claims of taxes levied or imposed to and paid or incurred by the Company directly, or indirectly through the Company's 60% ownership in CCAC, as a direct result of the transfer of ownership of COPI to Alstra. This amount is included under non-trade receivable and miscellaneous income, net in the statements of total comprehensive income.

Advances to third party represents balances from a supplier that performs research and marketing functions on behalf of the Company.

Accrued interest represents the amount earned by the Company's short-term placement for the month of December and is normally credited to their account in the subsequent month.
Other receivables represent advances paid to vendors for the subsequent year kick-off activities of the Company.

Note 4 - Prepayments and other current assets

Details of prepayments and other current assets as at December 31 are as follows:

	Note	2019	2018
Input value added tax (VAT), net of output VAT	18	10,787,894	10,753,317
Prepaid taxes		2,600,541	2,706,126
Prepaid expenses		1,801,315	1,438,229
Other		8,549	1,450
Balance at December 31		15,198,299	14,899,122

Prepaid expenses are comprised of payments made for insurances and subscriptions expected to be used within 12 months after reporting date.

(3)

Note 5 - Investments in subsidiaries and an associate

Investments in subsidiaries, with direct ownership, and an associate as at December 31 consist of:

	Country of incorporation	Percentage of ownership (2019/2018)	2019	2018
Subsidiaries				
CCAC	Philippines	60	1,445,879,634	1,445,879,634
CDI	Philippines	100	886,444,080	708,444,080
Alstra	Philippines	100	1,040,450,000	125,000,000
CBSI	Philippines	100	120,000,000	120,000,000
CTC	Philippines	100	200,000,000	80,000,000
			3,692,773,714	2,479,323,714
Associate				
CMI	Philippines	40	110,000,000	110,000,000
			3,802,773,714	2,589,323,714

As at December 31, 2019 and 2018, the following were considered subsidiaries and an associate of the Company through indirect ownership:

	Country of incorporation	Percentage of indirect ownership	Year of acquisition
COPI	Philippines	51	2014
Teko	Philippines	52	2018
Tenex	Philippines	49	2019

5.1 Subsidiaries with direct ownership

5.1.1 CCAC

CCAC was organized primarily to engage in the manufacture, sales (except retail), distribution, installation and service of heating, ventilating and air conditioning (HVAC) products and HVAC services.

The following are the summarized financial information of CCAC as at and for the years ended December 31 (in thousands):

	2019	2018
Current assets	5,786,709	5,553,809
Non-current assets	1,169,588	1,795,132
Current liabilities	(2,539,015)	(2,671,968)
Non-current liabilities	(615,332)	(181,183)
Total equity	(3,801,950)	(4,495,790)
Revenue	9,709,186	9,446,891
Net income for the year	1,534,108	1,321,438
Other comprehensive income (loss)	(40,742)	2,163
Total comprehensive income	1,493,366	1,323,601
Cash provided by (used in) operating activities	1,944,875	(164,569)
Cash provided by (used in) investing activities	1,504,381	(20,450)
Cash used in financing activities	(2,879,560)	(540,070)

For the year ended December 31, 2019, the Company earned from its investment in CCAC dividend amounting to P1,314 million (2018 - P618.3 million) (Note 9).

(4)

5.1.2 CDI

CDI was organized primarily to engage in the manufacture, export, wholesale, retail, buy, trade and/or otherwise deal in various appliances as well as all kinds of machineries, equipment and/or appliances of any kind or description and related parts thereof.

For the year ended December 31, 2019, the Company earned dividend from its investment in CDI amounting to P139.6 million (2018 - P352.7 million) (Note 9).

On April 2, 2019, the SEC approved the CDI's application for increase in authorized share capital to 6,780,000 shares at P100 par value per share. The increase in share capital was fully subscribed to and paid up by the Company.

5.1.3 CBSI

CBSI was incorporated to render various corporate back-office support services including but not limited to, bookkeeping, accounting, business consultancy, governance, risk management and assurance, financial planning, reporting and analytics, human resources, and information technology services, directly or through duly licensed service providers and/or professionals, where necessary, exclusively for CIC, its subsidiaries, affiliates and/or related companies.

5.1.4 CTC

CTC was organized primarily to engage in the following services: (a) undertake research, development and commercialization of new, existing or emerging technology, (b) design, create, build, test, customize, upgrade, manufacture and sell prototypes and finished products, (c) process, analyze and share data gathered from such products, (d) charge commission for in-app purchase, (e) render services to support above activities, (f) enter into partnerships, joint ventures or other business relationships. On January 31, 2019, the SEC approved the Company's application for increase in authorized share capital to 200 million shares at P1 par value per share. The increase in share capital was fully subscribed to and paid up by the Company.

5.1.5 Alstra

Alstra was organized primarily to engage in the business of consultancy, construction, design and engineering and supply of equipment for mechanical, electrical, plumbing and fire protection services, and to engage in the business of facilities management, civil construction, technology services, electronics, devices and equipment in relation to building services and other building solutions-related services. In 2019, Alstra issued to the Company, preferred shares at a premium over par value at P20 per share for a total subscription price of P915,450,000.

5.2 Subsidiaries and an associate with indirect ownership

5.2.1 COPI (Subsidiary)

As at December 31, 2018, the Company owns 51% of COPI through CCAC, which holds 85% of their common shares. COPI was organized primarily to import, buy and sell at wholesale, distribute, maintain and repair, elevators, escalators, moving walkways, and shuttle systems and all supplies, materials, tools, machinery and parts/components thereof.

On October 3, 2019, Carrier Corporation and Otis Elevator Company Philippines, Inc. (OTIS), together with the Company, entered into a Memorandum of Understanding to transfer shares in COPI from CCAC to Alstra. CCAC sold 60% of its shareholdings with COPI to Alstra, and 40% to OTIS. As at December 31, 2019, the Company still effectively owns 51% of COPI through Alstra which holds 51% of their common shares.

5.2.2 Teko (Subsidiary)

Teko's primary business is providing information technology solutions, I.T. enabled services, e-commerce, web design, and applications, to enterprise, consumers, businesses, institutions and other end-users without engaging in mass media, advertising nor in telecommunication activities.

