HARBOR STAR SHIPPING SERVICES, INC.
2020 ANNUAL STOCKHOLDERS' MEETING
23 September 2020 at 9:30 a.m. via remote communication

Guidelines for Participating via Remote Communication and Voting in Absentia and through Proxy

A. Attendance by Remote Communication and Voting in Absentia

1. Stockholders intending to participate by remote communication and/or voting in absentia should notify the Office of the Corporate Secretary through a Letter of Intent (LOI) to be sent via e-mail to asm-2020@harborstar.com.ph or fill up the registration form at www.harborstar.com.ph/asm2020registrationform on or before 08 September 2020, complete with the following requirements for validation purposes:

   1.1 Indicate the following required information:

   - 1.1.1 Complete Registered Name
   - 1.1.2 Complete Registered Residential/Mailing Address
   - 1.1.3 Active e-Mail Address
   - 1.1.4 Active Mobile No.
   - 1.1.5 Active Landline No.

   1.2 Attach the following documents (e-copy/scanned copy):

   - 1.2.1 Valid government-issued ID with photo and signature (scanned front and back)
   - 1.2.2 Proof of Ownership, such as, but not limited to, the following:

     a) Stockholder's certificate (for certificated shares); or
     b) Broker's certification (for scripless or uncertificated shares); or
     c) Secretary's certificate for authorized representative (for corporate)

   - 1.2.3 Other supporting document, as applicable

2. The Office of the Corporate Secretary shall forward the email containing the LOI and its attachments to the Company's stock transfer agent, Rizal Commercial Banking Corporation. The validation process will be completed by the stock transfer agent no later than three (3) business days from its receipt of the LOI. The Company's stock transfer agent reserves the right to request for additional information and documents, as needed/necessary. Moreover, electronic signature for the required documents shall be allowed while notarization requirement shall not be considered for the meantime, as applicable, given the current situation.

3. Once validated/verified, a stockholder shall be provided a confirmation correspondence with secure links for virtual meeting registration and voting in absentia. For security purposes, the confirmation correspondence which includes access credentials, links and instructions for participation through remote communication and voting in absentia shall only be sent to the stockholder's email address, and if necessary, notification shall be sent to the stockholder's mobile number provided.

   3.1 A verified stockholder shall have to access the corresponding link in order to be able to join the virtual meeting on the ASM day.
   3.2 A verified stockholder may cast his vote on each of the agenda items as contained in the link included in the confirmation correspondence. Deadline to vote in absentia through its corresponding link is on 14 September 2020. Beyond this date, stockholders may no longer avail of the option to vote in absentia. The Office of the Corporate Secretary shall then tabulate all votes, including those casts in absentia and by proxy, to be assisted by the Company's stock transfer agent, Rizal Commercial Banking Corporation. The Corporate Secretary shall report the results of voting during the meeting. For information on counting and tabulation of votes, please refer to "Item 19. Voting Procedures" of the Information Statement.

B. Attendance by Proxy

1. In case a stockholder cannot attend the virtual meeting and wishes to be represented, said stockholder shall designate an authorized representative ("Proxy") by submitting a duly-accomplished proxy instrument which may be downloaded at http://www.harborstar.com.ph/asm2020proxyform on or before 08 September 2020 via email to asm-2020@harborstar.com.ph, complete with the following requirements for validation purposes:

   1.1 For the stockholder, attach the following documents (e-copy):

      1.1.1 Valid government-issued ID (with photo)
      1.1.2 Proof of Ownership, such as, but not limited to, the following:
         a) Stockholder's certificate (for certificated shares); or
         b) Broker's certification (for scripless or uncertificated shares); or
         c) Secretary's certificate for authorized representative (for corporate)
      1.1.3 Other supporting document, as applicable

   1.2 For the Proxy, attach the following document (e-copy):

      1.2.1 Valid government-issued ID (with photo)

   1.3 A stockholder may designate the Chairman of the Meeting as Proxy. Likewise, if no name is indicated, the Chairman of the Meeting will act as the Proxy.

2. The Office of the Corporate Secretary shall forward the email containing the duly-accomplished proxy instrument and its attachments to the Company's stock transfer agent, Rizal Commercial Banking Corporation. The validation process will be completed by the stock transfer agent no later than three (3) business days from its receipt of the duly-accomplished proxy instrument. The Company's stock transfer agent reserves the right to request for additional information and documents, as needed/necessary. Moreover, electronic signature for the required documents shall be allowed while notarization requirement shall not be considered for the meantime, as applicable, given the current situation.

3. Once validated/verified, a stockholder shall be provided a confirmation correspondence with secure links for virtual meeting registration. For security purposes, the confirmation correspondence which includes links and instructions for participation through remote communication shall only be sent to the stockholder's email address, and if necessary, notification shall be sent to the stockholder's mobile number provided. It is the duty of the stockholder to securely provide the information on access credentials and instructions to the Proxy.

C. Participation and Determination of Quorum and Votes

1. Only those shareholders who have notified the Company of their intention to participate in the Meeting by remote communication, together with the stockholders who voted in absentia and by proxy, will be included in the determination of quorum at the meeting. By participating remotely and by proxy, a stockholder shall be deemed present for purposes of quorum.

2. Due to logistical limitations of the meeting conducted virtually, voting and open forum/discussion will not be possible during the virtual meeting. However, a stockholder, once verified/ registered, will be given an opportunity to raise any relevant questions or express an appropriate comment limited to the agenda items by sending an email to asm-2020@harborstar.com.ph not later than 15 September 2020 to be properly noted and addressed accordingly. Any relevant questions or comments received by the Office of the Secretary via email within the prescribed period given by registered stockholders shall be properly acknowledged, noted and addressed accordingly. Questions and comments not taken up during the meeting shall be addressed directly via email by the Company.

3. The Office of the Corporate Secretary shall take down minutes of the meeting accordingly and shall note all comments and other relevant matters discussed covering the agenda of the meeting. The meeting proceedings shall be recorded in audio and video format to be safekept by the Office of the Corporate Secretary and shall be made available in a secured manner to stockholders upon request by sending an email to asm-2020@harborstar.com.ph.

4. The Office of the Corporate Secretary shall ensure confidentiality of all votes for tabulation, including those casts in absentia and by proxy, with assistance from the Company's stock transfer agent, Rizal Commercial Banking Corporation. The Corporate Secretary shall report the results of voting during the meeting. For information on counting and tabulation of votes, please refer to "Item 19. Voting Procedures" of this Information Statement.

For ASM-related matters, please go to http://www.harborstar.com.ph/investors/pse_disclosures. For ASM-related queries, please send an email to asm-2020@harborstar.com.ph. For account updating/validation concerns, please get in touch with the Company's Stock Transfer Agent, Rizal Commercial Banking Corporation (Attention: Antonio B. Madrid, Jr. or Larine Mari B. Vida), via email to abmadrid@rcbc.com or LBVida@rcbc.com.

UNDERTAKING TO PROVIDE INTERIM AND ANNUAL REPORT

UPON THE WRITTEN REQUEST OF THE STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SECURITY HOLDERS WITHOUT CHARGE, AND UPON THEIR WRITTEN REQUEST, COPIES OF THE COMPANY'S INTERIM FINANCIAL STATEMENTS (SEC FORM 17-Q) AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR ANNUAL REPORT (SEC FORM 17-A). COPIES OF OTHER EXHIBITS MAY BE PROVIDED UPON WRITTEN REQUEST AND UPON THE PAYMENT OF NOMINAL CHARGES TO DEFRAY ADMINISTRATIVE COSTS AND EXPENSES SUBJECT TO CONDITIONS AS THE BOARD OF DIRECTORS MAY PROMULGATE.

SUCH WRITTEN REQUEST FOR A COPY OF SEC FORM 17-Q AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR SEC FROM 17-A SHALL BE DIRECTED TO: MR. IGNATIUS A. RODRIGUEZ, CORPORATE INFORMATION OFFICER, 2224 A. BONIFACIO ST., CORNER PRES. SERGIO OSMEÑA HIGHWAY, BRGY. BANGKAL, MAKATI CITY, 1233, PHILIPPINES.

ALL STOCKHOLDERS OF RECORD AND THOSE ACTING AS FIDUCIARIES, NOMINEES, TRUSTEES OR SIMILAR CAPACITIES IN BEHALF OF BENEFICIAL OWNERS WHO ARE NOT OF RECORD, MAY ALSO REQUEST IN WRITING TO THE PERSON AND AT THE ADDRESS PROVIDED ABOVE, AS MANY COPIES OF THIS INFORMATION STATEMENT, SEC FORM 17-Q AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR SEC FORM 17-A FOR DISTRIBUTION TO SUCH BENEFICIAL OWNERS, AND UPON RECEIPT OF SUCH WRITTEN REQUEST, THE COMPANY UNDERTAKES TO SUPPLY THE REQUESTED MATERIAL IN A TIMELY MANNER.

PART II

INFORMATION REQUIRED IN A PROXY FORM

The Company is not soliciting proxies and the stockholders are not required to send proxies.

PART III

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 26th day of August 2020.

HARBOR STAR SHIPPING SERVICES, INC.
By:

IGNATIUS A. RODRIGUEZ
Corporate Secretary & Corporate Information Officer

ANNEX "A"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **GENE S. DE GUZMAN,** Filipino, of legal age and residing at **600 PC Santos St. (near cor Tolentino St.), Bgy San Roque, Pasay City 1303**, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of **HARBOR STAR SHIPPING SERVICES, INC.** (the "Corporation").

2. I am affiliated with the following companies or organizations:

Company/Organizations	Position/ Relationship
PLDT, Inc.	Vice-President of Enterprise Service Assurance Management Center

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities and Exchange Code and its Implementing Rules and Regulations, to the best of my knowledge.

4. I am not related to the directors/officers/substantial shareholders of Harbor Star Shipping Services, Inc. other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

5. To the best of my knowledge, I am not a subject of any pending criminal or administrative investigation or proceedings.

6. I do not hold any position in Government Owned and Controlled Corporations and/or work for the government of the Republic of the Philippines.

7. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

IN WITNESS WHEREOF, I have executed this Certification of Independent Directors this ____ day of July 2020 at Makati City.

JUL 30 2020

GENE S. DE GUZMAN
Affiant

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)SS.

SUBCRIBED AND SWORN to before me this day of JUL 3 0 2020 at Makati City affiant exhibited to me her TIN ID No. 105-466-561.

Doc. No. 10 ;
Page No. 3 ;
Book No. 2 ;
Series of 2020.

FLOR ANGELA T. SABAUPAN
Notary Public for Makati City
Appointment No. M-223
Until December 31, 2020
Roll of Attorneys No. 62608
PTR No. MKT8178406 / January 30, 2020 / Makati City
IBP Lifetime No. 013018 / PPLM
MCLE Compliance No. VI - 0015636 / December 19, 2018
2224 A. Bonifacio St. cor. President Sergio Osmeña Highway, Bangkal, Makati City

ANNEX "B"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **GEMMA V. SADIUA**, Filipino, of legal age and residing at **6A Cleveland Tower, Pacific Avenue, Asiaworld, Brgy. Don Galo, Parañaque City 1700**, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of **HARBOR STAR SHIPPING SERVICES, INC.** (the "Corporation").

