COVER SHEET

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SEC Registration Number

C O N C E P C I O N   I N D U S T R I A L

C O R P O R A T I O N

(Company's Full Name)

3 0 8   S E N .   G I L   P U Y A T   A V E N U E

M A K A T I   C I T Y

(Business Address: No. Street City/Town/Province)

MA. VICTORIA A. BETITA

(Contract Person)

772-1819

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

1 7 - Q

(Form Type)

0 7	2 3
Month	*Day*

(Annual Meeting)

N/A

(Secondary License Type, If Applicable)

CORPORATE FINANCE

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2014

2. Commission identification number **A1997-13456** 3. BIR Tax Identification No **005-029-401-000**

CONCEPCION INDUSTRIAL CORPORATION

4. Exact name of issuer as specified in its charter

N/A

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

308 Sen. Gil Puyat Avenue, Makati City, Philippines **1209**

7. Address of issuer's principal office Postal Code

+6327721819

8. Issuer's telephone number, including area code

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

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of Common Stock Outstanding and Amount of Debt Outstanding
	339,617,226 (as of September 8, 2014)

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange **Common Stock**

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA Rule 11(a) – thereunder, and Section 6 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such period the registrant was required to file such reports)

Yes [X] No [ ]

(b) Has been subject to such filing for the past ninety (90) days

Yes [X] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of Concepcion Industrial Corporation and its subsidiaries Concepcion Carrier Airconditioning Company (CCAC), Concepcion Durables Inc. (CDI) and Concepcion-Otis Philippines, Inc. (COPI) (collectively, the "Company") for the nine months ended 30 September 2014 and the comparative period in 2013 is attached to this 17-Q report., comparing the following:

1.1 Unaudited Consolidated Statements of Financial Position as of 30 September 2014 and 31 December 2013 (Annex A)
1.2 Unaudited Consolidated Statements of Total Comprehensive Income for the nine months and three months ended 30 September 2014 and 30 September 2013 (Annex B)
1.3 Unaudited Consolidated Statements of Changes in Shareholders' Equity for the period ended 30 September 2014 and 30 September 2013 (Annex C)
1.4 Unaudited Consolidated Statements of Cash Flows for the nine months and three months ended 30 September 2014 and 30 September 2013 (Annex D)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (based on the Unaudited Consolidated Results for the Period Ended 30 September 2014) (Annex F)

PART II – OTHER INFORMATION

The following reports on SEC Form 17-C was filed during the 3rd quarter of 2014.

Date of Report	Items Reported
18-July- 2014	The Board of Directors approved during their regular meeting today the declaration of 30% stock dividend amounting to PhP 78.373,201, divided into 78,373,201 common shares with a par value of PhP 1.00 per share from the unrestricted retained earnings of the Corporation as of December 31, 2013, which will be issued from the unissued portion of the authorized capital stock of the Corporation. This is subject to the approval and ratification of the stockholders at the annual meeting thereof on July 23, 2014.
23-July-2014	A. Election of the Members of the Board of Directors and Appointment of Officers for 2014-2015. B. Other Events: Approval of the following: 1. Appointment of Isla Lipana & Co as External Auditor 2. Ratification of all acts of the Board of Directors and officers from 1 January 2013 up to the date of the Annual Stockholders' Meeting 3. Minutes of the Joint Meeting of the Stockholders and Board of Directors held on 23 August 2013 4. 2013 Financial Statements and Chairman's report 5. Declaration of 30% stock dividends

SIGNATURES

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

MA. VICTORIA BETITA

Chief Finance and Information Officer

Date ___________________

Concepcion Industrial Corporation
(formerly Concepcion Airconditioning Corporation)

Unaudited Consolidated Statements of Financial Position
September 30, 2014
(With comparative figures as at December 31, 2013)
(All amounts in thousands Philippine Peso)

	Notes	2014	2013
Current assets			
Cash and cash equivalents	3	1,665,151	1,354,747
Trade and other receivables, net	4	2,195,947	1,900,283
Cost incurred and estimated earnings in excess of billings on uncompleted contract	5	24,259	-
Inventories, net	8	1,705,612	1,074,755
Prepayments and other current assets	9	59,286	52,151
Total current assets		5,650,255	4,381,936
Non-current assets			
Property and equipment, net	10	175,084	179,070
Investment in Associate	11	175,477	-
Goodwill	12	895,127	-
Deferred income tax assets, net	14	252,009	236,836
Deposits and other non-current assets		15,940	14,661
Total non-current assets		1,513,636	430,567
Total assets		7,163,892	4,812,503
Current liabilities			
Trade payables and other liabilities	15	2,002,365	1,449,475
Short-term borrowings	16	1,000,647	-
Billings in excess of costs incurred and estimated earnings on uncompleted contracts	17	98,557	-
Provision for warranty	18	40,413	40,773
Other provisions	18	98,680	77,975
Income tax payable		100,832	67,423
Total current liabilities		3,341,494	1,635,646
Non-current liabilities			
Retirement benefit obligation		81,456	62,341
Provision for warranty	18	50,755	45,048
Total non-current liabilities		132,211	107,389
Total liabilities		3,473,705	1,743,035
Equity			
Attributable to owners of the Parent Company			
Share capital	19	339,617	261,244
Share premium	19	993,243	993,243
Retained earnings	19	1,311,599	1,049,061
Other comprehensive loss		(16,735)	(16,735)
		2,627,726	2,286,813
Non-controlling interest		1,062,461	782,655
Total Equity		3,690,187	3,069,468
Total Liabilities & Equity		7,163,892	4,812,503

ANNEX B

Concepcion Industrial Corporation
(formerly Concepcion Airconditioning Corporation)

Unaudited Consolidated Statements of Total Comprehensive Income
For the nine months and three months ended September 30, 2014 and 2013
(All amounts in thousands Philippine Peso, except earnings per share)

	Notes	For the nine months ended		For the three months ended	
		2014	**2013**	**2014**	**2013**
Net sales and services	21, 22	6,935,024	5,585,268	2,091,903	1,816,150
Cost of sales and services	21, 22	(4,566,463)	(3,617,814)	(1,359,656)	(1,171,408)
Gross profit		2,368,561	1,967,455	732,247	644,742
Share in net income or (loss) of an associate	11	(32,523)	-	(15,465)	-
Total Income		2,336,038	1,967,455	716,783	644,742
Operating expenses	21, 22	(1,175,758)	(1,090,637)	(340,714)	(360,694)
Other operating income, net		78,814	16,842	17,203	4,121
Operating income		1,239,094	893,660	393,271	288,169
Finance costs		(16,934)	(8,005)	(16,477)	(2,148)
Income before provision for income tax		1,222,160	885,655	376,794	286,022
Provision for income tax		(398,006)	(277,871)	(128,333)	(87,567)
Net income for the period		824,154	607,785	248,462	198,455
Other comprehensive income (loss)		-	(14,778)	-	-
Total comprehensive income for the period		824,154	593,006	248,462	198,455
Net income attributable to:					
Owners of the Parent Company		495,040	362,832	149,028	123,929
Non-controlling interest		329,115	244,953	99,435	74,526
	21, 22	824,154	607,785	248,463	198,455
Total comprehensive income attributable to:					
Owners of the Parent Company		495,040	352,756	149,028	123,929
Non-controlling interest		329,115	240,251	99,435	74,526
	21, 22	824,154	593,006	248,463	198,455
Earnings per share – basic and diluted	20	1.82	2.41	0.55	0.82

ANNEX C

Concepcion Industrial Corporation
(formerly Concepcion Airconditioning Corporation)

Unaudited Consolidated Statements of Changes in Equity
For the period ended September 30, 2014
(With comparative figures for the period ended September 30, 2013)
(All amounts in thousands Philippine Peso)

	Attributable to the owners of the Parent Company						
	Share capital	**Share premium**	**Retained earnings**	**Other reserves**	**Other comprehensive loss**	**Non-controlling interest**	**Total**
Notes	19	19	19	2			
Balances as at December 31, 2012	100,000	368,546	643,475	192,864	(11,485)	778,121	2,071,521
Comprehensive income							
Net income for the period	-	-	362,832	-	-	244,953	607,785
Remeasurement loss on retirement benefit obligation of subsidiaries net of tax P6,335					(10,076)	(4,702)	(14,778)
	-	-	362,832	-	(10,076)	240,251	593,006
Transactions with owners							
Additional subscription of shares	150,000	365,580					515,580
Dividends declared	-	-	(105,000)	-	-	(320,000)	(425,000)
Charges to reserve as a result of acquisition of subsidiary				(192,864)			(192,864)
	150,000	365,580	(105,000)	(192,864)	-	(320,000)	(102,284)
Balances as at September 30, 2013	250,000	734,126	901,307	-	(21,561)	698,372	2,562,244

