HARBOR STAR
SHIPPING SERVICES, INC.

# Focused on a New Wave of Opportunities

ANNUAL REPORT 2018

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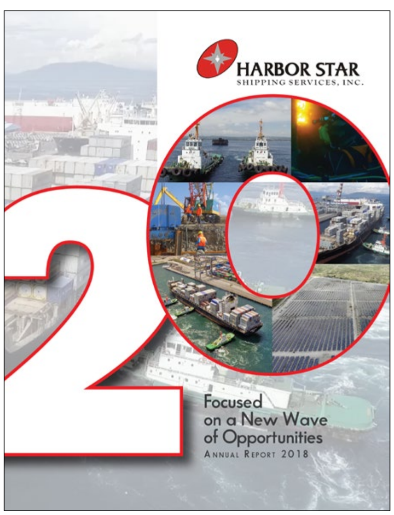
# About the Cover




Harbor Star has achieved many milestones in its two decades of leadership as a maritime service provider in the Philippines. More than just a harbor assist provider, the company has built a diversified portfolio of services that includes lighterage, towage, ship salvage, ship management, energy, diving and underwater marine works and construction among others. It is now poised for even greater success as it looks forward to more opportunities for growth and expansion in the near future.

The cover design is a reflection of Harbor Star's commitment to quality and its passion to deliver a highly-specialized and world-class line of services safely and efficiently. The images and visual elements used in the cover are all representative of the company's rich history and experience in marine services, as well as its diversification into new interests such as the energy business through Harbor Star Energy Corporation.

In spite of all its achievements, Harbor Star remains focused on sustaining its growth in the industry by engaging in a new wave of opportunities. In line with the company's vision, it is committed to further domestic and international expansion with the goal of being included among the top one percent of Philippine companies by 2023.

With the widest coverage of tugboat services in the Philippines, Harbor Star is now more than ever ready to engage in a new wave of opportunities.

# Company Profile

Harbor Star Shipping Services, Inc. ("Harbor Star" or "the Company" or "Parent Company") was registered with the Securities and Exchange Commission (SEC) on 05 July 1988 under the name "Seatows, Inc." with the primary purpose of engaging in domestic and international towage, commerce and navigation in the carriage of goods and passengers by water upon the seas, lakes, rivers, canals, bays, harbors, and other waterways.

Through the years, Harbor Star amended its Articles of Incorporation to engage in other business endeavors. It is now a company with diversified businesses interests ranging from towing to construction to energy. Its service lines include harbor assistance, lighterage, towing, ship salvage, construction, repair and maintenance works, oil and chemical spill response, diving and underwater work, and ship and crew management.

For its maritime business, Harbor Star is the leading marine services company having the widest area of service coverage and most diverse service lines. The Company raised the bar in the tug industry when it was certified as being compliant with ISO 9001 for quality, ISO 14001 for environment, and OHSAS 18001 for occupational health safety, in 2009. The Company has maintained and upgraded its certifications with DNV-GL ever since.

From its initial office in Manila in 1998, Harbor Star now has offices in Batangas, Cebu, Davao, Cagayan de Oro, Iloilo, Subic, and General Santos.

On 30 October 2013, Harbor Star's common shares were listed in the Philippine Stock Exchange following the initial public offering of 30.0% of its shares at an issue price of PHP1.88 per share.

In 2014, Harbor Star thru its subsidiary, Peak Flag Sdn Bhd., became the first Filipino tugboat company to operate in Malaysia. Its tugs render harbor assist and ship-to-ship transfer operations at Malacca, Malaysia under a service contract effective until 2020.

In 2016, Harbor Star created the Diving, Marine Maintenance and Construction Division and secured its Contractor's License with the Philippine Contractors Accreditation Board (PCAB) to engage in general construction and engineering in the Philippines. The Company obtained its Triple A PCAB License in 2018 allowing it to take on broader and more complex range of projects.

In 2017, Harbor Star formalized its entry into the energy industry when it incorporated a wholly-owned subsidiary, Harbor Star Energy Corporation (HSEC). HSEC then acquired 60% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), an entity engaged in renewable power generation. HSEC later on acquired the remaining 40% shareholdings of ADGI and 100% of ADGI's subsidiaries, ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisition allowed Harbor Star, thru HSEC, to own and control a 25 MW solar power plant project, with option to expand to 75 MW, in General Santos City.

In February 2018, Harbor Star incorporated a wholly-owned subsidiary, Harbor Star East Asia (Myanmar) Ltd. The Company intends to explore several business opportunities in the Myanmar by marketing its expertise in integrated maritime services. Myanmar as among the world's fastest growing economies.

Likewise in 2018, Harbor Star was awarded a service contract by Cebu Link Joint Venture to provide two (2) specialized barges to be used for the construction of the Cebu-Cordova Link Expressway. In the same year the Company signed a Service Contract with Philippine Associated Smelting and Refining Corporation (PASAR). Harbor Star would be the exclusive third party tug provider to assist international vessels that call at PASAR's terminal in Isabel, Leyte for a period of two (2) years.

In August 2018, the Company acquired 31% of the outstanding capital stock of tugboat operator High Energy Marine Services, Inc. (HEMSI). HEMSI is the dominant tugboat operator in the Manila South Harbor which is managed by Asian Terminals, Inc.

(ATI). The Manila South Harbor posted its highest recorded mid-year container volume this 2018.

Also in the middle of 2018, Harbor Star successfully refloated MV Jinming Hao 16, a Chinese vessel which capsized in Rawis, Samar and rendered salvage services to refloat Teras Lyza, a 50-meter lift boat.

In the same year, Harbor Star's application for a 20% rate increase was approved by the Association of International Shipping Lines, Inc. (AISL) membership for foreign vessels calling the Manila International Container Terminal. The Manila International Container Terminal is among the top revenue generating ports of the Company.

On 9 Nov 2018, Harbor Star celebrated its 20th anniversary and hosted a successful event in Sofitel Philippine Plaza Manila as a thanksgiving to its employees, customers and friends.

Also in November 2018, Harbor Star chartered M.V. Crest Opal (renamed Tug Kaph) and Barge Crest 2801 (renamed Barge Auriga) for its Cavite Gateway Terminal operations. This is the 45th tugboat and 7th barge in Harbor Star's fleet which includes one (1) LCT (Landing Craft Tanker), one (1) General Cargo Vessel, and one (1) oil spill response vessel.

In late 2018, Harbor Star lay the groundwork to further diversify its business to include real estate, which is among its secondary business purposes.

## Subsidiaries

**Peak Flag Sdn. Bhd.**

Peak Flag Sdn. Bhd. (Peak Flag) was incorporated in Malaysia on 18 October 2011to provide marine services at select high vessel traffic ports in Malaysia. The Company also seeks the opening of additional berthing areas around the region.

Peak Flag's commercial operations commenced in February 2015 with M/T Hamal operating at Malaysia's North port. Within a few months, Peak Flag brought in an additional vessel, M/T Mirzam, which operated at Kuantan Port.

In February 2016, Peak Flag secured a two (2) year contact with Ka Petra Sdn. Bhd. to provide Ship-to-Ship (STS) Operations and Harbor Assist Services at the Malacca Strait.

In 2018, Harbor Star renewed its contract with Ka Petra for another 2 years (March 2018 to February 2020), ensuring the continued presence of Harbor Star in Malaysia

Harbor Star owns a 45.0% stake in Peak Flag.

**Harbor Star Subic Corp.**

Harbor Star Subic Corp. (HSSC) was registered with the SEC on 17 September 2015. Its primary purpose is to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil-spill response and underwater marine services.

HSSC commercial operations commenced in 2016 with the arrival of its first vessel M/T Lucida.

As of December 2018, Harbor Star Subic has two deployed vessels capable of performing harbor assist: the M/T Lucida and M/T Zaniah.

Harbor Star owns 99.9% of HSSC.

**Harbor Star Energy Corp.**

On 11 May 2017, the Securities and Exchange Commission approved the incorporation of Harbor Star Energy Corporation (HSEC), a wholly-owned subsidiary of the Company. The primary purpose of HSEC is to carry on the general business of generating, distributing and storing electric power derived from solar energy, other renewable energy sources and fuels.

Harbor Star Energy Corporation (HSEC) initially acquired 60% of shareholdings in Astronergy Development Gensan, Inc. (ADGI), an entity engaged in renewable power generation.

On 12 April 2018, HSEC acquired an additional 25% of the issued and outstanding capital stock of ADGI, with the remaining 15% of ADGI shares purchased on 18 October 2018. With the acquisition, ADGI is now a wholly-owned subsidiary of HSEC. ADGI has permits, licenses and entitlements to operate 25MW solar power plant in General Santos and has an existing ERC-approved Power Purchase Agreement (PPA) with South Cotabato II Electric Cooperative, Inc. (SOCOTECO II). Under the PPA, SOCOTECO-II will purchase all of the energy output from the project.

On April 2018, HSEC entered into definitive agreement for the acquisition of 100% of the issued and outstanding capital stock of Astronergy Development F1, Inc (ADF1) and Astronergy Development F2, Inc. (ADF2).

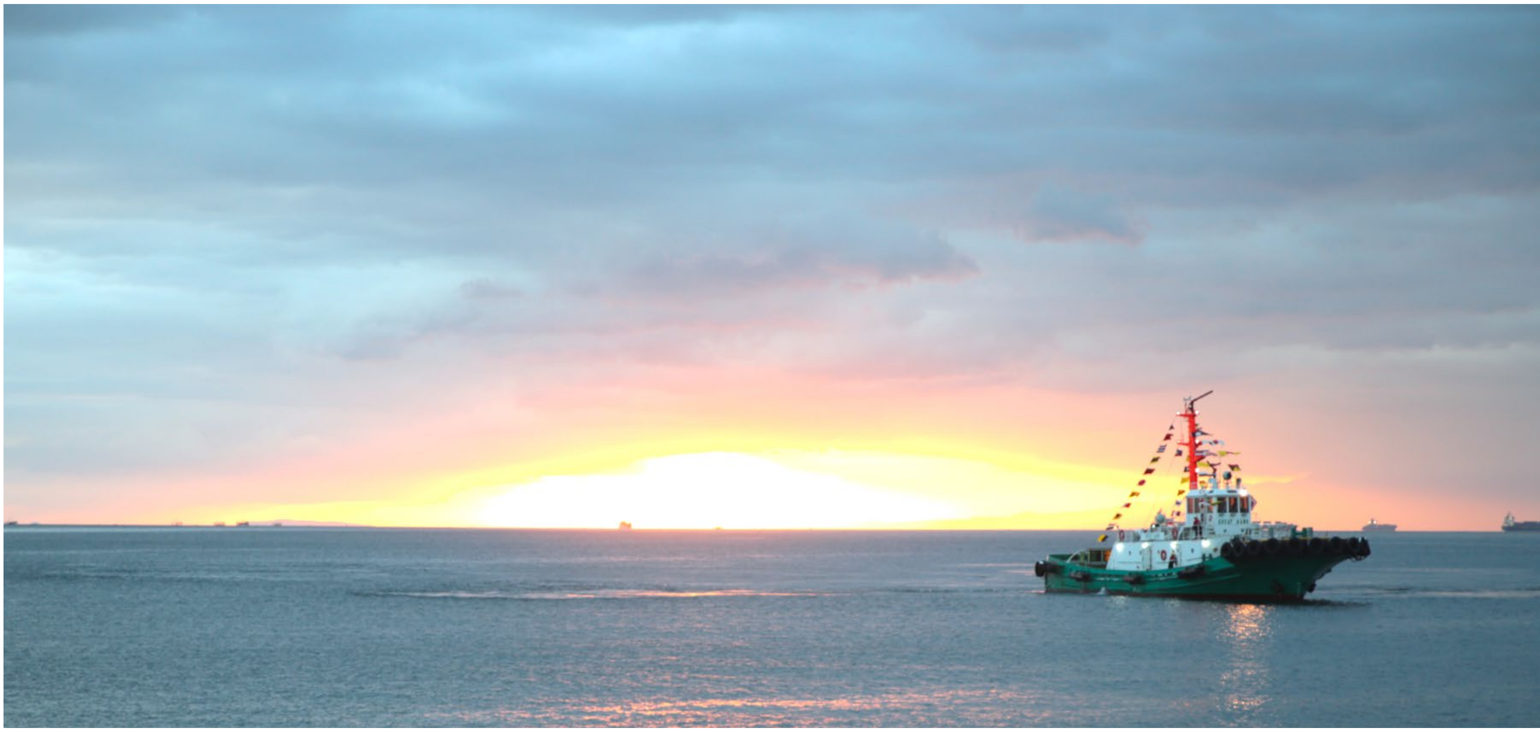
ADF1 and ADF2 are affiliates of Astronergy Development Gensan, Inc. (ADGI) and have their own ancillary permits and contracts to support the expansion of the 25MW ADGI solar power plant to 75MW. The acquisition of ADF1 and ADF2 is expected to provide additional revenues to TUGS.

Harbor Star owns 99.9% of HSEC.

**Harbor Star East Asia (Myanmar) Ltd.**

On 15 February 2018, the Republic of the Union of Myanmar approved the incorporation of Harbor Star East Asia (Myanmar) Ltd., a wholly-owned subsidiary of Harbor Star Shipping Services, Inc. (TUGS). The Company's primary purpose is to explore several business opportunities in Myanmar through its expertise in integrated maritime services.

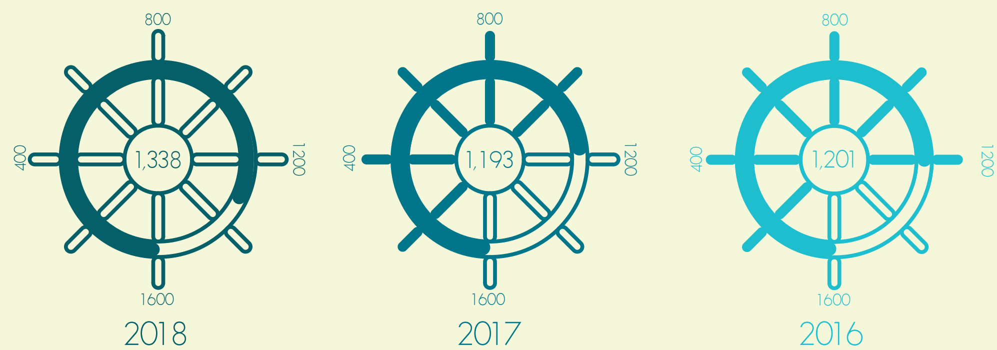
Harbor Star owns 99.98% of HSEA.



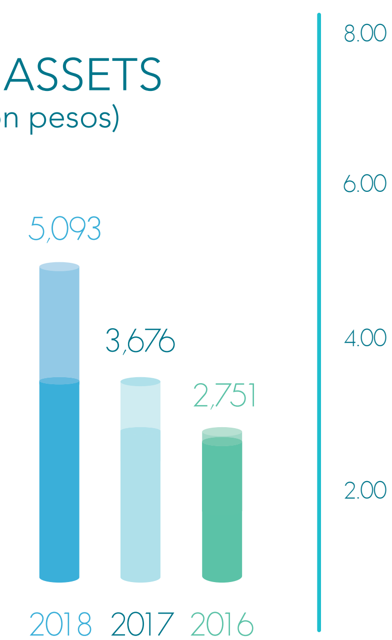
# Financial Highlights

## NET REVENUE
(in million pesos)

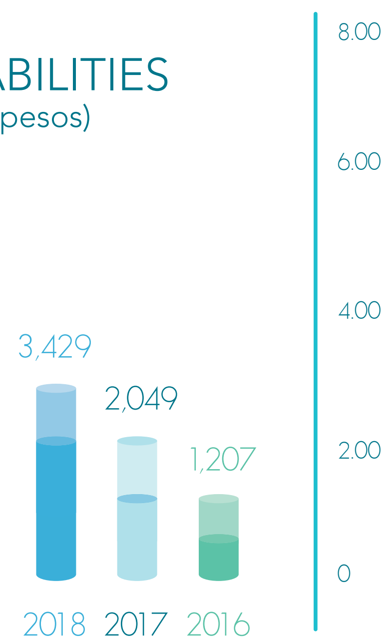

## TOTAL EXPENSES
(in million pesos)




## TOTAL ASSETS
(in million pesos)

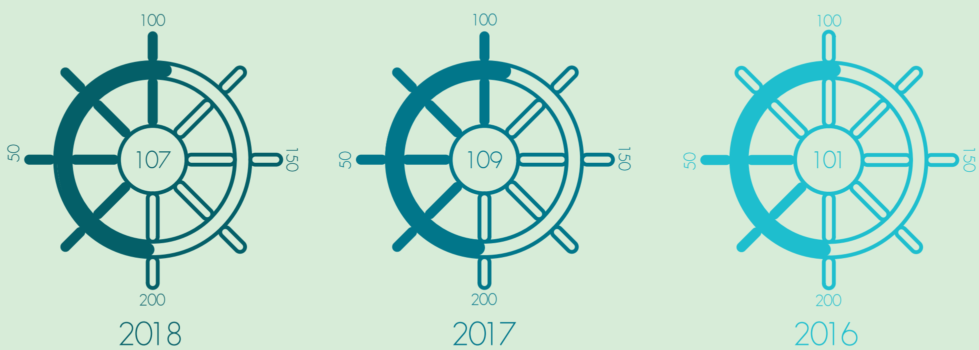



## TOTAL LIABILITIES
(in million pesos)

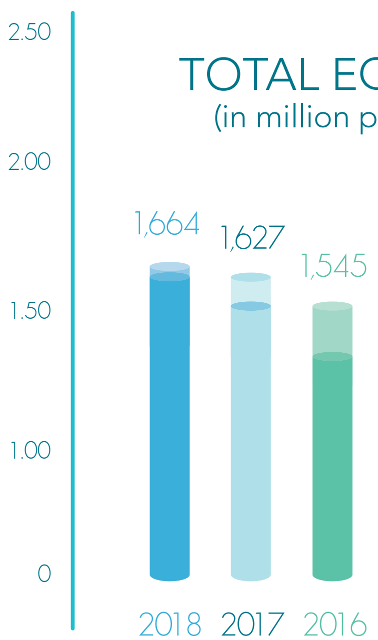


## EBITDA
(in million pesos)

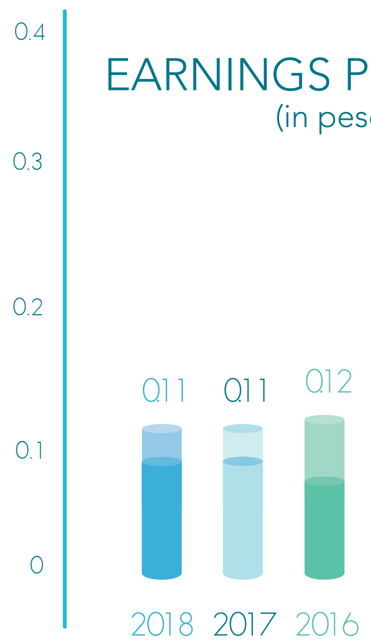

## NET INCOME
(in million pesos)




## TOTAL EQUITY
(in million pesos)




## EARNINGS PER SHARE
(in pesos)



## Mission

To deliver deversified services:

**S** afely, promptly and efficiently.

**T** aking care of the environment.

**A** ssuring equitable returns to shareholders.

**R** esponsive to employees and stakeholder's welfare.

**S** trictly observing good corporate governance.

## Vision

To build a diversified portfolio of profitable businesses and belong to the top 1% of Philippine Companies by 2023.

## Corporate Values

**H** onesty

**A** ccountability

**R** eliability

**B** enevolence

**O** rderliness

**R** esourcefulness

**S** ervice-Oriented

**T** rustworthiness

**A** daptability

**R** espect

# Message to Our Stockholders

Harbor Star marked its 20th year of operations with another strong performance as it continues to grow and diversify while enhancing its main service lines. The synergies created by our dynamic management team, our large fleet, and our unparalleled level of expertise in the maritime services industry, have allowed us to maintain a global standard of excellence as we continue to reach for our goals.

## A year of Continuing Growth

The year that passed was full of activities and achievements that indicated that Harbor Star was on target with its medium and long term growth strategy. Despite a challenging year for the shipping industry, the Company, with harbor assist as its core business, saw an 8% increase in its consolidated net revenue from PHP1.327 Billion in 2017 to PHP1.437 Billion in 2018, with an impressive 38% EBITDA margin. There was only a slight decrease in net income in 2018 in spite of the recognition of a one-time book loss of PHP57 Million from the sale of M/V Rho Cas, and a marked increase in interest payments of loans availed of as we continue to diversify our business portfolio.

Harbor Star also obtained its Triple A PCAB Contractor's License in 2018, proving that the company has the financial capacity, modern technology and highly-skilled team of engineers and professionals needed to complete a broader and more complex range of projects.

The company continued to expand its services, including the strengthening of its energy business through Harbor Star Energy Corporation's (HSEC) acquisition of the remaining shares of Astronergy Development GenSan Inc. (ADGI) – a power generation and distribution company based in Mindanao. ADGI is now a wholly-owned subsidiary of HSEC.

In the same year, Harbor Star acquired 31% of the outstanding capital stock of tugboat operator High Energy Marine Services, Inc. (HEMSI). With the acquisition of the Manila South Harbor operator, the company now has interests in the harbor assist operations of the two largest and most active terminals in the Philippines. We expect to generate significant income from the operations of HEMSI.

On the regional front, we incorporated Harbor Star East Asia (Myanmar) Limited in 2018, primarily to explore business opportunities in Myanmar and to market the group's expertise in integrated maritime services.

Our Malaysian subsidiary Peak Flag also renewed its contract with Ka Petra and will continue to provide ship-to-ship operations and harbor services in the Malacca Strait for another two years. This ensures Harbor Star's continued presence in Malaysia.

Parallel to all these developments, we constantly acquire new vessels and upgrade our technical and operational equipment in order to serve our customers better. The arrival of two new vessels in 2018, the MV Crest Opal tugboat and Crest 2801 barge, will enable us to efficiently transport containerized cargo goods from Manila and the Cavite Gateway Terminal through coastal waters using chassis roll-on and roll-off operations. This translates to a further increase in revenue generating businesses within our portfolio.


HARB
SHIPPING

## Strategically positioned for growth

Moving forward, we foresee many opportunities for further growth in the maritime sector. This is true especially since the demand for waterborne maritime business is projected to increase due to global trends such as the economic growth of developing countries and growing volume of trade within the Asian region. This would in turn help strengthen the seafaring, shipbuilding, and fishing sectors while new businesses such as maritime tourism and maritime ancillary businesses would emerge.

Locally, the public pressure to decongest traffic in highly urbanized area would create opportunities for maritime businesses as the government looks to the maritime sector as a prospect for development. Coastal and inland waterways for instance, could be utilized to lessen urban traffic congestion and pollution.

With 45 tug boats in 16 base ports and 80 sub ports in the country, the strategic positioning of our assets, the expertise of our team and our comprehensive range of services allow us to quickly respond to the needs of our customers and lessen their work load so that they can focus more on growing their own businesses.

Our emphasis on diversification also enables the group to tap new markets and revenue streams that help sustain profit and decrease overall risk. We do not lose focus on the our core business however, as we continue to strengthen our maritime services, engage with other ports and work on new lighterage and construction projects. This is true for both the Philippines and abroad as we further expand our operations in Thailand, Myanmar and Vietnam among others.

Together with our motivated, hardworking and talented team of professionals, we remain committed to the success of our customers as we continue to build capacity and engage in a new wave of opportunities.

*Geronimo P Bella, Jr*

**GERONIMO P. BELLA, JR.**

Chairman of the Board and President

# Operational Highlights

Harbor Star's net income dropped by 1.7% to PHP107 million for the year. Revenues continued to be led by the Company's core business – harbor assistance, which contributed PHP971 million or 67.6% of the consolidated service income of PHP1.4 billion.