On October 31, 2018, CTC purchased 30% of the issued and outstanding shares of Teko equivalent to 6,000 shares for P19.9 million. The stock and purchase and shareholders agreement (SPSA) provide that additional 21% interest will be purchased by CTC by October 31, 2018 to increase its total ownership to 51% upon completion of certain provisions in the SPSA. The actual issuance of additional 8,572 shares of Teko equivalent to 21% interest happened in January 17, 2019.

On November 27, 2018, the BOD and stockholders of Teko approved the increase in authorized share capital to create preferred shares from P3 million divided into 30,000 common shares at par value of P100 per share to P20 million divided into 30,000 common shares at par value of P100 per share and 170,000 preferred shares at par value of P100 per share. Of the increase in authorized share capital of Teko, CTC subscribed for 42,500 preferred shares in the amount of P4.25 million. CTC subscribed 21,250 preferred shares amounting to P2,125,000 on January 29, 2019 and March 1, 2019.

On April 26, 2019, the SEC approved Teko's application for the increase in authorized share capital. Total investments in Teko as at December 31, 2019 is at P25 million.

As at December 31, 2018, Teko was considered as a subsidiary, through CTC, as a result of CTC's significant representation in Teko's BOD, representing control over Teko's operations as at reporting date. Teko was incorporated and registered with the Philippine SEC on September 5, 2017.

5.2.3 Tenex (Associate)

On March 29, 2019, Alstra subscribed to 6,125,000 shares at P1 per share of Tenex. Tenex was incorporated and registered with the SEC on April 25, 2019 primarily to undertake and transact all kinds of business relating to installation, servicing sale and distribution of heating, ventilation and air conditioning systems and products, and such other activities related thereto, such as but not limited to construction and mechanical maintenance services, including emergency works and repairs/ replacements, preventive maintenance on equipment and associated devices related to heating, ventilation and air conditioning systems; shall not engage in the practice of profession. Provided that the corporation shall not solicit, accept or take investments/placements from the public neither shall it issue investment contracts. Furthermore, a total of 8,575,000 shares where subscribed and paid by Alstra on December 9, 2019.

5.3 Investment in an associate

CMI

CMI was incorporated primarily to engage in the manufacture, sale, distribution, installation and services of all types of electrical appliances in the Philippines; and otherwise to do all things reasonably necessary or incidental thereto, or advisable in connection therewith, including the ownership of interests in corporations or other entities in furtherance thereof.

The following are the summarized financial information of CMI as at and for the years ended December 31 (in thousands):

	2019	2018
Current assets	990,480	692,947
Non-current assets	87,276	76,181
Current liabilities	(856,142)	(626,002)
Non-current liabilities	(34,563)	(19,894)
Total equity	(187,051)	(123,232)
Revenue	1,969,477	1,021,640
Net income (loss) for the year	61,424	(32,102)
Other comprehensive income	1,099	175
Total comprehensive income (loss)	62,523	(31,927)

Note 6 - Property and equipment, net

Details and movements of property and equipment, net as at and for the years ended December 31 are as follows::

	Furniture, fixtures and office equipment	Leasehold improvements	Total
Cost			
Balances as at January 1, 2018, and December 31, 2018	336,692	199,190	535,882
Additions	108,151	–	108,151
December 31, 2019	444,843	199,190	644,033
Accumulated depreciation			
Balances as at January 1, 2018, and December 31, 2018	336,692	199,190	535,882
Depreciation	12,017	–	12,017
December 31, 2019	348,709	199,190	547,899
Net book values as at December 31, 2018	–	–	–
Net book values as at December 31, 2019	96,134	–	96,134

Additional capitalized assets during the year pertained to the acquisition of office laptops. Fully depreciated assets still in use at December 31, 2019 and 2018 amounted to P535,882.

Note 7 - Investment property

As at December 31, 2019 and 2018, the Company's investment property consists of parcel of land that it acquired in Davao City, which is held for capital appreciation.

The estimated fair value of the investment property as at December 31, 2019 and 2018 amounted to P37,520,000, based on the recent selling price per square meter.

As at December 31, 2019, the Company paid P1,187,594 (2018 - P1,547,306) to a sub-contractor for direct costs related to planned construction of an investment property which is booked as construction in progress under the investment property account.

There was no income earned related to the property for the years ended December 31, 2019 and 2018. Further, P68,412 direct operating expense for the investment property was incurred for the year ended December 31, 2019 (2018 - P320,779).

(7)

Note 8 - Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as at December 31 consist of:

	Note	2019	2018
Provision for bonus	9	54,469,773	51,247,712
Accrued benefits of directors, officers and employees	9	21,442,118	19,175,307
Accrued outside services		11,248,331	1,067,427
Other liabilities		3,723,027	1,130,971
Accrued legal and professional fees		2,703,625	5,861,440
Payable to government and other regulatory agencies		707,850	788,883
		94,294,724	79,271,740

Movements in the provision for bonus for the years ended December 31 are as follows:

	Note	2019	2018
Beginning		51,247,712	45,319,859
Provisions		46,611,513	49,194,434
Payment		(43,389,452)	(43,266,581)
Ending		54,469,773	51,247,712

(8)

Note 9 – Related party transactions

In the normal course of business, the Company transacts with other companies, which are considered related parties under Philippine Accounting Standards (PAS) 24, "*Related Party Disclosures.*"

The table below summarizes the Company's transactions and balances with its related parties for the years ended December 31.