2. I am affiliated with the following companies or organizations:

Company/Organizations	Position/ Relationship
Venture Management Systems Inc.	President

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities and Exchange Code and its Implementing Rules and Regulations, to the best of my knowledge.

4. I am not related to the directors/officers/substantial shareholders of Harbor Star Shipping Services, Inc. other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

5. To the best of my knowledge, I am not a subject of any pending criminal or administrative investigation or proceedings.

6. I do not hold any position in Government Owned and Controlled Corporations and/or work for the government of the Republic of the Philippines.

7. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

IN WITNESS WHEREOF, I have executed this Certification of Independent Directors this JUL 3 0 2020 at Makati City.

GEMMA V. SADIUA
Affiant

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)SS.

SUBCRIBED AND SWORN to before me this day of JUL 30 2020 Makati City affiant exhibited to me her TIN ID No. 169-970-141.

Doc. No. 9 ;
Page No. 3 ;
Book No. 2 ;
Series of 2020.

FLOR ANGELA T. SABAUPAN
Notary Public for Makati City
Appointment No. M-223
Until December 31, 2020
Roll of Attorneys No. 62608
PTR No. MKT8178406 / January 30, 2020 / Makati City
IBP Lifetime No. 013018 / PPLM
MCLE Compliance No. VI - 0015636 / December 19, 2018
2224 A. Bonifacio St. cor. President Sergio Osmeña Highway, Bangkal, Makati City

HARBOR STAR SHIPPING SERVICES, INC.
ANNUAL REPORT

1. GENERAL NATURE AND SCOPE OF THE BUSINESS

1.1 Business Development

Parent Company

registered with the Secu

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.

For its maritime business, Harbor Star is the leading marine services company having the widest area of service coverage and most diverse service lines. In 2009, 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. The Company continues to maintain and upgrade its certifications with DNV-GL.

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

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 in force until 2020.

In 2016, Harbor Star created the Diving, Marine Maintenance and Construction (DMMC) Division and

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). In 2018, HSEC acquired 100%

ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions 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.

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").

In 2019, Harbor Star continued its market dominance rendering its core competence of harbor assist by assisting 3,912 foreign vessels during the year. The Company also won biddings and contracts as it sought to strengthen its market position and develop its other service lines.

In January 2019, Harbor Star began its contract to provide various diving and marine maintenance services to GN Power Mariveles Coal Plant such as underwater inspection, supply of chain tensioner & shackles and removal and installation of fenders.

In the same month, the Company was engaged by Philippine National Oil Corporation to supply, remove and install rubber fenders located in PNOC Alternative Fuels Corp. (PAFC) Terminal in Mariveles, Bataan.

In February 2019, Harbor Star signed a Tug Assist and Mooring Service Contract with Chevron Philippines, Inc. ("Chevron"). TUGS will provide harbor assist and mooring services to tankers calling

contract after competitive bidding and selection, with nationwide presence, safety, reliability, and track-record used as among the criteria. The contract will be for three (3) years beginning 1 February 2019.

Also in February 2019, Harbor Star signed the contract with Cebu-Link Joint Venture for one (1) year charter hire of Barge Kenram with tug in tandem. The barge will be used as working platform in the construction of Cebu-Cordova bridge, as part of Government Build-Build-Build project. The contract expired on June 2020.

In March 2019, General Santos Shipyard awarded a contract to HSSSI to conduct bathymetric survey

On 1 April 2019, Harbor Star signed a Two (2) year Service Agreement with Mariveles Grains Corporation ("MGC"), which owns and operates a grains and commodities terminal in Mariveles, Bataan. Harbor Star will exclusively provide harbor assist services to all vessels calling the terminal.

In May 2019, Petron Bataan Refinery engaged the diving service of Harbor Star for their annual turnaround shutdown for the removal of the SBM hoses and product swivel for repair and maintenance in Limay Lamao, Bataan. The contract will expire on August 2020.

In July 2019, Harbor Star participated in the salvage of M/V Diamond Highway, a 200-meter car carrier ship. The said vessel caught fire close to Recto Bank in the West Philippine Sea. On 17 June

the

abandoned M/V Diamond Highway preventing said vessel from drifting to marine protected and

Lucida, M/T Markab, and M/T Merak which continued the firefighting until the blaze was extinguished on 19 June 2019.

In September 2019, Harbor Star participated the bidding and signed a Tug Service Agreement with LMG Land Development Corporation ("LMG") to provide harbor assistance and tending to chemical tankers calling at LMG terminal in Pinamucan, Batangas. TUGS was awarded the contract for three (3) years term.

In December 2019, Harbor Star was engaged to tow and rescue the 7,600 GRT Tanker vessel

e vessel was laden with

Butadiene cargo of about 7000 metric tons. Tugboa

safely towed the ship to Manila. While the ship was anchored at Manila Bay, Harbor Star continued to provide emergency towing and shifting services, also for the supply of provisions.

In the same month, Harbor St
drydocking and towed back to Iloilo after the repair. The towing job was performed by tugboat a -out and positioning at Subic Dockyard.

the vessel away from a marine protected area and brought her safely to Cebu City.

vicinity of Palau Island. Vessel was loaded of about 15,000 tons of fish tuna and powerless due to fire onboard. The vessel was delivered safely to General Santos City and saved her cargo from spoiling.

Subsidiaries

Peak Flag Sdn. Bhd.

g aims to provide marine services at select ports in Malaysia which exhibit high vessel traffic and the opening of additional berthing areas.

onths after Peak Flag brought in an additional vessel, M/T Mirzam, which operated at Kuantan Port.

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

In 2019, Peak Flag was awarded a contract to provide harbor tug services to Westports Malaysia Sdn Bhd in Port Klang, Malaysia ("Westports Malaysia"). Peak Flag will provide a sixty (60) ton bollard pull tug for a period of three (3) years with an option for extension for another two (2) years. On 30 May 2019, Peak Flag acquired the 2500 bhp M/T Pollux.

Harbor Star owns a 45.0% stake at Peak Flag.

Harbor Star Subic Corp.

n 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 deployed two (2) vessels, M/T Lucida and M/T Zaniah, to service calling the economic zone.

On 15 March 2019, Peak Flag acquired the 3600 bhp M/T Jabbah to support its operations in Subic.

Harbor Star owns 99.9% of HSSC.

Harbor Star Energy Corporation

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.

In 2018, HSEC acquired 100% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), and opment F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions 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.

General Santos City is the regional center for commerce and industry of the SOCCSKSARGEN Region and is geographically located within the province of South Cotabato.

In April 2019, Astronergy Development Gensan, Inc. ("ADGI") inaugurated its 25-megawatt solar power plant on April 25, 2019 at Sitio Changco, Barangay Siguel, General Santos City.

In July 2019, the power plant delivered its first electricity to the local distribution utility, South Cotobato II Electric Cooperative, Inc. (SOCOTECO II)

As of 31 December 2019, ADGI has delivered 12,996,000 KWh of electricity to SOCOTECO II.

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., primarily to explore several business opportunities in Myanmar by marketing its expertise in integrated maritime services.

Harbor Star owns 99.99% of HSEA.

Harbor Star East Asia (Thailand) Co., Ltd.

On 20 September 2019, the Department of Business Development of Malaysia approved the incorporation of Harbor Star East Asia (Thailand) Co., Ltd. The company was registered to be engaged in the maritime business.

Harbor Star owns 28.99% of HSEA Thailand.

1.2 Business of the Issuer

1.2.1 Overview

Harbor Star offers a wide range of indispensable maritime services such as harbor assistance, towing, lighterage, ship salvage, marine construction, repair and maintenance works, wreck removal, firefighting, oil spill abatement and recovery, handling hazardous chemical, ship and crew management, diving and underwater marine works.

With strategically deployed tugs in Luzon, Visayas, and Mindanao, Harbor Star is renowned as having the widest area of coverage of tug services in the Philippine archipelago.

As of 31 December 2019, Harbor Star, including its domestic subsidiaries and affiliates, has established operations in sixteen (16) base ports all over the country, providing services to approximately nine thousand three hundred (9,300) ships as of yearend 2019. The major ports that

Harbor, Bataan, Batangas, Cag t 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 (2) Cargo Ship; one (1) Tanker, and one (1) Dredger. The company has a total of fifty seven (57) vessels.

1.2.2 Marine Services

Harbor Star derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, (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 at ports with heavy vessel traffic, such as MICT, and the ports of Bataan, Batangas, CDO, and Davao. 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 2019, revenues from harbor assistance amounted to PHP1,054 million, equivalent to 81.8% of total revenue.

Lighterage. ng different types of cargo domestically and within the region. For lighterage services, Harbor Star charges the client a fixed charter rate. The charter rate covers the use and maintenance of the vessel, crewing, insurance, and administrative support costs incurred during operations.

As of 31 December 2019, revenues from lighterage services amounted to PHP103 million, equivalent to 8.0% 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 2019, revenues from salvage operations amounted to PHP32 million, equivalent to 2.5% of total revenue.

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 a towing service.

As of 31 December 2019, revenues from towing services amounted to PHP37 million, equivalent to 2.9% of total revenue.

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.

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 2019, revenues from other marine services amounted to PHP64 million, equivalent to 4.8% of total revenue.

1.3 Legal Proceedings

The Company has no pending legal proceedings which would materially affect its financial auditing or operational capability to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

The following discussion and analysis relate to the consolidated financial condition and results of operations of Harbor Star Shipping Services, Inc. and its subsid
in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the interim period ended 30 June 2020 and the year ended 31 December 2019.

its subsidiaries.

<u>Results of Operation</u>

A. For the interim period ended 30 June 2020

Results of Operations

	For the Six Months Ended June 30		%
	2020 (Unaudited)	2019 (Unaudited)	Change
Service Income	726,194,369	678,293,777	7%
Cost of Services	(531,752,293)	(530,758,134)	0%
General and Admin. Expenses	(115,979,330)	(148,403,676)	-22%
Other Income (Charges)	(87,742,100)	(92,240,648)	-5%
Net Income(Loss) Before Income Tax	(9,279,355)	(93,108,682)	-90%

Service Income

The Group has posted total service income of PHP726.19 Million for the six-months period ended June 30, 2020, or 7% higher than PHP678.29 Million posted in 2019 of the same period.

The Group mainly sourced its 7% increase in service income from the following: (1) revenue generation from solar power of P139.28 Million (2) revenue from Charter/Lighterage of P17.90 Million and (3) revenue from underwater services of P1.03 Million.

Astroenergy Development Gensan, Inc. (ADGI) contributed PHP57.59 Million and PHP139.27 Million, respectively to Group total revenues for the 1st half of 2020.