The sustained income and profitability of Harbor Star is due in large part to the strategic deployment of its tugs throughout Luzon, Visayas, and Mindanao – a presence unmatched by its competition. . Harbor Star has long been known for having the widest tug service coverage area in the Philippine archipelago.

As of year-end 2018, Harbor Star had established operations in sixteen (16) base ports all over the country, providing services to approximately ten thousand thirty three (10,033) ships. These major ports include the Manila International Container Terminal (MICT), Bataan, Batangas, Cagayan de Oro, Davao and the newly opened branch at Iloilo.

The Company maintains and manages a fleet of: forty five (45) domestically and internationally classed tugboats; seven (7) barges; one (1) LCT (Landing Craft Tank); one (1) Cargo Vessel; and, one (1) oil spill response vessel. In total, the company has fifty five (55) vessels.


ARNEB
SECURITY LEVEL NO.1
BEWARE OF PROPELLER

# Services

Harbor Star derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) salvage, (d) towing, (e) marine construction, repair and maintenance works and (f) other marine services. Other marine services include oil and chemical spill response, diving and underwater services, and ship and crew management.

## Harbor Assistance

Harbor Star focuses its harbor assistance operations on ports with heavy vessel traffic, such as the Manila International Container Terminal, as well as the ports of Bataan, Batangas, CDO, Cebu, Davao, and Iloilo. In addition to public or open ports, Harbor Star also provides services to a number of private ports managed by corporations engaged in the oil and gas, power, and mining industries.

As of 31 December 2018, revenues from harbor assistance amounted to PHP 971 million, equivalent to 67.6% of total revenue.

## Lighterage

Harbor Star's tug and barge tandems are capable of transporting different types of cargo outside of the Philippines and within the region. For lighterage services, Harbor Star's fixed charter rate covers the use and maintenance of the vessel, crewing, insurance, and administrative support costs incurred during operations.

As of 31 December 2018, revenues from lighterage services amounted to PHP 127 million, equivalent to 8.9% of total revenue.

## Salvage

Salvage is any act or activity undertaken to assist a vessel or any other property in danger in navigable waters or in any other waters. Using international methods and standards, Harbor Star offers the following salvage services:

a. Vessels in distress – This include instances when vessels are on fire, capsized or sinking vessels, among others, that require rescuing.

b. Wreck removal – This include refloating of vessels that ran aground, retrieval of vessels, among others.

c. Wayward vessels – This pertains to breakaway or abandoned vessels drifting afloat and wandering into waters that are vulnerable to collisions and other maritime accidents.

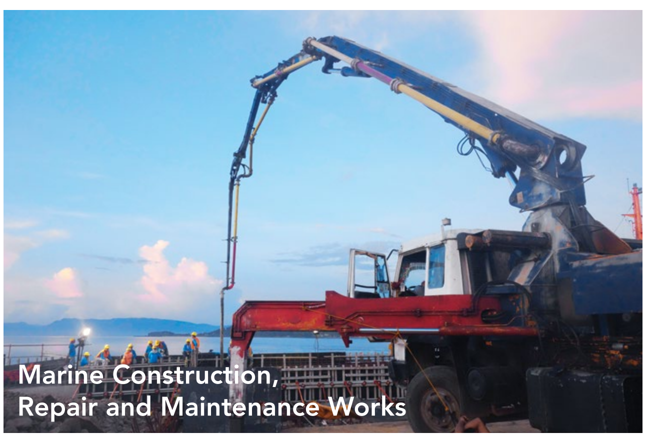
As of 31 December 2018, revenues from salvage operations amounted to PHP 210 million, equivalent to 14.6% of total revenue.

Harbor Assistance

Lighterage

Salvage

Towing


Marine Construction, Repair and Maintenance Works

Other Marine Services

## Towing

Harbor Star provides services in various stages of the towing cycle, from planning activities to the actual towage operation. The company provides two (2) types of towing services:

a. Regular towing – when a tugboat is chartered to tow a vessel or barge from one port to another port.

b. Emergency towing – when a vessel in distress needs towing service.

As of 31 December 2018, revenues from towing services reached to PHP 19 million, equivalent to 1.3% of total revenue.

## Marine Construction, Repair and Maintenance Works

Harbor Star strengthened its marine ancillary services by offering port construction, pier repair, port-related development, road development, and other non-residential construction.

## Other Marine Services

Harbor Star's marine and other ancillary services include:

a. Oil and Chemical Spill Response
b. Ship repairs
c. Buoy construction deployment and maintenance
d. Diving services, which includes underwater repairs, and Single Buoy Moorings (SBM) and repair
e. Ship and crew management
f. Fire fighting
g. Offshore tug services

As of 31 December 2018, revenues from marine construction, repair and maintenance works and other marine services amounted to PHP 108 million, equivalent to 7.6% of total revenue.

# Fleet List

## TUGBOATS

M/T ACHERNAR
M/T ADARA
M/T AGENA
M/T ALPHARD
M/T ALUDRA
M/T ARNEB
M/T ATRIA
M/T AVIOR
M/T CANOPUS
M/T CAPELLA
M/T DENEB
M/T DUBHE
M/T ENIR
M/T GALINA
M/T GIEDI
M/T HOMAM
M/T KEID
M/T KRAZ
M/T LUCIDA
M/T MARKAB
M/T MERAK
M/T MERGA
M/T MIMOSA
M/T MINKAR
M/T MIRA
M/T MIZAR
M/T PROCYON
M/T PROPUS
M/T REGULUS
M/T RIGEL
M/T SARGAS
M/T SARIN
M/T SCHEDAR
M/T SHAULA
M/T SIRIUS
M/T SKAT
M/T SPICA
M/T TABIT
M/T TYL
M/T VEGA
M/T WEZEN
M/T ZANIAH

## BARGES

Barge AQUILA
Barge CENTAURUS
Barge CORVUS
Barge FORNAX
Barge HYDRUS
Barge KENRAM
Barge LYNX

## MALAYSIA TUGBOATS

M/T HAMAL
M/T MIRZAM

## OTHER VESSELS

LCT DRACO
M/V CASSOPEIA
M/V WISE

## CHARTERED VESSELS

M/T CREST OPAL (CAPH)
M/T GREAT HAWK
Barge CREST 2801 (AURIGA)

# Safety, Quality, Maintenance and Compliance with Environmental Laws

Placing utmost importance on excellence, quality service and safety, Harbor Star continues to be recognized both here and abroad for operations that are at par with global industry standards.

Harbor Star has once again retained its international certifications for its management systems, specifically International Organization for Standardization (ISO) 9001:2015 Certification-Quality Management System, ISO 14001:2015 Certification-Environmental Management System and OHSAS 18001:2007 Certification-Occupational Health & Safety Management System. All of the Company's major processes are evaluated constantly, and continuous improvements are implemented to keep operations in line with international standards. The Company consistently maintains strict adherence to ISO standards to ensure quality and safety in all its services. In addition to these, Harbor Star also received the Integrated Management System (IMS) Certification for completing the three (3) certifications from DNV GL.

Moreover, the Company has an established maintenance and dry docking program for its vessel fleet to reduce the potential for engine breakdown, engine overhauls, and other types of repairs, and to ensure that all vessels are in seaworthy condition at all times.

Harbor Star recognizes the value of its people, which is why it has committed itself to creating the safest work environment possible—one that is beneficial to achieving maximum performance. This is reflected in the Department of Labor and Employment's (DOLE) issuance of the Certificate of Compliance to Occupational Safety and Health Standards and the Certificate of Compliance to General Labor Standards, both signifying the Company's adherence to DOLE's stringent requirements. Harbor Star also conducts various training programs in the areas of employee development, safety and health and maritime-related training among others.

In addition to its various certifications and recognitions, the Company ensures compliance with all environmental laws and regulations of the Department of Environment and Natural Resources (DENR) and the Philippine Coast Guard (PCG).

Harbor Star continues to reach new heights by focusing on the welfare of its people and by providing first-class services to its customers—all while contributing to sustainability and to the preservation of the environment.

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56677-2009-AQ-PHL-JAS-ANZ
Initial certification date: 15, July, 2003
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 14, August, 2021

This is to certify that the management system of

**Harbor Star Shipping Services, Inc.**
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Quality Management System standard:
**ISO 9001:2015**

This certificate is valid for the following scope:
**Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.**

Place and date: **Singapore, 17, September, 2018**

For the issuing office: **DNV GL – Business Assurance 16 Science Park Drive, DNV GL Technology Centre, Singapore 118227**

**Hemal Pushpendra Trivedi**
Management Representative

Lack of fulfilment of conditions as set out in the Certification Agreement may render this Certificate invalid.
ACCREDITED UNIT: DNV GL Business Assurance Australia Pty Limited., Level 7, 124 Walker Street, North Sydney NSW 2060, Australia
TEL:61 299 00 9500. assurance.dnvgl.com

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56678-2009-AE-PHL-JAS-ANZ
Initial certification date: 14, August, 2009
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 14, August, 2021

This is to certify that the management system of

**Harbor Star Shipping Services, Inc.**
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Environmental Management System standard:
**ISO 14001:2015**

This certificate is valid for the following scope:
**Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.**

Place and date: **Singapore, 17, September, 2018**

For the issuing office: **DNV GL – Business Assurance 16 Science Park Drive, DNV GL Technology Centre, Singapore 118227**

**Hemal Pushpendra Trivedi**
Management Representative

Lack of fulfilment of conditions as set out in the Certification Agreement may render this Certificate invalid.
ACCREDITED UNIT: DNV GL Business Assurance Australia Pty Limited., Level 7, 124 Walker Street, North Sydney NSW 2060, Australia
TEL:61 299 00 9500. assurance.dnvgl.com

MANAGEMENT SYSTEM CERTIFICATE

Certificate No: 56680-2009-AHSO-PHL-JAS-ANZ
Initial certification date: 14, August, 2009
Expiry date of last certification cycle : 14, August, 2018
Date of last recertification : 28, April, 2018
Valid: 17, September, 2018 - 12, March, 2021

This is to certify that the management system of

**Harbor Star Shipping Services, Inc.**
2224 A. Bonifacio St., corner Pres. Sergio Osmena Highway, Makati City, Philippines and the sites as mentioned in the appendix accompanying this certificate

has been found to conform to the Occupational Health and Safety Management System standard:
**OHSAS 18001:2007**

This certificate is valid for the following scope:
**Provision for Tugboat Services, Lighterage, Oil and Chemical Spill Response, Salvage and Diving Services.**

Place and date: **Singapore, 17, September, 2018**

For the issuing office: **DNV GL – Business Assurance 16 Science Park Drive, DNV GL Technology Centre, Singapore 118227**

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Management Representative

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TEL:61 299 00 9500. assurance.dnvgl.com

# Corporate Governance


Harbor Star is committed to conducting all aspects of its business to the highest ethical and legal standards. On 11 December 2017, the Board of Directors adopted a revised Manual on Corporate Governance in order to monitor and assess the Company's compliance with leading practices on good corporate governance as specified in the Manual and relevant SEC circulars and memoranda.

The Board of Directors, Management, Employees and Shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

## BOARD OF DIRECTORS

Compliance with the principles of good corporate governance shall start with the Board of Directors. The Board shall act in a manner characterized by transparency, accountability and fairness. It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders.

The Board shall take care of the interests of the shareholders and protect their investment through the implementation of sound corporate policies and plans while maintaining its independent assessment on Management's performance.

The Chairman of the Board is responsible for designating a Compliance Officer to ensure that the Company adheres to the Manual and to corporate best practices.

## INDEPENDENT DIRECTOR

An independent director means a person who, apart from his/her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a director of the Corporation.

## EXECUTIVE COMMITTEE

The Executive Committee, when the Board of Directors is not in session, may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to: (a) approval of any action for which stockholders' approval is also required; (b) the filling of vacancies in the Board of Directors; (c) the amendment or repeal of these By-Laws or the adoption of new By-Laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable; (e) a distribution of cash dividends to the stockholders; and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

## AUDIT COMMITTEE

The Audit Committee assists the Board in fulfilling its oversight responsibility of the Company's corporate governance processes relating to the: Financial statements and financial reporting process; Internal control systems; Internal and external auditors; Compliance with accounting standards, legal and regulatory requirements, including disclosure policies and procedures; Risk management policies and processes; and Business practices and ethical standards. The Audit Committee also ensures that, in the performance of the work of the Internal Auditor, it shall be free from interference by outside parties.

## CORPORATE GOVERNANCE COMMITTEE

The Governance Committee assists the Board with respect to governance matters, most especially in the implementation of practices and standards to be observed in an effective stewardship environment. The Committee plays a critical role in fostering a healthier and better culture among the Board Members and Management. Part of the Committee's role is to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. The Committee also establishes a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

Harbor Star will continue to improve its corporate governance, systems and processes to enhance adherence to practices of good governance.

For further details about the Corporation's governance practices, kindly refer to the Corporation's Annual Corporate Governance Report (ACGR).

# Corporate Social Responsibility

Environmental care and the protection of communities' welfare form a significant part of Harbor Star's mission in society. It therefore consistently invests its resources and manpower into environmental protection programs as well as the restoration of the country's marine resources. Going beyond numbers and figures, Harbor Star has ingrained sustainability and inclusive growth in all of its activities and operations

## ADOPT-A-MANGROVE PROGRAM

The Adopt-a-Mangrove program is an initiative of Harbor Star that is focused on marine life conservation as well as on the safety of people residing in coastal areas.

The company has formed an invaluable partnership with Barangay Banoyo in San Luis, Batangas for instance, that has dated back to 2011 -- when Harbor Star employees, together with the officials of the barangay, Provincial Government Environment and Natural Resource Office (PGENRO), and Coastal Conservation and Education Foundation, Inc. (CCEF) planted the first 5,000 batch of mangrove seedlings.

Aside from the planting of mangrove seedlings, Harbor Star also works with the local government to conduct learning sessions such as workshops, lectures, and awareness seminars for the community.

The company will continue to support environmental sustainability programs moving forward, be it through mangrove planting or by educating stakeholders about the importance of protecting our ecosystem.


## INTERNATIONAL COASTAL CLEAN-UP

In addition to the Adopt-a-Mangrove program, Harbor Star also took part in the International Coastal Clean-up in Manila Bay last September 22, 2018 -- wherein a total of 136 kilograms of waste was collected by Harbor Star employees and volunteers.

The participation of Harbor Star in this program is part of the company's advocacy to protect rivers, coasts and waterways, as it encourages its employees to take an active role in the preservation and conservation of our marine resources.

Putting into action its mission to give back to the environment, Harbor Star intends to participate in succeeding coastal clean-up programs as more of its employees and their families get involved. Increased participation will create a more significant impact and will also provide more opportunities for families to bond for a worthy cause.

# 20th Anniversary

Since its founding in 1998, Harbor Star Shipping Services, Inc. (HSSSI) has consistently performed well and delivered strong results each year. This is due in large part to its team of skilled professionals, its partners and stakeholders who have all contributed to the company's success.

With its 20 solid years in the business, Harbor Star continues to grow and expand its operations and services nationwide. The Company also widens its reach across Asia with a strong business presence both in Myanmar and Malaysia.

Moving forward, Harbor Star is poised for an even brighter future as it plans to take on new opportunities for growth and expansion here and abroad.


Harbor Star marked its 20th founding anniversary by hosting an intimate dinner party last November 9, 2018 at the Sofitel Philippine Plaza.

Harbor Star Chairman of the Board and President Geronimo P. Bella, Jr. welcomes everyone to mark the start of the company's 20th anniversary celebration.

Vice-President Ricardo Rodrigo P. Bella *(far left)*, 20-year Loyalty Awardees *(starting second from the left to right)* Commercial Manager Edwin G. Amejana, MDM2 Victor S. Sisonrojas, Radio Operator Anthony P. Soleño , General Services Manager Elionarda L. Refil and President Geronimo P. Bella, Jr. *(far right)*.

# Board of Directors Profile

## Geronimo P. Bella, Jr.

59, Filipino, Chairman of the Board and President. Mr. Bella, Jr. is the Chairman of the Board and President of Harbor Star since 2006. He is also the President and Director of ASTRONERGY Development Gensan, Inc. (ADGI), ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), Harbor Star Subic Corp. (HSSC), and Harbor Star East Asia (Myanmar) Ltd. (HSEA). Prior to his present position, he worked in Transpacific Towage, Inc. from 1978 to 1988 and Keppel Smit-Transpacific from 1988 to 2000. Mr. Bella, Jr. is currently the President for the Harbor Tugowners Association of the Philippines, Inc. and a director in Harbor Star Subic Corp., and Peak Flag Sdn. Bhd. He obtained his Bachelor of Science degree in Commerce, Major in Business Management from De La Salle University in 1983

## Ricardo Rodrigo P. Bella

53, Filipino, Director and Vice President. Mr. Bella is the Vice President of Harbor Star. He is the Director and Vice President of ASTRONERGY Development Gensan, Inc. (ADGI), ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), and Harbor Star Subic Corp. (HSSC). He is also the Director of Harbor Star East Asia (Myanmar) Ltd (HSEA). Mr. Bella participated in various training seminars in the fields of corporate management, shipbuilding repair and maintenance, and other related disciplines, locally and abroad. Prior to his role as Vice President of Harbor Star, he served as the Vice President of Transpacific Towage, Inc. from 1983 to 1998. Currently, he is a director in various corporations, namely, Harbor Star Subic Corp., Great Eastern Tug Corporation, Bellridge Resources, Inc., and Mearnz Green Technology Proponents, Inc. He pursued undergraduate studies in Business Management at De La Salle University in 1985.

## Ignatius A. Rodriguez

49, Filipino, Director, Corporate Secretary, Chief of Staff to the President, Chief Information Officer and Corporate Information Officer. Mr. Rodriguez is a Director and the Corporate Secretary of Harbor Star and is the Chief of Staff to the Office of the President. He is also currently the Corporate Information Officer and acting Chief Information Officer. Mr. Rodriguez is a Director and Corporate Secretary of Harbor Star Subic Corp. (HSSC) , Harbor Star Energy Corporation (HSEC), and director of Peak Flag Sdn. Bhd. He served as legal and business consultant to several businesses engaged in telecommunications, shipping, realty, foods, aviation, transport, and property, among others. Mr. Rodriguez earned his Juris Doctor from the Ateneo Law School in 1996 and his Master in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008.

## Ramon C. Liwag

62, Filipino, Director. Mr. Liwag serves as a director of Harbor Star Shipping Services, Inc. Currently, he is the President of Alliance Security and Logistics Solutions, Inc., Member of the Philippine Military Academy Class of 1979 and served as the 23rd Commandant of the Philippine Coast Guard from 2011 to 2012. He was the commander of six (6) Coast Guard Districts and commanded five (5) Coast Guard Field Stations. He served as Chairman in the PCG's Deputy Commandant for Operations from 2008 to 2011 and the Chairman of the PCG's Board of Marine Inquiry (BMI). He was awarded with two (2) Legion of Honor (Degree of Maginoo); Gawad sa Kaunlaran Medal; Coast Guard Outstanding Achievement Medal; Six (6) Distinguished Service Stars Medals, Military Merit Medals; Military Commendation Medals, Insurgency Campaign and Rescue and Relief Medals; and scores of Plaques / Certificates of Merit / Appreciation and Letters of Commendation in various capacities and positions both in government and civic organizations.

He graduated Bachelor of Science degree in Military Education from the Philippine Military Academy in 1979. In 1996, he then took his Master's degree in M.S in Maritime Safety Administration from the World Maritime University in Sweden.

## Ryota Nagata

54, Japanese, Director. Mr. Nagata serves as a Director of Harbor Star Shipping Services, Inc. (HSSSI), Harbor Star Subic Corp. (HSSC), and Harbor Star Energy Corporation (HSEC). Currently he is the President of Philster Corporation. He started his career as a Sales Representative in Kirin Brewery Company Limited from 1987 to 1990. He was a Sales Representative from 1990 to 1996 in Naigai Corporation. In 2001 to 2008, he became the Vice President of Naigai Corporation and eventually became the President and CEO from 2008 to 2011. He obtained his Bachelor of Arts degree in Politics in Keio University, Japan in 1987.

## Jose S. Navarro

66, Filipino, Independent Director. Mr. Navarro serves as an Independent Director of Harbor Star. He was the past director of the University of Asia and the Pacific's Continuing Management Educational Program and Entrepreneurial Management Program. Currently, he is also an Independent Director for the Armed Forces and Police General Insurance Corporation (AFPGEN) and serves as a consultant for Raquel Pawnshops, Inc. Mr. Navarro is also an advisor to the National Advisory Group for Police Transformation and Development and to Raquel Group of Companies. He is also a member of the Philippine Council on Foreign Relations (PCFR) and the Advisory Board of the National Police Commission (NAPOLCOM). Before joining the university, he was a Senior Vice-President at the Philippine Fuji Xerox Corporation, and retired in 1998 as Chief Operating Officer. He was a director for Hibix Corporation and became a lecturer in Entrepreneurship and Innovation at the University of Western Australia, Graduate School of Business from 2003-2005.

He acquired his degree in Accounting from the Philippine School of Business Administration in 1980. He then completed post graduate studies at the University of Asia and the Pacific in 1997, where he attended the Strategic Business Economics Program, a Masteral program for top business executives.

## Manuel H. Puey

71, Filipino, Independent Director. Mr. Puey has been appointed as one of the Independent Directors of Harbor Star. Prior to this appointment, Mr. Puey served as President and CEO of PNOC Shipping from December 2006 until May 2011. He also held various positions at different shipping and maritime companies. In 1971, he was the Chairman and CEO of Intermodal Shipping, Inc. He also served as Chairman of Skanfil Maritime, Inc. in 1975. He acted as President of Transport Systems, Inc. and Hi Marketing Corp. in the years 1972 and 1974. He also served as Managing Director in Tokyo Pacific Shosi KK in 1973. At present, Mr. Puey is the Chairman and President of Anna Cristina Farms, Anna Cristina Properties, Inc., Novi's Enterprises, Inc. He is also the current President of Negros Poultry Raisers Association, and the United Negrense Sugar Planters Association, Inc. Mr. Puey obtained degrees in Ship Management from Galbraith School of Shipping in London sometime in 1979.

# Board of Directors

GERONIMO P. BELLA, JR.
Chairman of the Board

RICARDO RODRIGO P. BELLA
Director

IGNATIUS A. RODRIGUEZ
Director/Corporate Secretary

**RYOTA NAGATA**
Director

**MANUEL H. PUEY**
Independent Director

**RAMON C. LIWAG**
Director

**JOSE S. NAVARRO**
Independent Director

# Key Officers

**GERONIMO P. BELLA, JR.**
President

**RICARDO RODRIGO P. BELLA**
Vice President

**IGNATIUS A. RODRIGUEZ**
Chief of Staff/
Corporate Information Officer/
Corporate Secretary

**ADELIA D. VASQUEZ**
Chief Finance Officer/
Compliance Officer

**DANY CLEO B. USON**
Treasurer/Investor Relations Officer/
Business Development Manager -
Asia Pacific

# Management Team Profile

## Adelia D. Vasquez

50, Filipino, Chief Finance Officer and Compliance Officer. Ms. Vasquez is the Chief Finance Officer and Compliance Officer of Harbor Star. She is the Director and Treasurer of ASTRONERGY Development Gensan Inc (ADGI), ASTRONERGY Development F1 (ADF1), and ASTRONERGY Development F2 (ADF2), Harbor Star Energy Corporation (HSEC), and Harbor Star Subic Corp (HSSC). Ms. Vasquez worked in the audit division of SyCip, Gorres, Velayo & Co. from 1987 to 1993 and from April 1998 to October 1999 as Audit Executive. She started as Finance Manager, promoted to AVP for Operations and then Head of Internal Audit in the Mondragon Group of companies from 1993 to 1998. She was also a Consultant for Controllership & Corporate Services in Manila Consulting & Management Company, Inc. from 1999 to 2007. From 2008 to February 2010 she served as the Project Accounting Services Head in Fulton Hogan Limited in New Zealand. She was the Assistant Vice President for Treasury at Alphaland Development, Inc. from March 2010 to August 2011 and thereafter, joined Filinvest Land, Inc. on a brief stint as Vice President-Comptroller prior to joining Harbor Star. She obtained her degree in Bachelor of Science in Commerce Major in Accountancy from De La Salle University in 1987. In 2008, she took business modeling courses in University of Auckland and pursued postgraduate units in Corporate Finance and Investments in Massey University in 2009. Ms. Vasquez is a Certified Public Accountant.