	2019		2018		
Related party	**Transactions**	**Outstanding receivable (payable)**	**Transactions**	**Outstanding receivable (payable)**	**Terms and conditions**
Due from related parties (current)					
Subsidiaries					
Dividend Income	1,453,659,619	–	971,003,912	–	These are receivable in cash within 12 months upon declaration of subsidiary (Note 5).
Advances to subsidiary	39,285,652	702,623	15,882,383	2,382,694	Receivables are collectible in cash within 30 to 90 days from billing date. These receivables are unsecured and non-interest bearing.
Recharges	–	–	158,964	–	Receivables are collectible in cash within 30 to 90 days from billing date. These receivables are unsecured and non-interest bearing.
Associate					
Advances to associate	1,310,721	44,008	1,101,305	1,101,305	Receivables are collectible in cash within 30 to 90 days from billing date. These receivables are unsecured and non-interest bearing.
Total		746,631		3,483,999	Note 3
Due to related parties					
Shareholders					
Dividend declaration	486,606,229	–	487,055,749	–	These are payable in cash within 12 months from reporting date (Note 11).
Advances from shareholders	739,116	(1,156,739)	1,155,616	(1,745,586)	These are payable in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any guarantee.
Subsidiaries					
Advances from subsidiary	68,211,740	(3,887,448)	15,882,383	(2,445,905)	These are payable in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any guarantee.
Total		(5,044,187)		(4,191,491)	

(9)

Related party	2019 Transactions	2019 Outstanding receivable (payable)	2018 Transactions	2018 Outstanding receivable (payable)	Terms and conditions
Due from related parties (non - current)					
Subsidiaries					
Receivable for employee benefit reimbursement	–	–	–	9,575,038	These are receivable in cash from a subsidiary for future retirement benefits of transferred employees from subsidiary to parent company. These are non-interest bearing and not covered by any guarantee.
Key management personnel					
Director's bonus	3,942,874	(3,942,874)	18,558,425	(18,558,425)	These are payable in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any guarantee. These are payable to directors in cash before end of April of the subsequent year with corresponded BOD's approval. These are non-interest bearing and not covered by any guarantee. Refer to Note 8.
Salaries and wages	62,710,662	–	64,146,475	(45,544,930)	These are payable to employees in cash within 30 days from date of each transaction. These are non-interest bearing and not covered by any guarantee. Refer to Note 8.
Retirement benefit	788,546	(17,363,788)	788,546	(15,822,874)	Refer to Note 13.

Recharges pertain to cross-charges to subsidiaries which are billed at 1% mark up. The amount presented is the total gross receipts, net of direct expenses.

Balances due from related parties are fully recoverable with no impairment loss recognized (Note 3). Balances due are settled/collected at gross (Note 17.5). Advances are primarily cost reimbursements paid on behalf of related parties.

(10)

Note 10 - Income taxes

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's management has considered these factors in arriving at its conclusion not to recognize deferred income tax assets as at December 31, 2019 and 2018. Details of unrecognized deferred income tax assets as at December 31 are as follows:

	2019	2018
Deferred tax assets		
Net operating loss carry-over (NOLCO)	109,816,536	98,747,837
Provision for bonuses	16,340,932	15,374,314
Accrued expenses	10,618,223	6,108,319
Retirement benefit obligation	6,012,024	5,551,580
Minimum corporate income tax (MCIT)	635,769	13,298
	143,423,484	125,795,348
Deferred tax liability		
Excess of right-of-use asset over lease liability	(66,301)	–
	143,357,183	125,795,348

Details of NOLCO as at December 31 which can be applied as deduction from taxable income over the next three years immediately following the year of such loss are as follows:

Year incurred	Year of expiration	2019	2018
2015	2018	–	86,657,144
2016	2019	99,397,743	99,397,743
2017	2020	107,227,838	107,227,838
2018	2021	122,533,876	122,533,876
2019	2022	136,293,406	–
		465,452,863	415,816,601
Expired during the year		(99,397,743)	(86,657,144)
Total NOLCO		366,055,120	329,159,457
Tax benefit at 30% tax rate		109,816,536	98,747,837

As at December 31, the details of MCIT, which could be carried over as a deduction from regular income tax for the next three consecutive years following the year these were incurred are as follows:

Year incurred	Year of expiration	2019	2018
2015	2018	–	331,171
2016	2019	137	137
2017	2020	10,015	10,015
2018	2021	3,146	3,146
2019	2022	622,608	–
		635,906	344,46
Expired during the year		(137)	(331,171)
Total MCIT		635,769	13,298

(11)

Reconciliation of provision for income tax computed at the statutory income tax rate to actual income tax expense for the years ended December 31 are as follows:

	2019	2018
Income tax at statutory rate of 30%	402,186,240	255,462,687
Add (Deduct) tax effects of:		
Non-taxable dividend income	(436,097,886)	(291,301,174)
NOLCO	40,888,022	36,760,163
Movement in unrecognized deferred tax assets	(6,192,783)	(341,037)
Interest income subject to final tax	(783,593)	(580,639)
MCIT directly charged to expense	622,608	3,146
Provision for income tax at effective tax rate	622,608	3,146

Note 11 - Equity

11.1 Share capital, share premium and treasury shares

Details and movements of share capital as at December 31 are as follows:

	No. of common shares issued and outstanding	Share capital	Share premium	Treasury shares
January 1, 2018	405,879,791	407,263,891	993,243,008	(59,824,250)
Acquisition of treasury shares	(374,600)	–	–	(13,935,120)
December 31, 2018	405,505,191	407,263,891	993,243,008	(73,759,370)
Acquisition of treasury shares	(2,287,100)	–	–	(72,768,710)
December 31, 2019	403,218,091	407,263,891	993,243,008	(146,528,080)

Details of acquisition of treasury shares for the year ended December 31 follow:

Trade Date	Date Paid	Shares	Per share	Amount
2019				
September 10, 2019	September 13, 2019	500,000	32.30	16,150,000
September 11, 2019	September 16, 2019	500,000	32.50	16,250,000
September 17, 2019	September 20, 2019	30,000	32.00	960,000
September 19, 2019	September 24, 2019	152,000	31.99	4,863,970
September 25, 2019	September 30, 2019	100,000	31.51	3,151,490
September 26, 2019	October 1, 2019	5,700	30.80	175,560
September 26, 2019	October 1, 2019	12,500	31.20	390,000
September 26, 2019	October 1, 2019	5,000	31.30	156,500
September 26, 2019	October 1, 2019	5,000	31.40	157,000
September 26, 2019	October 1, 2019	71,800	31.50	2,261,700
September 27, 2019	October 1, 2019	3,000	30.50	91,500
September 27, 2019	October 1, 2019	30,800	31.50	970,200
October 8, 2019	October 10, 2019	300	31.10	9,330
October 8, 2019	October 10, 2019	500	31.30	15,650
October 8, 2019	October 10, 2019	2,100	31.35	65,835
October 8, 2019	October 10, 2019	600	31.40	18,840
October 8, 2019	October 10, 2019	600	31.50	18,900
October 8, 2019	October 10, 2019	300	31.80	9,540
October 8, 2019	October 10, 2019	700	31.90	22,330