	Share capital	Share premium	Retained earnings	Other reserves	Other comprehensive loss	Non-controlling interest	Total
Balances as at December 31, 2013	261,244	993,243	1,049,061	-	(16,735)	782,655	3,069,468
Comprehensive income							
Net income for the period	-	-	495,040	-	-	329,115	824,154
	-	-	495,040	-		329,115	824,154
Transactions with owners							
Dividends declared			(154,134)		-	(100,000)	(254,134)
Share in Investment in subsidiary	78,373		(78,373)	-		54,999	54,999
	78,373		(232,507)	-		(45,001)	(199,135)
Balances as at September 30, 2014	339,617	993,243	1,311,599	-	(16,735)	1,062,461	3,690,187

Concepcion Industrial Corporation
(formerly Concepcion Airconditioning Corporation)

Unaudited Consolidated Statements of Cash Flows
For the nine months ended September 30 2014 and, 2013
(All amounts in thousands Philippine Peso)

	2014	2013
Cash flows from operating activities		
Income before provision for income tax	1,222,160	885,655
Share in net income of associate	32,523	-
Depreciation and amortization	41,436	40,970
Unrealized foreign exchange (gains) losses	2,623	(14,723)
Provisions for (reversals of):		
Volume rebates, trade discounts and other incentives	426,105	505,695
Legal disputes and assessments	(4,706)	(8,420)
Commission	18,928	18,219
Warranty cost	68,640	70,901
Impairment of receivables	582	31,217
Inventory obsolescence	4,406	-
Retirement benefit expense	4,114	15,109
Interest expense	16,377	8,105
Gain on disposal of property and equipment	-	(71)
Interest income on bank deposits and short-term placement	(2,874)	(9,497)
Operating income before working capital changes	1,830,315	1,543,161
Changes in:		
Trade and other receivables	(709,054)	(72,749)
Inventories	(599,126)	(419,321)
Prepayments and other current assets	(48,580)	(41,137)
Deposits and other non-current assets	(1,496)	7,050
Trade payables and other liabilities	338,757	(100,519)
Costs incurred and estimated earnings in excess of billings	3,634	-
Billings in excess of costs incurred and estimated earnings	11,181	-
Cash generated from operations	825,630	916,486
Retirement benefits paid/contributions	(6,665)	(201)
Income tax paid	(333,745)	(286,711)
Interest paid/bank charges	1,856	3,306
Payment of provision for warranty	(59,411)	(57,186)
Payment of other provisions	1,008	(46,674)
Net cash provided by operating activities	428,673	529,020
Cash flows from investing activities		
Additions to property and equipment	(29,115)	(45,965)
Interest received on short-term placements	1,020	6,191
Acquisition of shares to OTIS (net)	(716,139)	-
Payment to CII for shares of CDI	-	(160,000)
Subscription of additional shares in associate	(104,000)	-
Net cash used in investing activities	(848,234)	(199,774)
Cash flows from financing activities		
Proceeds from short-term borrowings	1,000,000	-
Payment of short-term borrowings	-	(107,250)
Interest on short-term borrowings	(16,379)	(8,105)
Distribution of profits	(254,134)	(965,776)
Additional subscription of shares of subsidiary	-	515,580
Settlement of liability to a related party	-	(515,580)
Net cash used in financing activities	729,487	(1,081,131)
Net increase (decrease) in cash and cash equivalents	309,926	(751,886)
Cash and cash equivalents at beginning of year	1,354,748	1,668,802
Effects of foreign exchange rate changes on cash and cash equivalents	474	622
Cash and cash equivalents at end of period	**1,665,151**	**917,538**

Concepcion Industrial Corporation
(formerly Concepcion Airconditioning Corporation)

Unaudited Consolidated Statements of Cash Flows
For the three months ended September 30 2014 and, 2013
(All amounts in thousands Philippine Peso)

	2014	2013
Cash flows from operating activities		
Income before provision for income tax	376,794	286,022
Share in net income of associate	15,465	-
Depreciation and amortization	14,438	12,880
Unrealized foreign exchange (gains) losses	12,690	(28,239)
Provisions for (reversals of):		
Volume rebates, trade discounts and other incentives	126,149	334,819
Legal disputes and assessments	(1,446)	9,239
Commission	5,480	(564)
Warranty cost	21,376	13,082
Impairment of receivables	(34,530)	(1)
Inventory obsolescence	4,237	(1,901)
Retirement benefit expense	33	6,199
Interest expense	5,466	-
Gain on disposal of property and equipment		2,248
Interest income on bank deposits and short-term placements	(2,216)	(1,161)
Operating income before working capital changes	543,936	632,625
Changes in:		
Trade and other receivables	313,135	(216,961)
Inventories	(164,491)	(50,533)
Prepayments and other current assets	(21,212)	8,833
Deposits and other non-current assets	(539)	17,011
Trade payables and other liabilities	281,454	95,656
Costs incurred and estimated earnings in excess of billings	(6,545)	-
Billings in excess of costs incurred and estimated earnings	13,322	-
Cash generated from operations	959,059	486,629
Retirement benefits paid/contributions	(600)	(178)
Income tax paid	(172,906)	(168,548)
Interest paid/bank charges	854	283
Payment of provision for warranty	(24,968)	(21,245)
Payment of other provisions	(1)	(2,057)
Net cash provided by operating activities	761,438	294,885
Cash flows from investing activities		
Additions to property and equipment	(15,265)	(10,647)
Interest received on short-term placements	1,365	878
Acquisition of shares to OTIS (net)	(3,697)	-
Payment to CII for shares of CDI	-	-
Proceeds from disposal of property and equipment	-	(71)
Subscription of additional shares in associate	(104,000)	-
Net cash used in investing activities	(121,598)	(9,840)
Cash flows from financing activities		
Proceeds from short-term borrowings	-	-
Payment of short-term borrowings	-	(75,000)
Interest on short-term borrowings	(5,467)	(2,387)
Distribution of profits	-	(105,000)
Additional subscription of shares of subsidiary	-	515,580
Settlement of liability to a related party	-	-
Deposit for future share subscription	-	(515,580)
Net cash used in financing activities	(5,467)	(182,387)
Net increase (decrease) in cash and cash equivalents	634,374	102,658
Cash and cash equivalents at beginning of year	-	-
Effects of foreign exchange rate changes on cash and cash equivalents	(79)	2,466
Cash and cash equivalents at end of period	**634,298**	**105,124**

Note 1 - Summary of significant accounting policies

These unaudited consolidated financial statements as at September 30, 2014 reflect the combined financial statements of subsidiaries and associate of the company as enumerated in Note 2.

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

Basis of preparation

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

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

The preparation of these unaudited consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the period ended September 30, 2014 and financial year beginning January 1, 2013:

- PAS 19 (Revised), Employee Benefits. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. They would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss.

  The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group recognized retrospective adjustments to its statements of financial position as at December 31, 2012 and January 1, 2012 to recognize the impact of these amendments. The effects of the Group's adoption of these amendments are shown in Note 26.

- PAS 27 (Revised), Separate Financial Statements. The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10. The adoption did not result in material changes particularly in the presentation of the Parent Company's separate financial statements.

- PFRS 10, Consolidated Financial Statements. This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Group. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Parent Company applied the standard in determining control and identifying entities included in the consolidated financial statements of the Group.

- PFRS 12, Disclosures of Interests in Other Entities. This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption did not result in any significant change since this is the first time that the Group is preparing consolidated financial statements. Correspondingly, required disclosures on subsidiaries within the Group, as well as critical judgments applied in determining control are provided in Notes 2 and 4, respectively.

- PFRS 13, Fair Value Measurement. This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS or US GAAP. The adoption did not result in material change as the Group does not have significant items measured and presented at fair value.

- PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (loss) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Accordingly, the Group presented remeasurement on retirement benefit obligation as non-reclassifiable to profit or loss in the statement of total comprehensive income.

- PFRS 7 (Amendment), Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities. This amendment includes new disclosures to facilitate comparison between those entities that prepare PFRS financial statements to those that prepare financial statements in accordance with US GAAP. The Group has considered the new disclosure requirements of the standards in its financial statements but the impact on disclosures is not considered material.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

- PFRS 9, Financial Instruments. This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. PFRS 9 also details the changes in requirements to hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The mandatory effective date of PFRS 9, which is for annual periods beginning January 1, 2015, has been deferred and left open pending the finalization of the impairment classification and measurement requirements. The Group has yet to assess the full impact of the standard; however does not initially expect material changes particularly in the classification of its financial assets and liabilities that primarily refer to regular receivables and payables which are realized and settled in the normal course of operations. The Group will also consider the impact of the remaining phases of PFRS 9 upon issuance.