Cost of Services

f services for the six-months period ended June 30, 2020 has increased by 0.19% to PHP531.75 from PHP530.75 Million in 2019 of the same period.

Of the total cost of services registered in 1st half of 2020 of P531.75 Million, 65% or P339.20 Million (including depreciation of P217.42 Million) represent costs with upward change. The remaining 35% or P192.55 Million represent costs with downward change. As a result, there was a slight increase of close to P1 Million cost of services versus 2019 figures covering same period.

General and Administrative Expenses

The general and administrative expenses posted in 1st half of 2020 have declined by 22% to P115.97 Million from P148.40 Million posted in 1st half of 2019. The decline in the general and administrative expenses was mainly accounted for decrease in taxes and licenses, transportation and travel and insurances with combined amounts of P30.25 Million.

Other Income (Charges), net

The net favorable change in other income (charges) of 5% or closed to P4.5 Million posted in 1st half of 2020 was due to other income generated from logistics supply to various third-party vessels totaling P54.78 Million.

Net Income/(Loss) Before Tax

The pre-tax net loss of the Group has significantly reduced by 90% to P9.27 Million posted in 1st semester of 2020 from P93.10 Million posted in 1st semester of 2019. The reduce in loss was a result of improved revenues from other core business, revenue from generation of solar power and income from logistics supply.

Financial Condition

	As of June 30 2020 (Unaudited)	As of December 31 2019 (Audited)
Total Assets	6,119,062,811	6,144,659,647
Total Liabilities	4,868,732,711	4,898,786,325
Total Equity	1,250,330,100	1,245,873,322

Cash and cash equivalent

The Group cash and cash equivalent balance as of June 30, 2020 has increased by 80% to PHP178.95 Million from PHP99.44 Million balance as of December 31, 2019. Cash flows from operating activities generate PHP162.41 Million for 1st half of 2020. The Group mainly utilized its cash flows from operating activities to reduce net borrowings by P66.92 Million for 1st half of 2020.

Trade and Other Receivables

The net increase in trade and other receivables of 34% or P188.42 Million as of June 2020 was due to income from logistics supply and from generation of solar power which are collectibles as of June 30, 2020.

Advances to Related Parties

No material changes in Advances to Related Party account.

Prepayments and Other Current Assets

As of prepayments and other current assets account has declined by PHP104.31 Million or 19% to PHP442.52 Million from PHP546.84 Million as of December 31, 2019. The decline in this account was mainly from construction receivables.

Investment in an Associate

No material changes in Investment in an Associate account.

Property and Equipment - net

roperty and equipment has decreased by 5% to PHP3.95 Billion in 1st half of 2020 from 4.14 Billion on December 31, 2019 due to depreciation of water assets and other equipment.

Computer Software

No material changes in computer software account from December 31, 2019 to June 30, 2020.

Investment Property

No material changes in investment property from December 31, 2019 to June 30, 2020.

Goodwill

No material changes in goodwill account from December 31, 2019 to June 30, 2020.

Other Non-Current Assets net

The net other non-current assets have reduced to PHP279.02 Million from PHP287.36 Million as of June 30, 2020. The decline was mainly due to more input tax claimed in 1st half of 2020.

Short-term Loans

The Group has managed to reduce its short-term loans by PHP1.75 Million to PHP498 Million in the 1st half of 2020 from PHP499.75 Million as of December 31, 2019.

Current Portion of Interest-Bearing Loans and Borrowings

Current portion of interest-bearing loans and borrowings decreased from PHP65 Million as of June 30, 2020 to PHP1.98 Billion to PHP2.04 Billion as of December 31, 2019

Trade and Other Payables

Trade and other payables as of June 30, 2020 has increased by PHP40.61 Million to PHP457.30 Million from PHP416.69 Million December 30, 2019. The increase in trade and other payables was mainly due to increase in trade payable by PHP16.02 Million and accrued expenses by PHP23.97 Million.

Income Tax Payable

No movements in this account from December 31,2019 to June 30, 2020.

Interest bearing loans and borrowings net of current portion

No material changes in this account from December 31, 2019 to June 30, 2020.

Deferred Income Tax Liabilities

Changes in this account was primarily due to automatic reversal of accrued DIT on amortization of revaluation increment.

Retirement Benefit Obligation

No material changes in retirement benefit obligation account from December 31, 2019 to June 30, 2020.

Revaluation Increment on Property and Equipment

As of June 30, 2020, the Group recognized revaluation increment on property and equipment balance was P70.90 Million. Changes in this account was due to amortization of revaluation increment through depreciation transferred to retained earnings, net of tax effect.

Cumulative Translation Difference

No material changes in this account from December 31, 2019 to June 30, 2020.

Retained Earnings

up by 1% from PHP181.93 Million as of 31 December 2019 to PHP184.62 Million as of 30 June 2020. The increase was primarily due to revenues contributed from subsidiaries.

Discussion and Analysis of Material Events and Uncertainties

As of and for the periods ended June 30, 2020 and December 31, 2019:

or more) and condition that will warrant a more detailed discussion.

The Company is not aware of any known trends, or any known demands, commitments, events, or uncertainties that will result in or that are reasonably likely to result in the

The Company is not aware of any event that would trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

All material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period were considered.

There are no known trends, events, or uncertainties that have had or that are reasonably expected to have materially favorable or unfavorable impact on net revenues or income from continuing operations.

The Company is not aware of any significant elements of income and loss that did not arise

The Company is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations.

Comparative Key Performance Indicators

The Company uses the following financial metrics to assess its performance from period to period.

Financial Soundness Indicator	June 30 2020 (Unaudited)	June 30 2019 (Unaudited)	December 31 2019 (Audited)	December 31 2018 (Audited)
Current Ratio	0.46:1	0.53:1	0.40:1	0.52:1
Quick Ratio	0.31:1	0.32:1	0.22:1	0.37:1
Debt-to-Equity Ratio	3.89:1	2.97:1	3.93:1	2.06:1
Asset-to-Equity Ratio	4.89:1	3.97:1	4.93:1	3.06:1
Interest Coverage Ratio	1.07:1	-0.05%	-0.56:1	2.52:1
Net Profit Margin Ratio	-0.73%	-13.16%	-26.95%	7.44%
Gross Profit Margin Ratio	26.78%	21.75%	20.39%	33.82%

Financial Risk Management Objectives and Policies

Please refer to Note 23 of the notes to the consolidated financial statements.

B. For the year ended 31 December 2019

The table shows a summary of the consolidated results of operations for the years ended 31 December 2019, 2018, and 2017 as derived from the accompanying audited financial statements.

Table 5: Condensed Statements of Income

In PHP thousands	**2019**	**2018**	**2017**	**% Change**	**% Change**
				2019 vs 2018	*2018 vs 2017*
Net revenues	1,396,054	1,436,968	1,326,909	-2.85%	8.30%
Total income (net revenues, interest and other income)	1,411,972	1,490,410	1,363,867	-5.26%	9.30%
Total expenses (operating, financing and other expenses)	1,788,227	1,334,807	1,192,979	33.97%	11.90%
EBITDA (1)	275,574	548,289	503,311	-49.74%	8.90%
EBIT (2)	-142,930	257,953	223,922	-155.4%	15.20%
Net income	-376,255	106,911	108,806	-452.93%	-1.70%
EARNINGS PER SHARE					
Basic	-0.41	0.11	0.11	272.73%	0.00%
Diluted	-0.41	0.11	0.11	272.73	0.00%

(1) EBITDA is not a uniform or legally defined financial measure. It generally represents earnings before interest, taxes, depreciation and amortization. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. EBITDA is also frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the

EBITDA figures as they are calculated differently and thus, must be read in conjunction with related additional explanations. EBITDA has limitations as an analytical tool and should not be considered in

f the

limitations concerning EBITDA are:

EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for working capital needs;

EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal debt payments;

Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

Other companies in the industry may calculate EBITDA differently, which may limit its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of the business. The Group compensates for these limitations by relying primarily on the PFRS results and uses EBITDA only as supplementary information.

(2) EBIT, or Earnings Before Interest and Taxes, is calculated by taking net revenues and deducting cash operating expenses and depreciation and amortization.

Comparison of Operating Results For The Year Ended 31 December 2019 VS. 31 December 2018

Service Income

The breakdown of service income is presented as follows:

Table 6: Service Income Breakdown December 2019 vs. December 2018

In PHP thousands	**December 2019**	**December 2018**	**YOY Increase**	**December 2019 % Contribution**	**December 2018 % Contribution**
Harbor assistance**	1,054,400	971,874	8.5%	81.8%	67.6%
Lighterage services	103,338	127,300	-18.8%	8.0%	8.9%
Towing services	36,927	19,024	94.1%	2.9%	1.3%
Salvage income	31,855	210,095	-84.8%	2.5%	14.6%
Others	62,389	108,676	-42.6%	4.8%	7.6%
Service Income	**1,288,911**	**1,436,968**	**-10.3%**	**100.0%**	**100.0%**
Revenue on generation of solar power	107,142	-	100%	100%	-
	1,396,054	**1,436,968**	**-2.8%**		

**Differences are due to rounding off.*
***Net of service discount, which refers to discounts given to client for Harbor assistance service only.*

The Group idated service income deteriorated by 2.8% from PHP1,436.9 million to PHP1,396.1 million as of December 31, 2018 and 2019, respectively.

Major positive contributor is the harbor assistance which grew from PHP971.8 million as of December 31, 2018 to PHP1,054.1 million as of December 31, 2019. Likewise, towing services provided revenue inflow of PHP36.9 million, a PHP17.9 million increase from PHP19.0 million for the same period of 2018.

Lighterage services decreased by 18.8% from PHP127.3 million as of December 31, 2018 to only PHP103.3 million as of December 31, 2019. Salvage income declined by 84.8% from PHP210.0 million as of December 31, 2018 to only PHP31.8 million as of December 31, 2019. The decline is something that could not be controlled as the service is fortuitous in nature. Other marine services also contributed to the decline of the service income as it dropped by 42.6% from PHP108.6 million as of December 31, 2018 to only PHP62.3 million as of December 31, 2019.

Revenue generated from ADGI as of December 31, 2019 amounting to PHP107.1 million.

revenue at PHP55.6 million and PHP35.4 million, respectively.

Cost of Services

Cost of services increased by 16.9% from PHP950.9 million to PHP1,111.4 million. The increase was mainly due to higher depreciation cost and fuel charges brought about by additional manpower requirement for the additional vessels acquired and the surge of fuel cost per liter, respectively. Insurance, likewise contributed to the rose in cost of services relative to additional vessels covered.

Below presents the breakdown of the cost of services.