## Dany Cleo B. Uson

57, Filipino, Treasurer, Business Development Manager, and Investor Relations Officer. Mr. Uson is the Treasurer, Business Development Manager - Asia Pacific, and Investor Relations Officer of Harbor Star. He is also Director of ASTRONERGY Development Gensan Inc (ADGI) ASTRONERGY Development F1 (ADF1), ASTRONERGY Development F2 (ADF2), and Harbor Star East Asia (Myanmar) Ltd (HSEA). Mr. Uson served as Harbor Star's Budget Committee Head, Funds Planning & Financing and Marketing Manager before becoming the Corporate Planning Manager. He was involved in the Sales and Marketing department of a number of companies prior to his position at Harbor Star, including Servequest, Inc., Capitol Wireless, Inc., PNB Securities, Inc., G.K. Goh Securities Philippines, Fortune Life and General Insurance Co., and RGV Real Estate Center. He also worked as a Stock Trader for AAA Southeast Equities, Inc. from 1990 to 1996. Mr. Uson obtained his Bachelor of Science degree in Marketing Management and Applied Economics from De La Salle University in 1983. He took up units in MS Computational Finance at De La Salle University.

## Lorenzo C. Caranzo

52, Filipino, Operations Division Head. As of 1 October 2015, Captain Caranzo is appointed Operations Division Head of Harbor Star. He is also the Director and Operations Head of Harbor Star Subic Corp (HSSC). Prior to his appointment, he served as the Company's Safety Manager from 2006 to 2015 and served as a Captain and Master for Harbor Star from 2004 until 2006. Prior to his stint with the Company, Capt. Caranzo was the Assistant Harbor Master for Philippine National Oil Company – Petrochemical Development Corp. from 2000 to 2003, and Master Chief Mate for Loadstar International Shipping Company, Inc. from 1990 to 2000. Currently, Captain Caranzo is also a director of Harbor Star Subic Corp. He obtained his Bachelor of Science degree in Marine Transportation from Cebu Central Colleges in 1989.

## Emmanuel L. Falcunit

40, Filipino, Operations Manager - Fleet. Capt. Falcunit is the Operations Manager of Harbor Star. He is a homegrown employee of the company, having started as a Cadet way back 2002. Also in the same year, he went onboard as a Deck Cadet. In 2003, he officially started his career as a seaman having been a Deck Rating onboard tug. Later on, he became tug master from 2006 to 2009. Then, he went back to head office to become a Safety Officer from 2009 to 2013. He again went back onboard via Harbor Star's AHTS vessel, M/V Rho Cas, as a 2nd Mate in 2013 and later on got promoted as Chief Mate. He officially became a full-fledged Captain in 2016. By 2018, he was assigned back to head office to take on the position of Operations Manager. Capt. Falcunit obtained his degree in B.S. Marine Transportation from the Philippine Merchant Marine School. He got his Marine Deck Officer license in 2005 and got his Master Mariner license in 2016.

## Rudiardo L. Arcellana

54, Filipino, Operations Manager – Salvage, Towage, Lighterage & Special Projects. Captain Arcellana is the Operations Manager for Salvage, Towage, Lighterage & Special Projects of Harbor Star. Prior to joining Harbor Star, he served as a Master Mariner in various vessel types, trading internationally. He also worked as a Crewing Manager in Blue Manila, Inc. Captain Arcellana completed his Bachelor of Science in Marine Transportation at Philippine Merchant Marine Academy in 1985. He is a licensed Master Mariner, with diverse professional experience in Seafaring for thirty two (32) years. He is also a MARINA Licensed instructor for IMO course 6.09 and Assessor for IMO course 3.12. His land-based experience includes crew management, technical training, and dry-docking of manned vessels.

## Edwin G. Amejana

54, Filipino, Commercial Manager. Mr. Amejana serves as the Commercial Manager of Harbor Star. Prior to his present position in the Company, he was the Operations Officer-in-Charge from 1999 to 2006 and became the Business Development Officer in 2006 to 2008. He obtained his degree in Bachelor of Science major in Marine Transportation in Iloilo Maritime Academy in 1983.

## Jose Q. Santos

54, Filipino, Operations & Commercial Manager – Feeder Services. Mr. Santos is the Operations & Commercial Manager of the Feeder Services team of Harbor Star that operates in the Cavite Gateway Terminal. Mr. Santos started his career as a Nike Athletic Wear Consultant for Mondragon Industries from 1985 to 1987. Then he went onboard MOF Company, Inc. from 1988 to 1992, serving as Operations Team Member and later on as the Marketing Team's Pricing Officer. In 1992, he had a brief stint as Documentation Supervisor for CNT Worldwide Logistics, Inc. In the same year, he became a Documentation Team Member for Aboitiz Transport System which is under Hapag-Lloyd Phils., Inc. In 1994, he became an Account Executive and later on, Trade Lane Manager–Inter Asia for the same company. He, again, took even larger responsibilities, becoming the Sales & Marketing Manager OIC from 1999 to 2003 before finally taking over the position in full capacity as Sales & Marketing Manager from 2003 to 2011. In 2011, he took his last stint with Hapag-Lloyd Phils., Inc. as Sales & Marketing Manager, this time, under 2GO Group, Inc., before arriving in Harbor Star in 2018. Mr. Santos obtained his degree in BSBA – Major in Accountancy from the Philippine School of Business Administration.

## Ernesto F. Calderon

45, Sales and Marketing Manager. Mr. Calderon has over 20 years of experience in sales and marketing in Fast Moving Consumer Goods (FMCG) such as hardware and health and care products. Prior to joining Harbor Star, he was the General Manager of A.I.I. Systems, Inc. (supplier of Carbon Steel Pipes, Water Pumps and Chemical Cleaning Agents and various services). He completed his degree in Bachelor of Science in Business Management from San Beda College in 1994.

## Leofrank P. Castrence

58, Filipino, Technical Manager. Mr. Castrence is the Technical Manager of Harbor Star. He is a licensed Chief Engineer. He has been distinguished in the field of ship and crew management for both local and international vessels. He held the positions of PMS Superintendent, Training Superintendent, and Crewing Manager in various companies like Abojeb Company, Inc., Thome Ship Management, and TSM Shipping, Inc. Mr. Castrence is a graduate of BS in Marine Bachelor of Science in Marine Transportation Major in Steam Engineering at the Philippine Merchant Marine Academy.

## Lito Brando A. Topacio

52, Filipino, Diving, Marine Maintenance and Construction Manager (DMMC) Manager of Harbor Star. Mr. Topacio is a registered Civil Engineer and has 12 years of experience in UAE; 3 years in Singapore and 12 years in the Philippines with experience in managing major construction projects from design concepts, project initiation, planning & execution. He completed his degree in Civil Engineering at Technological University of the Philippines in 1986. He took up units in MS Civil Engineering at the Technical University of the Philippines.

## Jay-R L. Castillo

33, Filipino, Occupational, Health, Safety, Environment (OHSE) Manager. Mr. Castillo is the OHSE Manager of Harbor Star. Prior to his appointment, he served as the Company's Safety Officer from 2014 to 2015. Before joining the Company, he served as a Occupational Health and Safety Practitioner in various companies such as Atlantic Gulf and Pacific of Manila, Inc., Asian Terminals, Inc., and Toshiba. Mr. Castillo obtained his Bachelor of Science in Mechatronics Engineering at Batangas State University in 2007.

## Virginia May P. Bella

44, Filipino, Legal Services Manager. Ms. Bella is the Legal Services Manager of Harbor Star. She is also a director and Corporate Secretary of ASTRONERGY Development Gensan, Inc. (ADGI), ASTRONERGY Development F1 (ADF1), and ASTRONERGY Development F2 (ADF2). Ms. Bella is currently the director of Mearnz Green Technology Proponents, Inc. and Corporate Secretary of Belleridge Resources, Inc. Prior to her present positions, Ms. Bella served as Managing Director of Earthlink Resources, Inc, Managing Director of Luscent Oil Services, and Legal Associate at Rondain & Mendiola Law Offices. Ms. Bella also served as President of Bellport Shipping Corporation. She obtained her degree of Bachelor of Science Major in Biology in De La Salle University in 1993 and pursued her degree in Bachelor of Laws from San Beda College in 2000.

## Maricel V. Blanco

55, Filipino, Internal Audit Manager. Ms. Blanco is the Internal Audit Manager of Harbor Star. Prior to her present position in the Company, she worked in the Internal Audit Department of Executive Optical, Carlos J. Valdes & Associates, CPAs, and Capwire Telecommunications. She obtained her Bachelor of Science degree in Business Administration, Major in Accounting from the University of the East. She passed the Government Licensure Board Examination for Certified Public Accountants in 1988.

## Elionarda L. Refil

50, Filipino, General Services Department Manager. Ms. Refil is the General Services Department Manager of Harbor Star. She is also a Director of Harbor Star Subic Corp (HSSC). Prior to her present position in the Company, she was the HR Manager and Executive Secretary of the Company from 2006 to 2009. She obtained her Bachelor of Arts Major in Journalism in 1988 at Manuel L. Quezon University. She took units in Communication Management in the Pamantasan ng Lungsod ng Maynila in 2008 and completed Ateneo's Leadership and Management Development Program (LMDP) in 2010.

## Cecilia Melany G. Natividad

40, Filipino, Accounting Manager. Ms. Natividad is the Accounting Manager of Harbor Star. Prior to her present position in the Company, she was an Accounting Manager in Alphaland Development, Inc. She also served in the same capacity in Eton Properties Philippines, Inc. She also worked in the Finance Department of Deutsche Knowledge Services Pte. Ltd., Temic Automotive Philippines, Inc., Karrivin Holdings Corporation and United Colors of Benetton in the early years of her career. Ms. Natividad has over sixteen (16) years of experiences in all facets of finance and accounting in various industries. She obtained her Bachelor of Science in Accountancy in Polytechnic University of the Philippines where she also graduated Cum Laude. She passed the CPA Licensure Examination in 2003.

## Effel T. Santillan

42, Filipino, Human Resource Manager. Ms. Santillan is the Human Resource Manager of Harbor Star. Ms. Santillan has been an HR practitioner for the past fifteen (15) years. Prior to joining Harbor Star, she worked as an Employee Administration Manager and later headed the crew retention team of Aboitiz Jebsen Company, Inc. as Crew and Family Welfare and Protection and Indemnity Manager. Aside from her 5-year experience in the shipping industry, she also worked in various industries like BPO, IT, and retail. Ms. Santillan obtained her Bachelor of Science degree in Psychology from Pamantasan ng Lungsod ng Maynila in 1998.

## Maria Elizabeth Jean E. Bella

30, Filipino, Procurement Officer-in-Charge. Ms. Bella is the Procurement Officer-in-Charge of Harbor Star. Prior to her appointment, she was the Company's Management Trainee then eventually served as the Special Assistant to the Operations Division Head from 2013 to 2015. Before joining Harbor Star, Ms. Bella worked for Topcon Positioning Systems, Inc. as an International Sales Assistant. She completed her degree in International Business at St. Mary's College of California in Moraga, California in 2012. She also received a certification for taking courses in Naval Architecture from Lloyd's Maritime Academy in 2013.

## Ryan L. Orila

41, Filipino, ICT Manager. Mr. Orila is the ICT Manager of Harbor Star. Mr. Orila has various experience in the field of IT, including computer hardware/ software troubleshooting and maintenance. Prior to joining Harbor Star, He has been an IT practitioner in various companies like Philippine AXA Life Insurance Corporation, Teletech and recently at AboJeb Company, Inc. He completed his degree in Computer Science from AMA Computer College in 1999.

# Management Team

**LORENZO C. CARANZO**
Operations Division Head

**EMMANUEL L. FALCUNIT**
Operations Manager – Fleet Operations

**RUDIARDO L. ARCELLANA**
Operations Manager – Salvage, Towage, Lighterage & Special Projects

**EDWIN G. AMEJANA**
Commercial Manager

**JOSE Q. SANTOS**
Commercial and Operations Manager (CGT)

**ERNESTO F. CALDERON, JR.**
Sales and Marketing Manager

**LEOFRANK P. CASTRENCE**
Technical Manager

**LITO BRANDO A. TOPACIO**
Diving, Marine Maintenance and Construction Manager

**JAY-R L. CASTILLO**
OHSE Manager

**VIRGINIA MAY P. BELLA**
Legal Services Manager

**MARICEL V. BLANCO**
Internal Audit Manager

**ELIONARDA L. REFIL**
General Services Manager

**CECILIA MELANY G. NATIVIDAD**
Accounting Manager

**EFFEL T. SANTILLAN**
Human Resource Manager

**MARIA ELIZABETH JEAN E. BELLA**
Procurement Officer-in-Charge

**RYAN L. ORILA**
ICT Manager

# Statement of Management's Responsibility for Financial Statements

The management of Harbor Star Shipping Services, Inc. and its Subsidiaries (the "Group") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and such for internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Isla Lipana & Co., the independent auditor, appointed by the stockholders of the Parent Company, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

(Original Signed)

**MR. GERONIMO P. BELLA, JR.**
CHAIRMAN / PRESIDENT

(Original Signed)

**MR. RICARDO RODRIGO P. BELLA**
CHIEF OPERATING OFFICER

(Original Signed)

**MS. ADELIA D. VASQUEZ**
CHIEF FINANCIAL OFFICER

pwc

Isla Lipana & Co.

**Independent Auditor's Report**

To the Board of Directors and Shareholders of
**Harbor Star Shipping Services, Inc. and Subsidiaries**
2224 A. Bonifacio St., corner Pres. Sergio Osmeña Highway
Bangkal, Makati City

## Report on the Audits of Consolidated Financial Statements

### *Our Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

*What we have audited*

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2018;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2018;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Basis for our Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

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

pwc **Isla Lipana & Co.**



***Our Audit Approach***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit pertain to revenue recognition and business combination:

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Revenue recognition* | |
| Refer to Note 28.25 to the consolidated financial statements for the discussion of Group's policy on revenue recognition and corresponding details.<br><br>This is an area of focus due to the Group's various revenue streams that are recognized under different contractual arrangements, which include harbour assistance, lighterage services, salvage income and towing services. There is an inherent risk of cut-off due to varying nature of revenue and timing of delivery of services. | We have addressed the matter by performing detailed testing of sales transactions including inspection of supporting documents of any adjustments related to sales near December 31, 2018 and performance of cut-off testing procedures. Cut-off testing was performed by validating proper timing of revenue recognition, days before and after year-end, to the extent necessary, through inspection of related documents that evidenced delivery of services rendered.<br><br>The results of procedures performed resulted in an adjustment which was taken up in the Group's financials as at December 31, 2018. |

pwc Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and Subsidiaries
Page 3

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Business combinations* | |
| Refer to Note 1.2 to the consolidated financial statements for the discussion of the Group's business acquisitions in 2018 and its corresponding details.<br><br>This is an area of focus mainly due to the number of acquisitions done during the year at a total costs of P214.2 million which increased the total number of subsidiaries from four (4) to seven (7). Further, the related goodwill recognized in these acquisitions amounting to P105.6 million. The acquisitions were in line with the Group's venture in the energy sector that started in 2017. | We have addressed the matter by inspecting the respective share purchase agreements including thorough understanding of the terms and conditions; testing the reasonableness of the provisional fair values of the identifiable assets and liabilities acquired at acquisition dates; identifying and measuring the cash consideration transferred to former stockholders of the acquired subsidiaries; and recomputing the resulting goodwill by comparing the aggregate cash consideration transferred adjusted by the computed non-controlling interest and fair value of the net assets/liabilities acquired. In addition, we have also performed detailed testing to validate existence and completeness of net assets acquired by inspecting contracts and other supporting documents.<br><br>We found the accounting treatment of additional goodwill recognized during the year to be materially consistent with the information obtained from the procedures above. |

### *Other Information*

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

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

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

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity within the Group to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Roderick M. Danao.

**Isla Lipana & Co.**

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280; issued on January 8, 2019 at Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 152-015-078
BIR A.N. 08-000745-042-2018; issued on February 2, 2018; effective until February 1, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 8, 2019

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Statement Required by Rule 68,
Securities Regulation Code (SRC)
As Amended on October 20, 2011

To the Board of Directors and Shareholders of
**Harbor Star Shipping Services, Inc. and Subsidiaries**
2224 A. Bonifacio St., corner South Super Highway
Bangkal, Makati City

We have audited the consolidated financial statements of Harbor Star Shipping Services, Inc. (the "Parent Company") and its Subsidiaries, collectively referred to as "the Group", as at and for the year ended December 31, 2018, on which we have rendered the attached report dated April 8, 2019. The supplementary information shown in the *Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration, a Map Showing the Relationships between and among the Parent Company and its Subsidiaries and Associate, Schedule of Financial Soundness Indicator as of December 31, 2018 and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2018*, as additional components required by Part I, Section 4 of Rule 68 of the SRC, and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the SRC Code, are presented for purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the SRC.

**Isla Lipana & Co.**

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280; issued on January 8, 2019 at Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
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BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 8, 2019

**Harbor Star Shipping Services, Inc. and Subsidiaries**

Consolidated Statements of Financial Position
As at December 31, 2018 and 2017
(All amounts in Philippine Peso)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2 | 316,560,503 | 398,114,751 |
| Trade and other receivables, net | 3 | 538,165,509 | 387,078,368 |
| Advances to related party | 21 | 7,389,954 | 7,789,948 |
| Prepayments and other current assets | 4 | 339,526,261 | 153,350,596 |
| Total current assets | | 1,201,642,227 | 946,333,663 |
| **Non-current assets** | | | |
| Property and equipment at revalued amounts, net | 6 | 1,649,086,913 | 1,672,050,773 |
| Property and equipment at cost, net | 7 | 590,389,665 | 407,492,606 |
| Pre-development cost | 1.2 | 1,064,590,866 | 325,251,742 |
| Computer software, net | 8 | 27,789,867 | 27,828,669 |
| Investment properties | 9 | 47,626,987 | 43,476,987 |
| Investment in associates | 5 | 100,863,553 | 13,479,290 |
| Goodwill | 1.2 | 154,207,159 | 48,603,347 |
| Other non-current assets, net | 10 | 256,617,184 | 191,614,761 |
| Total non-current assets | | 3,891,172,194 | 2,729,798,175 |
| **Total assets** | | 5,092,814,421 | 3,676,131,838 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 340,416,985 | 247,602,634 |
| Short-term loans | 12 | 465,000,000 | 560,000,000 |
| Borrowings, current portion | 12 | 1,478,332,994 | 347,486,299 |
| Finance lease liability, current portion | 22 | 3,776,463 | 3,557,070 |
| Advances from related parties | 21 | 7,796,910 | - |
| Income tax payable | | 26,031,418 | 47,186,376 |
| Total current liabilities | | 2,321,354,770 | 1,205,832,379 |
| **Non-current liabilities** | | | |
| Borrowings, net of current portion | 12 | 990,980,984 | 722,927,421 |
| Finance lease liability, net of current portion | 22 | 23,309,163 | 27,085,626 |
| Deferred income tax liabilities, net | 23 | 10,268,998 | 21,704,001 |
| Retirement benefit obligation | 20 | 83,073,916 | 71,749,193 |
| Total non-current liabilities | | 1,107,633,061 | 843,466,241 |
| Total liabilities | | 3,428,987,831 | 2,049,298,620 |
| **Equity** | | | |
| Attributable to owners of the Parent Company | | | |
| Share capital | 13 | 907,857,870 | 907,857,870 |
| Additional paid-in-capital | 13 | 121,632,762 | 121,632,762 |
| Revaluation surplus, net of tax | 6 | 98,673,546 | 117,172,322 |
| Cumulative translation difference | 28.24 | (6,811,095) | (7,101,375) |
| Fair value reserve on financial assets at fair value through other comprehensive income | | (160,000) | (160,000) |
| Treasury stock | 13 | (10,853,670) | - |
| Retained earnings | 13 | 548,645,283 | 508,956,223 |
| | | 1,658,984,696 | 1,648,357,802 |
| Non-controlling interest | | 4,841,894 | (21,524,584) |
| Total equity | | 1,663,826,590 | 1,626,833,218 |
| **Total liabilities and equity** | | 5,092,814,421 | 3,676,131,838 |

# Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Total Comprehensive Income
For each of the three years in the period ended December 31, 2018
(All amounts in Philippine Peso)

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Service income, net | 15 | 1,436,968,376 | 1,326,908,771 | 1,360,830,025 |
| Cost of services | 16 | (950,966,767) | (906,461,511) | (956,581,038) |
| **Gross profit** | | 486,001,609 | 420,447,260 | 404,248,987 |
| General and administrative expenses | 17 | (284,536,407) | (233,922,429) | (205,556,511) |
| Other income, net | 19 | 53,441,515 | 36,832,595 | 22,884,747 |
| **Operating profit** | | 254,906,717 | 223,357,426 | 221,577,223 |
| **Finance cost** | | | | |
| Interest expense | 12 | (102,350,268) | (53,034,593) | (40,641,488) |
| Foreign exchange income (loss) on borrowings | 24 | - | 125,257 | (2,086,027) |
| | | (102,350,268) | (52,909,336) | (42,727,515) |
| Share in profit of associates | 5 | 3,046,290 | 439,499 | 1,558,856 |
| **Profit before income tax** | | 155,602,739 | 170,887,589 | 180,408,564 |
| Income tax expense | 23 | (48,691,357) | (62,081,927) | (79,521,348) |
| **Profit for the year** | | 106,911,382 | 108,805,662 | 100,887,216 |
| **Other comprehensive income** | | | | |
| **Items that will not be subsequently reclassified to profit or loss** | | | | |
| Remeasurements on retirement benefits, net of tax | 20 | 1,284,995 | 3,444,398 | 4,014,924 |
| Share in other comprehensive income (loss) of associates | 5 | (231,000) | 408,500 | 148,000 |
| **Total other comprehensive income, net of tax** | | 1,053,995 | 3,852,898 | 4,162,924 |
| **Total comprehensive income for the year** | | 107,965,377 | 112,658,560 | 105,050,140 |
| Profit (Loss) attributable to: | | | | |
| Owners of the parent | | 99,240,852 | 102,850,817 | 107,203,021 |
| Non-controlling interest | | 7,670,530 | 5,954,845 | (6,315,805) |
| | | 106,911,382 | 108,805,662 | 100,887,216 |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | | 100,294,847 | 106,703,715 | 111,365,945 |
| Non-controlling interest | | 7,670,530 | 5,954,845 | (6,315,805) |
| | | 107,965,377 | 112,658,560 | 105,050,140 |
| **Earnings per share** | | | | |
| Basic and diluted | 14 | 0.11 | 0.11 | 0.12 |