- PAS 32 (Amendment), Financial Instruments: Presentation - Asset and Liability Offsetting (effective January 1, 2014). These amendments are to the application guidance in PAS 32,

Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Group will adopt the amendment beginning January 1, 2014 and provide the additional disclosures required by the amendment upon adoption.

There are no other relevant standards, amendments and interpretations, which are effective subsequent to January 1, 2013 and adopted by the Group, and those issued but are not yet effective as at September 30, 2014 that have or expected to have a significant impact on the Group's consolidated financial statements during and at the end of reporting period.

Note 2 - Consolidation

These unaudited consolidated financial statements comprise the financial statements of the Group as at and for the nine months ended September 30, 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. The Group uses uniform accounting policies and any difference is adjusted properly.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date on which control ceases.

Business combinations under common control, which include those entities under common shareholding, are accounted for using the predecessor cost method (similar to merger accounting/pooling of interest method). Under this method, the Company does not restate the acquired businesses or assets and liabilities to their fair values. The net assets of the combining entities or businesses are combined using the carrying amounts of assets and liabilities of the acquired entity from the unaudited consolidated financial statements of the highest entity that has common control for which financial statements are prepared. No amount is recognized in consideration for goodwill or the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over their cost at the time of the common control combination as at and for the year ended December 31, 2013. As at September 30, 2014 the Parent Company recognized goodwill in the net fair value of identifiable assets and liabilities over the cost at the time of business combination.

The unaudited consolidated financial statements incorporate the assets, liabilities and results of operations of the combining entities or businesses as if they had always been combined or from the date when the combining entities or businesses first became under common control, whichever period is shorter. The difference between the consideration given and the aggregate book value of the assets and liabilities acquired as at the date of the transaction are offset against other reserves, which is presented as a separate line item under equity in the unaudited consolidated statement of financial position. Comparative financial information as at and for the period ended December 31, 2012 were prepared and presented as though the transfer of control had occurred at the beginning of the earliest period presented. The effect of the Parent Company's equity in the subsidiaries, and intercompany transactions and balances were eliminated in the unaudited consolidated financial position and results of operations.

The details of subsidiaries included in the unaudited consolidated financial statements as at September 30, 2014 are as follows:

Subsidiaries	Principal place of business	Percentage of ownership
CDI	Philippines	100
CCAC	Philippines	60
COPI	Philippines	51

The Parent Company through CCAC acquired shares in Otis E&M Company; an entity primarily engaged in the sale, installation and maintenance of elevator products and formed Concepcion Otis Phils. Inc. (COPI) on March 28, 2014. SEC approved the change of corporate name from Otis E&M Company to Concepcion Otis Phils. Inc. (COPI) on July 17, 2014.

Non-controlling interest is the residual equity in the subsidiary (i.e., CCAC and OTIS) and associate not attributable, directly or indirectly, to the Parent Company as shown in the table above.

Note 3 - 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.

Cash and cash equivalents as at September 30, 2014 and December 31, 2013 consist of:

	2014	2013
Cash on hand	165	124
Cash in banks	907,932	1,071,797
Short-term placements	757,054	282,826
	1,665,151	1,354,747

Cash in banks represent deposits with universal and commercial banks amounting to P502,214 and P405,718 (2013 - P926,193 and P145,604), respectively, which earn interest at the prevailing bank deposit rates.

Short-term placements are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at rates ranging from 0.375% to 1.0% and 1.125% and 1.875% to 2.625% for the nine months ended September 30, 2014 and for the year ended December 31, 2013 respectively. All short-term placements are invested in universal banks.

The carrying values of cash and cash equivalents approximate their fair values as at September 30, 2014 and December 31, 2013 which represent the maximum exposure to credit risk other than cash on hand.

Note 4 - Receivables

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

Trade receivables arising from regular sales with average credit term of 30 to 90 days and other receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment, if any. The original invoice amount of receivables approximates its fair value.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognized in profit or loss. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written-off against the allowance account for receivables. The Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant of not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an

impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

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

Trade and other receivables as at September 30, 2014 and December 31, 2013 consist of:

	2014	2013
Trade receivables	2,370,307	2,013,695
Less provision for volume rebates, trade discounts and other incentives	(176,400)	(164,840)
	2,193,907	1,848,855
Less: allowance for impairment of receivables	(118,415)	(129,585)
Net trade receivables	2,075,492	1,719,270
Deposit for future share subscription	-	104,000
Advances to suppliers	12,255	34,186
Advances to employees	18,667	16,218
Related parties	72,062	15,705
Rental deposits	4,548	5,571
Others	12,923	5,333
	2,195,947	1,900,283

Deposit for future share subscription represents the Parent Company and CCAC's separate subscription to 44 million and 60 million shares, respectively, of Concepcion Midea Inc. (CMI), an entity registered and doing business in the Philippines, which is equivalent to 22% and 30% equity share, respectively, in December 2013. As at September 30, 2014, SEC approved the application for increase in authorized share capital on April 02 2014 (Note 11).

The aging of trade receivables as at September 30, 2014 and December 31, 2013 including data on past due but not impaired or provided with allowance are as follows:

Age classification	Total	Current and not past due	Past due but not impaired	Impaired
2014				
Current	1,645,653	1,645,653	-	-
Past due:				
Up to 6 months	537,588	-	527,456	10,133
6 to 12 months	39,318	-	18,035	21,283
Over 12 months	147,747	-	-	147,747
	2,370,307	1,645,653	545,491	179,163
2013				
Current	1,450,747	1,450,747		
Past due:				
Up to 6 months	422,576	-	422,576	
6 to 12 months	17,212	-	10,731	6,481
Over 12 months	123,160	-	56	123,104
	2,013,695	1,450,747	433,363	129,585

As at September 30, 2014, trade receivables amounting to P179,163 (2013 – P129,585), net of fair value of collaterals obtained such as land and buildings amounting to NIL 2014 (2013 - P1,400), were determined to be impaired and fully provided through a valuation account, while a total of P545,491 (2013 – P433,363), with age classification as detailed above, were past due but considered not impaired, because they relate to a number of independent customers for whom there is no recent history of default and collection is highly probable based on cumulative experience. The

individually impaired receivables relate to customers that are in unexpectedly difficult economic situations.

As at September 30, 2014, trade receivables that are neither past due nor impaired amounted to P1,645,653 (2013 – P1,450,747), mainly pertain to customers who have high credit rating based on determined financial position and collection history.

The Group has not experienced any defaults with respect to the outstanding balance of due from related parties and other classes of receivables, hence, no allowance was provided.

Advances to suppliers and employees are realized through receipt of material purchases and salary deductions, respectively. Rental deposits are expected to be applied to future lease obligations. All these accounts and other receivables do not contain impaired assets and are not past due.

The maximum exposure to credit risk at the reporting date are the respective carrying values of trade receivables, other receivables and due from related parties as at reporting date, which also approximate fair value due to short-term maturity.

Note 5 – Costs incurred and estimated earnings In in excess of billings on uncompleted contracts

The account as at September 30 consists of:

	2014
Construction in progress	298,569
Loss reserve	(1,299)
	297,270
Less contract billings	(273,011)
	24,259

The Group has neither advances received nor retentions from the above contracts as at September 30, 2014.

Note 6 - Financial instruments

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

6.1 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. As at September 30, 2014 and December 31, 2013, the Group only holds financial assets classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

(b) Initial recognition and derecognition

Regular-way purchases and sale of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized

at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(c) Subsequent measurement

Loans and receivables are carried at amortized cost using the effective interest method.

(d) Impairment

The Group first assesses at each reporting date whether objective evidence of impairment exists. Loans and receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance.

6.2 Financial liabilities

(a) Classification

The Group classifies its financial liabilities at initial recognition in the following categories: at fair value through profit or loss and other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss 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 significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and PAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.
The Group's foreign exchange forward contracts included under trade payables and other liabilities account in the unaudited consolidated statement 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 Group having an obligation either to deliver cash or another financial asset to the holder. Other financial liabilities include trade payables, accrued expenses (Note 2.12) (excluding balances payable to government agencies arising from withholding taxes, payroll

deductions and provisions), deposits for future share subscription that did not qualify for presentation under equity and borrowings.

(b) Initial recognition and derecognition

Financial liabilities are initially recognized at fair value of the consideration received less 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.