Table 7: Cost of Services Breakdown December 2019 vs. December 2018

In PHP thousands	December 2019	December 2018	YOY Increase	December 2018 % Contribution	December 2017 % Contribution
Depreciation	412,263	266,600	54.6%	37.1%	28.0%
Personnel costs	214,258	211,024	1.5%	19.3%	22.2%
Fuel and lubricants	211,362	199,458	6.0%	19.0%	21.0%
Supplies	24,210	60,924	-60.3%	2.2%	6.4%
Outside services	40,419	64,614	-37.4%	3.6%	6.8%
Insurance	53,390	48,940	9.1%	4.8%	5.1%
Rent	24,739	5,078	387.2%	2.2%	0.5%
Repairs and maintenance	15,984	17,582	-9.1%	1.4%	1.8%
Charter hire	32,567	6,267	419.7%	2.9%	0.7%
Port expense	20,509	12,199	68.1%	1.8%	1.3%
Transportation & travel	8,161	10,660	-23.4%	0.7%	1.1%
Communication, light, & water	4,395	2,976	47.7%	0.4%	0.3%
Professional fee	4,121	11,449	-64.0%	0.4%	1.2%
Taxes and licenses	2,814	3,464	-18.8%	0.3%	0.4%
Others	42,221	29,729	29.6%	3.8%	3.1%
Cost of Services	**1,111,421**	**950,967**	**16.9%**	**100.0%**	**100.0%**

Gross Profit and Gross Profit Margin

lower by 41.5% from PHP486.0 million in 2018 to PHP284.6 million in 2019, primarily due to higher cost of services. Consequently, gross profit margin is lower at 20.4% from 33.8% in 2018.

Operating Income and Operating Income Margin

General and administrative expenses for the year ended 31 December 2019 surged to PHP428.8 million, compared

and entertainment, insurance, collectively increased by PHP25.2 million from PHP137.8 million in December 31, 2018 to PHP163.1 million in December 31, 2019. Taxes and licenses also rose by PHP13.4 million from PHP21.4 million in December 31, 2018 to PHP34.9 million in December 31, 2019. For the year ended December 31, 2019, provision for impairment of trade receivables amounting to PHP76.7 million, provision for assessment amounting to PHP28.6 million, provision for impairment of input VAT amounting to PHP9.0 million, and provision for advances to related party amounting to PHP7.3 million was charged to general and administrative expenses as a result of management s assessment of collectability.

Other income (loss), net, for the year ended 31 December 2019 decreased to PHP14.6 million compared to PHP53.4 million in 2018 due to the foreign exchange loss, net amounting to -PHP20.6 million.

As a result, operating income decreased from PHP254.9 million in 2018 to a loss of PHP158.8 million in 2019. Operating income margin, in like manner, deteriorated from 17.7% in 2018 to 11.4% in 2019.

Finance Cost

The Company incurred finance costs, consisting of interest expense and unrealized foreign exchange loss in the amount of PHP256.6 million as of 31 December 2019, PHP154.3 million higher from PHP102.3 million posted as of 31 December 2018. The increase is attributable to the accumulation of borrowings throughou
activities.

EBITDA

EBITDA (earnings before interests, taxes, depreciation and amortization) decreased by 49.7% from PHP548.3 million in 31, December 2018 to PHP275.6 million in 31, December 2019. The decrease could be attributed to the lower service income in 2019 compared to 2018.

Net Income and Net Income Margin

The resulting consolidated net income decreased from PHP106.9 million for the year ended 31 December 2018 to a loss of PHP376.2 million for the year ended 31 December 2019 due mainly to higher finance cost. The ratio of consolidated net income to consolidated service income stood at -27.0%% and 7.4% in 2019 and 2018, respectively.

Material Changes to the Statements of Financial Position as of 31 December 2019 Compared to the Statements of Financial Position as of 31 December 2018

Cash

Cash as of 31 December 2019 amounted to PHP99.4 million, from the PHP316.6 million recorded as of 31 December 2018. Higher demands for funds were used in investing activities such as acquisition and set- -development cost.

Trade and Other Receivables

Receivable balance as of December 31, 2019 is at PHP552.9 million from the December 31, 2018 figure of PHP538.2 million.

Advances to Related Parties

For the year ended 31 December 2019, advances to related party amounted to PHP0.5 million, a 93.2% decrease from the PHP7.4 million recorded in 31 December 2018.

Prepayments and Other Current Assets

As of 31 December 2019, prepayments and other current assets increased from PHP339.5 million to PHP546.8 million. The significant movement in this account primarily pertains to advances to suppliers which consist of advance payments on services to be performed within 12 months.

Property and Equipment at Revalued Amounts

No material changes in property and equipment at revalued amounts from 31 December of 2018 to 31 December 2019.

Property and Equipment at Cost

For the year ended 31 December 2019, property and equipment at cost rose by 330.1% from PHP590.4 million in 2018 to PHP2,539.3 million in 2019. The growth is mainly brought about by the acquisition of diving and oil spill equipment and the capitalization of solar power plant.

Pre-development Cost

No pre-development cost as of December 31, 2019.

Investment Properties

No material changes in investment properties from 31 December of 2018 to 31 December 2019.

Investment in Associate

are in 2019 net assets reported by its associate Great Eastern Tug Corporation and its associate Hi-Energy Marine Services, Inc. added to the Investment in Associate account from PHP100.9 million in 2017 to PHP116.5 million in 2019.

Goodwill

No material changes in goodwill from 31 December of 2018 to 31 December 2019.

Other Noncurrent Assets Net

Other noncurrent assets increased by 12.0% from PHP256.7 million in 31 December 2018 to PHP287.4 million in 31 December 2019. The corresponding increase in input VAT has brought about the 12.0% increase.

Short Term Loans

In 2019, short-term loans increased by 7.5% from PHP465.0 million in 2018 to PHP499.7 million in 2019.

Current Portion of Interest-Bearing Loans and Borrowings

As of 31 December 2019, th t bearing loans and borrowings amounted to PHP2,045.9 million, a surge of 38.4% from the amount recorded in 31 December 2018 of PHP1,478.3 million.

In addition, Harbor Star is a lessee under a finance lease arrangement covering a barge with a term of ten (10) years with interest at 6.0%. The finance lease agreement was entered last 27 February 2014. The leased barge is operated by the Parent Company in the course of its business. The current portion of the lease liability amounted to PHP17.0 million.

As of 31 December 2019, current portion of interest bearing loans and borrowing accounted for 41.8% of total liabilities.

The substantial increase in loans and borrowings led to th

Trade and Other Payables

As of 31 December 2019, trade and other payables increased by 22.3% from PHP340.4 million to PHP416.6 million. This is mainly due to higher payables in construction cost, fuel and provisions. Also, higher accrued interest payable on long-term loans contributed to said increase in payables.

Advances from Related Party

No material changes in advances from related party from 31 December of 2018 to 31 December 2019.

Income Tax Payable

For the year ended 31 December 2019, there is no income tax payable due to loss operation.

Interest bearing Loans and Borrowings net of current portion

by 72.28% to PHP1.707 billion from PHP991 Million in 2018 of the same period. The increase was the result of the additional loans availed from various banks in 2019 with maturity extend beyond one (1) year. The additional loan in 2019 was utilized to finance its acquisition of water assets necessary for the business operations.

Deferred Income Tax Liabilities - net

For the year ended 31 December 2019, there was no deferred income tax liability.

Retirement Benefits Obligation

Retirement benefits obligation increased by 36.7% from PHP83.1 million recorded in 2018 to PHP113.6 million in 2019 based on the actuarial valuation conducted by an independent actuary as at yearend. The increase is due to the yearly provision for retirement and corresponding interest cost thereon coupled with the re-measurement loss due to experience adjustments based on the latest independent actuarial report.

Share Capital

No material changes in share capital account from 31 December 2018 to 31 December 2019.

Additional Paid-In Capital

No material changes in additional paid-in capital account from 31 December 2018 to 31 December 2019.

Revaluation Surplus

As of 31 December 2019, the Group recognized a decrease of 18.7% in revaluation surplus from PHP98.6 million in 31 December 2018 to PHP80.2 million in 31 December 2019.

Cumulative Translation Difference

No material changes in cumulative translation difference from 31 December 2018 to 31 December 2019.

Treasury Stock

As of December 31, 2019, treasury stock is at PHP37.6 million as
share buyback program to enhance shareholder value on September 24, 2018. The buy-back program shall be for a term of three (3) years commencing on 01 October 2018 and ending on 30 September 2021 or until the Authorized Cash Outlay has been fully utilized. The Parent Company shall be authorized to repurchase up to PHP170.0 million worth of common shares.

Retained Earnings

to PHP181.9 million as of 31 December 2019. The movement is primarily due to the PHP376.3 million losses for the year.

Comparison of Operating Results For The Year Ended 31 December 2018 vs. 31 December 2017

Service Income

The breakdown of service income is presented as follows:

Table 8: Service Income Breakdown December 2018 vs. December 2017

In PHP thousands	**December 2018**	**December 2017**	**YOY Increase**	**December 2018 % Contribution**	**December 2017 % Contribution**
Harbor assistance**	971,874	1,049,203	-7.4%	67.6%	79.1%
Lighterage services	127,300	91,433	39.2%	8.9%	6.9%
Towing services	19,024	64,408	-70.5%	1.3%	4.9%
Salvage income	210,095	77,161	172.3%	14.6%	5.8%
Others	108,676	44,704	143.1%	7.6%	3.4%
Service Income	**1,436,968**	**1,326,909**	**8.3%**	**100.0%**	**100.0%**

**Differences are due to rounding off.*

***Net of service discount, which refers to discounts given to client for Harbor assistance service only.*

Consolidated service income improved by 8.3% due to:

increase in lighterage services resulting from the increase in activities in the mining sector;
increase in salvage income due to the refloating of M/V Jinming Hao and liftboat Teras Lyza;
higher income from other services, which pertain to underwater marine, diving services, ancillary services, and construction services.

Towing services decreased by 70.5% from PHP64.4 million as of December 31, 2017 to only PHP19.0 million as of December 31, 2018. Harbor assistance was not at its peak as it dropped by 7.4% year-on-year as price war with new entrants in the tugboat assistance industry heightened. Subsidiaries, such as Peak Flag Sdn. Bhd and Harbor Star Subic
PHP61.0 million and PHP23.0 million, respectively.

Cost of Services

Cost of services increased by 4.9% from PHP906.5 million to PHP951.0 million. The increase was mainly due to higher personnel cost and fuel charges brought about by additional manpower requirement for the additional vessels acquired and the surge of fuel cost per liter, respectively. Insurance, likewise contributed to the rose in cost of services relative to additional vessels covered.

Below presents the breakdown of the cost of services.