(12)

Trade Date	Date Paid	Shares	Per share	Amount
October 8, 2019	October 10, 2019	7,000	31.95	223,650
October 8, 2019	October 10, 2019	25,900	32.00	828,800
October 9, 2019	October 14, 2019	400	31.55	12,620
October 9, 2019	October 14, 2019	200	31.70	6,340
October 9, 2019	October 14, 2019	1,400	31.80	44,520
October 9, 2019	October 14, 2019	9,100	31.90	290,290
October 9, 2019	October 14, 2019	245,500	32.00	7,856,000
October 10, 2019	October 14, 2019	5,600	31.00	173,600
October 10, 2019	October 14, 2019	600	31.80	19,080
October 10, 2019	October 14, 2019	2,000	31.85	63,700
October 10, 2019	October 14, 2019	9,200	31.90	293,480
October 10, 2019	October 14, 2019	9,200	31.95	293,940
October 10, 2019	October 14, 2019	80,400	32.00	2,572,800
October 25, 2019	October 29, 2019	700	31.00	21,700
October 25, 2019	October 29, 2019	2,000	31.45	62,900
October 25, 2019	October 29, 2019	300	31.50	9,450
October 25, 2019	October 29, 2019	500	31.60	15,800
October 25, 2019	October 29, 2019	1,700	31.70	53,890
October 25, 2019	October 29, 2019	900	31.75	28,575
October 25, 2019	October 29, 2019	300	31.80	9,540
October 25, 2019	October 29, 2019	3,000	31.90	95,700
October 25, 2019	October 29, 2019	2,000	31.95	63,900
October 25, 2019	October 29, 2019	25,100	32.00	803,200
October 28, 2019	November 1, 2019	600	30.80	18,480
October 28, 2019	November 1, 2019	1,300	31.00	40,300
October 28, 2019	November 1, 2019	9,600	32.00	307,200
November 5, 2019	November 11, 2019	25,200	30.30	763,560
November 5, 2019	November 11, 2019	44,800	31.00	1,388,800
November 6, 2019	November 11, 2019	9,600	30.60	293,760
November 6, 2019	November 11, 2019	10,000	30.80	308,000
November 6, 2019	November 11, 2019	45,400	31.00	1,407,400
November 7, 2019	November 11, 2019	15,000	30.00	450,000
November 7, 2019	November 11, 2019	5,900	30.80	181,720
November 7, 2019	November 11, 2019	12,000	30.90	370,800
November 7, 2019	November 11, 2019	1,000	30.95	30,950
November 7, 2019	November 11, 2019	41,100	31.00	1,274,100
November 8, 2019	November 13, 2019	84,700	31.00	2,625,700
November 14, 2019	November 13, 2019	5,000	31.00	155,000
November 19, 2019	November 21, 2019	10,000	29.00	290,000
November 19, 2019	November 21, 2019	11,000	29.50	324,500
November 19, 2019	November 21, 2019	800	29.60	23,680
November 19, 2019	November 21, 2019	53,200	30.00	1,596,000
December 12, 2019	December 19, 2019	38,000	28.10	1,067,800
December 27, 2019	December 30, 2019	9,000	29.90	269,140
		2,287,100		72,768,710
2018				
October 9, 2018	October 12, 2018	250,000	37.20	9,300,000
October 11, 2018	October 16, 2018	124,600	37.20	4,635,120
		374,600		13,935,120
		2,661,700		86,703,830

(13)

11.2 Retained earnings

Cash dividends declared for the years ended December 31 are as follows:

Date declared	Record date	Date paid	Per share	2019	2018
April 3, 2019	April 22, 2019	May 10, 2019	1.20	486,606,229	–
April 06, 2018	April 23, 2018	May 25, 2018	1.20	–	487,055,749

As at April 15, 2020, the Company's BOD is yet to finalize and approve the details of the cash dividends to be declared for 2020.

Note 12 - Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares, if any. There were no stock splits nor stock dividends that should be considered in determining issued ordinary shares.

Earnings per share for the years ended December 31 are calculated as follows:

	2019	2018
Net income for the year	1,339,998,193	851,539,144
Weighted average common shares - basic and diluted	405,243,218	405,795,291
Basic and diluted earnings per share	3.31	2.10

Note 13 - Retirement plan

The retirement plan established by CIC in 2014 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 plan. This 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.

The principal annual actuarial assumptions used as at December 31 are as follows:

	2019	2018
Discount rate	5.13%	7.52%
Salary increase rate	4.90%	6.00%
Average expected future service years of plan members	15.10	16.10

Discount rates were based on the theoretical spot yield curve calculated from the Bankers Association of the Philippines (BAP) PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities market (previously the PDEx (PDST-R2) market yields on benchmark government bonds) by stripping the coupons from government bonds to create virtual zero coupon bonds, and considering the average years of remaining working life of the employees as the estimated term of the benefit obligation. The 2001 CSO Table - Generational (Scale AA, Society of Actuaries) was used in assessing annual mortality rates.

The following are the details of the retirement benefit obligation and retirement benefit expense as at and for the years ended December 31:

	2019	2018
Retirement benefit obligation	20,040,080	18,505,267
Retirement benefit expense	2,608,543	1,966,178

(14)

The movements of present value of the defined benefit obligation for the years ended December 31 are as follows:

	2019	2018
January 1	18,505,267	15,956,921
Current service cost	1,216,947	1,107,696
Interest expense	1,391,596	858,482
Remeasurement losses (gains)		
Changes in financial assumptions	354,036	(545,842)
Changes in demographic assumptions	(7,579)	(15,968)
Experience adjustments	(1,420,187)	1,143,978
December 31	20,040,080	18,505,267

The weighted average duration of the defined benefit obligation as at December 31, 2019 is 1.5 years (2018 - 1.2 years).