6.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the unaudited consolidated statement 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.

As at September 30, 2014 and 2013, the Group does not hold financial and non-financial assets and liabilities at fair value other than foreign exchange forward contract.

Note 7 - Fair value measurement

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

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

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

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

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

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

The fair value of financial instruments traded in active markets 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 group, 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 Group 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.

The Group 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 group 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 the 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).

As at September 30, 2014 and 2013, the Group does not hold financial and non-financial assets and liabilities at fair value other than foreign exchange forward contract.

<u>Note 8 - Inventories</u>

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

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

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

Inventories as at September 30, 2014 and December 31, 2013 consist of:

	2014	2013
At cost		
Raw materials	549,110	613,545
Finished goods	685,923	356,229
Work in process	205,102	108,886
Spare parts and supplies	51,633	-
Inventories-in-transit	300,962	75,798
	1,792,730	1,154,458
Less provision for inventory obsolescence	(87,118)	(79,703)
	1,705,612	1,074,755

For the period ended September 30, 2014 and for the year ended December 31, 2013, the cost of inventory recognized as expense and included in cost of sales and services amounted to P4,566,463 (2013 – P5,128,086) (Note 22).

Note 9 - Prepayments and other current assets

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

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

Note 10 - Property and equipment

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

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

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

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

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

Construction in progress is not depreciated until they are classified to appropriate asset category and used in operation.

The assets' residual values, useful lives and depreciation and amortization method are reviewed and adjusted, as appropriate, at each reporting date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

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

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

Note 11 – Investments in Associate

In accordance with PAS 28, an investment in associate is accounted for using the equity method of accounting. Under the equity method, investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee and dividends received after the date of acquisition.

An item of 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 through profit or loss in the statement of total comprehensive income. 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 through profit or loss in the statement of total comprehensive income.

Investments in an associate are tested 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 the purposes of assessing impairment, assets are grouped 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 loss is recognized as income immediately.

The Parent Company and CCAC subscribed 44 million and 60 million shares, respectively, in Concepcion Midea Phils. Inc. (CMIP), an entity registered and doing business in the Philippines, equivalent to 22% and 30% equity share on November 20, 2014. The approval for increase in capital stock was issued by SEC on April 02, 2014.

In July 2014 the Parent Company and CCAC subscribed additional 44 million and 60 million shares respectively, total investment in CMIP as at September 30, 2014 is P208 million shares.Parent company effective percentage of ownership is 40%, the Company shares in net loss as at September 30, 2014 is P32,523.

Investments in associate as at September 30, 2014 consist of:

	2014
At Cost	208,000
Share in net income (loss) of an associate	(32,523)
Total	175,477

Note 12 – Goodwill

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value;
(ii) the amount of any non-controlling interest in the acquiree measured in accordance with PFRS 3; and
(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held *equity interest* in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this PFRS 3.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

The Parent Company through its subsidiary CCAC and United Technologies International Corporation – Asia Private Limited (UTICA) entered into Sale and Purchase Agreement of shares in OTIS E&M Company Philippines, Inc on March 24, 2014. UTICA and CCAC entered into agreement to contribute their expertise and resources to further develop and expand the business of OTIS in the Philippines. On March 28, 2014 UTICA sold 123,250 shares to CCAC, giving CCAC a total of 85% share in the issued and fully paid shares of OTIS, equivalent to P1,178,666.

Details of assets and liabilities of OTIS at acquisition date:

	Value
Assets:	
Cash	299,238
Trade & Other Receivables	144,727
Inventories	30,717
Other Assets	32,484
Total Assets	**507,166**
Liabilities:	
Trade and other payables	(200,110)
Other Liabilities	(19,819)
Total Liabilities	**(219,930)**
Net Assets	**287,236**

Given the short-term nature of the significant assets and liabilities above, the book value of net assets at acquisition date of P287,236 is assumed to approximate its fair value. The fair values assumed above are provisional amounts as at September 30, 2014.

Goodwill arising from acquisition was calculated as follows:

	2014
Fair value of consideration transferred	1,182,363
Fair Value of Identifiable Net Assets	(287,236)
Goodwill	**895,127**

Note 13 - Impairment of non-financial assets

Assets that have definite useful lives such as property and equipment are subject to depreciation and 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 entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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 increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately and credited to other operating income in profit or loss.

Note 14 - Current and deferred income tax

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

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

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

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

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

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

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

Note 15 - Trade payables and other liabilities

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

Trade payables and other liabilities as at September 30, 2014 and December 31, 2013 consist of:

	2014	2013
Trade payables		
Third parties	737,633	608,049
Related parties	190,642	60,901
	928,275	668,950
Accrued expenses		
Project costs	158,157	207,187
Advertising and promotion	127,428	110,170
Employee-related costs	155,020	99,019
Freight	40,620	44,290
Outside service	21,726	36,731
Installation and cleaning costs	38,495	23,099
Importation costs	19,953	12,342
Rental and utilities	28,921	8,880
Repairs and maintenance	3,856	5,446
Professional fees	5,847	4,878
Production costs	3,852	4,566
Transportation and travel	2,676	3,413
Research	1,865	1,009
Communication	-	201
Others	33,107	13,464
	641,524	574,695
Other liabilities		
Advances on sales contract	318,509	103,525
Output VAT, net of input	55,427	59,821
Withholding taxes and other mandatory government remittances	33,278	35,281
Due to a related party	19,703	-
Other payables	5,650	7,203
	432,566	205,830
	2,002,365	1,449,475

Note 16 - Borrowings and borrowing costs

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

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

Borrowings are derecognized upon payment, cancellation or expiration of the obligation.

The Company availed of a Short-Term loan with the Bank of the Philippine Islands for the amount of Philippine Pesos One Billion (Php 1,000,000,000.00) at the prevailing rate of 3.25% in relation to the purchase of shares in Otis E&M Company Philippines, Inc. from United Technologies International Corporation – Asia Private Limited on March 21, 2014. Short-Term loan was paid on August 13, 2014.

The loan was replaced by borrowings as follow, both bearing interest at 2.625% and tenure of one (1) year:

Banco De Oro for the amount of Philippines Peso Five Hundred Million (Php 500,000,000.00) and Bank of the Philippine Islands for the amount of Philippine Peso Five Hundred Million (Php 500,000,000.00)

No assets of the Group have been pledged against these short-term borrowings.

The carrying value of the borrowings approximates its fair value as the impact of discounting is not significant.

Total interest expense charged to operations for the nine months ended September 30, 2014 and 2013 arising from short-term loans amounted to P16,377 and 8,105respectively.

Note 17 – Billings in excess of cost incurred and estimated earnings in uncompleted contracts

The account as at September 30, 2014 consists of:

	2014
Contract billings	300,142
Less construction in progress	(201,585)
	98,557

The Group has neither advances received nor retentions from the above contract as at September 30, 2014.

Note 18 - Provisions

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

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

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

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

Note 19 - Equity

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

Retained earnings include current and prior years' results of operations, net of dividends declared, if any. Dividends are recorded in the unaudited consolidated financial statements in the period in which they are approved by the Board of Directors.

Additional capital received from shareholders for whom no share capital is issued is recorded as deposits for future share subscription. These are classified as part of equity if and only if all of the following elements are present. Otherwise, the deposits are presented as liability.

- The unissued authorized share capital of the Parent Company is insufficient to cover the amount of shares indicated in the contract;
- There is Board of Directors' approval on the proposed increase in authorized share capital (for which a deposit was received by the Parent Company);
- There is shareholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been filed with the SEC.

(a) Share capital

As at January 1, 2013 the Parent Company's authorized share capital of 1 million shares with par value of P100 each or equivalent to P100 million is fully subscribed and issued.

On July 5, 2013, the SEC approved the Parent Company's application to increase the authorized share capital to P700 million composed of 700 million shares with par value of P1 per share as approved by the Parent Company's Board of Directors on April 5, 2013. Correspondingly, existing shareholders were issued additional 99 million shares as a result of the change in par value for no additional consideration.

Details of share capital as at September 30, 2014 and 2013 are as follows:

	2014	2013
No. of common shares	339,617	250,000
Par Value per share	P1	P1
Share capital (in PhP million)	339,617	250,000
Share premium (in PhP million)	993,243	734,126

(b) Retained earnings

Cash dividends declared attributed to owners of the Parent Company for the period ended September 30, 2014 and December 31, 2013 are as follows:

Date declared	Dates paid	Per share	2014	2013
March 19, 2014	April 30, 2014	0.59	154,000	
July 18, 2013	September 15, 2013	0.42		105,000
			154,000	105,000

For the period ended September 30, 2014 and for the year ended December 31, 2013, total share of non-controlling interest from profit distribution by CCAC amounted to P100 million (2013 - P 320 million).