Table 9: Cost of Services Breakdown December 2018 vs. December 2017

In PHP thousands	December 2018	December 2017	YOY Increase	December 2018 % Contribution	December 2017 % Contribution
Depreciation	266,600	264,047	1.0%	28.0%	29.1%
Personnel costs	211,024	208,750	1.1%	22.2%	23.0%
Fuel and lubricants	199,458	181,256	10.0%	21.0%	20.0%
Supplies	60,924	65,850	-7.5%	6.4%	7.3%
Outside services	64,614	40,793	58.4%	6.8%	4.5%
Insurance	48,940	39,121	25.1%	5.1%	4.3%
Rent	5,078	2,552	99.0%	0.5%	0.3%
Repairs and maintenance	17,582	21,479	-18.1%	1.8%	2.4%
Charter hire	6,267	4,083	53.5%	0.7%	0.5%
Port expense	12,199	11,192	9.0%	1.3%	1.2%
Professional fees	11,449	8,723	31.3%	1.2%	1.0%
Taxes and licenses	3,464	2,417	43.3%	0.4%	0.3%
Others	43,367	56,200	-22.8%	4.6%	6.2%
Cost of Services	**950,967**	**906,462**	**4.9%**	**100.0%**	**100.0%**

Gross Profit and Gross Profit Margin

The % from PHP420.4 million in 2017 to PHP486.0 million in 2018, primarily due to improved revenues. Consequently, gross profit margin is a little higher at 33.8% from 31.7% in 2017.

Operating Income and Operating Income Margin

General and administrative expenses for the year ended 31 December 2018 surged to PHP284.5

collectively increased by PHP28.8 million from PHP116.3 million in December 31, 2017 to PHP145.1 million in December 31, 2018. Depreciation also rose as depreciation for new building were recognized starting second quarter of 2018. For the year ended December 31, 2018, provision for impairment of trade receivables amounting to PHP8.0 million and provision for impairment of input VAT amounting to PHP6.5 million was charged to general and administrative expenses as a result of

Other income, net, consisting of insurance claims, gain on sale of property and equipment rose to PHP53.4 million in 2018 from PHP36.8 million in 2018 despite the PHP56.8 million loss on disposal of Rho Cas.

As a result, operating income increased from PHP223.4 million in 2017 to PHP254.9 million in 2018. Operating income margin, in like manner, improved from 16.8% in 2017 to 17.7% in 2017.

Finance Cost

The Company incurred finance costs, consisting of interest expense and unrealized foreign exchange loss in the amount of PHP102.4 million as of 31 December 2018, PHP49.4 million higher from PHP52.9 million posted as of 31 December 2017. The increase is attributable to the accumulation of

activities.

EBITDA

EBITDA (earnings before interests, taxes, depreciation and amortization) was better by 8.9% from PHP503.3 million in 2017 to PHP548.3 million in 2018. The improvement can be attributable to the higher interest expense in 2018 compared to 2017. EBITDA margin likewise, slightly moved from 37.9% in 2017 to 38.2% in 2018.

Net Income and Net Income Margin

The resulting consolidated net income decreased from PHP108.8 million for the year ended 31 December 2017 to PHP106.9 million for the year ended 31 December 2017 due mainly to higher finance cost. The ratio of consolidated net income to consolidated service income stood at 7.4% and 8.2% in 2018 and 2017, respectively.

Material Changes to the Statements of Financial Position as of 31 December 2018 Compared to the Statements of Financial Position as of 31 December 2017

Cash

Cash as of 31 December 2018 amounted to PHP316.6 million, from the PHP398.1 million recorded as of 31 December 2017. Higher demand for funds were used in investing activities such as acquisition and set-up of subsidiaries, acquisition of two (2) tugs and two (2) barges, and infusion to solar -development cost.

Trade and Other Receivables

Receivable balance as of December 31, 2018 is at PHP538.2 million from the December 31, 2017 figure of PHP387.1 million mainly due to higher trade receivables from salvage activities (refloating the 50-meter liftboat Teras Lyza which capsized while on tow from Vietnam to Taiwan) expected to be collected early in 2019.

Advances to Related Parties

For the year ended 31 December 2018, advances to related party amounted to PHP7.4 million, a 5.1% decrease from the PHP7.8 million recorded in 31 December 2017. The PHP0.4 million movement represents the partial settlement of advances.

Prepayments and Other Current Assets

As of 31 December 2018, prepayments and other current assets decreased from PHP153.4 million to PHP339.5 million. The significant movement in this account primarily pertains to advances to suppliers which consist of advance payments on services to be performed within 12 months.

Property and Equipment at Revalued Amounts

No material changes in property and equipment at revalued amounts from 31 December of 2017 to 31 December 2018.

Property and Equipment at Cost

For the year ended 31 December 2018, property and equipment at cost rose by 44.9% from PHP407.5 million in 2017 to PHP590.4 million in 2018. The growth is mainly brought about by the two (2) barges and the capitalization of the new office building.

Pre-development Cost

Pre-development cost amounting to PHP1,064.6 million as of December 31, 2018, from PHP325.3 million as of December 31, 2017, represents total expenditures incurred to date net of revenue from saleable material recognized during the pre-commercial production period until the asset is brought to the condition necessary for it to be capable of operating in the manner intended by management.

Investment Properties

Investment property increased from PHP43.5 million as of December 31, 2017 to PHP47.6 million as of December 31, 2018 arising from undergoing site development in Lemery, Batangas property.

Investment in Associate

new associate Hi-Energy Marine Services, Inc. added to the Investment in Associate account from PHP13.5 million in 2017 to PHP100.9 million in 2018..

Goodwill

Goodwill went up by more than thrice as much from PHP48.6 million as of December 31, 2017 to PHP154.2 million as of December 31, 2018. This represents the adjustment with respect to the full acquisition of ADGI and the acquisition of 100% shares of ADF1 and ADF2 on the excess of consideration given over the fair values of the acquired net assets.

Other Noncurrent Assets Net

Other noncurrent assets increased by 33.9% from PHP191.6 million in 31 December 2017 to PHP256.7 million in 31 December 2018. The corresponding increase in input VAT and the payments
and from use of land
of its subsidiaries has brought about the 33.9% increase.

Short Term Loans

In 2018, short-term loans decreased by 17.0% from PHP560.0 million in 2017 to PHP465.0 million in 2018. Long-term borrowings over short term loans were intensified throughout the year.

Current Portion of Interest-Bearing Loans and Borrowings

As of 31
amounted to PHP1,478.3 million, a surge of 325.4% from the amount recorded in 31 December 2016 of PHP347.5 million. Majority of the loaned amounts were used in investing activities such as acquisition and set-up of subsidiaries, acquisition of two (2) tugs and two (2) barges, and infusion to
-development cost.

In addition, Harbor Star is a lessee under a finance lease arrangement covering a barge with a term of ten (10) years with interest at 6.0%. The finance lease agreement was entered last 27 February 2014. The leased barge is operated by the Parent Company in the course of its business. The current portion of the finance lease liability amounted to PHP3.8 million.

As of 31 December 2018, current portion of interest bearing loans and borrowing accounted for 43.2% of total liabilities.

Despite the substantial increase in loans and borrowings, uity ratio is a manageable 2:1.

Trade and Other Payables

As of 31 December 2018, trade and other payables increased by 37.5% from PHP247.6 million to PHP340.4 million. This is mainly due to higher payables to various suppliers on terms. Also, higher accrued interest payable on long-term loans contributed to said increase in payables.

Advances from Related Party

ncial statements represents cash infusions from officers of HSEC, which are payable on demand and are non-interest bearing.

Income Tax Payable

For the year ended 31 December 2018, income tax payable is lower at PHP26.0 million, a decrease of 44.8% from PHP47.2 million recorded in 31 December -deductible expenses were minimal for 2018.

Interest bearing Loans and Borrowings net of current portion

As of 31 December 2018, the noncurrent portion of interest bearing loans and borrowing grew by 37.1% from PHP722.9 million to PHP991.0 million. Reason for increase is discussed Portion of Interest- -current portion of the finance lease liability amounted to PHP23.3 million as of December 31, 2018.

As of 31 December 2018, interest bearing loans and borrowings net of current portion accounted

Deferred Income Tax Liabilities - net

In 2018, deferred income tax liabilities decreased by 52.7% from PHP21.7 million to PHP10.3 million. This mostly consists of deferred tax liability on revaluation increment.

Retirement Benefits Obligation

Retirement benefits obligation increased by 15.8% from PHP71.7 million recorded in 2017 to PHP83.1 million in 2018 based on the actuarial valuation conducted by an independent actuary as at yearend. The increase is due to the yearly provision for retirement and corresponding interest cost thereon coupled with the re-measurement loss due to experience adjustments based on the latest independent actuarial report.

Share Capital

No material changes in share capital account from 31 December 2017 to 31 December 2018.

Additional Paid-In Capital

No material changes in additional paid-in capital account from 31 December 2017 to 31 December 2018

Revaluation Surplus

As of 31 December 2018, the Group recognized revaluation increment in property and equipment amounting to PHP98.7 million, a decrease of 15.8% from the PHP117.2 million recorded in 31 December 2017, due to the amortization of revaluation increment through depreciation transferred to retained earnings, net of tax effect.

Cumulative Translation Difference

Effective 1 January 2014, Harbor Star consolidated the financial statements of Peak Flag as a subsidiary. The subsidiary, having a functional currency different from the presentation currency, translated its results and financial position to the presentation currency, thereby resulting in exchange differences of PHP6.8 million and PHP7.1 million as of 31 December 2018 and 2017, respectively.

Treasury Stock

As of December 31, 2018, treas

share buyback program to enhance shareholder value on September 24, 2018. The buy-back program shall be for a term of three (3) years commencing on 01 October 2018 and ending on 30 September 2021 or until the Authorized Cash Outlay has been fully utilized. The Parent Company shall be authorized to repurchase up to PHP170.0 million worth of common shares.

Retained Earnings

retained earnings improved by 7.8% from PHP509.0 million as of 31 December 2017 to PHP548.6 million as of 31 December 2018. The movement is primarily due to reversal of non-controlling interest at PHP83.3 million, since the acquisition of the remaining shares of stocks made ADGI a wholly-owned subsidiary of HSEC and year 2017 is affected by declaration of stock dividends at PH302.6 million.

Comparison of Operating Results For The Year Ended 31 December 2017 vs. 31 December 2016

Service Income

The breakdown of service income is presented as follows:

Table 8: Service Income Breakdown December 2017 vs. December 2016

In PHP thousands	**December 2017**	**December 2016**	**YOY Increase**	**December 2017 % Contribution**	**December 2016 % Contribution**
Harbor assistance**	1,049,203	1,043,687	0.5%	79.1%	76.7%
Lighterage services	91,433	105,972	-13.7%	6.9%	7.8%
Towing services	64,408	64,250	0.2%	4.9%	4.7%
Salvage income	77,161	39,850	93.6%	5.8%	2.9%
Income from construction contract		57,466	-100.0%		4.2%
Others	44,704	49,605	-9.9%	3.4%	3.6%
Service Income	**1,326,909**	**1,360,830**	**-2.5%**	**100.0%**	**100.0%**

**Differences are due to rounding off.*

***Net of service discount, which refers to discounts given to client for Harbor assistance service only.*

Consolidated service income dropped by 2.5% due to:

decrease in lighterage services resulting from the decline in activities in the mining sector;
nil income from construction contract for 2017. In 2016, a one-time gain from major jetty repair contract was earned;
lower income from other services, which pertain to underwater marine, diving services, and ancillary services.