**Harbor Star Shipping Services, Inc. and its Subsidiaries**

Consolidated Statements of Changes in Equity
For each of the three years in the period ended December 31, 2018
(All amounts in Philippine Peso)

| | Equity attributable to owners of the Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 13) | Treasury stock (Note 13) | Additional paid-in capital (Note 13) | Revaluation surplus (Note 6) | Cumulative translation difference (Note 28.24) | Fair value reserve on financial assets at fair value through other comprehensive income | Retained earnings (Note 13) | Total | Non-controlling interest | Total equity |
| **Balances at January 1, 2016** | 605,238,580 | - | 121,632,762 | 183,225,484 | 1,793,195 | (160,000) | 526,179,026 | 1,437,909,047 | (2,467,676) | 1,435,441,371 |
| **Comprehensive income** | | | | | | | | | | |
| Profit (Loss) for the year | - | - | - | - | - | - | 107,203,021 | 107,203,021 | (6,315,805) | 100,887,216 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Remeasurements on retirement benefits, net of tax (Note 20) | - | - | - | - | - | - | 4,014,924 | 4,014,924 | - | 4,014,924 |
| Share of other comprehensive income of associate (Note 5) | - | - | - | - | - | - | 148,000 | 148,000 | - | 148,000 |
| **Total comprehensive income (loss)** | - | - | - | - | - | - | 111,365,945 | 111,365,945 | (6,315,805) | 105,050,140 |
| **Depreciation transfer of revaluation surplus (Note 6)** | - | - | - | (34,467,216) | - | - | 34,467,216 | - | - | - |
| **Translation adjustments (Note 28.24)** | - | - | - | - | (3,005,300) | - | 7,215,911 | 4,210,611 | - | 4,210,611 |
| **Balances at December 31, 2016** | 605,238,580 | - | 121,632,762 | 148,758,268 | (1,212,105) | (160,000) | 679,228,098 | 1,553,485,603 | (8,783,481) | 1,544,702,122 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 102,850,817 | 102,850,817 | 5,954,845 | 108,805,662 |
| Other comprehensive income | | | | | | | | | | |
| Remeasurements on retirement benefits, net of tax (Note 20) | - | - | - | - | - | - | 3,444,398 | 3,444,398 | - | 3,444,398 |
| Share of other comprehensive income of associate (Note 5) | - | - | - | - | - | - | 408,500 | 408,500 | - | 408,500 |
| **Total comprehensive income** | - | - | - | - | - | - | 106,703,715 | 106,703,715 | 5,954,845 | 112,658,560 |
| **Depreciation transfer of revaluation surplus (Note 6)** | - | - | - | (31,585,946) | - | - | 31,585,946 | - | - | - |
| **Transactions with owners** | | | | | | | | | | |
| Declaration of stock dividends (Note 13) | 302,619,290 | - | - | - | - | - | (302,619,290) | - | - | - |
| Non-controlling interest from business acquisition (Note 1.2) | - | - | - | - | - | - | - | - | (18,695,948) | (18,695,948) |
| **Total transactions with owners** | 302,619,290 | - | - | - | - | - | (302,619,290) | - | (18,695,948) | (18,695,948) |
| **Translation adjustments (Note 28.24)** | - | - | - | - | (5,889,270) | - | (5,942,246) | (11,831,516) | - | (11,831,516) |
| **Balances at December 31, 2017** | 907,857,870 | - | 121,632,762 | 117,172,322 | (7,101,375) | (160,000) | 508,956,223 | 1,648,357,802 | (21,524,584) | 1,626,833,218 |
| **Comprehensive Income (Loss)** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 99,240,852 | 99,240,852 | 7,670,530 | 106,911,382 |
| Other comprehensive income | | - | | | | | | | | |
| Remeasurements on retirement benefits, net of tax (Note 20) | - | - | - | - | - | - | 1,284,995 | 1,284,995 | - | 1,284,995 |
| Share of other comprehensive loss of associate (Note 5) | - | - | - | - | - | - | (231,000) | (231,000) | - | (231,000) |
| **Total comprehensive income** | - | - | - | - | - | - | 100,294,847 | 100,294,847 | 7,670,530 | 107,965,377 |
| **Depreciation transfer of revaluation surplus (Note 6)** | - | - | - | (18,498,776) | - | - | 18,498,776 | - | - | - |
| **Transaction with owners** | | | | | | | | | | |
| Acquisition of treasury shares (Note 13) | - | (10,853,670) | - | - | - | - | - | (10,853,670) | - | (10,853,670) |
| **Translation adjustments (Note 28.24)** | - | - | - | - | 290,280 | - | 4,238,165 | 4,528,445 | - | 4,528,445 |
| **Transaction with NCI (Note 1.2)** | - | - | - | - | - | - | (83,342,728) | (83,342,728) | 18,695,948 | (64,646,780) |
| **Balances at December 31, 2018** | 907,857,870 | (10,853,670) | 121,632,762 | 98,673,546 | (6,811,095) | (160,000) | 548,645,283 | 1,658,984,696 | 4,841,894 | 1,663,826,590 |

## Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Cash Flows
For each of the three years in the period ended December 31, 2018
(All amounts in Philippine Peso)

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before income tax | | 155,602,739 | 170,887,589 | 180,408,564 |
| Adjustments for: | | | | |
| Depreciation and amortization | 6,7,8,16,17 | 290,335,950 | 279,388,593 | 262,990,283 |
| Loss (Gain) on sale of property and equipment | 19 | 56,871,044 | 18,670 | (17,859,837) |
| Retirement benefit expense | 18,20 | 13,154,118 | 12,225,905 | 11,446,004 |
| Provision for impairment of input VAT | 10,17 | 6,470,663 | 2,156,888 | 8,627,553 |
| Provision for (Reversal of) impairment of trade | 3,17 | 7,950,572 | 1,719,356 | (1,458,142) |
| Unrealized foreign exchange loss (gain),net | 24 | (1,633,099) | 3,612,176 | 721,760 |
| Share in profit of associate | 5 | (3,046,290) | (439,499) | (1,558,856) |
| Interest income | 2,19 | (418,559) | (392,425) | (1,389,659) |
| Interest expense | 12 | 102,350,268 | 53,034,593 | 40,641,488 |
| Operating profit before changes in working capital | | 627,637,406 | 522,211,846 | 482,569,158 |
| Decrease (Increase) in: | | | | |
| Trade and other receivables | | (152,363,409) | 4,917,032 | (52,074,004) |
| Prepayments and other current assets | | (190,984,208) | (57,279,748) | (44,197,325) |
| Advances to a related party | | 399,994 | 1,600,000 | - |
| Other non-current assets | | (50,184,615) | (36,896,957) | (55,000) |
| Increase (Decrease) in: | | | | |
| Trade and other payables | | 61,602,477 | 14,553,393 | 47,696,041 |
| Advances from related parties | | 7,796,910 | (82,825,013) | - |
| Cash generated from operations | | 303,904,555 | 366,280,553 | 433,938,870 |
| Interest received | | 418,559 | 392,425 | 1,389,659 |
| Income taxes paid | | (76,472,775) | (75,740,701) | (84,788,486) |
| Retirement obligation paid | 20 | (544,400) | (1,187,400) | (668,400) |
| Net cash provided by operating activities | | 227,305,939 | 289,744,877 | 349,871,643 |
| **Cash flows from investing activities** | | | | |
| Proceeds from disposal of property and equipment | | 29,857,636 | 269,465 | 43,557,004 |
| Dividends received | 5 | 800,000 | - | - |
| Acquisition of investment properties | 9 | (4,150,000) | (19,407,936) | (86,561) |
| Acquisition of subsidiary and associates, net of cash acquired | 1.2 | (276,908,036) | (20,509,425) | - |
| Acquisition of property and equipment and computer software | 6, 7, 8 | (510,358,815) | (381,440,200) | (385,289,734) |
| Increase in pre-development cost | 1.2 | (739,339,124) | (304,476,559) | - |
| Net cash used in investing activities | | (1,500,098,339) | (725,564,655) | (341,819,291) |
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowings | 12 | 3,385,777,118 | 995,909,349 | 181,592,011 |
| Payment of finance lease liabilities | 22 | (3,557,070) | (3,350,424) | (3,155,782) |
| Acquisition of treasury shares | 13 | (10,853,670) | - | - |
| Net proceeds from (payments of) short-term loans | 12 | (95,000,000) | 370,000,000 | (6,000,000) |
| Interest paid | 12 | (98,340,623) | (49,108,473) | (42,645,794) |
| Payments of borrowings | 12 | (1,986,876,860) | (569,647,365) | (174,566,777) |
| Net cash provided by (used in) financing activities | | 1,191,148,895 | 743,803,087 | (44,776,342) |
| **Net increase (decrease) in cash** | | (81,643,505) | 307,983,309 | (36,723,990) |
| | | | | |
| Cash balance | | | | |
| Beginning of year | | 398,114,751 | 89,661,565 | 124,797,892 |
| Effect of foreign exchange rate changes on cash | | 89,257 | 469,877 | 1,587,663 |
| **End of year** | 2 | 316,560,503 | 398,114,751 | 89,661,565 |

**Harbor Star Shipping Services, Inc. and Subsidiaries**

Notes to the Consolidated Financial Statements
As at December 31, 2018 and 2017 and
for each of the three years in the period ended December 31, 2018
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

## Note 1 - Business information

### 1.1 General information

Harbor Star Shipping Services, Inc. (the "Parent Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 5, 1988, primarily to engage in harbor assistance (docking and undocking), ship salvage, towage/lighterage and specialized cargo handling operations and other marine services.

In July 2012, the Parent Company commenced activities for an initial public offering (IPO) of its common shares in the Philippines. On October 29, 2012, the Parent Company submitted its Registration Statement to the Philippine SEC. On October 30, 2013, the Parent Company completed its listing in the Philippine Stock Exchange (PSE) and became a public Company (Note 13). The Parent Company did not have any follow-on offering subsequent to its initial public offering.

As a public Company, the Parent Company is covered by Part I Section 2A(i) of the Securities Regulation Code (SRC) Rule 68, as amended on October 20, 2011 and also covered by additional requirements under SRC Rule 68, as amended, Part II.

As at December 31, 2018, the Parent Company has 123 shareholders, 122 of which holds at least 100 common shares (2017 - 111). The Group's major shareholders are its own directors holding 68.32% of its total issued shares and the remaining 31.68% of total issued shares as at December 31, 2018 and 2017 are held by the public.

The Group's registered office, which is also its principal place of business, is located at 2224 A. Bonifacio Street corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines. It has 578 employees as at December 31, 2018 (2017 - 539 employees).

### 1.2 Significant developments

On July 17, 2014, the Parent Company's BOD approved the amendments made to the primary and secondary purpose of the Parent Company's Articles of Incorporation to include invest, own, operate, venture into domestic and international maritime commerce, domestic and international manning recruitment, transport in and between ports of the Philippines, domestic and international port and terminal operations, construction and rehabilitation of marine facilities and real estate development. The shareholders of the Parent Company approved the amendment on November 24, 2014. On August 11, 2015, the SEC approved the amendments submitted by the Parent Company.

On March 6, 2017, the Parent Company's BOD and shareholders approved the following:

a) Amendments made to the secondary purpose of the Parent Company's Articles of Incorporation to the business of power generation and operation of maritime schools, educational and training facilities;
b) To amend the Parent Company's articles of incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares (Note 13); and
c) Follow-on offering for P1 billion to fund the Parent Company's planned international fleet expansion, domestic feeder vessel services, shipyard business and renewable energy project. The planned follow-on offering is expected to be executed in 2019.

The Parent Company obtained approval from SEC on April 21, 2017.

On May 11, 2017, the Parent Company subscribed 25% (187,500,000 shares) of the 750,000,000 of the authorized shares of Harbor Star Energy Corporation (HSEC) and paid 25% of the subscription amounting to P46,874,500 which gave the Parent Company 100% controlling interest over HSEC.

*Acquistion of Astronergy Development Gensan Inc. (ADGI); Astronergy Development F1 Inc. (ADF1) and Astronergy Development F2 Inc. (ADF2)*

On October 6, 2017, the Parent Company's BOD resolved to acquire 60% shareholdings of ADGI, an entity engaged in power generation through renewable energy through HSEC, new subsidiary. On the same date, which became the acquisition date, a total of 599,997 shares have been acquired, representing 60% of the issued and outstanding shares of ADGI. As a result, ADGI became a subsidiary of HSEC effective October 6, 2017.

ADGI was registered with Department of Energy (DOE), with Registration No. SESC 2014-12-096 on December 29, 2014, as a Renewable Energy (RE) Developer of Solar Energy Resources. Pursuant to Section 15 Chapter VI of Republic Act (RA) No. 9513, An Act Promoting The Development, Utilization and Commercialization of Renewable Energy Resources and For Other Purposes, ADGI, as RE Developer, is entitled to certain incentives including income tax holiday (ITH) for the first seven (7) years of its commercial operations.

ADGI has permits, licenses and entitlements to operate 25MW, expandable to 75MW, solar power plant in General Santos. ADGI has been issued a Certificate of Commerciality by the DOE and has an existing ERC-approved Power Purchase Agreement (PPA) with South Cotobato II Electric Cooperative, Inc. ("SOCOTECO II"). Under the PPA, SOCOTECO-II will purchase all the energy output from the project. The construction of the initial 25MW solar power plant was initially expected to be completed by the 2nd quarter of 2018 but due to delays the expected completion has been moved to 2$^{nd}$ quarter of 2019.

On March 15, 2018, the Parent Company's BOD resolved to acquire the following shares of stocks through HSEC, its subsidiary :

- 40% additional shareholdings of ADGI
- 100% shareholdings of Astronergy Development F1 Inc. (ADF1)
- 100% shareholdings of Astronergy Development F2 Inc. (ADF2)

On April 12 and October 18, 2018, HSEC acquired the remaining 25% and 15% shareholdings of ADGI which represents 250,000 and 150,000 shares of stock, respectively for a total of P75,108,479. The acquisition resulted in the reversal of NCI and a charge to retained earnings amounting to P18,695,948 and P83,342,728, respectively. The acquisition of the remaining shares of stocks made ADGI a wholly-owned subsidiary of HSEC.

On April 12, 2018, HSEC acquired 100% shareholdings of ADF1 and ADF2, which were former affiliates of ADGI. ADF1 and ADF2 are entities engaged in the business of generating power derived from solar energy and other viable sources of renewable energy. HSEC acquired 2,500,000 shares of each of ADF1 and ADF2 which represents 100% of the issued and outstanding shares of both entities. As a result, ADF1 and ADF2 became wholly-owned subsidiaries of HSEC.

ADF1 and ADF2 have their own ancillary permits and contracts to support the expansion of the 25 MW ADGI solar power plant to 75MW.

The purchase method of accounting is used to account for the above acquisitions whereby the cost of an acquisition is measured at the fair value of the consideration given.

The details of the fair value of the net liabilities acquired at acquisition dates are as follows:

| | Amounts |
|---|---|
| Current assets | |
| Trade and other receivables | 246,658 |
| Prepayment and other current assets | 22,330 |
| Total current assets | 268,988 |
| Non-current assets | |
| Pre-development expenditures | 20,775,183 |
| Leasehold rights | 21,288,472 |
| Property and equipment | 289,456 |
| Other non-current assets | 15,262,309 |
| Total non-current assets | 57,615,420 |
| Total assets | 57,884,408 |
| Current liabilities | |
| Trade and other payable | 560,793 |
| Advances from related party | 82,773,010 |
| Total liabilities | 83,333,803 |
| Net liabilities | 25,449,395 |

The total consideration given with respect to the acquisition of ADGI's 60% shares and 100% shares of ADFI and ADF2 is P147,453,712. Provisional goodwill amounting to P48,603,347 recognized in 2017 was then subsequently adjusted in 2018 to P154,207,159 which considered likewise subsequent acquisition that pertains to the same PPA.

The summary of this determination is presented below:

| | Amounts |
|---|---|
| Consideration transferred | 147,453,712 |
| Non-controlling interest | (18,695,948) |
| Total | 128,757,764 |
| Add: 100% of the net liabilities acquired | 25,449,395 |
| Goodwill | 154,207,159 |

The goodwill is attributable to the continuing operations of the acquired businesses. It will not be deductible for tax purposes. As at December 31, 2018, the value of goodwill has been identified provisionally, thus, no impairment test has been performed.

There are no other expenses paid, contingent consideration arrangement and indemnification assets in relation to the business combination.

*Cash paid for the acquisitions*

Cash paid for the acquisition of 60% of ADGI amounting to P20,559,425 is presented net of cash from acquired subsidiary of P50,000 for a net cash paid of P20,509,425 in the consolidated statement of cash flows for the year ended December 31, 2017. In 2018, the cash paid was subsequently adjusted by P20,161,428 due to adjustments in purchase price.

Cash paid for the acquisition of the and 100% of ADF1 and ADF2 amounting to P147,053,712 is presented net of cash from acquired subsidiaries in the consolidated statement of cash flows for the year ended December 31, 2018.

The consolidated statements of total comprehensive income for the years ended December 31, 2018 and 2017 include the results of operation of ADGI, ADF1 and ADF2, from the acquisition dates to December 31, 2018 and 2017. In 2018. ADF1 and ADF2's contribution to the Group's profit or loss amounted to P142,106 loss.

Had it been that the business combination occurred at January 1, 2018 and 2017, the aggregate revenues, profit or loss and total comprehensive income of combined entities for years ended December 31, 2018 and 2017 would have been the same.

Movements of pre-development costs acquired as at and for the years ended December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Beginning Balance | 325,251,742 | 20,775,183 |
| Additions | 739,339,124 | 304,476,559 |
| | 1,064,590,866 | 325,251,742 |

*Other significant investments in 2018*

On April 20, 2018, the Parent Company subscribed to 97% or equivalent to 48,500 shares of the 50,000 authorized shares of Harbor Star East Asia (Myanmar) Limited (HSEA) and paid 50% of the subscription amounting to P1,354,522 which gave the Parent Company 100% controlling interest over HSEA.

HSEA was incorporated on February 6, 2018 in The Republic of the Union of Myanmar in accordance with Myanmar Companies Act under Registration and Permit no. 1054FC/2017-2018 (YGN) as a Private Company. HSEA is engaged in providing consultancy and support services, underwater, marine and maritime- related business in Myanmar. The period of the validity of permit is from February 6, 2018 to February 5, 2023.

On August 16, 2018, the Parent Company subscribed to 31% (218,464 shares) of the 705,924 authorized shares of Hi-Energy Marine Services, Inc. (HEMSI) and paid 100% of the subscription amounting to P85,368,973. As a result, HEMSI became an associate.

HEMSI was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 13, 2012 primarily to engage in towage, mooring, maritime commerce and navigation.

### 1.3 Consolidation

As at December 31, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Harbor Star Subic Corp., Peak Flag SDN BHD; HSEC; HSEA; ADGI; ADF1 and ADF2, collectively referred to as the "Group".

The principal activities of the subsidiaries and associates are set out below.

| | Relationship | % of interest held 2018 | % of interest held 2017 | Registered place of business/ Country of incorporation | Main activity |
|---|---|---|---|---|---|
| Harbor Star Subic Corp. (HSSC) | Subsidiary | 100% | 100% | Philippines | HSSC was incorporated on September 17, 2015 and registered in the Philippines primarily to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil spill response and underwater marine services.<br><br>Its registered address, which is also its principal place of business, is located at Units 9 and 10, Alava Quay, Waterfront Road, Subic Bay Freeport Zone, Subic, Zambales. |
| Harbor Star Energy Corporation (HSEC) | Subsidiary | 100% | 100% | Philippines | HSEC was incorporated on May 11, 2017 and registered in the Philippines primarily to engage in the production and sale of renewable energy (Note 1.2).<br><br>Its registered address is at 2224 A. Bonifacio cor Pres. Osmeña Bangkal Makati, Metro Manila. |
| Peak Flag SDN BHD (Peak Flag) | Subsidiary | 45% | 45% | Malaysia | Peak Flag was incorporated and registered in Malaysia, primarily to carry on the business of providing tugboat harbor assist/ marine support services.<br><br>Its registered address, which is also its principal place of business, is at Suite N-6-04, The Gamuda Biz Suites, No.12, Persiaran Anggerik Vanilla 31/99 Seksyen 31, Kota Kemuning 40460 Shah Alam, Selangor. |
| Astronergy Development Gensan, Inc. (ADGI) | Subsidiary (indirect) | 100% | 60% | Philippines | In 2018, HSEC completed full subscription to total share of ADGI, an entity engaged in power generation through renewable energy. ADGI has not started commercial operations as at December 31, 2018.<br><br>Its registered address, which is also its principal place of business, is at Unit 202 Midway Court Building, EDSA Mandaluyong, Metro Manila. |

| | Relationship | % of interest held 2018 | 2017 | Registered place of business/ Country of incorporation | Main activity |
|---|---|---|---|---|---|
| Astronergy Development F1 Inc. (ADF1) | Subsidiary (indirect) | 100% | - | Philippines | During 2018, HSEC acquired 100% ownership of Astronergy Development F1 Inc., an entity engaged in power generation through renewable energy (Note 1.2). ADF1 has not started commercial operations as at December 31, 2018.<br><br>Its registered address, which is also its principal place of business, is at 2224 A. Bonifacio Street corner President Sergio Osmeña Highway, Bangkal, Makati City, Philippines. |
| Astronergy Development F2 Inc. (ADF2) | Subsidiary (indirect) | 100% | - | Philippines | During 2018, HSEC acquired 100% ownership of Astronergy Development F2 Inc., an entity engaged in power generation through renewable energy (Note 1.2). ADF2 has not started commercial operations as at December 31, 2018.<br><br>Its registered address, which is also its principal place of business, is at 2224 A. Bonifacio Street corner President Sergio Osmeña Highway, Bangkal, Makati City, Philippines. |
| Harbor Star East Asia (Myanmar) Limited (HSEA) | Subsidiary | 97% | - | Myanmar | During 2018, HSSSI acquired 97% ownership of Harbor Star East Asia (Myanmar) Limited,an entity providing consultancy and support services including underwater, marine and maritime related business (Note 1.2).<br><br>Its registered address, which is also its principal place of business, is at No. Level 8 A, Union Financial Center, Corner of Mahabandoola and Thein Phyu Road, Botahtaung Township, Yangon. |
| Great Eastern Tug Corporation (GETC) | Associate | 20% | 20% | Philippines | GETC was incorporated and registered with the Philippine SEC on September 9, 2002, primarily to own, charter in/out, operate and manage tugboats or domestic services.<br><br>Its registered address, which is also its principal place of business, is located at 11F Marc 2000 Tower, 1973 Taft Avenue, Malate, Manila. |
| Hi-Energy Marine Services, Inc. (HEMSI) | Associate | 31% | - | Philippines | During 2018, HSSSI acquired 31% ownership of HEMSI, an entity engaged in towage, mooring, maritime commerce and navigation.<br><br>Its registered address, which is also its principal place of business, is at Rm. 306, Velco Center cor. Senior Oca and Delgado Sts., South Port Area, Manila. |

*Critical accounting judgments*

*Determining control over investments with ownership of less than half of the entity's total equity*

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

Having a significant influence based on the percentage ownership, the Parent Company initially considered Peak Flag as associate. However, effective January 1, 2014, the Parent Company has gained control over the key economic decisions and policies affecting Peak Flag under the duly signed amended shareholders' agreement including majority board representation. Consequently, based on management's judgment and continuous assessment of the Parent Company, Peak Flag is considered a subsidiary as at December 31, 2018 and 2017.