The movements of retirement benefit obligation recognized in the separate statements of financial position for the years ended December 31 are as follows:

	2019	2018
January 1	18,505,267	15,956,921
Retirement benefit expense	2,608,543	1,966,178
Remeasurement losses	(1,073,730)	582,168
December 31	20,040,080	18,505,267

The movements of other comprehensive gains (losses) recognized in the separate statements of financial position for the years ended December 31 are as follows:

	2019	2018
January 1	(494,322)	87,846
Remeasurement gains (losses)	1,073,730	(582,168)
December 31	579,408	(494,322)

Expected maturity analysis of undiscounted retirement benefits as at December 31 follow:

	2019	2018
Less than a year	18,855,417	18,098,129
More than 1 year up to 5 years	1,218,533	1,078,448
More than 5 years up to 10 years	1,829,171	1,711,491
	21,903,121	20,888,068

There were no planned contributions in 2020.

Note 14 - Leases

From January 1, 2019 (PFRS 16)

The Company leases various vehicles. Rental contracts are typically made for fixed periods of 3 to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From January 1, 2019, the group has recognized right-of-use assets for these leases, except for short-term and low-value leases.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(15)

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The balance sheet shows the following amounts relating to leases:

	December 31, 2019	January 1, 2019
Right-of-use asset, net		
Vehicles	377,828	1,177,800
Lease liabilities		
Current	156,824	333,429
Non-current	–	156,824
	156,824	490,253
Retained earnings	–	687,548

Details of movements in right-of-use assets, net as at December 31, 2019 consist of:

	Amounts
Cost	
Adoption of PFRS 16 at January 1, 2019	3,999,861
Additions	–
December 31, 2019	3,999,861
Accumulated amortization	
Adoption of PFRS 16 at January 1, 2019	2,822,061
Amortization	799,972
December 31, 2019	3,622,033
Net book value	377,828

Details and movements of lease liability as at December 31, 2019 consist of:

	Amounts
Adoption of PFRS 16 at January 1, 2019	490,253
Interest expense	14,762
Lease payments	(348,191)
December 31, 2019	156,824

The profit or loss shows the following amounts relating to leases:

	December 31, 2019	January 1, 2019
Amortization expense	799,972	2,822,061
Interest expense	14,762	9,228
	814,734	2,822,061

The Company currently sub-leases all vehicles from CCAC.

The total cash outflow for the related lease liabilities for the year ended December 31, 2019 is P348,191 of which P14,762 pertained to interest expense payments. Total cash outflow for short-term and low-value leases for the year ended December 31, 2019 amounted to P34,414.

(16)

The reconciliation between the operating lease commitments disclosed in applying PAS 17 at December 31, 2018 discounted using the Company's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Amount
Operating lease commitments, December 31, 2018	506,938
Discounted amount using the incremental borrowing rate of 4.38%	(16,685)
Lease liability, January 1, 2019	490,253

Prior to January 1, 2019 (PAS 17)

In 2018, the Company only recognized lease assets and liabilities in relation to leases that were classified as finance leases under PAS 17, *Leases*. The assets were presented in property and equipment and the liabilities were presented as part of the Company's borrowings.

The Company (as lessee) has various lease agreements which mainly pertain to car rentals that are renewable under certain terms and conditions. Total rent expense related to these agreements amounted to Pin 2018.

The future minimum lease payments under non-cancellable operating leases as at December 31, 2018 are as follows:

	Amount
No later than 1 year	348,191
Later than 1 year but no later than 5 years	158,747
	506,938

Note 15 - Financial risk and capital management

15.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk,priceriskandcashflowandfairvalueinterestraterisk),creditriskandliquidityrisk. TheCompany's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the Company's management under policies approved by its BOD. These policies provide written principles for overall risk management. There are no changes in the Company's risk management plans for the years ended December 31, 2019 and 2018.

15.1.1 Market risk

(a) Foreign exchange risk

The Company is not exposed to significant foreign exchange risk since the Company has no transactions that are denominated in currencies other than the Philippine Peso, its functional currency.

(b) Price risk

The Company is not exposed to significant price risk due to the absence of material security investments and is not subject to commodity price risk.

(c) Cash flow and fair value interest risk

The Company is not significantly exposed to cash flow and fair value interest rate risks since its income and operating cash flows are substantially independent of changes in market interest rates on long-term borrowings and investments. Management believes that the related cash flow risk on short-term placements is relatively low due to immaterial changes on interest rates within the duration of these financial instruments.

15.1.2 Credit risk

Credit risk arises from cash for its deposits and short-term placements with banks, as well as credit exposure to outstanding receivables and due from related parties, except for advances to suppliers and advances to employees, which are classified as financial assets at amortized cost. For banks, the Company only has existing arrangements with either universal or commercial banks, which are considered top tier banks in terms of capitalization as categorized by the Philippine Banking System (Note 2).

Advances to employees consist of cash and product loans obtained from the Company which are payable through salary deduction.

While cash and cash equivalents are subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

Moreover, the Company's outstanding receivables and due from related parties which are measured at amortized cost are subject to the expected credit loss model. Based on the Company's analysis, it has a degree of concentration of credit risk since a significant portion of its receivables is attributed only to few debtors, primarily related parties, which are either subsidiaries or entities under common control. The Company's assessment resulted to a conclusion that the expected credit loss is close to zero percent (0%) as potential default and non-payment, considering both historical and forward looking information, resulted to be remote as these entities have certain common management personnel and with no history of default and strong financial position to settle maturing obligations as they fall due.

As at December 31, 2019 and 2018, outstanding receivables and due from related parties are considered current with no balances identified as past due or impaired.

The maximum exposure to credit risk at reporting date is the carrying values of each financial asset as presented in the separate statement of financial position.

15.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet its operating cash requirements. The Company monitors liquidity reserve on the basis of expected cash flows and seeks to collect amounts due from related parties on a timely basis to ensure availability of funds.

The Company's financial liabilities consist of accrued expenses and other current liabilities (excluding payable to government and other regulatory agencies) and due to related parties. Entire balance of financial liabilities is due within 12 months from reporting date. The amounts disclosed are the contractual undiscounted cash flows which equal their carrying amounts as the impact of discounting is not significant due to its short-term nature. Management expects to settle these obligations in accordance with their maturity dates.

15.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is the total equity as shown in the separate statements of financial position, excluding impact of remeasurement of defined benefit obligation.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. The Company is not subject to externally imposed capitalization requirements other than required public float of at least 10% of issued and outstanding shares, exclusive of any treasury shares. The Company is compliant with this requirement.