The dip in revenue streams mentioned above were partially augmented by the recognition of salvage income mostly from wreck removal works for an LCT vessel which ran aground off the Saranggani Province. Likewise, revenue contribution of Peak Flag Sdn. Bhd. amounting to PHP60.2 million. Minimal increase in harbor assistance and towing services of 0.5% and 0.2%, respectively, as price war with new entrants in the tugboat industry heightened.

Cost of Services

Cost of services decreased by 5.2% from PHP956.6 million to PHP906.5 million. The drop was mainly due to lower supplies, rent and outside services relative to construction materials, equipment rentals and other outsourced labor support mostly incurred for the major jetty repair contract in 2016.

Below presents the breakdown of the cost of services.

Table 9: Cost of Services Breakdown December 2017 vs. December 2016

In PHP thousands	**December 2017**	**December 2016**	**YOY Increase**	**December 2017 % Contribution**	**December 2016 % Contribution**
Depreciation	264,047	249,765	5.7%	29.1%	26.1%
Personnel costs	208,750	181,507	15.0%	23.0%	19.0%
Fuel and lubricants	181,256	140,518	29.0%	20.0%	14.7%
Supplies	65,850	110,013	-40.1%	7.3%	11.5%
Outside services	40,793	74,746	-45.4%	4.5%	7.8%
Insurance	39,121	36,668	6.7%	4.3%	3.8%
Rent	2,552	27,369	-90.7%	0.3%	2.9%
Repairs and maintenance	21,479	26,005	-17.4%	2.4%	2.7%
Charter hire	4,083	21,461	-81.0%	0.5%	2.2%
Port expense	11,192	12,355	-9.4%	1.2%	1.3%
Professional fees	8,723	9,128	-4.4%	1.0%	1.0%
Taxes and licenses	2,417	2,336	3.5%	0.3%	0.2%
Others	56,200	64,708	-13.1%	6.2%	6.8%
Cost of Services	**906,462**	**956,581**	**-5.2%**	**100.0%**	**100.0%**

Gross Profit and Gross Profit Margin

The Gro .0% from PHP404.2 million in 2016 to PHP420.4 million in 2017, primarily due to lower cost of services. Consequently, gross profit margin is a little higher at 31.7% from 29.7% in 2016.

Operating Income and Operating Income Margin

General and administrative expenses for the year ended 31 December 2017 surged to PHP233.9

efforts causing significant increase in travels, representation, bond premium cost for several biddings participated during the year. For the year ended December 31, 2017, provision for impairment of trade receivables amounting to PHP1.7 million was charged to general and administrative expenses. However, in 2016, a net reversal of provision for impairment of trade receivables amounting to PHP1.5 million was credited to general and administrative expenses as a

Other income, net, consisting of insurance claims, gain on sale of property and equipment and sale of scrap materials, rose to PHP36.8 million in 2017 from PHP22.9 million in 2016.

As a result, operating income was slightly up from PHP221.6 million in 2016 to PHP223.4 million in 2017. Operating income margin, modestly improved from 16.3% in 2016 to 16.8% in 2016.

Finance Cost

The Company incurred finance costs, consisting of interest expense and unrealized foreign exchange loss in the amount of PHP52.9 million as of 31 December 2017, PHP10.2 million higher from PHP42.7 million posted as of 31 December 2016.

EBITDA

EBITDA (earnings before interests, taxes, depreciation and amortization) was better by 4.0% from PHP484.0 million in 2016 to PHP503.3 million in 2017. The improvement is mainly due to lower cost of services incurred for the year. EBITDA margin likewise, improved from 35.6% in 2016 to 37.9% in 2017.

Net Income and Net Income Margin

The resulting consolidated net income increased from PHP100.9 million for the year ended 31 December 2016 to PHP108.8 million for the year ended 31 December 2017 due mainly to stronger gross profit. The ratio of consolidated net income to consolidated service income stood at 8.2% and 7.4% in 2017 and 2016, respectively.

The earnings per share has been restated as a result of the stock dividend declaration during the year. Basic and diluted earnings per share is at PHP0.11 from PHP0.12 in 2016, as restated.

Material Changes to the Statements of Financial Position as of 31 December 2017 Compared to the Statements of Financial Position as of 31 December 2016

Cash

Cash as of 31 December 2017 amounted to PHP398.1 million, from the PHP89.7 million recorded as of 31 December 2016. The increase is partly due to loans availed from banks in anticipation of upcoming transactions in week one of January 2018.

Trade and Other Receivables

No material changes in trade and other receivables from 31 December of 2016 to 31 December 2017.

Advances to Related Parties

For the year ended 31 December 2017, advances to related party amounted to PHP7.8 million, a 17.0% decrease from the PHP9.4 million recorded in 31 December 2016. The PHP1.6 million movement represents the partial settlement of advances.

Prepayments and Other Current Assets

As of 31 December 2017, prepayments and other current assets went up from PHP97.6 million to PHP153.4 million. The significant movement in this account primarily pertains to advances to suppliers which consist of advance payments on services to be performed within 12 months.

Property and Equipment at Revalued Amounts

No material changes in property and equipment at revalued amounts from 31 December of 2016 to 31 December 2017.

Property and Equipment at Cost

For the year ended 31 December 2017, property and equipment at cost rose by 18.4% from PHP344.1 million in 2016 to PHP407.5 million in 2017. The increase was mainly attributable to the increased net carrying amount of barges and construction-in-progress. Ownership rights on an LCT that capsized and was found abandoned in Saranggani Province, Philippines on June of 2016 has been granted to the Parent Company in 2017. Construction in progress refers to all costs and expenses incurred from the time vessels are ordered including duties, taxes and any alterations to properly fit the services being rendered by the Group, until the time vessels are registered under any

constructed adjacent to the main office building as of December 31 2017.

Pre-development Cost

Pre-development cost amounting to PHP325,251,742 as of December 31, 2017 pertain to all

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 for the solar plant project located in Barangay Bawing, General Santos City.

Investment Properties

Investment property increased from PHP24.1 million as of December 31, 2016 to PHP43.5 million as of December 31, 2017 arising from undergoing site development in Lemery, Batangas property.

Investment in Associate

The

added to the Investment in Associate account by 6.7% from PHP12.6 million in 2016 to PHP13.5 million in 2017.

Goodwill

Goodwill of PHP48,603,347 in consolidated financial statements represents the excess of

acquired net assets. The fair values have been determined provisionally as at acquisition date and are subject to change, as the Company has yet to finalize the fair value of all the net identifiable assets acquired due to the timing of the completion of the acquisition close to reporting date.

Other Noncurrent Assets Net

Other noncurrent assets increased by 37.4% from PHP139.5 million in 31 December 2016 to PHP191.6 million in 31 December 2017. The corresponding increase in input VAT and the payment for performance bond which 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 has brought about the 37.4% increase.

Short Term Loans

In 2017, short-term loans increased by 194.7% from PHP190.0 million in 2016 to PHP560.0 million in

ments.

Current Portion of Interest-Bearing Loans and Borrowings

As of 31 December 2017, the G

amounted to PHP347.5 million, an increase of 51.4% from the amount recorded in 31 December 2016 of PHP229.5 million.

In addition, Harbor Star is a lessee under a finance lease arrangement covering a barge with a term of ten (10) years with interest at 6.0%. The finance lease agreement was entered last 27 February 2014. The leased barge is operated by the Company in the course of its business. The current portion of the finance lease liability amounted to PHP3.6 million.

As of 31 December 2017, current portion of interest bearing loans and borrowing accounted for 17.1% of total liabilities.

Trade and Other Payables

As of 31 December 2017, trade and other payables increased by 14.7% from PHP215.8 million to PHP247.6 million. This is mainly due to higher payables to various suppliers on terms. Also, accrued expense payable increased by PHP26.0 million pertaining to rendered service fees and delivered goods not yet billed as of reporting period.

Income Tax Payable

For the year ended 31 December 2017, income tax payable rose to PHP47.2 million, an increase of 10.4% from PHP42.7 million recorded in 31 December 2016.

Interest bearing Loans and Borrowings net of current portion

As of 31 December 2017, the noncurrent portion of interest bearing loans and borrowing surged by 85.0% from PHP390.8 million to PHP722.9 million. The Company also entered into a long-term finance lease agreement.

As of 31 December 2017, interest bearing loans and borrowings net of current portion accounted

Deferred Income Tax Liabilities - net

In 2017, deferred income tax liabilities decreased by 43.4% from PHP38.3 million to PHP21.7 million. This mostly consists of deferred tax liability on revaluation increment.

Retirement Benefits Obligation

Retirement benefits obligation increased by 9.3% from PHP65.6 million recorded in 2016 to PHP71.7 million in 2017 based on the actuarial valuation conducted by an independent actuary as at yearend. The increase is due to the yearly provision for retirement and corresponding interest cost thereon coupled with the re-measurement loss due to experience adjustments based on the latest independent actuarial report.

Share Capital

On September 5, 2017, the SEC issued an order, in favor or the Company, authorizing the issuance of 302,619,290 common shares with a par value of One Peso (PHP1.00) per share, as stock dividends to stockholders of record as of September 19, 2017, which was subsequently issued by the Company on October 31, 2017, thus the increase of 50.0% year-on-year.

Additional Paid-In Capital

No material changes in additional paid-in capital account from 31 December 2016 to 31 December 2017.

Revaluation Surplus

As of 31 December 2017, the Group recognized revaluation increment in property and equipment amounting to PHP117.2 million, a decrease of 21.2% from the PHP148.8 million recorded in 31 December 2016, due to the amortization of revaluation increment through depreciation transferred to retained earnings, net of tax effect.

Cumulative Translation Difference

Effective 1 January 2014, Harbor Star consolidated the financial statements of Peak Flag as a subsidiary. The subsidiary, having a functional currency different from the presentation currency, translated its results and financial position to the presentation currency, thereby resulting in exchange differences of PHP7.1 million and -PHP1.2 million as of 31 December 2017 and 2016, respectively.

Retained Earnings

PHP509.0 million as of 31 December 2017, primarily due to the transfer from retained earnings to share capital relative to stock dividends issued within the year.

Key Performance Indicators

The Company uses the following measures to assess its performance from period to period.