On March 19, 2014, the Board of Directors declared dividends in the amount of P0.59 per share totaling P154 million for shareholders of record as at April 2, 2014. Dividends were paid to shareholders on April 30, 2014.

The shareholders approved on July 23, 2014 during the company's stockholders meeting, a special stock dividend of 30% for shareholders of record date as at August 22, 2014. Dividends were issued to shareholders on September 8, 2014.

Note 20 - Earnings per share

20.1. Basic

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

20.2. Diluted

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

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

Earnings per share for the nine months ended September 30, 2014 and 2013 is calculated as follows:

	2014	2013
Net income attributable to owners of the Parent Company	495,040	362,832
Weighted average common shares - basic and diluted (in '000)	272,440	150,549
Basic and diluted earnings per share	1.82	2.41

Earnings per share for the three months ended September 30, 2014 and 2013 is calculated as follows:

	2014	2013
Net income attributable to owners of the Parent Company	149,028	123,929
Weighted average common shares - basic and diluted (in '000)	272,440	150,549
Basic and diluted earnings per share	0.55	0.82

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

Note 21 - Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Committee that makes strategic decisions.
The accounting policies used to recognize and measure the segment's assets, liabilities and profit or loss is consistent with that of the unaudited consolidated financial statements.

The Group's operations are being reviewed and analyzed by the chief operating decision-maker into two (2) principal business segments. The segments are generally determined based on the management structure of the businesses, where each management organization has general operating autonomy over its respective products and services.

(a) CCAC

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

(b) CDI

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

Segment information on reported profit or loss for the nine months ended September 30 is as follows:

2014								
	CCAC				CDI	COPI	Others	Total
	Air conditioning	After sales market	Commercial refrigeration	Sub-total	Residential refrigeration	Elevator		
Sales	4,587,320	245,143	25,702	4,858,166	1,847,565	229,293		6,935,024
Cost of sales and services	(2,867,011)	(148,585)	(11,820)	(3,027,415)	(1,406,094)	(132,953)		(4,566,463)

Gross profit	1,720,309	96,59	13,882	1,830,750	441,471	96,340		2,368,561
Operating expenses		775,831		775,831	297,676	41,877	60,374	1,175,758
Income tax		337,008		337,008	43,480	17,518		398,006
Profit or loss		776,602		776,602	101,170	37,702	(91,319)	824,154

2013								
	CCAC				CDI	COPI	Others	Total
	Air conditioning	After sales market	Commercial refrigeration	Sub-total	Residential refrigeration	Elevator		
Sales	3,716,551	211,725	57,528	3,985,804	1,599,464		-	5,585,268
Cost of sales and services	(2,178,865)	(115,155)	(21,351)	(2,315,371)	(1,302,443)		-	(3,617,814)
Gross profit	1,537,686	96,570	36,177	1,670,433	297,021		-	1,967,455
Operating expenses		819,315		819,315	230,992		40,330	1,090,637
Income tax		264,117		264,117	13,753		-	277,871
Profit or loss		612,382		612,382	33,607		(38,204)	607,785

Segment information on reported profit or loss for the three months ended September 30 is as follows:

2014								
	CCAC				CDI	COPI	Others	Total
	Air conditioning	After sales market	Commercial refrigeration	Sub-total	Residential refrigeration	Elevator		
Sales	1,293,642	93,168	9,912	1,396,721	586,568	108,614		2,091,903
Cost of sales and services	(806,385)	(52,293)	(7,806)	(866,484)	(431,599)	(61,571)		(1,359,655)
Gross profit	487,256	40,874	2,106	530,237	154,969	47,043		732,248
Operating expenses		198,760		198,760	94,282	23,958	23,713	340,714
Income tax		102,974		102,974	18,149	7,210	-	128,333
Profit or loss		229,223		229,223	42,216	15,805	(38,783)	248,462

2013								
	CCAC				CDI	COPI	Others	Total
	Air conditioning	After sales market	Commercial refrigeration	Sub-total	Residential refrigeration	Elevator		
Sales	1,177,630	72,642	25,046	1,275,318	540,831		-	1,816,150
Cost of sales and services	(683,350)	(40,235)	(6,515)	(730,100)	(441,308)		-	(1,171,408)
Gross profit	494,280	32,407	18,531	545,218	99,523		-	644,742
Operating expenses		285,192		285,192	67,128		8,374	360,694
Income tax		79,428		79,428	8,138		-	87,567
Profit or loss		186,315		186,315	20,436		(8,296)	198,455

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

Segment information on assets and liabilities as at September 30, 2014 and December 31, 2013 are as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
CCAC	5,041,929	2,860,552	3,250,364	1,293,722
CDI	1,341,808	363,408	1,396,239	440,263
OTIS	584,652	209,025	-	-
Others	195,503	40,720	165,900	9,050

TOTAL	7,163,892	3,473,705	4,812,503	1,743,035

The balances presented above are net of eliminating entries recognized in the preparation of the unaudited consolidated financial statements.

Note 22 – Revenue, cost and expense recognition

22.1 Revenues

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

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

(a) Sale of goods

Sale of goods are recognized when the Group has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligations that could affect the customer’s acceptance of the products. Delivery does not occur until the products have been shipped to the specific location, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sale contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Volume-based incentives offered are based on the estimated cost of the program as agreed with the dealers and are recognized once volume targets have been achieved by trade customers. Other incentives are deducted from revenue upon fulfillment of respective conditions such as compliance with required documentary requirements for claims on marketing costs incurred by dealers and approval by authorized officials.

The Group grants price discounts in the normal course of business. Allocations to provisions for discounts and rebates to customers are recognized in the same period in which the related sales are recorded based on contract terms. Sales returns arising from manufacturing defects, replacement and change in product specification are recognized upon actual receipt of inventory items within specified time.

(b) Sale of services

The Group provides installation services and preventive maintenance services of products purchased by its customers. These services are provided on a time-basis or as a fixed-price contract. Contract terms of preventive maintenance services of equipment generally range from less than a year to three (3) years, subject to renewal. Revenue from time contracts is recognized at the contractual rates as labor hours. Revenue from fixed-price contracts is recognized on a straight-line basis over the specified period the service is provided. This approximates the timing of the Group’s service delivery and realization of economic benefits of the transaction.

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

	2014	2013
Sale of goods	7,033,483	6,100,524
Sale of services	396,347	211,725
Contract revenues	74,010	-
	7,503,840	6,312,249
Deductions		
Trade and volume discounts	(426,105)	(505,695)
Sales returns	(142,711)	(221,286)
	(568,817)	(726,981)
Net sales and services	6,935,024	5,585,268

(c) Multiple deliverables

The Group also enters into arrangement combining multiple deliverables such as sale of goods and sale of services (installation and maintenance). Revenue for multiple-element arrangements is allocated to each element of the arrangement based upon its relative fair value as determined by the contract terms.

(d) Commission, interest and other operating income

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

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

Other operating income is recognized in profit or loss when earned.

22.2 Cost and expenses

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

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

	2014	2013
Raw materials used	2,962,970	2,718,426
Labor	118,919	118,225
Overhead	356,800	343,902
Total manufacturing cost	3,438,688	3,180,554
Work-in-process, beginning	108,886	110,923
Work-in-process, ending	(205,102)	(102,804)
Cost of goods manufactured	3,342,472	3,188,673
Finished goods inventory, beginning	356,229	293,697
Gross purchases – trading	1,420,790	584,124
Finished goods available for sale	5,119,491	4,066,493
Finished goods inventory, ending	(685,982)	(448,680)
	4,433,510	3,617,813
Installation of service and maintenance	132,954	-
	4,566,463	3,617,814

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

	2014	2013
Employment costs	119,868	87,251
Rent and utilities	78,272	59,244
Outside services	30,936	31,819
Depreciation	29,576	34,914
Indirect labor	15,412	32,155
Repairs and maintenance	27,494	30,207
Taxes and licenses	15,289	18,315
Indirect materials	363	31,685
Travel and transportation	6,888	6,497
Supplies	5,871	5,758
Insurance	4,607	3,973
Inbound storage	22,223	-
Others	-	2,083
	356,800	343,902

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

	2014	2013
Employee costs	371,634	371,620
Advertising and promotion	188,675	104,634
Outside services	166,396	80,283
Warranty cost	63,536	84,492
Delivery and shipping	136,382	111,140
Rent and utilities	96,144	96,974
Transportation and travel	25,585	34,773
Royalty/Technical fees	23,379	24,200
Provision for commission	18,928	43,631
Repairs and maintenance	18,726	31,961
Taxes and licenses	25,629	21,827
Provision for impairment of receivables	2,764	31,217
Depreciation and amortization	10,079	9,226
Supplies	3,967	9,042
Registration	649	2,667
Professional fees	6,469	10,262
Insurance	1,877	3,213
Provision for inventory obsolescence	-	1,626
Others	14,941	17,849
	1,175,758	1,090,637

Note 23 – Leases – Group as lessee

Leases where a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

(a) Leases

(i) CCAC and CDI have existing lease agreements, renewable upon mutual agreement of the parties, with CII for the lease of the factory space located in the Light Industry Science Park, Cabuyao, Laguna, and in Alabang, Muntinlupa City.