15.3 Fair value estimation of financial assets and liabilities

Due to the short-term nature of the transactions, the carrying values of each financial asset and liability including cash and cash equivalents, accrued expenses and other current liabilities excluding payable to government and other regulatory agencies and due to/from related parties as at the reporting dates approximate their fair values. The Company does not hold financial instruments traded in active market which might be affected by quoted market prices at reporting date. In addition, the Company has no financial assets or liabilities that are measured and carried at fair value in the separate statements of financial position.

Note 16 – Critical accounting estimates, assumptions and judgments

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

The resulting accounting estimates will, by definition, seldom equal the related actual results.

16.1 Critical judgments in applying the Company's accounting policies

16.1.1 Determining control over a subsidiary

The Company follows the guidance of PAS 27 "Separate Financial Statements" in determining if control exists for investments with ownership of less than half of its total equity. In making this judgment, the Company considers the power over more than half of the voting rights by virtue of an agreement with other investors, power to govern the financial and operating policies of the entity under a statute or an agreement, power to appoint or remove the majority of the members of the BOD, or power to cast the majority of votes at meetings of the BOD.

Despite only having 30% ownership as of December 31, 2019, the Company thru CTC has gained control over the key economic decisions and policies affecting Teko under the duly signed amended shareholders' agreement including majority board representation. Consequently, based on management's judgment and continuous assessment of the Parent Company, Teko is considered a subsidiary as at December 31, 2018.

16.1.2 Impairment of investments in subsidiaries and an associate

Investments in subsidiaries and an associate are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the value in use of assets requires the estimation of cash flows expected to be generated in maintaining and ultimate disposition of such investments. The results of operations of each subsidiary and the carrying values of the assets could be materially affected by updates in assumptions and judgments used in the cash flow projections driven by significant changes in business operations and strategies of each subsidiary and associate. Correspondingly, these may significantly affect the Company's investment balance with any provision or write-off directly charged to the statement of total comprehensive income through profit or loss. Accordingly, in the absence of any indicators identified, the Company did not recognize any provision for impairment on its investments. The details of investments in subsidiaries and an associate are shown in Note 5.1 and Note 5.3, respectively.

16.1.3 Impairment of receivables

Due from related parties and outstanding receivables are assessed based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's history, existing market conditions as well as forward looking information. As a result of their assessment, the Company did not recognize any provision for impairment of receivables given that the expected credit loss rate is close to zero percent (0%). Details for the analysis are discussed in Note 15.1.2.

16.1.4 Provision for bonus

Provision for bonus is estimated based on a formula that takes into consideration the profit attributable to the Company after certain adjustments and employee's performance. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation. The details of the provision for bonus are shown in Note 8.

16.1.5 Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business.

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. Further, recognition of deferred income taxes depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied.

The Company reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its deferred income tax assets to be utilized during the periods in which these are expected to be recovered. The components of unrecognized deferred income tax assets are shown in Note 10.

16.1.6 Critical judgment in determining the lease term

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

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

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

16.2 Critical accounting estimates and assumptions

Provision for retirement benefits

The determination of the Company's retirement obligation and benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. These assumptions, as described in Note 13, include among others, discount rate and salary increase rate. One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of the pension benefit obligation estimated at the reporting date may differ significantly from the amount reported.

The impact on equity and pre-tax profit of potential changes in the discount rate and salary increase rate in the amount of defined benefit obligation as at December 31 are presented below:

	2019		2018	
	%	Impact	%	Impact
Decrease due to 100 basis point (bps) increase in discount rate	(1.4%)	(281,479)	(1.2%)	(219,039)
Increase due to 100 bps decrease in discount rate	1.6%	311,436	1.3%	240,531
Increase due to 100 bps increase in salary increase rate	1.5%	309,052	1.3%	241,759
Decrease due to 100 bps decrease in salary increase rate	(1.4%)	(284,650)	(1.2%)	(224,060)
Increase due to zero attrition rates	1.9%	375,017	0.6%	101,786

Incremental borrowing rate of lease liabilities

Where third party financing cannot be obtained, the Company uses the government bond yield, adjusted for the (1) credit spread specific to each entity under the Company and (2) security using the right-of-use asset.

Note 17 - Summary of significant accounting policies

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

17.1 Basis of preparation

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

(21)

The Company also prepares consolidated financial statements, which include the Company and its subsidiaries, namely CCAC, CDI, CBSI, COPI, CTC, Alstra, Teko, and Tenex. These separate financial statements should be read together with the Company's consolidated financial statements, in order to obtain full information on the financial position, results of operations and changes in financial position of the Company as a whole. The consolidated financial statements of the Company can be obtained from the SEC or from the Company's website: http://www.cic.ph.

These separate financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of these separate financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 16.

Changes in accounting policy and disclosures

(a) New standards, interpretations, and amendments on standards adopted by the Company

The Company has applied the following relevant new standard, interpretations, and amendment to existing standards for the first time for its annual reporting period commencing January 1, 2019:

PFRS 16, 'Leases'

PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On adoption of PFRS 16, the Company recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.38%.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018.

In applying PFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- apply the provisions of PFRS 16 to contracts that were previously identified as leases applying PAS 7, '*Statement of cash flows*' and IFRIC 4, '*Determining whether an arrangement contains a lease*'.

(22)

Philippine Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation explains how to recognize, and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment,
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

PAS 19 (Amendments), Employee Benefits - Plan Amendment, Curtailment or Settlement (effective January 1, 2019)

The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).The adoption did not have a significant impact on the Company's financial statements.

No other standards, amendments or interpretations that are effective beginning January 1, 2019 are expected to have a material impact on the Company.

(b) New and amended standards not yet adopted by the Company

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2020. Management will adopt the following relevant pronouncements in accordance with their transitional provisions. None of those standards are expected to have a significant impact on the financial statements of the Company, but the more relevant ones are set out below:

Definition of Material - Amendments to IAS 1 and IAS 8 (effective January 1, 2020)

The IASB has made amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the *Conceptual Framework for Financial Reporting*, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

(23)

Revised Conceptual Framework for Financial Reporting (effective January 1, 2020)

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

17.2 Cash and cash equivalents

Cash and cash equivalents, which are carried at face amount or nominal amount, include deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less from the date of acquisition.