Table 10: Key Performance Indicators

	2019	**2018**	**2017**
Revenue Growth	-2.8%	8.3%	-2.5%
Gross Profit Margin	20.4%	33.8%	31.7%
EBITDA Margin	19.74%	38.2%	37.9%
Net Income Margin	-27.0%	7.4%	8.2%
Return on Asset	-6.1%	2.1%	3.0%

Return on Equity	-30.2%	6.4%	6.7%
Current Ratio	0.40	0.52	0.78
Leverage Ratio	3.93	2.06	1.26

Revenue growth measures the percentage change in revenues for a given period
Gross profit margin pertains to the ratio of gross profit to revenues. This reflects the

EBITDA margin pertains to the ratio of EBITDA to revenues. This reflects the operating profitability of the Group
Net income margin pertains to the ratio of net income after tax to revenues. This reflects

Return on Asset et income to total assets. This measures s ability to generate returns on its assets

uity
Current ratio is the ratio of the Gro current assets to total current liabilities. This

pability to meet its obligations

Liquidity

The table
2017:

Table 11: Cash Flows

In PHP thousands,	**2019**	**2018**	**2017**	% **Change** *2019 vs 2018*	% **Change** *2018 vs 2017*
Net cash flow from operating activities	1,110,195	227,306	289,786	388.4%	-21.6%
Net cash flow used in investing activities	(2,302,051)	(1,500,098)	(725,606)	53.5%	106.7%
Net cash flow from (used in) financing activities	976,093	1,191,149	743,803	-18.1%	60.1%
EFFECTS OF EXCHANGE RATE CHANGES IN CASH	(1,348)	89	470	-1614.6%	-81.0%
NET INCREASE IN CASH	(215,763)	(81,554)	308,453	-164.6%	-126.4%
CASH AT BEGINNING OF THE YEAR	316,561	398,115	89,662	-20.5%	344.0%
CASH AT THE END OF THE YEAR	99,550	316,561	398,115	-68.6%	-20.5%

Cash decreased by PHP217.0 million or 20.5% due mainly to higher net cash used in financing and investing activities.

Net cash provided by operating activities increased by 388.4%, brought about by the increase in cash generated from operations for the year. Net cash used in investing activities is higher by 53.5% than -up of subsidiaries, acquisition of two (2) tugs, and infusion to sol -development cost. Net cash used in financing activities decreased by 18.1%, due to higher payment in borrowing and interest.

Capital Resources

2018 and 2017:

Table 12: Capital Sources

(In PHP thousands)	December 31, 2019	December 31, 2018	December 31, 2017	% Change 2019vs 2018	% Change 2018vs 2017
Short-term loans	**499,750**	465,000	560,000	**7.5%**	-17.0%
Current portion of:					
Interest-bearing loans and borrowings	**2,045,850**	1,478,333	347,486	**38.4%**	325.4%
Finance lease liabilities	**-**	3,776	3,557	**-100%**	6.2%
Interest-bearing loans and borrowings - net of current portion	**1,707,247**	990,981	722,927	**72.3%**	37.1%
Finance lease liabilities - net of current portion	**-**	23,309	27,086	**-100%**	-13.9%
Total short and long-term debt	**4,252,847**	2,961,400	1,661,056	**43.6%**	78.3%
Total Equity	**1,254,873**	1,663,827	1,626,833	**-24.6%**	2.3%
	5,507,720	4,625,226	3,287,890	**19.1%**	40.7%

Total debt and equity capital of the Group increased by 19.1% from PH4.6 billion as of 31 December 2018 to PHP5.5 billion as of 31 December 2019.

Debt Financing

Table 13: Outstanding Loans
As of 31 December 2019

In PHP thousands,	**2019**
China Trust Banking Corporation (CTBC)	420,867
Asia United Bank (AUB)	142,146
Development Bank of the Philippines (DBP)	1,576,191
Robinsons Bank (RB)	30,667
PNB-Allied Banking Corporation (PNB-Allied)	148,789
China Banking Corporation (CBC)	1,347
Rizal Commercial Banking Corporation (RCBC)	1,433,421
	3,753,428
Less current portion:	
China Trust Banking Corporation (CTBC)	420,867
Asia United Bank (AUB)	48,855
Development Bank of the Philippines (DBP)	111,655
Robinsons Bank (RB)	20,000
PNB-Allied Banking Corporation (PNB-Allied)	129,762
China Banking Corporation(CBC)	505
Rizal Commercial Banking Corporation (RCBC)	1,314,206
	2,045,850
Noncurrent portion	**1,707,578**

Loan Covenants

The loans from local financial institutions impose certain restrictions with respect to maintaining of specified financial ratios relating
relative to current debt service obligations. As of 31 December 2019 and 31 December 2018, the Group did not receive any notice that it had violated these loan covenants.

There were no events that will trigger a direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relations of the Group with any entity or other persons created during the reporting period.

Plan of Operation

Due to the current Covid-19 Pandemic and its effect on the shipping industry, domestic and global economy, Harbor Star has no intention to pursue any business activity or endeavor that would require substantial funding or long return of investments. Activities will be focused on lowering costs and strengthening ties with customers and other stakeholders. But we will continue to look for opportunities in our main towing and ancillary business that will increase revenue without need of further capital expenditures.

Trends, Events, or Uncertainties Affecting Recurring Revenues and Profits

The Group is exposed to a number of trends, events and uncertainties which can affect its recurring revenues and profits. These include levels of general economic activity and containerized trade volume in countries where it operates, as well as certain cost items, such as labor, fuel and power. In addition, the Group operates in a number of jurisdictions other than the Philippines and collects revenues in various currencies. Continued appreciation of the US dollar relative to other major currencies, particularly the Philippine peso, may
levels of revenues and profits.

olar Plant
negatively affected its revenue and profits. The leveraged buyout of the project owner, Astronergy Development Gensan Inc. (ADGI), resulted in the unprojected payments of bank loans and interests. The power plant became fully operational in July 2019.

Risks

erations expose the Group to various market risks, particularly foreign exchange risk, interest rate risk and liquidity risk, which movements may materially impact the financial results of the Group. The importance of managing these risks has significantly increased in light of the heightened volatility in both the Philippine and international financial markets. With a view to managing these risks, the Group has incorporated a financial risk management function in its organization.

Foreign Exchange Risk

Fluctuations in the exchange rates between the US dollar and Philippine peso, may affect the value

foreign currency forwards and/or currency swaps agreements in order to manage its exposure to foreign currency rate fluctuations at this point.

Foreign currency translation gains or losses on the dollar-denominated transactions are recognized directly in earnings.

Interest Rate Risk

-term liabilities have combined fixed and floating interest rates. A rise in short-term interest rates will result in a corresponding increase in the interest rates due on the floating rate liabilities. However, the Group sees no need to enter into interest rate swap agreements in order to manage its exposure to fluctuations in interest rates at this point.

Liquidity Risk

The Group manages its liquidity profile to be able to finance its working capital and capital expenditure requirements through internally generated cash and proceeds from debt. As part of the liquidity risk management, the Group maintains strict control of its cash. The Group also monitors its receivables and payables to ensure that these are at optimal levels. In addition, it regularly evaluates its projected and actual cash flow information and continually assesses the conditions in the financial market to pursue fund raising initiatives. These initiatives may include accessing bank loans, project finance facilities and the debt capital markets.

Harbor Star monitors and maintains a level of cash and cash equivalents and bank credit facilities

the effects of fluctuations in cash flows.

3. FINANCIAL STATEMENTS

Please see Annex A .

4. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Co., a

member firm of PwC network, on accounting and financial statement disclosures.

5. MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

5.1 Market Information

ilippine Stock Exchange on 30 October 2013.

common stock is traded in the PSE unde st practicable

trading date on 15 August 2020, the share prices of the Company were:

	Price/Common Share *(in Philippine Peso)*
Opening :	0.78
High :	0.78
Low :	0.76
Closing :	0.77

The high and low share prices for 2018, 2019 and first half of 2020 are indicated below:

	Price/Common Share *(in Philippine Peso)*	
Calendar Period	**High**	**Low**
2020		
2nd Quarter	0.73	0.99
1st Quarter	1.58	0.51
2019		
4th Quarter	1.68	1.54
3rd Quarter	2.26	1.50
2nd Quarter	3.12	3.01
1st Quarter	3.34	2.69
2018		
4th Quarter	3.63	2.48
3rd Quarter	4.31	2.32
2nd Quarter	5.41	3.02
1st Quarter	6.09	4.20

As of 15 August is 31.13%.

5.2 Holders

The number of stockholders of record as of the latest practicable date on 15 August 2020 was seventeen (17). Common shares outstanding as of the same date were Nine Hundred Seven Million Eight Hundred Fifty Seven Thousand Eight Hundred Seventy (907,857,870) shares [inclusive of Thirteen Million Two Hundred Seventy One (13,271,000) Treasury shares].

tered common stockholders as of 15 August 2020:

Registered Stockholders
As of 15 August 2020

	NAME	NUMBER OF SHARES HELD	% OF TOTAL
1	PCD Nominee Corporation (Filipino)	751,656,812	84.02%
2	PCD Nominee Corporation (Non-Filipino)	59,044,070	6.60%
3	Bella Jr., Geronimo P.	42,000,000	4.69%
4	Bella, Ricardo Rodrigo P.	41,553,487	4.64%
5	Maria Elizabeth Jean E. Bella	225,000	Less than 1.0%
6	Galicia, Filomena G.	30,000	Less than 1.0%
7	Villanueva, Myra P.	20,000	Less than 1.0%
8	Villanueva, Milagros P.	19,000	Less than 1.0%
9	Villanueva, Myrna P.	9,000	Less than 1.0%
10	Cabreza, Marietta V.	9,000	Less than 1.0%
11	Juan Carlos V. Cabreza	9,000	Less than 1.0%
12	Herrera, Joselito C.	3,000	Less than 1.0%
13	Tacub, Felicitas F.	3,000	Less than 1.0%
14	Soliven, Stephen G.	2,500	Less than 1.0%
15	Reiterer, Alfred	1,500	Less than 1.0%
16	Valencia, Jesus San Luis	1,500	Less than 1.0%
17	Bautista, Joselito T.	1	Less than 1.0%

5.3 Dividends

f Directors to declare at least 20.0% of the
, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings and at such time as the Board may deem proper. No dividend shall be declared that will impair the capital stock of the Company.

5.3.1 Stock Dividends

On 12 December 2016, the C oard of Directors declared stock dividends of 50.0% equivalent to Three Hundred Two Million Six Hundred Nineteen Thousand Two Hundred Ninety (302,619,290) shares with an aggregate par value of Three Hundred Two Million Six Hundred Nineteen Thousand Two Hun
common stockholders based on the record date to be set by the Securities and Exchange
ted retained earnings of PHP548,068,580.00 as of 31 December 2015 based on its Audited Financial Statements for the fiscal year ending 31 December 2015.

The stock dividends were
One Billion Five Hundred Million Pesos (PHP1,500,000,000.00) to Two Billion Pesos (PHP2,000,000,000.00). On 6 March 2017, the stockholders of the Corporation ratified th
stock dividend declaration. On 5 September 2017, the Company issued the Three Hundred Two Million Six Hundred Nineteen Thousand Two Hundred Ninety (302,619,290) common shares with a par value of One Peso (PHP1.00) per share, as stock dividends to stockholders of record as of 19 September 2017. On 13 October 2017, the stock dividends were listed in the Philippine Stock Exchange.