*Non-controlling interest*

Set out below are the summarized financial information of subsidiaries, that has non-controlling interests to the Group. The amounts disclosed are before intercompany eliminations.

a) Peak Flag

| | 2018 | 2017 |
|---|---|---|
| Total current assets | 129,763,351 | 158,877,038 |
| Total non-current assets | 13,156,614 | 1,482,718 |
| Total current liabilities | 96,911,084 | 126,001,206 |
| Total non-current liabilities | 43,110,364 | 45,360,000 |
| Net capital deficiency | (2,945,945) | (11,001,450) |
| Total revenue | 24,931,318 | 60,166,505 |
| Total expenses | 45,228,909 | 53,948,522 |
| Total income for the year | 13,301,349 | 9,741,132 |
| Total comprehensive income for the year | 13,301,349 | 9,741,132 |
| Net cash used in operating activities | (73,820,821) | (77,693,290) |
| Net cash provided by financing activities | 79,721,202 | 85,804,729 |

b) ADGI

| | 2018 | 2017 |
|---|---|---|
| Total current assets | 11,340,553 | 80,059,110 |
| Total non-current assets | 1,074,772,953 | 335,299,485 |
| Total current liabilities | 554,699,468 | 460,605,410 |
| Total non-current liability | 578,737,482 | - |
| Total capital deficiency | (47,323,444) | (45,246,815) |
| Total other income | 59,091 | 1,534,406 |
| Total expenses | (12,512,814) | (41,351) |
| Total income (loss) for the year | (12,453,723) | 1,493,055 |
| Total comprehensive income (loss) for the year | (12,453,723) | 1,493,055 |
| Net cash used in operating activities | (14,514,646) | (13,265,262) |
| Net cash used in investing activities | (739,720,567) | (269,164,101) |
| Net cash provided in financing activities | 687,324,760 | 352,583,996 |

### 1.4 Approval of the consolidated financial statements

The consolidated financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 28, 2019. There were no events subsequent to date of the consolidated financial statements up to opinion date, April 8, 2019, which would require adjustments or disclosures in these consolidated financial statements.

## Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

| | 2018 | 2017 |
|---|---|---|
| Cash in banks | 304,617,127 | 393,804,011 |
| Cash equivalents | 10,124,640 | 2,580,138 |
| Cash on hand | 1,818,736 | 1,730,602 |
| | 316,560,503 | 398,114,751 |

Interest income earned from cash in banks and cash equivalents for the year ended December 31, 2018 amounted to P418,559 (2017 - P392,425; 2016 - P1,389,659) (Note 19).

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

## Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

| | 2018 | 2017 |
|---|---|---|
| Trade receivables | 525,102,517 | 373,944,210 |
| Allowance for impairment of trade receivables | (25,164,430) | (17,460,516) |
| | 499,938,087 | 356,483,694 |
| Advances to employees | 33,061,841 | 33,240,065 |
| Deposit bond | 8,057,630 | - |
| Allowance for impairment of advances to employees and others | (2,892,049) | (2,645,391) |
| | 538,165,509 | 387,078,368 |

The carrying value of trade and other receivables as at December 31, 2018 and 2017 approximates their fair value as at reporting date.

*Allowance for impairment*

The Group applies Philippine Financial Reporting Standards (PFRS) 9 simplified approach in measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of service fees over a period of 36 to 60 months before January 1, 2018 and the corresponding historical credit losses experienced within this period.

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

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

a. High performing - settlements are obtained from counterparty following the terms of the contracts without much collection effort.
b. Underperforming - more than 60 days past due but expected to be collected after some reminders/followups.
c. Credit impaired - more than 360 days past due and unlikely to be collected despite reminders/followups.

On that basis, the loss allowance from trade receivables as at December 31, 2018 (on adoption of PFRS 9) was determined as follows:

| | High performing | Underperforming | | Credit impaired | |
|---|---|---|---|---|---|
| | Current | Up to 6 months past due | 6 to 12 months past due | Over 12 months past due | Total |
| Expected loss rate | Within 0% to 1% | Within 0% to 3% | Within 0% to 3% | Within 1% to 100% | |
| Trade receivables | 237,989,539 | 216,069,391 | 45,879,157 | 25,164,430 | 525,102,517 |
| Loss allowance | 1,945,359 | 3,987,150 | 586,555 | 18,645,366 | 25,164,430 |

The resulting difference between provision for impairment currently reported and the loss calculated following the ECL model was recognized as an adjustment. The Group however, did not adjust the amount of allowance as at January 1, 2018 as the impact to beginning was deemed immaterial.

Movements in the provision for impairment of trade and other receivables for the years ended December 31 follow:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | | 20,105,907 | 18,386,551 |
| Provision, net | 17 | 7,950,572 | 1,719,356 |
| End of year | | 28,056,479 | 20,105,907 |

For the year ended December 31, 2018, a net provision for impairment of trade receivables amounting to P7,950,572 (2017 - P1,719,356; 2016 - P1,458,142 reversal/credited) was charged to general and administrative expenses (Note 17), as a result of management's assessment of collectability.

The Group has not written off any receivables for the years ended December 31, 2018, 2017 and 2016.

*Critical accounting estimates and assumptions*

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

Prior to the adoption of PFRS 9, the Group maintains allowance for impairment on its receivables at a level adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Group. The Group assesses whether objective impairment exists for the receivable by considering the financial condition and credit history of the counterparty. Moreover, the Group also considers its historical loss experience in assessing collective impairment of receivables. The Group reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Group made different estimates or utilized different methodologies. An increase in the allowance for impairment would increase the recorded general and administrative expenses and decrease current assets.

In relation to receivables which are past due but not impaired (Note 27.4) as of December 31, 2017, no provision for impairment has been determined by management to be necessary considering customer relationship and historical experience. Historically, the Group did not experience any material default from concerned customers. Subsequently in 2018, allowance for impairment was computed using the ECL model.

## Note 4 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Advances to suppliers | | 262,969,635 | 61,577,257 |
| Input value-added tax (VAT), net | 10 | 52,020,149 | 32,563,797 |
| Prepayments | | 18,894,556 | 58,118,461 |
| Refundable deposits | 22 | 3,817,530 | 1,091,081 |
| Others | | 1,824,391 | - |
| | | 339,526,261 | 153,350,596 |

Advances to suppliers consist of advance payments on services to be performed within 12 months.

Prepayments consist of mainly unexpired hull and machinery insurance, motor car insurance, life and health insurance, prepaid rent and fuel which are expected to be utilized for a period of less than a year.

## Note 5 - Investment in associates

(a) GETC

The movements of investment in GETC for the years ended December 31 are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Beginning of year | 13,479,290 | 12,631,291 | 10,924,435 |
| Share in net profit | 2,794,391 | 439,499 | 1,558,856 |
| Share in other comprehensive income (loss) | (231,000) | 408,500 | 148,000 |
| Share in adjustments to equity | (743,744) | - | - |
| Dividends received | (800,000) | - | - |
| End of year | 14,498,937 | 13,479,290 | 12,631,291 |

Set out below is the summarized financial information of GETC, at December 31:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total current assets | 15,963,086 | 48,029,731 | 41,714,179 |
| Total non-current assets | 56,821,724 | 19,674,137 | 21,876,387 |
| Total current liabilities | 290,127 | 307,418 | 434,111 |
| Net assets or equity | 72,494,683 | 67,396,450 | 63,156,455 |
| Total revenue | 25,811,667 | 11,112,821 | 13,277,852 |
| Total profit for the year | 13,971,955 | 2,197,495 | 7,794,280 |
| Total other comprehensive income (loss) | (1,155,000) | 2,042,500 | 740,000 |
| Total comprehensive income | 12,816,955 | 4,239,995 | 8,534,280 |

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net assets, January 1 | 67,396,450 | 63,156,455 | 54,622,175 |
| Profit for the year | 13,971,955 | 2,197,495 | 7,794,280 |
| Other comprehensive income (loss) | (1,155,000) | 2,042,500 | 740,000 |
| Dividends declared | (4,000,000) | - | - |
| Adjustment | (3,718,722) | - | - |
| Net assets, December 31 | 72,494,683 | 67,396,450 | 63,156,455 |
| | | | |
| Group’s share in % | 20% | 20% | 20% |
| Group’s share in net assets | 14,498,936 | 13,479,290 | 12,631,291 |

(b) HEMSI

The movements of investment in HEMSI for the year ended December 31, 2018 are as follows:

| | Amounts |
|---|---|
| Beginning of year | - |
| Investment in HEMSI | 85,368,973 |
| Share in net profit | 995,643 |
| End of year | 86,364,616 |

Set out below is the summarized financial information of HEMSI, at December 31, 2018:

| | Amounts |
|---|---|
| Total current assets | 114,842,721 |
| Total non-current assets | 166,823,389 |
| Total current liabilities | 40,054,035 |
| Total non-current liabilities | 122,273,975 |
| Net assets or equity | 119,338,100 |
| Total revenue | 294,173,588 |
| Total profit for the year | 9,956,436 |
| Total comprehensive income | 9,956,436 |

| | 2018 |
|---|---|
| Net assets, January 1 | 109,381,664 |
| Profit for the year | 9,956,436 |
| Goodwill | 159,257,435 |
| Net assets, December 31 | 278,595,535 |
| | |
| Group's share in % | 31% |
| Group's share in net assets | 86,364,616 |

*Critical accounting judgment*

*Impairment of investment in associates*

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

As at December 31, 2018 and 2017, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of its investment in associates may not be recoverable.

## Note 6 - Property and equipment at revalued amounts, net

Details of property and equipment carried at revalued amounts at December 31 follow:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| As at January 1 | | | |
| Revalued amount | | 3,469,394,434 | 3,206,094,078 |
| Accumulated depreciation | | (1,797,343,661) | (1,581,337,443) |
| Net carrying amount | | 1,672,050,773 | 1,624,756,635 |
| Year ended December 31 | | | |
| Opening net carrying amount | | 1,672,050,773 | 1,624,756,635 |
| Additions | | 180,487,845 | 90,097,102 |
| Disposals | | | |
| Cost | | (227,419,743) | - |
| Accumulated depreciation | | 139,098,533 | - |
| Reclassification from property and equipment at cost | 7 | 81,488,630 | 173,203,254 |
| Depreciation | 16 | (196,619,125) | (216,006,218) |
| Closing net carrying amount | | 1,649,086,913 | 1,672,050,773 |
| At December 31 | | | |
| Revalued amount | | 3,503,951,166 | 3,469,394,434 |
| Accumulated depreciation | | (1,854,864,253) | (1,797,343,661) |
| Net carrying amount | | 1,649,086,913 | 1,672,050,773 |

The net book value of the tugboats, had the assets been carried at cost and not at revalued amount as at December 31 would have been as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| As at January 1 | | | |
| Cost | | 2,435,003,846 | 2,171,703,490 |
| Accumulated depreciation | | (930,342,104) | (759,458,666) |
| Net carrying amount | | 1,504,661,742 | 1,412,244,824 |
| Year ended December 31 | | | |
| Opening net carrying amount | | 1,504,661,742 | 1,412,244,824 |
| Additions | | 180,487,845 | 90,097,102 |
| Disposals | | | |
| Cost | | (227,419,743) | - |
| Accumulated depreciation | | 139,098,533 | - |
| Reclassification from property and equipment at cost | 7 | 81,488,630 | 173,203,254 |
| Depreciation | | (170,192,301) | (170,883,438) |
| Closing net carrying amount | | 1,508,124,706 | 1,504,661,742 |
| At December 31 | | | |
| Cost | | 2,469,560,578 | 2,435,003,846 |
| Accumulated depreciation | | (961,435,872) | (930,342,104) |
| Net carrying amount | | 1,508,124,706 | 1,504,661,742 |

The movements of revaluation increment for the years ended December 31 are as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | | 167,389,031 | 212,511,811 |
| Amortization of revaluation increment through depreciation | | (26,426,823) | (45,122,780) |
| End of year, gross of tax | | 140,962,208 | 167,389,031 |
| Deferred income tax liability (at 30%) | 23 | (42,288,662) | (50,216,709) |
| End of year, net of tax | | 98,673,546 | 117,172,322 |

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12). As at December 31, 2018, the Group's tugboats used as collaterals have net carrying amount of P1,640,319,058 (2017 - P765,394,210).

*Critical accounting estimates*

*Useful lives of property and equipment at revalued amount*

The Group's management determines the estimated useful lives for its property and equipment at revalued amount based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

An increase/decrease in the estimated useful life would impact the recorded net carrying amounts of property and equipment at revalued amount with a corresponding increase/decrease in the profit for the year as a result of lower/higher depreciation expense charged to profit or loss.

*Revaluation of tugboats*

The Group carries its tugboats at appraised value, with changes in fair value being recognized directly in equity under revaluation surplus. The Group engaged independent valuation specialists in determining the fair value of its tugboats as at December 31, 2016. The Group reviews the fair value of its tugboats periodically every 3 to 5 years.

The Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates on recent market transactions on arm's length terms at the end of each reporting period. However, it is reasonably possible, on the basis of existing knowledge, that changes in estimates would impact the recorded cost of services and property and equipment at revalued amount.

Management deems that the revalued amounts still approximate the fair value as at reporting dates with a significant number of tugboats only recently acquired at substantially comparable prices. The Company is considering revaluing its tugboats in 2020.

## Note 7 - Property and equipment at cost, net

Details of property and equipment at December 31 follow:

| | Land | Barges | Building and building improvements | Transportation equipment | Diving and oil spill equipment | Furniture, fixtures and leasehold improvements | Construction equipment | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at January 1, 2017** | | | | | | | | | |
| Cost | 39,556,011 | 339,628,949 | 26,751,855 | 45,749,983 | 124,252,431 | 3,980,126 | 11,500,000 | 51,216,658 | 642,636,013 |
| Accumulated depreciation | - | (143,654,210) | (21,487,837) | (27,682,455) | (101,692,497) | (3,339,492) | (383,333) | - | (298,239,824) |
| Cumulative translation adjustments | - | - | - | - | (303,206) | (36,450) | - | - | (339,656) |
| **Net carrying amount** | 39,556,011 | 195,974,739 | 5,264,018 | 18,067,528 | 22,256,728 | 604,184 | 11,116,667 | 51,216,658 | 344,056,533 |
| **Year ended December 31, 2017** | | | | | | | | | |
| Opening net carrying amount | 39,556,011 | 195,974,739 | 5,264,018 | 18,067,528 | 22,256,728 | 604,184 | 11,116,667 | 51,216,658 | 344,056,533 |
| Business acquisition | - | - | 41,050 | - | - | 289,456 | - | - | 330,506 |
| Additions | - | 66,498,321 | - | 14,914,000 | 21,094,055 | 73,746 | - | 196,381,486 | 298,961,608 |
| Disposal | | | | | | | | | |
| Cost | - | - | - | (5,019,820) | - | - | - | - | (5,019,820) |
| Accumulated depreciation | - | - | - | 4,731,685 | - | - | - | - | 4,731,685 |
| Reclassification (Note 6) | - | 6,983,364 | - | - | - | - | - | (180,186,618) | (173,203,254) |
| Depreciation | - | (38,164,839) | (2,557,617) | (8,024,089) | (11,406,834) | (343,625) | (2,300,000) | - | (62,797,004) |
| Translation adjustments | - | - | - | - | 396,816 | 35,536 | - | - | 432,352 |
| **Closing net carrying amount** | 39,556,011 | 231,291,585 | 2,747,451 | 24,669,304 | 32,340,765 | 659,297 | 8,816,667 | 67,411,526 | 407,492,606 |
| **At December 31, 2017** | | | | | | | | | |
| Cost | 39,556,011 | 413,110,634 | 26,792,905 | 55,644,163 | 145,346,486 | 4,467,380 | 11,500,000 | 67,411,526 | 763,829,105 |
| Accumulated depreciation | - | (181,819,049) | (24,045,454) | (30,974,859) | (113,099,331) | (3,807,169) | (2,683,333) | - | (356,429,195) |
| Cumulative translation adjustments | - | - | - | - | 93,610 | (914) | - | - | 92,696 |
| **Net carrying amount** | 39,556,011 | 231,291,585 | 2,747,451 | 24,669,304 | 32,340,765 | 659,297 | 8,816,667 | 67,411,526 | 407,492,606 |
| **Year ended December 31, 2018** | | | | | | | | | |
| Opening net carrying amount | 39,556,011 | 231,291,585 | 2,747,451 | 24,669,304 | 32,340,765 | 659,297 | 8,816,667 | 67,411,526 | 407,492,606 |
| Additions | - | 157,158,459 | 899,972 | 3,869,643 | 31,111,918 | 891,027 | 685,456 | 162,870,912 | 357,487,387 |
| Disposal | | | | | | | | | |
| Cost | - | - | - | - | - | (286,534) | - | - | (286,534) |
| Accumulated depreciation | - | - | - | - | - | 177,079 | - | - | 177,079 |
| Reclassification (Note 6) | - | 4,332,164 | 68,313,773 | - | - | - | - | (154,134,567) | (81,488,630) |
| Depreciation | - | (56,133,158) | (7,087,100) | (9,079,287) | (17,367,326) | (505,415) | (2,443,904) | - | (92,616,190) |
| Translation adjustments | - | - | - | - | (376,967) | 914 | - | - | (376,053) |
| Closing net carrying amount | 39,556,011 | 336,649,050 | 64,874,096 | 19,459,660 | 45,708,390 | 936,368 | 7,058,219 | 76,147,871 | 590,389,665 |
| **At December 31, 2018** | | | | | | | | | |
| Cost | 39,556,011 | 574,601,257 | 96,006,650 | 59,513,806 | 176,458,404 | 5,071,873 | 12,185,456 | 76,147,871 | 1,039,541,328 |
| Accumulated depreciation | - | (237,952,207) | (31,132,554) | (40,054,146) | (130,466,657) | (4,135,505) | (5,127,237) | - | (448,868,306) |
| Cumulative translation adjustments | - | - | - | - | (283,357) | - | - | - | (283,357) |
| **Net carrying amount** | 39,556,011 | 336,649,050 | 64,874,096 | 19,459,660 | 45,708,390 | 936,368 | 7,058,219 | 76,147,871 | 590,389,665 |

As at December 31, 2018, the cost of fully depreciated property and equipment still used in operation amounted to P134,625,345 (2017 - P106,831,816).

As at December 31, 2018, the Group's unpaid acquisitions of property and equipment amounted to P28,678,250 (2017 - P52,040,713).

Depreciation for the years ended December 31 charged to profit or loss consists of:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Cost of services | 16 | 69,981,038 | 48,040,347 | 41,397,737 |
| General and administrative expenses | 17 | 22,635,152 | 14,756,657 | 13,014,340 |
| | | 92,616,190 | 62,797,004 | 54,412,077 |

Construction-in-progress as at December 31, 2017 mainly comprise of building under construction (completed in 2018) and tugboat being prepared for intended use which remains uncompleted as at December 31, 2018.

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 12) amounted to P12.9 million and P331.9 million, respectively, as at December 31, 2018 (2017 - P14.6 million and P79.3 million, respectively).

As at December 31, 2018, net carrying value of barge held under finance lease amounted to P70,994,036 (2017 - P75,839,168) (Note 22).

*Critical accounting estimates*

*Useful lives of property and equipment at cost*

The Group's management determines the estimated useful lives for its property and equipment at cost based on the period over which the assets are expected to be available for use. The Group annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

An increase/decrease in the estimated useful life would impact the recorded net carrying amounts of property and equipment at cost with a corresponding increase/decrease in the profit for the year as a result of lower/higher depreciation expense charged to profit or loss.

*Critical accounting judgment*

The Group's property and equipment, except for tugboats, is carried at cost. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those assessment and judgment could have a significant effect on the carrying value of property and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2018 and 2017, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their property and equipment may not be recoverable.

**Note 8 - Computer software, net**

The details of computer software, net as at December 31, 2018:

| | |
|---|---|
| Year ended December 31, 2017 | |
| Opening net carrying amount | 26,147,435 |
| Additions | 2,266,605 |
| Amortization (Note 17) | (585,371) |
| Closing net carrying amount | 27,828,669 |
| At December 31, 2017 | |
| Cost | 28,624,915 |
| Accumulated amortization | (796,246) |
| Net carrying value | 27,828,669 |
| Year ended December 31, 2018 | |
| Opening net carrying amount | 27,828,669 |
| Additions | 1,061,833 |
| Amortization (Note 17) | (1,100,635) |
| Closing net carrying amount | 27,789,867 |
| At December 31, 2018 | |
| Cost | 29,686,748 |
| Accumulated amortization | (1,896,881) |
| Net carrying value | 27,789,867 |

**Note 9 - Investment properties**

As at December 31, 2018 and 2017, the Group's investment properties consist of parcels of land in various locations, which are held for capital appreciation.

The movement in investment properties for the years ended December 31 follows:

| | 2018 | 2017 |
|---|---|---|
| Beginning of year | 43,476,987 | 24,069,051 |
| Additions | 4,150,000 | 19,407,936 |
| End of year | 47,626,987 | 43,476,987 |

The estimated fair value of the investment properties as at December 31, 2018 amounted to P281.0 million (2017 - P230.7 million) based on the recent selling price per square meter and land reclassification to industrial during the year.

There were no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2018, 2017 and 2016.

*Critical accounting judgment*

The carrying value of the Group's investment properties is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those assessment and judgment could have a significant effect on the carrying value of investment properties and the amount and timing of recorded provision for any period.

As at December 31, 2018 and 2017, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their investment properties may not be recoverable.

**Note 10 - Other non-current assets, net**

Other non-current assets as at December 31 consist of:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Input VAT, net of output VAT | | 243,220,956 | 210,696,343 |
| Allowance for impairment of input VAT | | (41,867,914) | (35,397,251) |
| Input VAT, net | | 201,353,042 | 175,299,092 |
| Performance bond | | 9,799,637 | 9,799,637 |
| Lease guarantee deposit | 22 | 4,356,032 | 4,356,032 |
| Financial asset at fair value through other comprehensive income (FVOCI) | | 810,000 | 810,000 |
| Leasehold rights | | 40,298,473 | 1,350,000 |
| | | 256,617,184 | 191,614,761 |

Performance bond is a security required by the contracting party to ensure completion of performance of obligation in the event that the performing party cannot fulfill its obligations, as set forth in the circular no DOE DC 2009-07-0011 Sec 16 Obligations of a Developer.

The Parent Company has existing acquired leasehold rights for a piece of land in San Vicente, Palawan for 25 years amounting to P19,010,000 (2017 - P1,350,000).

ADF1 and ADF2 have existing acquired leasehold rights over a property in General Santos City for 25 years amounting to P21,288,473.

The movement in allowance for impairment of input VAT for the years ended December 31 follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | | 35,397,251 | 33,240,363 |
| Provision for impairment | 17 | 6,470,663 | 2,156,888 |
| End of year | | 41,867,914 | 35,397,251 |

*Critical accounting judgment*

Allowance for impairment of input VAT is maintained at a level considered adequate to provide for potentially unrecoverable tax claims from excess input VAT. An evaluation of the recoverability of the excess input VAT, designed to identify potential charges to the provision, is performed on a continuous basis throughout the period. Management uses judgment based on the best available facts and circumstances, including but not limited to the evaluation of its future utilization based on long-term forecasts, in determining provision for impairment of input VAT. A change in the provision would impact the Group's recorded carrying value of input VAT and provision for impairment.

Further, based on management assessment, out of the total carrying amount of input VAT as at December 31, 2018, P52,020,149, presented under "Prepayments and other current assets" in the statement of financial position (2017 - P32,563,797) (Note 4), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P201,353,042 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2017 - P175,299,092).

Management believes that the carrying amount of input VAT is recoverable based on the long-term business plans of the Group.