17.3 Receivables

Receivables are amounts due from debtors in the ordinary course of business. Receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment, if any. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Other receivables generally arise from transactions outside the usual operating activities of the Company. Collateral is not normally obtained. The non-current other receivables are due and payable upon retirement of the employees transferred from a subsidiary to the Company.

The Company's financial assets that are subject to expected credit loss model include only financial assets measured at amortized cost. The Company applies the 12-month ECL approach to measure expected credit losses. To measure the expected credit losses, the receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the qualitative and quantitative assessment for the grouped receivables. Inputs used in determining the expected credit loss rates include the historical loss rates, reflecting current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their obligation. The Company has identified that inflation rate is the most relevant macroeconomic factor that must be considered in calculating their expected credit loss rate. Qualitatively, the Company assesses any changes in the credit risk for the receivables to determine whether impairment should be measured using the lifetime ECL. Changes in credit risk may include the following: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. In determining the amount of provision, the expected credit loss rate is applied to the gross carrying amount of the receivable.

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The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of loss is recognized within expenses in profit or loss. When a receivable remains uncollectible after the Company has exerted all legal remedies, it is written off against the allowance account for receivables. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversal of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of the amounts previously written off are credited to operating expenses in profit or loss.

17.4 Prepayments and other current assets

Prepayments, which are carried at cost, are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption. Prepayments and other current assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting period which are classified as non-current assets.

Prepayments and other current assets include input value-added tax (VAT) and creditable withholding taxes which are recognized as assets in the period such input VAT and income tax payments become available as tax credits to the Company and carried over to the extent that it is probable that the benefit will flow to the Company.

17.5 Financial instruments

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

Financial assets

(a) Classification

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

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

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

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

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

(b) Recognition and derecognition

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

(c) Measurement

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

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

Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

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

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

(d) Impairment

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

For trade receivables, the Company applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial liabilities

(a) Classification

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

(i) Financial liabilities at FVPL

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

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

A financial liability is classified as financial liability at fair value through profit and loss upon initial recognition if: such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms part of group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and PAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

The Company's foreign exchange forward contracts included under trade payables and other liabilities account in the consolidated statements of financial position qualify as a derivative and are accounted for at fair value through profit or loss.

(ii) Other financial liabilities

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder. Other financial liabilities include accrued expenses and other current liabilities (excluding payables to government and other regulatory agencies) and due to related parties. These are included in current liabilities except for maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

(b) Initial recognition and derecognition

Financial liabilities are carried at fair value through profit or loss are initially recognized at fair value and transaction costs are recognized as expense in profit or loss. Other financial liabilities are initially recognized at fair value of the consideration received plus directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(c) Subsequent measurement

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

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counter party.

As at December 31, 2019 and 2018, there are no financial assets and liabilities that were offset.

17.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

The fair value of financial instruments traded in active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Note that under PFRS 13, the use of bid and asking prices is still permitted but not required. These instruments are included in Level 1.

The fair value of financial instruments traded in active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. Note that under PFRS 13, the use of bid and asking prices is still permitted but not required. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the- counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a company of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at December 31, 2019 and 2018, the Company does not hold financial and non-financial assets and liabilities at fair value.

17.7 Investments in subsidiaries and an associate

17.7.1 Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is not accounted for within equity.

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

Investments in subsidiaries are stated at cost less impairment in value, if any, in the separate financial statements. Under this method, investments are recognized at cost and income from investment is recognized in profit or loss only to the extent that the investor receives distribution from accumulated profits of the investee company arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment. Dividends or distributions of profits are recognized when the right to receive dividends or distributions has been established.

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

17.7.2 Associate

An associate is an entity over which the Company has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investment in an associate is accounted for at cost following the provisions of PAS 27, Separate Financial Statements. This investment is stated at cost less impairment in value, if any, in the Company's financial statements. Under this method, the Company recognizes income from the investment only to the extent that the Company receives distribution from accumulated profits of the associate arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

The Company recognizes dividend income from investment in profit and loss when its right to receive dividends has been established.

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

17.7.3 Deposit for future stock subscription

Deposits for future stock subscriptions represent amounts paid to subsidiaries which will be settled by way of issuance of a subsidiary's own shares at a future date. These are recognized upon receipt of cash and measured at face value or nominal amount. This deposit is derecognized once share has been issued.

17.8 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and amortization and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items, which comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Depreciation and amortization is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives (in years):

Leasehold improvements	5 or lease term whichever is shorter
Furnitures, fixtures and office equipment	2 to 5

Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values, useful lives and depreciation and amortization method are reviewed and adjusted, as appropriate, at each reporting date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount (Note 17.10).

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

17.9 Investment property

Investment property, consisting of a parcel of land and a building in-progress, is recognized at cost less impairment, if any. Investment property is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment property will flow to the Company and cost of the investment can be measured reliably. The cost of investment property includes costs incurred initially to acquire the asset and costs incurred subsequently to add to, replace part of, or service a property.

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

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

17.10 Impairment of non-financial assets

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

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

17.11 Current and deferred income tax

Income tax expense for the period normally comprise of current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, a deferred tax is also recognized in other comprehensive income or directly in equity, unless there is no expected probable future economic benefit for a deferred tax asset position.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (MCIT), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

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

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

17.12 Leases (PFRS 16 and PAS 17)

i. The Company is the lessee

Until December 31, 2018, leases of office space, furniture and fixtures, equipment and vehicles were classified as either finance leases or operating leases. From January 1, 2019, the Company recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

From January 1, 2019 (PFRS 16)

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

i. Measurement of lease liabilities

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

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

ii. Measurement of right-of-use assets

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

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

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

iii. Extension and termination options

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

iv. Residual value guarantees

The Company provides residual value guarantees for some lease contracts. The Company initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability.

v. Short-term leases and leases of low-value assets

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

Prior to January 1, 2018 (PAS 17)

i. Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to operating expenses in the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

ii. Finance lease

Leases of assets, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

17.13 Accrued expenses and other current liabilities

Accrued expenses and other current liabilities are recognized in the period in which the related goods or services are received or when a legally enforceable claim against the Company is established. These are classified as current liabilities if payment is due within one (1) year or less. If not, they are presented as non-current liabilities. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Accrued expenses and other current liabilities are derecognized when the obligation is discharged, cancelled or has expired.