(ii) CCAC leases an office space in Muntinlupa City and a warehouse space in Cabuyao with Foresight Realty & Development Corp. (formerly Concepcion Holdings, Inc.), a shareholder. The contracts were renewed in January 2013 with terms expiring in December 2015.

(iii) Both CCAC and CDI have agreements with various lessors covering warehouse and office space for its regional offices. Such agreements have terms ranging from one (1) to five (5) years under terms and conditions as agreed with the lessors.

Rental deposits required for these lease agreements are included in either trade and other receivables and deposits and other non-current assets account in the unaudited consolidated statement of financial position.

(b) Other agreements

On January 1, 2002, the Group entered into a trademark agreement with Kelvinator International Group, a division of Electrolux Home Products, Inc. (a Group incorporated in the U.S.A.) for the license to use the "Kelvinator" trademark as specified in the agreement for its window type room air conditioners. In consideration thereof, the Group is required to pay a trademark fee of 1% of the net selling price of the trademarked product subject to a minimum annual fee of U.S.$20,000 and inspection fees for the initial model and subsequent models of any product line. The Group renewed the agreement on January 1, 2012 which requires it to pay a trademark fee of 2% of the net selling price of the trademarked product subject to a minimum annual fee of 1.5% of targeted net sales and actual inspection fees that remains effective until terminated by both parties.

Royalty/technical fees for the above agreements charged to operations in September 30, 2014 amounted to P23,379 (2013 – P24,200) (Note 22).

Note 24 – Employee benefits

(a) Retirement benefit obligation

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

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

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

Past service costs are recognized immediately in profit or loss.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the

termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Bonus incentives

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

Note 25 – Foreign currency transactions and translation

(a) Functional and presentation currency

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

(b) Transaction 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 within other income and expenses.

Note 26 – Related party relationships and transactions

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

In the normal course of business, the Group transacts with related parties. The following are the balances and significant transactions with these entities as at for the period ended September 30, 2014 and for the years ended December 31, 2013:

	2014		
Related party	Transactions	Outstanding balances receivable (payable)	Terms and conditions
Receivables from entities under common control:			Receivables are collectible in cash within 30 to 60 days from billing date. These receivables are unsecured, unguaranteed and non-interest bearing. Balances are fully recoverable with no impairment loss recognized. Advances are primarily cost reimbursements paid on behalf of related parties.
Shared administrative cost (a)	30,083	13,017	
Commission income	58,304	36,677	
Sale of goods	20,799	20,799	
Shareholder			
Advances	1,472	1,569	
		72,062	
Payable to entities under common control:			Purchases are made at market prices. Outstanding payables are due within 30 to 60 days from transaction date. These are payable in cash, non-interest be aring and unsecured in nature.
Purchases	487,532	(190,642)	
Rent and utilities	54,137	(7,738)	
Royalty/Technical fee (b)	18,692	(4,240)	
Others	467	(467)	
Shareholder			
Advances	-	(7,257)	

Related party	Transactions	Outstanding balances receivable (payable)	Terms and conditions
		(210,344)	
Immediate parent company			
Dividends	232,507	-	Include P154M cash dividends and P78M stock dividends.
Administrative services	-		
Key management personnel			
Salaries, allowances and other short-term benefits	125,611	-	Salaries and wages are paid in cash in the period incurred and are non-interest bearing. These are unsecured in nature. There were no other long-term benefits.
Retirement benefits	4,820		

Related party	2013 Transactions	2013 Outstanding balances receivable (payable)	Terms and conditions
Receivables from entities under common control:			Receivables are collectible in cash within 30 to 60 days from billing date. These receivables are unsecured, unguaranteed and non-interest bearing. Balances are fully recoverable with no impairment loss recognized. Advances are primarily cost reimbursements paid on behalf of related parties.
Shared administrative cost (a)	11,151	10,050	
Commission income	26,746	4,135	
Sale of goods	345	345	
Shareholder			
Advances	1,175	1,175	
		15,705	
Payable to entities under common control:			Purchases are made at market prices. Outstanding payables are due within 30 to 60 days from transaction date. These are payable in cash, non-interest bearing and unsecured in nature.
Purchases	470,059	(46,465)	
Purchase of shares	192,864	-	
Rent and utilities	65,595	(3,350)	
Royalty/Technical fee (b)	19,553	(2,764)	
Lease of warehouse	11,680	(768)	
Payable to directors			
Commission	25,412	-	
Shareholders			
Advances	7,554	(7,554)	
		(60,901)	
Key management personnel			Salaries and wages are paid in cash in the period incurred and are non-interest bearing. These are unsecured in nature. There were no other long-term benefits.
Salaries, allowances and other short-term benefits	115,650	(7,748)	
Retirement benefits	23,769	(34,251)	
	139,419	(41,999)	

(*a) Shared administrative cost*

This pertains to administrative costs charged to entities under common control for accounting and other general services rendered.

(b) Royalty/Technical service agreement with Carrier Corporation

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

Note 27 - Contingencies

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

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

Note 28 - Financial risk and capital management

28.1 Financial risk factors

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

Risk management is carried out by the Group's management under policies approved by the Board of Directors. These policies provide written principles for overall risk management.

(a) Market risk

(i) Foreign exchange risk

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

However, the foreign exchange risk exposure is brought down to an acceptable level since average trade collection and payment terms approximate each other, which range between 30 and 60 days, thereby creating natural hedges. Moreover, the Group enters into foreign exchange forward contracts with average term of three (3) months in order to reduce losses on possible significant fluctuations in the exchange rates.

(ii) Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

(b) Credit risk

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

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

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

The Group's assessment of its credit risk on cash and cash equivalents and receivables are disclosed in Notes 3 and 4, respectively.

(c) Liquidity risk

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

As at September 30, 2014 and December 31, 2013, the Group has available letters of credit and loan credit facilities from various financial institutions as follows:

Type of credit facility	Currency	2014	2013
Bank of Philippine Islands			
Revolving promissory note line, LC/TR and FX settlement line	Philippine Peso	1,400,000	780,000
Bills purchased line	Philippine Peso	80,000	80,000
Citibank			
Bills purchased line	Philippine Peso	45,000	45,000
Letters of credit	U.S. Dollar	5,200	5,200
Foreign exchange settlement risk line	U.S. Dollar	1,000	1,000
Foreign exchange pre-settlement risk line	U.S. Dollar	200	200
Banco De Oro			
Short-term loan line, LC/TR	Philippine Peso	800,000	300,000
Bills purchased line	Philippine Peso	50,000	50,000
Foreign exchange settlement line	Philippine Peso	20,000	20,000

Trade and other payables, and amounts due to related parties are unsecured, non-interest bearing and are normally settled within 30 to 90 days from transaction date. As at September 30, 2014 and December 31, 2013, all of the Group's financial liabilities are due and demandable within 12 months. The Group expects to settle these obligations in accordance with their respective maturity dates. These balances equal their carrying amounts as the impact of discounting is not significant. Based on management's assessment, the Group has sufficient level of readily available funds, which do not yet consider expected receipts from collection of current trade receivables, to settle maturing obligations as they fall due.

28.2 Capital management

The Group's objectives when managing capital, which is equivalent to the total equity shown in the unaudited consolidated statement of financial position, less charges to other comprehensive loss are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for partners and benefits for other stakeholders and to maintain an optimal capital structure to reduce

the cost of capital which will reduce the need to obtain long-term borrowings and incur higher cost of capital such as interest expense.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends, increase capital through additional contributions or sell assets in lieu of third party financing. No changes were made in the objectives, policies and processes as at September 30, 2014 and December 31, 2013.