## Note 11 - Trade and other payables

Trade and other payables at December 31 consist of:

| | 2018 | 2017 |
|---|---|---|
| Trade payables | 227,842,528 | 150,045,702 |
| Accrued expenses | | |
| Fuel | 16,543,211 | 14,626,252 |
| Tug assistance | 11,390,219 | 12,160,150 |
| Interest | 11,236,634 | 7,226,989 |
| Marketing | 7,404,762 | 2,996,221 |
| Others | 25,687,277 | 42,388,394 |
| Advances from customers | 10,363,257 | 827,249 |
| Unearned income | 7,822,614 | 7,570,882 |
| Advances from employees | 8,693,163 | 6,182,186 |
| Payable to government agencies | 4,526,544 | 3,571,453 |
| Others | 8,906,776 | 7,156 |
| | 340,416,985 | 247,602,634 |

Trade payables are generally non-interest-bearing and are settled in thirty (30) to ninety (90) days' term.

Accrued expenses are obligations on the basis of normal credit terms and do not bear interest. These pertain to accruals made for professional fees, and delivered goods and services not yet billed by suppliers as of reporting period. Accruals are made based on prior month's billings and/or contracts and are normally settled within twelve (12) months from the reporting period. Other accrued expenses are mainly composed of outstanding payable to insurance companies and unliquidated business expenses which are expected to be settled in the subsequent year.

Unearned income pertains to advance collection from customers. Unearned revenue amounting to P7,570,882 as at January 1, 2018 was recognized as service income in 2018.

**Note 12 - Short-term loans and borrowings**

Details of short-term loans and borrowings as at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Current | | |
| Short-term loans | 465,000,000 | 560,000,000 |
| Current portion of long term borrowings | 1,478,332,994 | 347,486,299 |
| Non-current | | |
| Long-term borrowings | 990,980,984 | 722,927,421 |
| | 2,934,313,978 | 1,630,413,720 |

*Parent Company*

As at December 31, 2018 and 2017, the Parent Company's unsecured short-term loans from local banks bear interest rates ranging from 5.0% to 6.7% and have maturity of one (1) to three (3) months from reporting date.

As at December 31, 2018 and 2017, the Parent Company's long-term borrowings bear annual interest rate ranging from 4.5% to 13.65% are payable in various installments maturing on various dates up to 2022. These are secured by chattel mortgages to certain Parent Company-owned tugboats (Note 6), transportation equipment and barges (Note 7).

The long-term borrowings agreements require compliance by the Parent Company to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2018 and 2017, Parent Company had complied with those financial ratios.

Parent Company's short-term loans and long-term borrowings were obtained specifically for working capital purposes and to finance capital expenditures that are non-qualifying assets.

*ADGI*

On January 19, 2018, ADGI secured an Omnibus Loan Agreement with Development Bank of the Philippines (DBP) for a principal amount of P1.59 billion available in the form of advance term loan or Import Letter of Credit payable in 12 years or 42 quarterly amortizations. The loan is covered by various securities which include among others 100% ownership shares pledged, continuing deed of assignment of receivables from customers, continuing deed of assignment of rights arising from engineering, procurement and construction contracts with the DOE. The purpose of the borrowing is to finance the construction of the 26.88 megawatt solar power plant in General Santos City.

As at December 31, 2018, ADGI has obtained long-term borrowings amounting to P578,737,482. ADGI's long term borrowings bear annual interest rate ranging from 6.5% to 8.65% and are payable in various installments maturing on April 19, 2030.

The long-term borrowing agreement requires compliance by the ADGI to certain various covenants including, among others, the maintenance of financial ratios upon the start of commercial operations. As at December 31, 2018, the debt covenants are not yet applicable as commercial operations is expected to start in 2019.

Total interest expense from Group borrowings charged to profit or loss for the year ended December 31, 2018 amounted to P102,350,268 (2017 - P53,034,593; 2016 - P40,641,488). Total interest expense from specific long-term borrowings capitalized as part of pre-development which is considered qualifying asset cost amounted to P18,652,111 for the year ended December 31, 2018.

The fair value of long-term borrowings approximate their carrying values as at December 31, 2018 and 2017.

Net debt reconciliation

Detailed analysis of net debt and the movements in net debt for the years ended December 31 are presented below:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Cash and cash equivalents | 2 | 314,741,767 | 396,384,149 |
| Short-term loans | 12 | (465,000,000) | (560,000,000) |
| Borrowings, current portion | 12 | (1,478,332,994) | (347,486,299) |
| Borrowings, net of current portion | 12 | (990,980,984) | (722,927,421) |
| Interest payable | 11 | (11,236,634) | (7,226,989) |
| Unrealized foreign currency exchange loss | | - | 125,257 |
| Finance lease liability, current portion | 22 | (3,776,463) | (3,557,070) |
| Finance lease liability, net of current portion | 22 | (23,309,163) | (27,085,626) |
| Net debt | | (2,657,894,471) | (1,271,773,999) |

Cashflow movements presented in the statement of cashflows from the financing liabilities above are net of foreign exchange adjustments amounting to P125,257 for the year ended December 31, 2017. Net foreign exchange adjustments for the year ended December 31, 2018 is not material. Total borrowings denominated in foreign currency as at December 31, 2018 amounted to P2,388,839 (2017 -P4,047,544).

## Note 13 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2018 and 2017 are as follows:

| | Shares | Amount |
|---|---|---|
| Common shares at P1 par value share | | |
| Authorized | 2 billion | 2 billion |
| Issued and outstanding | 907,857,870 | 907,857,870 |

As discussed in (Note 1.1), on October 29, 2012, the Parent Company submitted its Registration Statement to the Philippine SEC. On October 30, 2013, the IPO of the Parent Company's shares were issued with an issue/offer price of P1.88 per share. Total shares registered and subscribed was 181.6 million shares resulting in share capital of P181.6 million and additional paid-in capital of P121.6 million net of transaction costs amounting to P24.6 million. There are no other share offering after the IPO in 2013.

On March 6, 2017, the BOD and shareholders approved to amend the Parent Company's articles of incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares (Note 1.2).

On September 5, 2017, the SEC issued an order, in favor of the Parent Company, authorizing the issuance of three hundred two million six hundred nineteen thousand two hundred ninety (302,619,290) common shares with a par value of One Peso (P1.00) per share, as stock dividends to stockholders of record as of September 19, 2017, which was subsequently issued by the Parent Company on September 29, 2017 (Note 25).

The Parent Company's record of registration of its securities under the Securities Regulation Code follows:

| | |
|---|---|
| Number of shares registered | 181,600,000 |
| Issued/offer price | P1.88 |
| Date of approval | October 29, 2012 |

*Dividend declaration*

On June 17, 2015, the Parent Company's BOD approved the declaration of cash dividends amounting to P23.1 million (P0.038 per share), in favor of the Parent Company's existing shareholders of record as at July 10, 2015 and was paid on August 5, 2015.

On March 6, 2017, the Parent Company's BOD and shareholders approved the declaration of 50% stock dividends equivalent to 302,619,290 shares from the unrestricted retained earnings of the Parent Company as at December 31, 2015 based on its audited financial statements for the year then ended.

*Treasury stocks*

On September 24, 2018, the Group's BOD approved the share buyback program which commenced as follows:

Buyback of shares paid for since 2016 are as follows:

| Trade Date | Date Paid | Shares | Per share | Amounts |
|---|---|---|---|---|
| October 8, 2018 | October 11, 2018 | 300,000 | 2.66 | 797,200 |
| October 10, 2018 | October 15, 2018 | 300,000 | 2.72 | 815,800 |
| October 11, 2018 | October 16, 2018 | 637,000 | 2.57 | 1,637,890 |
| October 16, 2018 | October 19, 2018 | 500,000 | 2.50 | 1,250,000 |
| October 17, 2018 | October 22, 2018 | 500,000 | 2.54 | 1,269,250 |
| October 18, 2018 | October 23, 2018 | 180,000 | 2.60 | 467,700 |
| October 22, 2018 | October 25, 2018 | 320,000 | 2.85 | 912,000 |
| October 24, 2018 | October 29, 2018 | 90,000 | 2.79 | 251,100 |
| October 25, 2018 | October 30, 2018 | 200,000 | 2.79 | 558,100 |
| October 26, 2018 | October 31, 2018 | 60,000 | 2.77 | 165,900 |
| October 30, 2018 | November 6, 2018 | 60,000 | 2.80 | 167,700 |
| November 6, 2018 | November 9, 2018 | 140,000 | 2.88 | 402,500 |
| November 19, 2018 | November 22, 2018 | 139,000 | 3.18 | 441,630 |
| November 20, 2018 | November 23, 2018 | 100,000 | 3.24 | 324,000 |
| November 27, 2018 | December 3, 2018 | 100,000 | 3.47 | 346,500 |
| December 7, 2018 | December 12, 2018 | 40,000 | 3.30 | 131,800 |
| December 10, 2018 | December 13, 2018 | 100,000 | 3.06 | 305,600 |
| December 11, 2018 | December 14, 2018 | 200,000 | 3.05 | 609,000 |
| | | 3,966,000 | | 10,853,670 |

Subsequently in 2019, the Group has repurchased additional 8,355,000 shares amounting to P24,202,790.

## Note 14 - Earnings per share

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.

Total issued ordinary shares for the period has been adjusted for impact of stock split and stock dividends, if any.

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net income attributable to Parent Company | 99,240,853 | 102,850,817 | 107,203,021 |
| Weighted average number of common shares - basic and diluted | 907,123,856 | 907,857,870 | 907,857,870 |
| Basic and diluted earnings per share | 0.11 | 0.11 | 0.12 |

The earnings per share for the years ended December 31, 2016 and 2015 has been adjusted as a result of the stock dividend declaration in 2017.

The previously reported earnings per share prior to stock dividends are as follows:

| | 2016 |
|---|---|
| Net income attributable to Parent Company | 107,203,021 |
| Weighted average number of common shares - basic and diluted | 605,238,580 |
| Basic and diluted earnings per share | 0.18 |

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

## Note 15 - Service income, net

The components of service income, net for the years ended December 31 are:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| *Over time* | | | |
| Harbor assistance, net of discounts | 971,873,553 | 1,049,202,992 | 1,043,687,401 |
| Salvage income | 210,094,818 | 77,161,337 | 39,850,400 |
| Lighterage services | 127,299,870 | 91,432,697 | 105,971,809 |
| Towing services | 19,023,887 | 64,407,902 | 64,249,585 |
| Income from construction contract | - | - | 57,466,091 |
| Others | 108,676,248 | 44,703,843 | 49,604,739 |
| | 1,436,968,376 | 1,326,908,771 | 1,360,830,025 |

Harbor assistance pertains to services rendered in assisting ships and other watercrafts in docking and undocking at the port. The amount of income recognized is net of discounts amounting to P116.0 million (2017 - P117.6 million; 2016 - P128.4 million).

Others consist of income generated from diving and other underwater services, among others. All of the above revenues are considered as one business segment of the Group.

## Note 16 - Cost of services

The components of cost of services for the years ended December 31 are:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Depreciation | 6,7 | 266,600,163 | 264,046,565 | 249,765,068 |
| Personnel costs | 18 | 211,024,430 | 208,749,994 | 181,507,307 |
| Fuel and lubricants | | 199,458,024 | 181,255,629 | 140,518,049 |
| Outside services | | 64,613,760 | 40,792,774 | 74,746,493 |
| Supplies and construction supplies | | 60,923,514 | 65,849,705 | 110,012,641 |
| Insurance | | 48,939,736 | 39,120,738 | 36,668,262 |
| Repairs and maintenance | | 17,582,342 | 21,478,917 | 26,005,036 |
| Port expense | | 12,198,867 | 11,191,975 | 12,354,814 |
| Professional fees | | 11,449,248 | 8,722,550 | 9,128,313 |
| Transportation and travel | | 10,660,517 | 5,028,592 | 4,647,206 |
| Charter hire | | 6,267,389 | 4,082,708 | 21,461,178 |
| Rent | 22 | 5,078,369 | 2,552,475 | 27,369,495 |
| Taxes and licenses | | 3,464,288 | 2,417,391 | 2,336,337 |
| Communications, light and water | | 2,976,982 | 6,097,289 | 10,255,743 |
| Others | | 29,729,138 | 45,074,209 | 49,805,096 |
| | | 950,966,767 | 906,461,511 | 956,581,038 |

Others mainly composed of expenses such as survey and valuation fees, commission and utilities expenses.

Rent expense for the year ended December 31, 2016 includes equipment rentals related to the construction and repair of a jetty in Quezon Province.

## Note 17 - General and administrative expenses

The components of general and administrative expenses for the years ended December 31 are:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Personnel costs | 18 | 104,681,711 | 84,933,136 | 81,547,596 |
| Transportation and travel | | 40,397,271 | 31,334,433 | 21,520,874 |
| Depreciation and amortization | 7,8 | 23,735,787 | 15,342,028 | 13,225,215 |
| Taxes and licenses | | 21,464,057 | 21,881,423 | 12,702,445 |
| Professional and management fees | | 16,799,755 | 12,091,228 | 13,115,980 |
| Representation and entertainment | | 14,896,205 | 15,753,760 | 17,404,819 |
| Advertising and promotions | | 9,571,995 | 7,238,490 | 5,716,356 |
| Provision for (Reversal of) impairment of trade receivables | 3 | 7,950,572 | 1,719,356 | (1,458,142) |
| Communications | | 7,321,945 | 6,512,346 | 6,276,436 |
| Outsourced services | | 6,573,813 | 4,876,422 | 3,958,070 |
| Provision for impairment of input VAT | 10 | 6,470,663 | 2,156,888 | 8,627,553 |
| Supplies and construction materials | | 5,280,424 | 5,587,820 | 4,539,726 |
| Rent | 22 | 5,061,971 | 3,498,727 | 3,952,866 |
| Fuel and lubricants | | 3,479,355 | 2,684,671 | 2,388,986 |
| Repairs and maintenance | | 3,098,655 | 2,262,041 | 3,405,067 |
| Utilities | | 2,213,057 | 1,624,005 | 1,782,971 |
| Insurance | | 1,500,580 | 2,167,725 | 1,077,269 |
| Registration and membership fees | | 500,208 | 5,524,112 | 762,825 |
| Others | | 3,538,383 | 6,733,818 | 5,009,599 |
| | | 284,536,407 | 233,922,429 | 205,556,511 |

Others mainly composed of expenses such as directors' fee, membership fees, postage, courier, bank service charges and other expenses.

## Note 18 - Personnel costs

The components of personnel costs for the years ended December 31 are:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Cost of services | | | | |
| Salaries and wages | | 118,263,703 | 105,169,402 | 102,852,396 |
| Crew expense | | 41,402,575 | 61,985,633 | 41,927,555 |
| Tug and barge operations | | 19,888,998 | 19,414,758 | 16,905,332 |
| Retirement benefit expense | 20 | 9,035,412 | 8,558,134 | 8,375,125 |
| Other employee benefits | | 22,433,742 | 13,622,067 | 11,446,899 |
| | 16 | 211,024,430 | 208,749,994 | 181,507,307 |
| General and administrative expenses | | | | |
| Salaries and wages | | 88,694,796 | 71,746,221 | 68,219,001 |
| Retirement benefit expense | 20 | 4,118,706 | 3,667,771 | 3,070,879 |
| Other employee benefits | | 11,868,209 | 9,519,144 | 10,257,716 |
| | 17 | 104,681,711 | 84,933,136 | 81,547,596 |
| | | 315,706,141 | 293,683,130 | 263,054,903 |

Other employee benefits mainly pertain to employer's share on statutory contributions and insurance.

## Note 19 - Other income, net

The components of other income, net for the years ended December 31 consist of:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Insurance claims | | 49,520,158 | 28,560,624 | 2,490,741 |
| Ship management | | 400,000 | 2,000,000 | - |
| Interest income | 2 | 418,559 | 392,425 | 1,389,659 |
| Foreign exchange loss, net | 24 | (7,796,659) | (9,913,783) | (1,623,152) |
| Gain (Loss) on sale of property and equipment | | (56,871,044) | (18,670) | 17,859,837 |
| Others | | 67,770,501 | 15,811,999 | 2,767,662 |
| | | 53,441,515 | 36,832,595 | 22,884,747 |

Insurance claims pertain to reimbursements from insurance companies for the damages on tugboats incurred by the Group in previous years.

Others pertain to cost recharges and non-routine special projects provided by the Group to their customers which do not fall under regular service income.

## Note 20 - Retirement benefit

The Parent Company has an unfunded, non-contributory, and actuarially computed retirement benefit plan which provides a retirement benefit in accordance with the local conditions and practices in the Philippines. Under the Plan, the normal retirement age is 60 with a minimum of five years of service.

The amount recognized in the statement of financial position as present value of defined benefit obligation amounted to P83,073,916 and P71,749,193 as at December 31, 2018 and 2017, respectively.

The Parent Company does not have any plan assets.

The movements in the liability recognized in the statements of financial position at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Beginning of year | 71,749,193 | 65,631,257 |
| Current service cost | 9,116,522 | 8,774,424 |
| Interest cost | 4,037,596 | 3,451,481 |
| Benefits paid | (544,400) | (1,187,400) |
| Remeasurement (gain) loss due to: | | |
| Experience adjustments | 3,412,057 | (1,899,862) |
| Changes in financial assumptions | (3,480,242) | (2,394,083) |
| Changes in demographic assumptions | (1,216,810) | (626,624) |
| End of year | 83,073,916 | 71,749,193 |

The amounts recognized in profit or loss for the years ended December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Current service cost | 9,116,522 | 8,774,424 |
| Net interest cost | 4,037,596 | 3,451,481 |
| Retirement benefit expense | 13,154,118 | 12,225,905 |

Retirement benefit expense is included as part of personnel cost under cost of services and general and administrative expenses (Note 18).

The amounts of remeasurement gain on defined benefit obligation recognized in other comprehensive income for the years ended December 31 are as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Due to change in financial assumptions | | (3,480,242) | (2,394,083) |
| Due to experience | | 3,412,057 | (1,899,862) |
| Due to change in demographic assumption | | (1,216,810) | (626,624) |
| Remeasurement gain | | (1,284,995) | (4,920,569) |
| Deferred income tax expense | 23 | - | 1,476,171 |
| Remeasurement gain, net of tax | | (1,284,995) | (3,444,398) |

Movements in cumulative other comprehensive income related to retirement benefit obligation for the years ended December 31 presented as part of retained earnings in the statements of financial position follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | | 9,375,857 | 12,820,255 |
| Remeasurement gain for the year | | (1,284,995) | (4,920,569) |
| Deferred income tax effect | 23 | - | 1,476,171 |
| End of year, net of tax | | 8,090,862 | 9,375,857 |

Shown below is the maturity analysis of the undiscounted benefit payments at December 31:

| | 2018 | 2017 |
|---|---|---|
| Less than one years | 4,748,745 | 2,571,783 |
| More than one year to five years | 44,351,025 | 45,063,445 |
| More than five years to 10 years | 64,617,290 | 40,953,906 |
| More than 10 years to 15 years | 64,725,816 | 58,722,110 |
| More than 15 years to 20 years | 103,534,337 | 80,488,412 |
| More than 20 years | 268,598,246 | 213,940,275 |
| Total expected payments | 550,575,459 | 441,739,931 |

The average duration of the defined benefit obligation at the end of the reporting period is 18.57 years (2017 - 18.28 years)

There are no unusual or significant risks to which the Plan exposes the Parent Company.

*Demographic assumptions*

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy (including expectations for future improvements), plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plan. The assumptions used in 2018 are consistent with those applied in 2017.

Assumptions regarding future mortality experience are set based on advice from published statistics and experience within the industry.

*Critical accounting estimate*

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pension include the discount rate and future salary increase. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.

The Parent Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Parent Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The significant actuarial assumptions used by the Parent Company for the years ended December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 7.36% | 5.73% |
| Salary growth rate | 6.00% | 5.00% |

The sensitivity of the defined benefit obligation at December 31 to changes in the significant weighted principal assumptions is:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) in defined benefit obligation | | | | | |
| | Change in assumption | Increase in assumption | Decrease in assumption | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rates | 1% | (5,587,976) | 6,472,151 | 1% | (8,084,066) | 6,913,513 |
| Salary growth rate | 1% | 6,924,180 | (6,082,275) | 1% | 1,827,574 | (482,927) |

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

## Note 21 - Related party transactions and balances

The table below summarizes the Group’s transactions with their related parties for the years ended December 31:

| | Terms and conditions | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| *(a) Purchase of services* | | | | |
| Associate | Services rendered to the Parent Company are billed based on agreed prices. These are unsecured, non-interest bearing and are payable in cash within 30 days after invoice date. | - | 4,082,708 | 5,607,388 |

The table below summarizes the outstanding balances with related parties as at December 31:

| | Terms and conditions | 2018 | 2017 |
|---|---|---|---|
| *Advances to related party:* | | | |
| Entity under common control | These are unsecured, non-interest bearing, due on demand and are to be collected in cash. | 7,389,954 | 7,789,948 |
| *Advances from related parties:* | | | |
| Officers | These are unsecured, non-interest bearing, due on demand and are to be paid in cash. | 7,796,910 | - |

*Key management compensation and benefits*

Key management compensation and benefits for the years ended December 31 consist of:

| | Terms and conditions | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Salaries and short term employee benefits | Key management compensation covering salaries and wages and other short term benefits are determined based on contract of employment and payable in accordance with the Group's payroll period. These were fully paid at reporting date. | 81,348,674 | 81,186,301 | 80,762,389 |
| Retirement benefits | Retirement benefits are determined and payable in accordance with policies disclosed in Note 28.19. These will be settled upon retirement of key management. | 999,767 | 999,767 | 999,776 |
| | | 82,348,441 | 82,186,068 | 81,762,165 |

There are no amounts due from or payable to key management personnel arising from the above compensation arrangement, other than the retirement benefit obligation, at December 31, 2018 and 2017. The Group has not provided share based payments, termination benefits or other long term benefits other than retirement benefits to its key management personnel for the years ended December 31, 2018, 2017 and 2016.

The following related party transactions and balances were eliminated for the purpose of preparing the consolidated financial statements for the years ended December 31:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Advances to related parties | 1,421,904,061 | 989,860,726 | 275,463,115 |
| Advances from related parties | 1,421,904,061 | 989,860,726 | 275,463,115 |
| Investment in subsidiaries and associate | 222,475,585 | 59,080,724 | 8,455,724 |
| Service income | - | 7,218,274 | - |
| Cost of services | 7,579,866 | 8,186,627 | 17,178,411 |
| Other income, net | 7,579,866 | 15,404,901 | 17,178,411 |

There are no unrealized gains and losses eliminated in the consolidation.

**Note 22 - Lease commitments**

(a) *Finance lease*

On February 27, 2014, the Parent Company entered into a finance lease agreement covering a specific barge for ten (10) years. The annual interest rate of the said agreement is 6%. The first monthly lease payment commenced in September 2014. The carrying amount of barge subject to finance lease amount to P70,994,036 as at December 31, 2018 (2017 - P75,839,168) (Note 7).

This agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,356,032, which is presented within other non-current assets in the consolidated statement of financial position as at December 31, 2018 and 2017 (Note 10).

The commitments in relation to above finance lease agreement as at December 31 are payable as follows:

| | 2018 | 2017 |
|---|---|---|
| Not later than 1 year | 5,157,030 | 5,157,030 |
| Later than 1 year but not more than 5 years | 20,628,122 | 20,628,122 |
| More than 5 years | 5,841,374 | 8,595,051 |
| Minimum lease payments | 31,626,526 | 34,380,203 |
| Future finance charges | (4,540,900) | (3,737,507) |
| Total finance lease liabilities | 27,085,626 | 30,642,696 |

The present value of finance lease liability as at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Not later than 1 year | 3,776,463 | 3,557,070 |
| Later than 1 year but not more than 5 years | 17,583,238 | 16,561,745 |
| More than 5 years | 5,725,925 | 10,523,881 |
| | 27,085,626 | 30,642,696 |

*(b) Operating lease*

The Parent Company and subsidiaries has various non-cancellable operating lease agreements covering certain container warehouse and offices for periods ranging from six (6) months to one (1) year which can be extended or renewed upon mutual agreement of the parties.