17.14 Provisions and contingencies

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

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

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

Contingent liabilities are not recognized in the separate financial statements. They are disclosed unless the possibility of an outflow of economic benefits is remote. Contingent assets are not recognized in the separate financial statements but disclosed when an inflow of economic benefit is probable. If it becomes virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the separate financial statements.

17.15 Equity

17.15.1 Share capital

The Company's share capital is composed of common shares stated at par value. The amount of proceeds from the issuance or sale of common shares representing the aggregate par value is credited to share capital. Proceeds in excess of the aggregate par value of common shares, if any, are credited to share premium. After initial measurement, share capital and share premium are carried at historical cost and are classified as equity in the separate statements of financial position.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

17.15.2 Treasury shares

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

17.15.3 Retained earnings

Retained earnings include current and prior years' results of operations, net of transactions with shareholders and dividends declared, if any.

(a) Cash dividends

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

(b) Stock dividends

Dividend distribution to the Company's shareholders is recognized as an addition to share capital in the Company's financial statements in the period in which the dividends are approved by the Company's BOD.

17.16 Employee benefits

17.16.1 Retirementbenefitobligation

The retirement plan of the Company is a non-contributory and of the defined benefit type. The liability recognized in the statements of financial position in respect of the defined benefit retirement plan is the present value of the defined benefit obligation at the reporting date.

The defined benefit obligation is calculated annually by independent actuary using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income (loss) during the period in which they are incurred.

Past service costs are recognized immediately in profit or loss.

17.16.2 Termination benefits

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

17.16.3 Short-term employee benefits

The Company recognizes a liability and an expense for short-term employee benefits which include salaries, social security contributions, paid sick and vacation leaves, and bonuses. Bonuses are based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation. The related liability is derecognized when the obligation is settled, cancelled or has expired.

17.17 Earnings per share

17.17.1 Basic

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

17.17.2 Diluted

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

17.18 Income and expense recognition

17.18.1 Income

The Company recognizes income when the amount of income can be reliably measured, it is possible that future economic benefits will flow into the entity and specific criteria have been met. Interest income is recognized on a time-proportion basis using the effective interest method. Other income is recognized when earned or realized. In relation to the Company's nature of operations, income mainly pertains to dividends declared by subsidiaries and associate, which is recognized when the right to receive payment is established.

17.18.2 Expenses

Expenses are charged to operations when incurred.

17.19 Related party relationships and transactions

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

17.20 Foreign currency transactions and translations

17.20.1 Functional and presentation currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The separate financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Company.

17.20.2 Transactions and balances

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

17.21 Events after reporting date

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

Due to the enhanced community quarantine implemented to address COVID-19, the Group has identified risks to the business as disruption of work operations in affected locations, and the impact of such on market demand for the Group's products. The Group has provided concrete and defined guidelines and protocols adhering to all proposed government regulations on this matter which it cascaded to all employees as of March 12, 2020 for strict implementation all locations and field offices. Further, the Group has postponed mass events and marketing activities and scaled down its operations appropriately.

On the business impact, the Group's suppliers highlighted potential resource issue since manpower (production and logistics) movement is restricted by quarantine conditions which caused production delays. However, such situation is beginning to normalize and is steadily recovering. Alternative sourcing strategies are in place while ensuring qualification of new parts and finished goods.

The Group has assessed that the current situation would not result in any significant loss of business that may cause impairment of its assets nor impact the Group's ability to meet their obligations.

Note 18 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following information required by Revenue Regulation (RR) No. 15-2010 is presented for purposes of filing with the BIR and is not required in the basic financial statements.

18.1 Output VAT

The Company is VAT-registered and output VAT declared for the year ended December 31, 2019 amounted to P3,173,662 based on gross receipts of P26,447,181. The gross receipts mainly represents collection of income from services to related parties presented as miscellaneous income, net of direct expenses.

18.2 Input VAT

Movements in input VAT for the year ended December 31, 2019 are as follows:

Beginning balance	13,247,728
Domestic purchase of services	6,879,935
Output VAT applied	
From prior year incom	(2,538,042)
From current year income	(3,173,662)
Total input VAT	14,415,959

18.3 Importations

The Company had no import transactions that are subject to customs duties and tariffs for the year ended December 31, 2019.

18.4 Documentary stamp tax

The company paid P1,789,014 documentary stamp tax for the year ended December 31, 2019.

18.5 All other local and national taxes

All other local and national taxes paid and accrued for the year and lodged under taxes and licenses in the separate statement of total comprehensive income include the following:

	Total
Mayor's permit	19,431
Documentary stamp charges	9,041
Community tax	1,274
Business permit	500
Others	101,122

18.6 Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Final withholding tax	37,001,977	–	37,001,977
Withholding tax on compensation	22,607,548	500,886	23,108,434
Expanded withholding tax	2,866,761	41,403	2,908,164
Fringe benefit tax	769,764	149,531	919,295
	63,246,050	691,820	63,937,870

18.7 Tax assessments

The Company has not received any Preliminary Assessment Notice or Final Assessment Notice from the BIR during the year. Moreover, the Company is not a party to either any outstanding litigation proceeding or regulatory assessment.

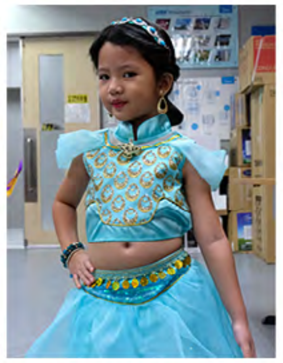
18.8 Tax cases

There are no outstanding tax cases, litigation and/or prosecution in courts or bodies outside of the BIR as at December 31, 2019.

2019 IN PHOTOS

2019 SERVATHON

2019 HALLOWEEN



2020 CCAC CBA SIGNING

2020 CDI CBA SIGNING

2020 KICK-OFF















2020 CIC LEADERSIP KICK-OFF

CONCEPCION
INDUSTRIAL CORPORATION

CORPORATE DIRECTORY

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