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

28.3 Fair value estimation of financial assets and liabilities

The Group's foreign exchange forward contracts, which are measured at fair value, qualify under Level 2. Accordingly, the fair values of these financial liabilities are based on published closing rate with any resulting value no longer subject to discounting due to the relative short-term maturity of these instruments. The Group does not account these contracts under hedge accounting; and accordingly recognizes fluctuations in fair value directly to profit or loss. As at September 30, 2014 and December 31, 2013, the Group has no other financial assets or liabilities measured and carried at fair value that would qualify as either Level 1 or 3.

Note 29 - Critical accounting estimates, assumptions and judgments

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

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

29.1 Critical accounting estimates and assumptions

(a) Useful lives of property and equipment

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

(b) Provision for warranty cost

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

(c) Provision for retirement benefits

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

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

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

(d) Provision for volume rebates, trade discounts and other incentives

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

The level of provision is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group. The details of the provision for volume rebates, trade discounts, and other incentives are shown in Note 6.

(e) Provision for legal disputes and assessments

Provision for legal disputes and assessments is estimated based on consultation with third party counsels with reference to probability of winning the case. A higher probability of winning would decrease provision. The Group considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the provision for legal disputes and assessments at the reporting date.

29.2 Critical judgments in applying the Group's accounting policies

(a) Recognizing business combination using the predecessor cost method

Management has determined that the acquisition of a subsidiary (i.e., CDI and OTIS through CCAC), as well as control over another entity (i.e., CCAC) during the period can be accounted for under the predecessor cost method or pooling of interest as the parties to the transactions are essentially under common control, and essentially does not result in any economic value. Business combinations between entities under common control are out of scope in PFRS 3. Accordingly, the unaudited consolidated financial statements incorporated the net assets and results of operations of the combining entities or businesses as if they had always been combined

or from the date when the combining entities or businesses first became under common control, whichever period is shorter.

(b) Provision for impairment of receivables

The provision for impairment of receivables is based on the Group's assessment of collectability of payments from its debtors through varying schemes including specific identification. This assessment requires judgment based on available facts and circumstances regarding the ability of the debtors to pay the amounts owed to the Group such as financial condition, the length of relationship with a debtor, debtors' current credit status based on known market factors and availability of assets that may be secured as collateral, and the outcome of any disputes.

Any change in the Group's assessment of collectability of receivables that was not previously provided for due to reassessment made as additional information is received could significantly impact the calculation of such provision and the results of operations. The amounts and timing of recorded provision for impairment of receivables for any period would differ if the Group made different assumptions or utilized different estimates.

(c) Provision for inventory obsolescence and losses

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

(d) Impairment of property and equipment

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

(e) Income taxes

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

The Group assesses the recoverability of outstanding balances of deferred income tax assets up to the extent that is more likely than not will be realized. The Group reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Management believes that deferred income tax assets are fully recoverable at the reporting date.

(f) Contingencies

The Group has legal cases still pending with the courts. Management and in consultation with third party counsels believes, however, that its position on each cases has legal merits and for certain loss positions, if any, corresponding provisions were recognized based on existing conditions and available information as at reporting date (Note 27). Annual assessment is made and actual results may differ significantly from the amount recorded.

ANNEX F

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (based on the unaudited consolidated Results for the Period Ended 30 September 2014)

CONCEPCION INDUSTRIAL CORPORATION (THE "COMPANY" OR "CIC"), formerly Concepcion Air Conditioning Corporation ("CAC"), is one of the Philippines' most established and leading suppliers of air conditioners, air conditioning solutions, and refrigerators, and has recently entered into joint ventures to expand into other consumer appliance products as well as elevators and escalators.

As of year-end 2013, CIC operated principally through its two subsidiaries, Concepcion Carrier Airconditioning Company (CCAC) and Concepcion Durables Inc. (CDI). The Company owns 60% of CCAC. Pursuant to a corporate reorganization in 2013, the Company acquired a 100% ownership stake in CDI.

In late 2013 and through the first quarter of 2014, CIC holdings expanded through the formation of Concepcion Midea Inc. (CMIP) a joint venture with Midea Inc. and United Technologies Corporation as well as the acquisition of majority share in Otis E&M Company Philippines Inc. (COPI).

Concepcion-Carrier Air Conditioning Company

CCAC engages in the manufacture, sale, distribution, installation, and service of heating, ventilating, air conditioning, and refrigeration products and services for residential, commercial, and industrial use. CCAC is a joint venture of the Company with Carrier Corporation, which allows it to offer Carrier and Toshiba brand air conditioners and Totaline parts. CCAC also offers other brands such as Condura and Kelvinator and more recently, Midea, through a subdistribution arrangement with CMIP. CCAC manufactures a broad range of air conditioning equipment at its factory in Light Industry and Science Park in Cabuyao, Laguna, Philippines, the Philippines' largest air conditioning facility with a capacity of approximately 500,000 units per year and a production area of 19,620 sq. m. CCAC's products are distributed and sold primarily in the Philippines. It likewise distributes imported airconditioning equipment from reputable business partners. The Company believes CCAC has the largest share of the total air conditioning market in the Philippines as measured by revenues and is in leading market positions in the residential, light commercial and commercial and industrial segments.

Concepcion Durables, Inc.

CDI engages primarily in the manufacture, assembly, wholesale, retail, purchase, and trade of refrigeration equipment, including Condura and Kelvinator brand refrigerators and freezers. CDI manufactures domestic refrigerators at its factory at Light Industry and Science Park in Cabuyao, Laguna, adjacent to CCAC's air conditioning and commercial refrigeration factory. The CDI factory has a capacity of 300,000 units per year and a production area of 16,420 sq. m. The Company believes CDI had the largest share of the residential and light commercial ("RLC") refrigeration market in the Philippines in 2012 as measured by revenues.

Concepcion Midea, Inc. (CMIP)

The Company and CCAC recently formed a joint venture which aims to introduce the Midea brand products in the Philippine market as a supplier of a whole range of appliances such as air conditioners, refrigerators, laundry and kitchen appliances. This will not only expand the Company's multi-brand offering in the Philippine market but will also allow it to expand into the wider white goods market. Established in 1968, Midea is a leading white goods and air conditioning systems manufacturer, with operations around the world, recording approximately RMB 77.8 billion in revenue for the First Half of 2014. Midea is a brand leader in China and has 16 domestic production bases in China as well as overseas production bases in Vietnam,

Belarus, Egypt, Brazil, Argentina, and India. It is also a joint venture and/or business partner of Carrier Corporation in selected countries worldwide.

Concepcion Midea Inc. (CMIP), is an entity registered and doing business in the Philippines. CIC has a 40% effective share in CMIP, 22% directly through CIC and 18% through CCAC.

Concepcion-Otis Philippines Inc. (COPI, formerly Otis E&M Company Philippines)

On March 28, 2014, CIC closed a joint venture agreement with a subsidiary of United Technologies Corporation (UTC) to acquire majority stake in Otis E&M Company Philippines, Inc. (OTIS) through its subsidiary CCAC. CCAC acquired 85% stake in COPI resulting in CIC effectively owning 51% of Otis.

CIC, through its Building and Industrial Solutions (BIS) group, is moving towards a worldwide trend into end-to-end building solutions and partnering with Otis as one of the leading providers of elevators and escalators in the country is an advancement towards the strategy.

Otis Elevator Company started its business in the Philippines in 1935 and it was the first elevator company in the country. COPI's primary business is to import, buy and sell at wholesale, distribute, maintain and repair, elevators, escalators, moving walkways, shuttle systems and all supplies, materials, tools, machinery and parts or component thereof.

Post-acquisition, the company was renamed Concepcion-Otis Philippines, Inc.

The following factors have affected the Company's financial and operational results in Q3 2014

Philippine Macroeconomic Conditions: Company operations in the first nine months of 2014 were positively boosted by strong Philippine macroeconomic conditions. Demand for, and prevailing prices of, the Company's products are directly related to the strength of the Philippine economy, including overall growth levels, and the amount of business activity in the Philippines, as well as the amount of remittances from OFWs. In the past three years, the Philippine economy has been among the fastest growing economies in Southeast Asia, with real GDP growth rates of 6.8%, 7.2% and 6% in 2012, 2013 and 1st half of 2014, respectively, according to the Philippine National Statistical Coordination Bureau ("NSCB"). The outlook remains optimistic and many experts continue to predict healthy economic growth through the rest of the year. Private consumption continues to drive growth, supported by strong remittance inflows and upbeat consumer sentiment. The following key factors affected the year to date and third quarter performance of CIC in 2014:

- Changing Demographic showing a growing middle class, rising GDP per capita, and a young population driving housing demand coupled with low penetration rates for airconditioning and domestic refrigerators has resulted in a continuing increase in first time buyers.