These agreements require the Parent Company to pay refundable deposits which are presented within prepayments and other current assets in the consolidated statements of financial position. Refundable deposits amounted to P3,817,530 as at December 31, 2018 (2017 - P1,091,081) (Note 4).

Rent expense from the foregoing lease agreements recognized in profit or loss for the years ended December 31 are as follows:

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Cost of services | 16 | 5,078,369 | 2,552,475 | 6,161,631 |
| General and administrative expenses | 17 | 5,061,971 | 3,498,727 | 3,952,866 |
| | | 10,140,340 | 6,051,202 | 10,114,497 |

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2018 amounted to P685,077 (2017 - P674,944).

*Critical accounting judgment*

The Group follows the guidance of PAS 17 "Leases" to determine whether a lease is a finance lease or operating lease. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the transfer of ownership of the asset to the lessee at the end of the lease term. If there is a transfer of ownership at the end of the lease term, the Group classifies the lease as a finance lease. Based on management's assessment, lease covering the specific barge wherein ownership will be transferred at the end of the lease term, is considered a finance lease while other leases remain to be operating lease.

**Note 23 - Income tax expense**

Pursuant to the provisions of Republic Act No. 7227, otherwise known as Bases Conversion and Development Act of 1992 (the Act). As a registrant, the Group shall enjoy all rights, privileges and benefits established under the Act including tax and duty free importation of capital equipment and special income tax rate of 5% of gross income, as defined. Net income from unregistered activities is subject to regular income tax at 30%.

Deferred income tax (DIT) liabilities, net as at December 31 consist of:

| | Note | 2018 | 2017 |
|---|---|---|---|
| DIT assets | | | |
| Retirement benefit obligation | | 24,922,175 | 21,524,757 |
| Allowance for impairment of receivables | | 7,549,329 | 6,031,772 |
| Unrealized foreign exchange loss,net | | - | 956,179 |
| | | 32,471,504 | 28,512,708 |
| DIT liabilities | | | |
| Unrealized foreign exchange gain, net | | (451,840) | - |
| Revaluation increment on property and equipment | 6 | (42,288,662) | (50,216,709) |
| | | (42,740,502) | (50,216,709) |
| DIT liabilities, net | | (10,268,998) | (21,704,001) |

The maturity of DIT assets and liabilities are as follows:

| | 2018 | 2017 |
|---|---|---|
| DIT assets: | | |
| Expected to be recovered within 12 months | - | 956,178 |
| Expected to be recovered more than 12 months | 32,471,504 | 27,556,530 |
| | 32,471,504 | 28,512,708 |
| DIT liabilities | | |
| Expected to be settled within 12 months | (8,338,599) | (15,375,906) |
| Expected to be settled more than 12 months | (34,401,903) | (34,840,803) |
| | (42,740,502) | (50,216,709) |
| | (10,268,998) | (21,704,001) |

The movements in the Group's net DIT liabilities for the years ended December 31 follow:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | | 21,704,001 | 38,331,673 |
| DIT credited to profit or loss | | (11,435,003) | (18,103,843) |
| DIT charged to other comprehensive income | 20 | - | 1,476,171 |
| End of year | | 10,268,998 | 21,704,001 |

Income tax expense for the years ended December 31 is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current | 60,126,360 | 80,185,770 | 90,450,471 |
| Deferred | (11,435,003) | (18,103,843) | (10,929,123) |
| | 48,691,357 | 62,081,927 | 79,521,348 |

The reconciliation between income tax expense computed at the statutory income tax rate and the actual income tax expense as shown in the statements of total comprehensive income for the years ended December 31 is summarized as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Income tax computed | 44,611,979 | 51,266,277 | 54,122,569 |
| Adjustments to income tax resulting from: | | | |
| Non-deductible expenses | 5,058,546 | 11,055,212 | 26,282,836 |
| Limitation on interest expense | 45,150 | | |
| Interest income subjected to final tax | (110,431) | (107,712) | (416,400) |
| Share in net income of associates | (913,887) | (131,850) | (467,657) |
| Income tax expense | 48,691,357 | 62,081,927 | 79,521,348 |

*Critical accounting judgment*

The recognition of DIT assets depends on management's assessment of adequate future taxable income against which the temporary differences can be applied. The Group reviews the carrying amounts of DIT assets at the end of each reporting period and recognizes the amount to the extent that it is probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. The Group's management believes that the DIT assets at the end of each reporting period will be fully realized.

## Note 24 - Foreign currency denominated monetary assets and liabilities

The Group's foreign currency monetary financial assets and liabilities are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | In USD | In JPY | In USD | In JPY |
| Assets | | | | |
| Cash | 1,047,162 | 2,114,237 | 1,223,193 | 2,114,237 |
| Trade and other receivables | - | - | 181,133 | - |
| | 1,047,162 | 2,114,237 | 1,404,326 | 2,114,237 |
| Liabilities | | | | |
| Trade and other liabilities | (85,000) | (42,451,066) | - | (110,850,915) |
| Borrowings | (47,143) | - | (78,571) | - |
| | (132,143) | (42,451,066) | (78,571) | (110,850,915) |
| Net foreign currency assets (liabilities) | 915,019 | (40,336,829) | 1,325,755 | (108,736,678) |
| Year-end exchange rates | 52.72 | 0.48 | 49.92 | 0.44 |
| Peso equivalent | 48,239,802 | (19,361,678) | 66,181,690 | (47,844,138) |

Foreign exchange loss, net presented under other income, (Note 19) in the consolidated statements of total comprehensive income for the years ended December 31 consists of:

| | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Realized foreign exchange gain (loss) | | (9,429,758) | (6,301,607) | (2,987,419) |
| Unrealized foreign exchange gain (loss) | | 1,633,099 | (3,612,176) | 1,364,267 |
| | 19 | (7,796,659) | (9,913,783) | (1,623,152) |

Unrealized foreign exchange gain, net on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2018 is nil (2017 - P125,257 gain; 2016 - P2,086,027 loss).

## Note 25 - Supplemental disclosure to consolidated statement of cash flows

Non-cash financing activities in 2017 pertain to stock dividends amounting to P302,619,290 (Note 13). No stock dividends were declared as at December 31, 2018.

## Note 26 - Critical accounting estimates, assumptions and judgments

In preparing the Group's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as at the date of the consolidated financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. These 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 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 hereafter.

*(a) Critical accounting estimates and assumptions*

- Recoverability of trade and other receivables (Note 3)
- Revaluation of tugboats (Note 6)
- Useful lives of property and equipment (Notes 6 and 7)
- Retirement benefit obligation (Note 20)

*(b) Critical judgments in applying the Group's accounting policies*

- Determining control over investments with ownership of less than half of the entity's total equity (Note 1.3)
- Impairment of investment in associate (Note 5)
- Impairment of property and equipment (Notes 6 and 7)
- Impairment of investment properties (Note 9)
- Recoverability of input VAT (Note 10)
- Lease agreements (Note 22)
- Current and deferred income tax (Note 23)

## Note 27 - Financial risk and capital management

### 27.1 Financial risk management

The Parent Company's BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Parent Company's BOD reviews and approves the policies for managing each of these risks.

### 27.2 Components of financial assets and liabilities

*Financial assets*

The Group's financial assets as at December 31 are as follows:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Cash | 2 | 316,560,503 | 398,114,751 |
| Trade receivables, gross | 3 | 525,102,517 | 373,944,210 |
| Deposit bond | 3 | 8,057,630 | - |
| Advances to related parties | 21 | 7,389,954 | 7,789,948 |
| Refundable deposits | 4 | 3,817,530 | 1,091,081 |
| Financial assets at fair value through other comprehensive income (FVOCI) | 10 | 810,000 | 810,000 |
| | | 861,738,134 | 781,749,990 |

Trade receivables are presented gross of allowance for impairment amounting to P25,164,430 as at December 31, 2018 (2017 - P17,460,516) (Note 3).

Other receivables are presented gross of allowance for impairment amounting to P2,892,049 (2017 - nil).(Note 3)

Advances to employees amounting to P33,061,841 as at December 31, 2018 (2017 - P33,240,065) are considered non-financial assets as these are mainly subject to liquidation (Note 3).

Lease guarantee deposits amounting to P4,356,032 as at December 31, 2018 and 2017 are also considered as non-financial asset as these will be applied as final payment at the end of the finance lease term (Notes 10 and 22).

The other components of prepayments and other current assets and non-current assets are considered non-financial assets.

*Financial liabilities*

The Group's financial liabilities as at December 31 are as follows:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Trade and other payables | 11 | 328,067,827 | 236,460,299 |
| Short-term loans | 12 | 465,000,000 | 560,000,000 |
| Borrowings | 12 | 2,469,313,978 | 1,070,413,720 |
| Finance lease liability | 22 | 27,085,626 | 30,642,696 |
| | | 3,289,467,431 | 1,897,516,715 |

As at December 31, trade and other payable above exclude the following which are considered as non-financial liabilities:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Unearned income | 11 | 7,822,614 | 7,570,882 |
| Payable to government agencies | 11 | 4,526,544 | 3,571,453 |
| | | 12,349,158 | 11,142,335 |

### 27.3 Market risk

*(a) Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most transactions are carried out in Philippine Peso, which is the Parent Company's functional currency. Exposures to currency exchange rates arise from the Group's overseas transactions, which are primarily denominated in United States Dollar (USD), Japanese Yen (JPY) and Malaysian Ringgit (MYR). The Parent Company also maintains US Dollar-denominated bank accounts. Further, the Group has JPY payables from foreign suppliers, which have been used for the purchase of certain tugboats (Note 6) and maintains MYR bank accounts and receivables. To mitigate the Group's exposure to foreign currency risk, non-Philippine Peso cash flows are monitored on a regular basis.

For the year ended December 31, 2018, if the US Dollar had weakened /strengthened by 5.61% (2017 - 0.11%) with all other variables held constant, pre-tax profit for the year and equity would have been P1,894,032 higher/lower (2017 - P72,800), mainly as a result of net foreign exchange gains (losses) on translation of US Dollar-denominated net foreign currency monetary assets.

For the year ended December 31, 2018, if the Japanese Yen had strengthened/weakened by 7.98% (2017 -0.48% weakened/strengthened) with all other variables held constant, pre-tax profit for the year and equity would have been P1,070,137 lower/higher (2017 - P229,652 lower/higher), mainly as a result of net foreign exchange (losses) gains on translation of Japanese Yen-denominated net foreign currency monetary liabilities.

The reasonable possible changes in foreign exchange rate used in the sensitivity analysis are the rates of changes in foreign currencies between the Philippine Peso equivalent at year end and thirty (30) days from reporting date, by which management is expected to receive or settle the Group's most significant financial assets or liabilities, respectively.

*(b) Price risk*

The Group is exposed to equity securities price risk because of the Group's proprietary shares in golf and country club classified as financial assets at fair value through other comprehensive income in the consolidated statement of financial position.

At December 31, 2018 and 2017, the Group's exposure to price risk is not considered significant.

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

Cash flow interest rate risk is the risk that the future cash flows of a financial assets and liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial assets and liabilities will fluctuate because of changes in market interest rates.

The Group's financial liabilities are subject to fixed rates and are measured at amortized cost, hence not subject to repricing and independent of changes in market interest rates.

### 27.4 Credit risk

Credit risk arises from cash deposited in banks and financial institutions, as well as credit exposures on amounts receivable from customers, related parties and other parties. The Group provides services only to recognized, creditworthy third parties. Individual risk limits are set based on internal ratings in accordance with limits set by the Parent Company's BOD. The utilization of credit limits is regularly monitored. In addition, the Group's receivables are monitored on an ongoing basis and stringent collection policy enforced resulting in an insignificant exposure to bad debt.

The aging analysis of the Group's financial assets that are exposed to credit risks are as follows:

| | | | Neither past | Past due but not impaired | | Overdue |
|---|---|---|---|---|---|---|
| | | Gross | due nor | Up to 60 | Over 60 | and |
| | Notes | amount | impaired | days | days | impaired |
| *December 31, 2018* | | | | | | |
| Cash and cash equivalents | 2 | 314,741,767 | 314,741,767 | - | - | - |
| Trade receivables | 3 | 525,102,517 | 237,989,539 | 216,069,391 | 45,879,157 | 25,164,430 |
| Deposit bond | 3 | 8,057,630 | 8,057,630 | - | - | - |
| Advances to related party | 21 | 7,389,954 | 7,389,954 | - | - | - |
| Refundable deposits | 4,22 | 3,817,530 | 3,817,530 | - | - | - |
| | | 859,109,398 | 571,996,420 | 216,069,391 | 45,879,157 | 25,164,430 |

| | | | Neither past | Past due but not impaired | | Overdue |
|---|---|---|---|---|---|---|
| | | Gross | due nor | Up to 60 | Over 60 | and |
| | Notes | amount | impaired | days | days | impaired |
| *December 31, 2017* | | | | | | |
| Cash and cash equivalents | 2 | 396,384,149 | 396,384,149 | - | - | - |
| Trade receivables | 3 | 373,944,210 | 184,906,318 | 108,693,805 | 60,238,180 | 20,105,907 |
| Advances to related party | 21 | 7,789,948 | 7,789,948 | - | - | - |
| Refundable deposits | 4,22 | 1,091,081 | 1,091,081 | - | - | - |
| | | 779,209,388 | 590,171,496 | 108,693,805 | 60,238,180 | 20,105,907 |

The maximum exposure to credit risk at the reporting date is equal to the carrying value of the financial assets summarized above.

None of the financial assets that are fully performing has been renegotiated in 2018 and 2017.

As at December 31, 2018 and 2017, the Parent Company holds a maritime lien over the ships owned and operated by a government-owned corporation as security for a receivable amounting to P2,580,138. The fair value of the maritime lien amounted to P1,520,959.

*Credit quality of fully performing financial assets*

*(a) Neither past nor impaired*

*Cash in banks*

To minimize credit risk exposure, the Group deposits its cash in the following banks:

| | 2018 | 2017 |
|---|---|---|
| Universal banks | 205,459,983 | 356,670,309 |
| Commercial banks | 109,281,784 | 39,713,840 |
| | 314,741,767 | 396,384,149 |

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P1,818,736 as at December 31, 2018 (2017 - P1,730,602) (Note 2).

*Trade receivables*

There is no concentration of credit risk with respect to trade and other receivables as the Group has a large number of customers. As at December 31, 2018, trade receivables amounting to P237,989,539 (2017 - P184,906,318) which are neither past due nor impaired, are fully recoverable as a result of management's assessment of the credit worthiness of these customers and historical experience. To minimize credit risk, the Group transacts only with counterparties with good credit standing.

*Deposit bond*

Deposit bond amounting to P8,057,630 (2017 - nil) that are neither past due nor impaired pertains to deposit made to the Bureau of Customs for the imported materials, which are refundable within 12 months.

*Advances to related parties*

Advances to related parties amounting to P7,389,954 as at December 31, 2018 (2017 - P7,789,948) that are neither past due nor impaired consist primarily of various charges and advances for working capital purposes. These advances are fully recoverable as at December 31, 2018 and 2017 and no provision for impairment is required.

*Refundable deposits*

Refundable deposits amounting to P3,817,530 as at December 31, 2018 (2017 - P1,091,081) pertain to deposits made to lessors for the lease of the Group's office space and warehouse, which are refundable at the end of the respective lease term.

*(b) Past due but not impaired*

Past due but not impaired trade receivables as at December 31, 2018 amounting to P261,948,548 (2017 - P171,577,376) are related to a number of independent customers with no history of default. Management has assessed based on credit worthiness and existing relationship with customers as well as historical experience that these accounts are fully collectible and therefore no provision for impairment is required.

*(c) Overdue and impaired*

As at December 31, 2018, trade receivables amounting to P25,164,430 (2017 – P20,105,907) are impaired and have been fully provided for with allowance for impairment. The individually impaired receivable from customers relate to customers that are in unexpectedly difficult economic situations. These trade receivables were assessed by management as non-recoverable.

## 27.5 Liquidity risk

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. Amounts disclosed in the table are the contractual undiscounted cash flows.

| | Notes | Gross amount | Less than 3 months | 3-12 months | More than one year |
|---|---|---|---|---|---|
| *December 31, 2018* | | | | | |
| Trade and other payables | 11 | 328,067,827 | 328,067,827 | - | - |
| Short-term loans | 12 | 470,502,000 | 470,502,000 | - | - |
| Borrowings | 12 | 2,515,820,765 | 6,358,895 | 1,455,909,131 | 1,053,552,739 |
| Finance lease liability | 22 | 31,626,526 | 1,289,258 | 3,867,772 | 26,469,496 |
| | | 3,346,017,118 | 806,217,980 | 1,459,776,903 | 1,080,022,235 |
| *December 31, 2017* | | | | | |
| Trade and other payables | 11 | 236,460,299 | 236,460,299 | - | - |
| Short-term loans | 12 | 566,493,978 | 349,335,853 | 217,158,125 | - |
| Borrowings | 12 | 1,135,445,048 | 73,535,762 | 305,452,129 | 756,457,157 |
| Finance lease liability | 22 | 34,380,203 | 1,289,258 | 3,867,772 | 29,223,173 |
| | | 1,972,779,528 | 660,621,172 | 526,478,026 | 785,680,330 |

Short term loans and borrowings as at December 31, 2018 include the undiscounted cash flows on future interest payable of P5,502,000 and P46,456,787, respectively (2017 - P6,493,978 and P65,031,328, respectively).

The Group expects to settle above financial liabilities in accordance with their contractual maturity. To manage liquidity, the Group plans, among others to: (a) refinance existing maturing loans; (b) maximize cash flow from energy projects by expediting completion; (c) improve accounts receivable collection cycle; and (d) issuance of new shares.

Historically, maturing obligations are funded by cash flows from operating activities hence there is no perceived liquidity risks. Loans may be obtained only when there is a material capital expenditure.

### 27.6 Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue its operations on a going concern basis in order to provide adequate return to its shareholders and maintain optimal capital structure to reduce cost of capital and lessen the need to obtain long-term borrowings and maximize shareholder value.

The Group manages its capital structure and makes the adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2018 and 2017.

The Group monitors capital on the basis of the carrying amount of equity as presented in the face of the consolidated statements of financial position. The Group's goal is to manage a debt-to-equity ratio not exceeding 2:1.

As at December 31, the Group's debt-to-equity ratio is calculated as follows:

| | 2018 | 2017 |
|---|---|---|
| Total debt | 3,301,816,589 | 1,908,659,050 |
| Total equity | 1,567,122,245 | 1,538,286,855 |
| Debt-to-equity ratio | 2.11:1 | 1.24:1 |

The Group computes its total debt as at December 31 as follows:

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Trade and other payables | 11 | 340,416,985 | 247,602,635 |
| Short-term loans | 12 | 465,000,000 | 560,000,000 |
| Borrowings | 12 | 2,469,313,978 | 1,070,413,719 |
| Finance lease liability | 22 | 27,085,626 | 30,642,696 |
| | | 3,301,816,589 | 1,908,659,050 |

The Group computes its total equity as at December 31 as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| Share capital | 13 | 907,857,870 | 907,857,870 |
| Additional paid-in capital | 13 | 121,632,762 | 121,632,762 |
| Retained earnings attributable to the owners of Parent Company | | 548,645,283 | 508,956,223 |
| Financial asset at fair value through other comprehensive income | | (160,000) | (160,000) |
| Treasury stock | | (10,853,670) | - |
| | | 1,567,122,245 | 1,538,286,855 |

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE has required listed entities to maintain a minimum of fifteen percent (15%) of their listed issued and outstanding shares to be held by public. The Group is compliant with respect to this requirement as at December 31, 2018 and 2017.

## Note 28 - Summary of significant accounting policies

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

### 28.1 Basis of preparation

The 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) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property and equipment - tugboats and fair value measurement of financial assets at fair value through other comprehensive income.

The preparation of 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 a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are summarized in Note 26.

Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the Group*

The Group has applied the following amendments for the first time for their annual reporting period commencing January 1, 2018:

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| PFRS 9 Financial Instruments | PFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. PFRS 9 replaces the multiple classification and measurement models for 5financial assets in PAS 39 with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing the financial assets and whether the contractual characteristics | January 1, 2018 | The Group adopted the standard modified retrospectively. Adoption of this standard required the Group to revisit its method of calculating impairment losses on financial assets. Details of which are presented in Notes |

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| | of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI. The impairment rules of PFRS 9 introduce an expected credit losses model that replaces the incurred loss impairment model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39. The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges. The new standard also introduces expanded disclosure requirements and changes in presentation. | | 2, 3 and 28. Also, the Group assessed the proper classification of its financial assets based on the new guidance of PFRS 9. The changes in the classification of the Group's financial assets did not result to adjustments in previously reported balances. |
| PFRS 15 Revenue from Contracts with Customers | PFRS 15, 'Revenue from Contracts with Customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Under the new standard, the notion of control replaces the existing notion of risks and rewards. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction Contracts' and related interpretations. A five-step process must be applied before revenue can be recognized which include: (i) identification of contracts with customers; (ii) identification of the separate performance obligation; (iii) determination of the transaction price of the contract; (iv) allocation of the transaction price to each of the separate performance obligations; and (v) recognition of revenue as each performance obligation is satisfied. Revenue may also be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.) - minimum amounts | January 1, 2018 | The Group adopted the standard modified retrospectively. Adoption of this standard required the Group to revisit its revenue recognition process. The adoption of the revenue standard did not result in adjustments in previously reported balances. |

| Title | Key requirements | Effective Date | Impact |
|---|---|---|---|
| | must be recognized if they are not at significant risk of reversal. Further, the point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa. | | |
| Classification and Measurement of Share-based Payment Transactions – Amendments to PFRS 2 Share-based payment | The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in PFRS 2. | January 1, 2018 | Adoption of these amendments did not have an impact on the consolidated financial statements since the Group currently has no share-based arrangements. |
| Transfers of Investment Property - Amendments to PAS 40 | The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. | January 1, 2018 | Adoption of these amendments did not have an impact on the consolidated financial statements since there was no transfer between investment property and property and equipment for the years ended December 31, 2018 and 2017. |
| Philippine Interpretation IFRIC 22 -Foreign Currency Transactions and Advance Consideration | The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. | January 1, 2018 | Adoption of these amendments did not have any significant impact on the consolidated financial statement since there are no foreign currency denominated advance payments. |
| Measurement at fair value through profit or loss - Amendments to PAS 28 | The amendment clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. | January 1, 2018 | Adoption of these amendments did not have an impact on the consolidated financial statements since the Group does not engage into transactions similar to that of financial institutions. |

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

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. None of these, standards, amendments and interpretation is expected to have a significant impact on the Group's financial statements except for:

*PFRS 16, Leases (effective January 1, 2019)* which will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases was removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of P27,085,626 (Note 22).

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately P31,626,526 on January 1, 2019, lease liabilities of P27,085,626. The impact to deferred tax assets which is calculated as the difference between the interest incurred and amortization of assets, and the actual rental payment is immaterial. Meanwhile, overall net assets will be approximately P4,540,900 higher.

The Group expects that net profit after tax will not be materially affected for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption.

**28.2 Consolidation**

*(a) Business combination*

The Parent Company applies the purchase or acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Parent Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

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

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

*(b) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has a right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary is fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Intercompany transactions, balances and unrealized gain on transactions between Parent Company and its subsidiaries are eliminated.

When the Group ceases to have control, any retained interest in the subsidiary is re-measured to its fair value at the date when control is lost, with the change in carrying amount generally recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the Group surrenders control to a related party within the Group it ultimately belongs, the difference between the consideration received and the fair value of the subsidiary at divestment date, is recognized within equity.

*(c) Associate*

An associate is an entity over which the Group is able to exert significant influence but which is neither a subsidiary nor a joint venture. Investment in associate is initially recognized at cost and subsequently accounted for using the equity method.

Under the equity method, the carrying amount of the investment in associate is increased or decreased to recognize the Group's share of the net earnings (losses) and other comprehensive income of the associates after the date of acquisition. The Group's share in the net earnings (losses) and Other comprehensive income of the associates is recognized in the Group's profit or loss. Items that have been directly recognized in the associates' equity are recognized in equity of the Group. Distributions received from the associates reduce the carrying amount of the investment.
If the Group's share in net losses of associates equals or exceeds its interest in the associates, the Group will discontinue recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those net earnings only after its share of the earnings equals the share of losses not recognized.

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

Investment in associate is derecognized when the risk and rewards of ownership have been transferred or extinguished. When the investment in associate is derecognized, its cost and related impairment, if any, are eliminated from the accounts.

### 28.3 Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred (including the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire) over the fair value of the Group's share of the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

### 28.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less from date of acquisition. Deposits held at call with banks earn interest at the prevailing bank interest rate. These are carried at face or nominal amount.

**28.5 Investments and other financial instruments**

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

*28.5.1 Accounting policies applied starting January 1, 2018*

<u>Financial assets</u>

*(a) Classification*

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

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

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

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

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

*(b) Recognition and derecognition*

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

*(c) Measurement*

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

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

Debt instruments

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

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

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

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

Equity instruments

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

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

*(d) Impairment*

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment losses are presented within operating expenses in the statement of total comprehensive income.

Loss allowances of the Group are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

*Simplified approach*

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

*General approach*

Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Measurement of ECLs*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

*Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as a default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

For trade receivables, the Group applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 12(c) for further details. For advances to related party and refundable deposits, the Group applied the 12-month expected credit loss model.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial liabilities

There were no changes on the policies on financial liabilities from January 1, 2018 onwards.

*28.5.2 Accounting policies applied until December 31, 2017*

The Group has applied PFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Financial assets

*(a) Classification and presentation*

The Group classifies its financial assets in the following categories: (i) loans and receivables, (ii) at fair value through profit or loss, (iii) held-to-maturity and (iv) 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.

The Group did not hold financial assets under categories (ii) and (iii) above during and at the end of each reporting period.

*Loans and receivables*

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

The Group's loans and receivables consist mainly of cash, trade receivables, advances to related parties, and refundable deposits.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months from the reporting date.

The Group's available-for-sale financial assets consist of investment in golf club shares (Note 10), which is presented under non-current assets in the consolidated statement of financial position.

*(b) Recognition and measurement*

The Group recognizes a financial asset in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

*Loans and receivables*

Loans and receivables are initially measured at fair value plus transaction costs, which is approximately their invoice amount, and are subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

*Available-for-sale financial assets*

Regular purchases of available-for-sale financial assets are initially measured at fair value plus transaction cost, at the trade date. These financial assets are subsequently measured at fair value, except where fair value cannot be reliably measured, in which case such is measured at cost. Unrealized gains or losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income. Dividends on available-for-sale financial assets are recognized in profit or loss when the Group's right to receive payments is established.

*(c) Impairment*

*Loans and 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 using the criteria above. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss within general and administrative expense.

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

Impairment testing of trade receivables is described in Note 28.5.1.

*Available-for-sale financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of security below its cost is also evidence that the assets are impaired. Significant and prolonged decline in fair value of security may be attributable to significant changes with an adverse effect have taken place in the technological, market, economical or legal environment in which the issuer operated. Generally, the Group treats 'significant decline' in fair value as 25% or more, and 'prolonged' decline in fair value as more than twelve months. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the other comprehensive income on equity instruments are not reversed through profit or loss.

*(d) Derecognition*

Loans and receivables and available for sale financial assets are derecognized when the rights to receive cash flows have expired, or when the Group has transferred substantially all the risks and rewards of ownership to the financial assets.

Financial liabilities

*(a) Classification and presentation*

The Group classifies its financial liabilities in the following categories: (i) financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and (ii) other financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Group did not hold financial liabilities at fair value through profit or loss during and at the end of each reporting period.

The Group's other financial liabilities at amortized cost are those that are not classified at fair value through profit or loss. These are included in current liabilities, except for maturities greater than twelve months after reporting date which are classified as non-current liabilities.

The Group's other financial liabilities at amortized cost consist mainly of trade and other payables (excluding payables to government agencies, advances from customers – construction contract and unearned income), advances from related parties, finance lease liabilities, short-term loans and borrowings.

*(b) Recognition and measurement*

The Group recognizes a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group's other financial liabilities at amortized cost are initially measured at fair value plus transaction costs.

Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

*(c) Derecognition*

Other financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

**28.6 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

The Group has no financial instruments that meet the offsetting criteria as at December 31, 2018 and 2017.

**28.7 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 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 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. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market 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.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's financial assets at fair value through other comprehensive income (2017 - available-for-sale financial asset) with quoted market price is valued using Level 1 of the fair value hierarchy.

The Group has no other significant financial assets and liabilities carried at fair value.

The carrying amount of significant financial assets and liabilities, except borrowings (Note 28.2) approximates their fair value as the impact of discounting is not considered significant considering that the remaining significant financial assets and liabilities generally have short term maturity.

For non-financial assets, 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 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).

The Group's tugboats are valued using Level 2 of the fair value hierarchy. The fair value of tugboats were determined using cost approach where valuation performed are based on cost of reproduction of new vessel, accumulated depreciation, character and utility of the vessel (Note 6).

The Group determines the fair value of its investment properties, which is carried at cost (Note 9), using Level 2 of the fair value hierarchy by direct comparison approach with reference to open market of similar properties with consideration of the location, property size, physical features and economic factors.

The Group has no other significant non-financial assets and liabilities carried at fair value.

### 28.8 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, these are classified as current assets. If not, these are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method, less provision for impairment.

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

Other relevant policies including impairment on receivables are disclosed in Note 28.5.

### 28.9 Prepayments and other assets

Prepayments are recognized in the consolidated statement of financial position in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts.

Other assets consist substantially of input value-added taxes (VAT) and leasehold rights.

Input VAT are recognized as assets in the period such input VAT 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.

A provision for unrecoverable input VAT is established when there is objective evidence that the Group will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Leasehold rights, are recognized at cost which approximates purchase price or total consideration. Leasehold rights with definite life is amortized over the period of the contract while leasehold rights that have indefinite life, are carried at cost less impairment, if any.

Prepayments and other assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve months after the reporting period which are classified as non-current assets.

Prepayments are derecognized in the consolidated statement of financial position upon receipt of goods or services, through amortization over a certain period of time, and use or consumption.

Input VAT are derecognized when applied against output or when written off.

**28.10 Property and equipment**

All property and equipment are carried at cost less accumulated depreciation and any impairment except for tugboats which are carried at revalued amounts.

Tugboats are initially recognized at cost. Subsequently, tugboats are carried at revalued amounts, which is the fair value at date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group engages external, independent and qualified valuers to determine the fair value of the Group 's tugboats once every 3-5 years. The increase of the carrying amount of an asset as a result of a revaluation is credited directly to equity (under the heading 'revaluation surplus'), unless it reverses a revaluation decrease previously recognized as an expense, in which case it is credited in profit or loss. A revaluation decrease is charged directly against any related revaluation surplus, with any excess being recognized as an expense in profit or loss.

Each year, the Group transfers from revaluation surplus reserve to retained earnings the difference between the depreciation charges calculated based on the revalued amount and the depreciation charge based on the assets' historical cost.

The profit or loss on disposal of a revalued asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset. On disposal of the revalued asset, the relevant revaluation surplus included in equity is transferred directly to retained earnings.

All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 these are incurred.

Dry docking cost represents major inspection and overhaul costs and is depreciated to reflect consumption benefits which is to be replaced or restored by the subsequent dry docking generally every two (2) years. The Group has included these dry docking expenses as part of tugboat component.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives (in years), as follows:

| | |
|---|---|
| Tugboats | 8 to 26 |
| Barges | 10 to 37 |
| Building and building improvements | 10 |
| Transportation equipment | 5 |
| Construction equipment | 5 |
| Diving and oil spill equipment | 3 to 5 |
| Furniture, fixtures and leasehold improvements | 3 to 4 |

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and are available for use. Tugboats under construction is classified as “Property and equipment at cost” and subsequently transferred to “Property and equipment at revalued amounts” upon completion. Leasehold improvements are amortized over the estimated useful life of the improvements, which is shorter than the lease term, considering the renewal option.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 28.14).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost, appraisal increase and their related accumulated depreciation are removed from the consolidated statement of financial position. Any gains and losses on disposals of an asset as cost are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

### 28.11 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs will be amortized over its estimated useful lives of five (5) years from the start of its use. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated amortization are removed from the consolidated statement of financial position. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

Relevant disclosures for Group’s accounting policies on impairment of computer software are discussed in Note 28.14.

### 28.12 Pre-development costs

The Group capitalize costs of project development, comprehensive feasibility studies (resource assessment, preliminary or investigation, and economic), permits and endorsements, Grid Impact Study (GIS), Transmission and Connection Agreement, Detailed Engineering Design, plant design, negotiations of Electricity Sales Agreement and Power Purchase Agreements which are involved with the development of the Group appropriate costs on a pro rata basis.

The cost pre-development expenditures are deferred and amortized upon start of commercial production over future periods in order to match the costs of activities with the benefits which derived from them. Portion of the pre-development cost pertaining to property and equipment still under construction are subsequently transferred to “Property and equipment at cost” upon completion.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be sustained.

### 28.13 Investment property

Investment property, representing assets held for appreciation or rental yield, is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost of the asset can be measured reliably.

Investment properties consist of land in various locations. Land is initially recognized at cost and subsequently carried at cost less any impairment losses. Land is not depreciated.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation and commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment property is derecognized when it has either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Gains or loss on derecognition of an investment property is calculated as the difference between any disposal proceeds and the carrying amount of the related asset and is recognized in profit or loss in the year of derecognition.

### 28.14 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as land, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property and equipment, computer software, investment properties, input VAT, investment in associate and leasehold rights, 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 cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses, if any, are recognized in profit or loss as part of general and administrative expenses.

When 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. Reversals of an impairment loss are credited to the provision account in profit or loss.

### 28.15 Trade and other payables

Trade and other payables 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 or when the corresponding assets or expenses are recognized. These are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

These are derecognized when extinguished or when the obligation is discharged, cancelled, or has expired.

### 28.16 Borrowings and borrowing cost

*Borrowings*

Borrowings are measured initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Borrowings are derecognized when the obligation is settled, paid or discharged.

*Borrowing costs*

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are recognized in profit or loss in the period in which these are incurred.

### 28.17 Provisions

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

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.  If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized from the consolidated statement of financial position.

### 28.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax.  Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity.  In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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.  It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.  However, DIT is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.  DIT 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 DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the DIT liability arises from the initial recognition of goodwill.  DIT liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for DIT liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.  Generally, the Group is unable to control the reversal of the temporary difference for associates.  Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

DIT assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Specifically, DIT is provided on the temporary difference between the carrying amount of the revalued property and equipment and its tax base. Any taxable temporary difference reflects the tax consequences that would follow from the recovery of the carrying amount of the asset through sale (non-depreciable assets) and through use (depreciable assets), using the tax rate applicable to the taxable amount derived from the sale of a non-depreciable capital or ordinary asset or the tax rate applicable during the years the asset is utilized.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT 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 re-assesses at each reporting date the need to recognize a previously unrecognized DIT asset, if any.

DIT assets and liabilities are derecognized when the related temporary difference are realized or settled.

**28.19 Employee benefits**

The Group provides short-term, retirement and terminal benefits to its employees. The Group did not grant any stock options or share based payments to its officers and employees.

*(a) Other short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*(b) Retirement benefit obligations*

Defined benefit plans is defined as an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, if any. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in unrestricted earnings in the period in which these arise.

Past-service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in personnel cost (Note 18) in profit or loss.

*(c) Termination benefits*

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

**28.20 Share capital**

Common shares, recognized at par value, 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.

When the shares are issued at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at fair value of the share issued or fair value of the liability settled, whichever is more reliably determinable.

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

**28.21 Other comprehensive income**

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

**28.22 Retained earnings**

Retained earnings represent the accumulated profit or loss arising from the operations of the Group and reserves for remeasurement on retirement benefit obligation less any dividends declared by the Parent Company.

Appropriation of retained earnings is recognized based on the provisions of the Corporation Code of the Philippines and by approval of the Parent Company's BOD. The Parent Company's BOD releases retained earnings from the appropriation when the purpose of such appropriation has been completed.

### 28.23 Dividend distribution

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

### 28.24 Foreign currency transactions and translation

*Functional and presentation currency*

Items included in the 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 consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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.

All foreign exchange gains and losses except for foreign exchange loss on borrowings are presented in profit or loss within other income (expense), net. Foreign exchange gains and losses from borrowings are presented as part of finance cost in profit or loss.

*Subsidiary*

The results and financial position of the subsidiary, (which has no currency of a hyperinflationary economy), that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
b) Non-monetary assets, liabilities and equity are translated at historical rates;
c) Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
d) All resulting exchange differences are recognized as cumulative translation differences as a separate line item under equity.

As at December 31, 2018, cumulative loss on translation differences recognized in equity amounted to P6,811,095 (2017 - P7,101,375).

### 28.25 Revenue recognition

*Accounting policies applied on revenue recognition beginning January 1, 2018*

Revenue is measured based on the consideration specified in a contract with customer. The Group recognizes revenue when it transfers control over service to a customer.

*(a) Sale of services*

The Group provides (i) harbor assistance, (ii) lighterage services (iii) towing services and (iv) salvage income. These services are provided on a time-basis or as a fixed-price contract, net of any discounts. Discounts are considered as part of the transaction price when granting such is highly probable. Contract terms of services are generally range from less than a year. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

*(b) Financing components*

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

*(c) Contract assets and liabilities*

Services are normally billed to the customer one month in advance. The customer pays the fixed amount based on the billing. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognized. If the total payments received to date exceed the performance obligation fulfilled, a contract liability is recognized and is presented as unearned revenue. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

*Accounting policies applied until December 31, 2017*

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of service discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that the economic benefits will flow to the Group, the collectability of the related receivables is reasonably assured and specific criteria have been met as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

*(a) Sale of services*

Revenues are derived mainly from (i) harbor assistance, (ii) lighterage services, (iii) salvage income, (iv) and towing services. Income from harbor assistance is recognized when the service has been rendered. Lighterage fees are recognized during the lease period of the Group's tugboat. Salvage income is recognized when the services for repair and rescue operations of ports and ships have been rendered. Towing services is recognized upon completion of towing assistance.

Unearned revenue represents the amount of payments received in advance for the performance of services. These services provided by the Group are on a contractual basis with general terms of one year. Revenue from customer service term contracts is recognized as services are rendered over the contract period. Payments received in advance for the performance of services are deferred until earned.

*(b) Income from construction contracts*

A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of their design and function or their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the accounting period.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that terms have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These are presented as inventories, prepayments or other assets, depending on their nature.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss as part of cost of construction contracts, with a corresponding credit to allowance. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of contract activity, or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract.

Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins will be recognized in the year in which the changes are determined.

Progress payments received under the construction contracts are deducted from contract assets as the contract is completed. Progress payments received before corresponding work has been performed (or in excess of percentage of completion) are presented as advances from customers under trade and other payable in the consolidated statement of financial position.

*(c) Interest income*

Interest income is recognized in profit or loss on a time-proportion basis using the effective interest method. Interest income from cash in banks and short-term placements is presented net of final taxes paid and withheld.

*(d) Dividend income*

Dividend income is recognized in profit or loss when the right to receive payment is established.

*(e) Other income*

Other income is recognized in profit or loss when earned.

**28.26 Costs and expenses**

Costs and expenses are recognized:

i on the basis of a direct association between the costs incurred and the earning of specific items of income;
ii on the basis of systematic and rational allocation procedures (i.e. when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined); or
iii immediately and as incurred (i.e. when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statement of financial position).

Costs and expenses are presented in the profit or loss according to their function.

**28.27 Leases where Group is a lessee**

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.

*(a) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

*(b) Finance lease*

The Group leases certain property and equipment. Leases of property and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated consistent with that for comparable depreciable assets that are owned and the depreciation shall be calculated in accordance with the policy stated in Note 28.10.

### 28.28 Earnings per share

*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 capitalisation or bonus issue or a share split, common shares are issued to existing shareholders for no additional consideration. Therefore, the number of common shares outstanding is increased without an increase in resources. The number of common shares outstanding before the event is adjusted for the proportionate change in the number of common shares outstanding as if the event had occurred at the beginning of the earliest period presented.

*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. The Parent Company has two possible categories of dilutive potential common shares: convertible debt and share options. The Parent Company has no convertible debt nor share options as at December 31, 2018, 2017 and 2016.

### 28.29 Related party relationships and transactions

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

### 28.30 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, under the policies adopted by the BOD.

As at December 31, 2018, the Group has two (2) operating business segments which pertains to revenue and related economic activities arising from harbor assistance and renewable energy. In 2017, the Group started to venture into renewable energy by establishing HSEC and acquiring ADGI, then ADF1 and ADF2 in 2018.

Below are the segments of the Group:

*As at and for the year ended December 31, 2018*

| | Harbor assistance | Renewable energy | Elimination | Total |
|---|---|---|---|---|
| Revenue | 1,436,968,376 | - | - | 1,436,968,376 |
| Segment result | 271,306,560 | (15,599,843) | (800,000) | 254,906,717 |
| Share in net profit of associate | 3,046,290 | - | - | 3,046,290 |
| Finance costs | (102,350,268) | - | - | (102,350,268) |
| Income tax expense | (48,691,357) | - | - | (48,691,357) |
| Profit for the year | 123,311,225 | (15,599,843) | (800,000) | 106,911,382 |

| | Harbor assistance | Renewable energy | Elimination | Total |
|---|---|---|---|---|
| Segment assets | 4,742,914,335 | 1,886,185,498 | (1,536,285,412) | 5,092,814,421 |
| Segment liabilities | (2,979,142,439) | (1,871,749,443) | 1,421,904,051 | (3,428,987,831) |
| Capital expenditures | 538,504,316 | 739,871,873 | - | 1,278,376,189 |
| Depreciation and amortization | 288,680,321 | 1,655,629 | - | 290,335,950 |
| Non-cash expenses other than depreciation and amortization | - | - | - | - |

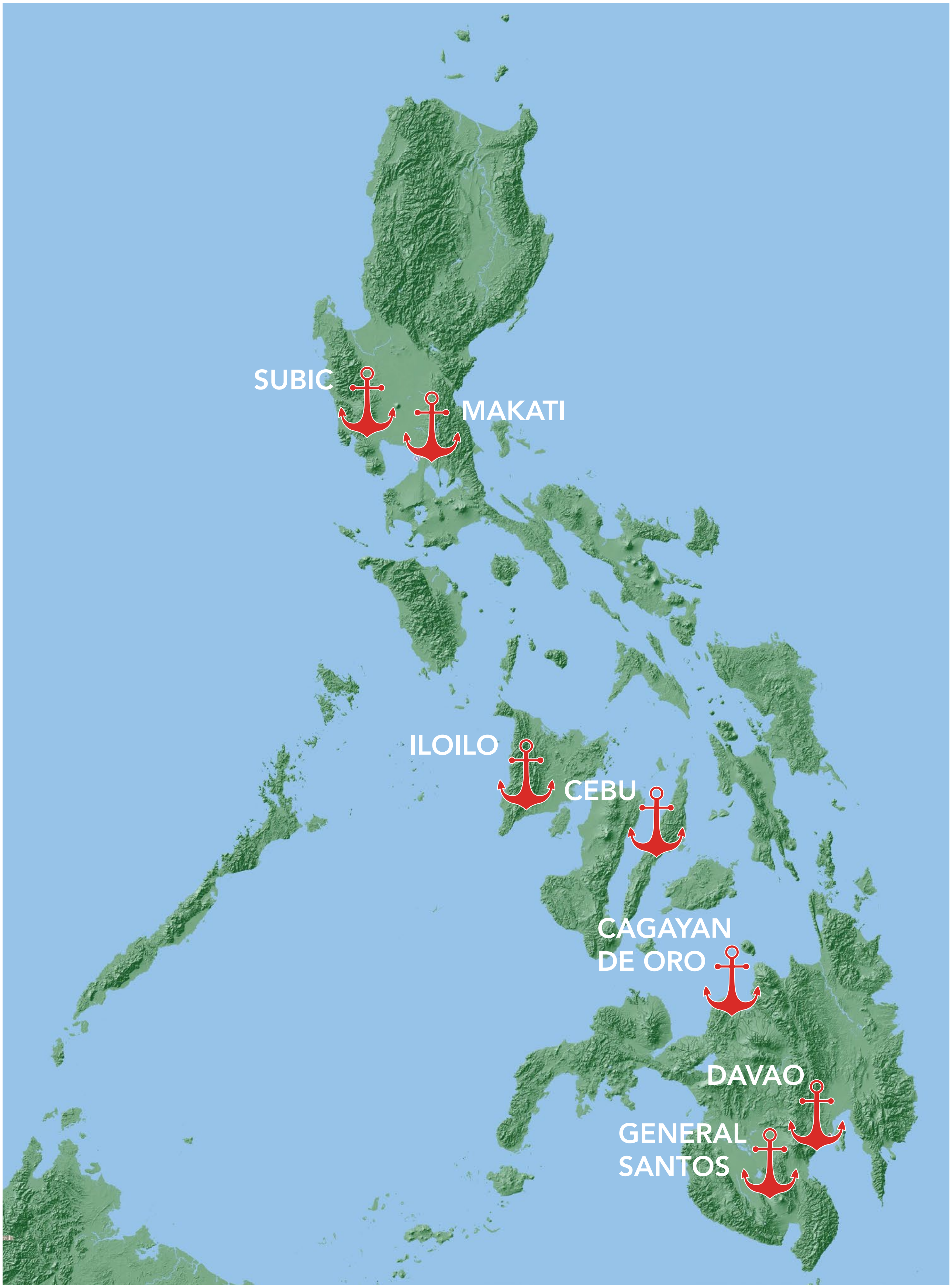
*As at and for the year ended December 31, 2017*

| | Harbor assistance | Renewable energy | Elimination | Total |
|---|---|---|---|---|
| Revenue | 1,326,908,771 | - | - | 1,326,908,771 |
| Segment result | 225,144,388 | (1,786,962) | - | 223,357,426 |
| Share in net profit of associate | 439,499 | - | - | 439,499 |
| Finance costs | (52,909,336) | - | - | (52,909,336) |
| Income tax expense | (62,081,927) | - | - | (62,081,927) |
| Profit for the year | 110,592,624 | (1,786,962) | - | 108,805,662 |

| | Harbor assistance | Renewable energy | Elimination | Total |
|---|---|---|---|---|
| Segment assets | 3,984,441,665 | 882,979,876 | (1,191,289,703) | 3,676,131,838 |
| Segment liabilities | (2,334,539,880) | (884,609,556) | 1,169,850,816 | (2,049,298,620) |
| Capital expenditures | 76,258,469 | 304,934,648 | - | 381,193,117 |
| Depreciation and amortization | 279,325,143 | 63,450 | - | 279,388,593 |
| Non-cash expenses other than depreciation and amortization | 3,876,244 | - | - | 3,876,244 |

### 28.31 Subsequent events (or Events after the reporting date)

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


SUBIC
MAKATI
ILOILO
CEBU
CAGAYAN
DE ORO
DAVAO
GENERAL
SANTOS

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