- The high cost of electricity and the popularity gained by energy efficient technology (inverters) continues to be manifested in a growth in replacement market thereby increasing demand for energy efficient products both in the residential as well as light commercial segments.

- The Company's air conditioning segment revenue is also dependent upon its ability to secure and retain the business of large property developers. High-rise developments have begun to be built with identified air conditioning unit brands and models in mind. Continued growth in the property segment, especially the high rise residential condominium sector has led to a growing projects pipeline translating into actual deliveries during the first nine months of 2014.

- Seasonality and Weather: The Company experiences seasonal- and weather-related fluctuations in the Company's operations, particularly on consumer air conditioning and refrigeration segments. Furthermore, during the long and atypically hot summer seasons, as occurred in the second quarter of 2014, normally result in stronger demand for the Company's air conditioning products with its peak months between March to June. This year,

a delay in the onset of the summer was felt as peak sell-out did not occur until after mid-April. The third quarter of 2014 was punctuated by strong weather-related interruptions causing flooding and damage in different parts of Metro Manila. This affected operations of the Company as work was shut down for a number of days during this period.

- Commodity Prices and Foreign Exchange Fluctuation: The Company depends on raw materials sourced from third parties to produce a majority of its products. Raw materials expense represent about 75% of the Company's cost of sales. The cost of the Company's compressors is the largest component of its raw materials. Imported commodities such as copper, aluminum and steel represent the second largest component of raw materials cost, prices of which remained steady during the quarter. The prices of raw materials and components to the Company are also affected by the Philippine Peso's relative strength against other currencies, primarily the US dollar. In Q1, we saw a significantly weaker peso as it traded in the Php 44-45 range to USD vs. Q1 2013's 40-41 range. To recover from the impact, CCAC announced a 2%-3% price increase beginning Q2 across its products. In Q3, FX continued to be weak as the period closed with Php44.92 rate to the USD. Slight increases in cost of goods were also seen as an inflationary effect due to the logistical issues caused by the port congestion.

- The expansion through CMIP and COPI are key developments in 2014. The Financial performance of CIC in 2014 includes the net loss of CMIP in the early stages of its expansion. The contribution of COPI to company sales and profitability is reflected beginning Q2 of 2014.

- Port congestion arising from limited window for transport (truck ban) has served to increase the cost of outbound logistics as well as warehousing as it necessitated building up stock to ensure availability of supplies and goods to the market. While the delays have not been markedly felt by the Company in the first half, towards Q3, the challenge of meeting the timely fulfillment of orders as a result of unpredictable and long berthing periods have become much more evident.

Key Performance Indicators

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

	For the Period end September 30, 2014	**For the Period end September 30, 2013**
Gross Profit Margin (%)	34.2%	35.2%
Profit Before Tax (%)	17.6%	15.9%
Net Income Attributable to Shareholders (PhP Millions)	495.0	362.8
Net Income Attributable to Shareholders (% to Sales)	7.1%	6.5%
Return on Average Equity (%) *(annualized)*	29.4%	28.4%
Return on Average Assets (%) *(annualized)*	19.0%	18.0%
Earnings per share (339,617,226 shares)	1.46	1.07
	As of end September 30, 2014	**As of end December 31, 2013**
Debt to Equity Ratio	0.94	0.57
Asset to Equity Ratio	1.94	1.57
Current Ratio	1.69	2.68
Book Value Per Share (339,617,226 shares)	7.74	8.75

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

Results of Operations

Quarter ended September 30, 2014

Q3 performance remained strong at 15% growth in Sales and 20% growth in earnings though slower compared to an exceptional 28.5% and 45% first half growth in sales and earnings respectively.

The key drivers of first time buyers and consumer replacement market growth are peak month drivers and as we approach the leaner months for consumer channels, the growth in air conditioning shifts towards the building and industrial markets with the latter growing at 29% against a 2% growth in consumer air conditioning and 8% in domestic refrigeration. COPI contributed PhP 109 million to Group quarter sales.

Nine months ended September 30, 2014 compared with Nine months ended September 30, 2013

Net sales and services

The Company's net sales for YTD September 2014 was PhP 6.9 billion, an increase of PhP 1.4 billion or 24% from the same period in 2013 as both the CCAC Airconditioning Consumer and Building and Industrial Solutions segments along with the CDI's domestic refrigeration business continue to deliver strong performances of the year.

CCAC. The net sales of CCAC (largely in the Air conditioning segment) was at 4.9 billion, a 21.9% increase from the same period last year. The Consumer segment grew 21% in first nine months of 2014 as the business benefited from the expanding first-time buyers' market and replacement markets. The Building and Industrial Solutions segment rose 24% supported by a growing commercial backlog and offshore sales business.

CDI. CDI net sales was at PhP 1.8 billion, an increase of 15.5% from the same period last year. This was driven by continued growth in the market and the introduction of new models.

COPI. The consolidation of the escalators and elevators business of CIC added PhP 229.3 million in sales representing Q2 and Q3 2014 figures.

Cost of sales and services

CIC's cost of sales and services (COS) increased to PhP 4.6 billion, a PhP 948.6 million or 26% year-on-year growth for the nine-month period ending September 30, 2014. This includes the reclassification of accounts such as project-specific overhead from operating expense to cost of sales in 2014.

Gross Profit

The Company registered a gross profit of PhP 2.4 billion for the first nine months of 2014, a PhP 401.1 million or 20% increase. Gross margin was at 34.2% vis-à-vis September 2013's 35.2%.

CCAC. The gross profit contribution of Air conditioning, Commercial Refrigeration and After-sales was at PhP 1.8 billion as of the first nine months of 2014 or 37.7% of sales. Of the total, Airconditioning equipment contributed 94%, After Market Sales at 5%, and the balance represents commercial refrigeration.

CDI. The domestic refrigeration business posted a significantly higher gross profit margin of 23.9% vs. 18.6% in 2013 as cost of sales and services for consumer refrigeration was contained to an 8.0% increase against a 15.5% sales growth. The improved profitability is largely a result of both cost reduction as well as the introduction of higher margin models.

COPI. The new acquisition added PhP 96.3 million in gross profit on the back of a PhP 229.3 million in sales for the period.

Operating expenses

CIC's operating expense was PhP 1.2 billion showing an expansion of 8% from PhP1.1 billion in the comparable period last year. The key drivers include increased selling and marketing activities particularly merchandiser and after-sales cost reflected in outsourced services, advertising and promotion Logistics costs particularly warehousing as well as delivery and shipping costs also show a sharp rise resulting from increased inventory as well as higher trucking rates. These were offset by a reduction in provisions for receivables impairment resulting from improved collection performance, lower warranty costs, and a reduction in transportation and travel expenses.

Other operating income

The growth in the Company's other operating income to PhP 78.8 million from last year's PhP 16.8 million was largely due to commission income from related parties as well as revaluation gains

Provision for income tax

Provisions for Income tax was PhP 398.0 million, a 43.0% increase from 2013's PhP 277.8 million attributed to higher income for the period.

Net income

Net Income was PhP 824.2 million, a 35.6% increase from the PhP 608.0 million in YTD Q3 2013. Net Income attributable to parent company was at PhP 495.0 million, 36.4% higher vis-à-vis PhP 362.8 million from the same period last year.

This translates to a Return on Average Equity of 29.4% compared to the 28.4% from year-ago figures and an earnings-per-share of 1.46 vis-à-vis 2013's 1.07.

Financial Condition

Period end of September 30, 2014 compared with the Period end of December 31, 2013

Total Assets for the period ending September 30, 2014 was PhP 7.2 billion, an increase of PhP 2.3 billion or % 48.9% from end of 2013 which was at PhP 4.8 billion. Total assets was partially boosted by the consolidation of COPI assets as of Sept 30, 2014 of PhP 584.6 million, the impact of the purchase on Goodwill of PhP 895.1 million, and the additional investment in CMIP of PhP175.5.

Net of the impact of COPI, total assets increased by 14% as a result mainly of an increase in inventory for CCAC particularly finished goods with new model introductions in the residential and light commercial segment as well as construction in progress for projects due for invoicing in Q4.

Total Liabilities at PhP 3.5 billion versus PhP 1.7 billion from December 2013 was boosted by short-term borrowings (PhP1.0 billion) incurred for the purchase of COPI as well as the increase in Trade Payables aligned with the inventory buildup in Q3.

Total equity increased to PhP 3.7billion as retained earnings expanded to PhP 1.3 billion from yearend 2013's PhP 1.0 billion. Last April 30, 2014, CIC paid PhP .59 per share as part of its regular dividend for 2014. And in Sept 8, 2014, 30% stock dividends were paid out.