5.3.2 Cash Dividends

No cash dividends have been declared in the last three (3) years.

5.4 Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

Within the past three (3) yea
registered under the Securities Regulations Code.

On 4 August 2017, the Securities and Exchange Commission issued a Certificate of Filing of Amended Articles of Incorporation approving the amendment to the Seventh Article of the Incorporation of TUGS to increase its authorized capital stock from One Billion Five Hundred Million Pesos (PHP1,500,000,000.00) consisting of One Billion Five Hundred Million (1,500,000,000) shares with a par value of One Peso (PHP1.00) per share to Two Billion Pesos (PHP2,000,000,000.00) consisting of Two Billion (2,000,000,000) shares with a par value of One Peso (P1.00) per share.

6. DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors of the Company consists of seven (7) members. The Board is responsible for the overall management and supervision of the Company. The term of office of the directors of the Company is one (1) year and they are to serve as such until the election and qualification of their successors.

The Executive Officers of the Company cooperate with the Board of Directors by preparing appropriate information and docu condition and results of its operations for the review of the Board. The Executive Officers are appointed annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been appointed or shall have qualified.

The incumbent directors, including independent directors and officers of the Company, with their corresponding ages and citizenships are the following:

NAME	AGE	CITIZENSHIP	POSITION	YEAR APPOINTED
Geronimo P. Bella, Jr.	60	Filipino	Chairman of the Board/ President	2006
Ricardo Rodrigo P. Bella	54	Filipino	Director/ Vice President	2006
Ignatius A. Rodriguez	50	Filipino	Director/ Corporate Secretary/ Chief of Staff to the President/ Corporate Information Officer	2000
Ramon C. Liwag	64	Filipino	Director	2017
Ryota Nagata	55	Japanese	Director	2011
Jose S. Navarro	68	Filipino	Independent Director	2012
Alexandra G. Garcia	54	Filipino	Independent Director	2019
Adelia D. Vasquez	52	Filipino	Chief Finance Officer and Compliance Officer	2012
Lorenzo C. Caranzo	53	Filipino	Operations Division Head	2015
Emmanuel L. Falcunit	41	Filipino	Operations Manager Fleet Operations	2018
Rudiardo L. Arcellana	56	Filipino	Operations Manager Salvage, Towage, Lighterage & Special Projects	2016
Jose Q. Santos	55	Filipino	Commercial and Operations Manager (CGT)	2018
Leofrank P. Castrence	60	Filipino	Technical Manager	2017
Jay-R L. Castillo	34	Filipino	OHSE Manager	2016
Edwin G. Amejana	55	Filipino	Commercial Manager	2008
Lito Brando A. Topacio	53	Filipino	Diving, Marine Maintenance and Construction Manager	2018
Marvin William Trinidad	42	Filipino	Sales and Marketing OIC	2018
Dany Cleo B. Uson	58	Filipino	Business Development Manager and IRO	2009
Virginia May P. Bella	46	Filipino	Legal Services Manager	2008
Maricel V. Blanco	56	Filipino	Internal Audit Manager	2009
Elionarda L. Refil	51	Filipino	General Services Manager	2009
Cecilia Melany G. Natividad	41	Filipino	Accounting Manager	2014
Effel T. Santillan	43	Filipino	Human Resource Manager	2014
Maria Elizabeth Jean E. Bella	31	Filipino	Procurement Officer-in-Charge	2016
Ronaldo Antonio C. Samong	50	Filipino	Business Development Manager for Visayas & Mindanao	2019

Please see Item 5. Directors and E
Form 20- tors and officers during the past five
(5) years.

7. CORPORATE GOVERNANCE

Please see Corporate Governance on SEC Form 20-IS for discussion on compliance with leading practices on Corporate Governance.

UPON THE WRITTEN REQUEST OF THE STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SECURITY HOLDERS WITHOUT CHARGE, AND UPON THEIR WRITTEN REQUEST, A COPY OF THE COMPANY'S INTERIM FINANCIAL STATEMENTS (SEC FORM 17-Q) AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR ANNUAL REPORT (SEC FORM 17-A). COPIES OF OTHER EXHIBITS MAY BE PROVIDED UPON WRITTEN REQUEST AND UPON THE PAYMENT OF NOMINAL CHARGES TO DEFRAY ADMINISTRATIVE COSTS AND EXPENSES SUBJECT TO CONDITIONS AS THE BOARD OF DIRECTORS MAY PROMULGATE.

SUCH WRITTEN REQUEST FOR A COPY OF SEC FORM 17-Q AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR SEC FROM 17-A SHALL BE DIRECTED TO: MR. IGNATIUS A. RODRIGUEZ, CORPORATE INFORMATION OFFICER, 2224 A. BONIFACIO ST., CORNER PRES. SERGIO OSMEÑA HIGHWAY, BRGY. BANGKAL, MAKATI CITY, PHILIPPINES 1233.

ALL STOCKHOLDERS OF RECORD AND THOSE ACTING AS FIDUCIARIES, NOMINEES, TRUSTEES OR SIMILAR CAPACITIES IN BEHALF OF BENEFICIAL OWNERS WHO ARE NOT OF RECORD, MAY ALSO REQUEST IN WRITING TO THE PERSON AND AT THE ADDRESS PROVIDED ABOVE, AS MANY COPIES OF THIS INFORMATION STATEMENT, SEC FORM 17-Q AS OF 30 JUNE 2020 AND ITS CORRESPONDING MANAGEMENT'S DISCUSSION AND ANALYSIS AND/OR SEC FORM 17-A FOR DISTRIBUTION TO SUCH BENEFICIAL OWNERS, AND UPON RECEIPT OF SUCH WRITTEN REQUEST, THE COMPANY UNDERTAKES TO SUPPLY THE REQUESTED MATERIAL IN A TIMELY MANNER.

SIGNATURES

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

HARBOR STAR SHIPPING SERVICES, INC.
Issuer

By:

IGNATIUS A. RODRIGUEZ
Corporate Information Officer/
Corporate Secretary

Date: 26 August 2020

SECRETARY'S CERTIFICATE
(2020-034)

I, **IGNATIUS A. RODRIGUEZ**, with office address at 2224 A. Bonifacio St. corner Pres. Sergio Osmeña Highway, Bangkal, Makati, Philippines, after having been duly sworn according to law, hereby depose and state that:

1. I am the duly elected Corporate Secretary of Harbor Star Shipping Services, Inc. (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with office address at 2224 A. Bonifacio St. corner Pres. Sergio Osmeña Highway, Bangkal, Makati, Philippines.

2. I hereby certify that none of the Directors and Officers of the Corporation work for the government of the Republic of the Philippines.

3. The foregoing is in accordance with the records of the Corporation in my possession.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 26th day of August 2020 at Makati City.

IGNATIUS A. RODRIGUEZ
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)S.S.

SUBSCRIBED AND SWORN to before me this 26th day of August 2020, affiant exhibiting to me his T.I.N. 123-199-139 and SSS ID No. 33-1422359-6.

Doc. No. 464;
Page No. 94;
Book No. I;
Series of 2020.

JAYPEE B. ORTIZ * NOTARY PUBLIC * ROLL NO. 66493 MAKATI CITY, PHILIPPINES

JAYPEE B. ORTIZ
Notary Public for Makati City
Appointment No. M-182
Until 31 December 2021
5/F SGV II Building,
6758 Ayala Avenue, Makati City
Roll of Attorneys No. 66493
PTR No. 8116831/ Makati / 02 January 2020
IBP No. 096440 / Makati / 04 December 2019
MCLE Compliance No. VI-0011738 /
Pasig City / 30 August 2018

mjf

From: MSRD COVID19 <msrd_covid19@sec.gov.ph>
Sent: Friday, August 14, 2020 8:55 PM
To: Kathleen Mae Castro
Cc: JAYCELLE G. GUIAO; CATHERINE E. GALIZA
Subject: Re: HARBOR STAR SHIPPING SERVICES, INC._17-Q 2Q20_14 August 2020

Sir/Madam,

We acknowledge receipt of your email below and the attached documents thereto.

Thank you.

Regards,

MARKETS AND SECURITIES REGULATION DEPARTMENT
PHILIPPINE SECURITIES AND EXCHANGE COMMISSION

On Fri, Aug 14, 2020 at 2:58 PM Kathleen Mae Castro <ktcastro@harborstar.com.ph> wrote:

Good Day,

Attached on this mail, for your information and filing, the copy of the **SEC Form 17-Q (Quarterly Report) for the Period 30 June 2020 (2Q20) of Harbor Star Shipping Services, Inc. ("HSSSI").**

Hard copies of the files shall be scheduled for delivery on your office.

Should you have any queries and confirmation, please do not hesitate to let us know.

Thank you and best regards,

Kathleen Mae T. Castro

HARBOR STAR
SHIPPING SERVICES, INC.

2224 A. Bonifacio corner Pres. Osmena Hi-way
Bangkal, Makati City, Philippines
email - ktcastro@harborstar.com.ph
url - www.harborstar.com.ph
Tel. 886-3703 up to 09

Fax. 887-2103/794-2180

You may wish to consider the environment prior to printing this email.

mjf

From: ICTD Submission <ictdsubmission@sec.gov.ph>
Sent: Friday, August 14, 2020 2:58 PM
To: Kathleen Mae Castro
Subject: Acknowledgement Notice Re: HARBOR STAR SHIPPING SERVICES, INC._17-Q 2Q20_14 August 2020

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of the quality of the attached document)

Thank you.

SEC ICTD.

COVER SHEET

SEC Registration Number

					1	5	2	8	9	7

Company Name

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

2224 A BONIFACIO ST., COR. PRES. SERGIO OSMEÑA HIGHWAY, BANGKAL, MAKATI CITY 1233 PHILIPPINES

Form Type	Department requiring the report	Secondary License Type, if applicable
17-Q	CRMD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
www.harborstar.com.ph	886-3703 to 09	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
120	every last Wed. of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
ADELIA VASQUEZ	advasquez@harborstar.com.ph	886-3703	N/A

2224 A. Bonifacio St., corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2020**

2. Commission identification number **152897**

3. BIR Tax Identification No. **201-128-653-000**

4. Exact name of issuer as specified in its charter **HARBOR STAR SHIPPING SERVICES, INC.**

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

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer s principal office Postal Code

   2224 A. Bonifacio St., cor. Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233

8. Issuer s telephone number, including area code **(632)-8886-37-03**

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**894,586,870**
Treasury	**13,271,000**

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

    Yes [**X**] No [ ]

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

Philippine Stock Exchange **Common stock**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [**X**] No [ ]

(b) has been subject to such filing requirements in the past 90 days

Yes [**X**] No [ ]

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The summary financial data as of and for the period ended March 31, 2020 are based on the interim unaudited financial statements as at and for the three months ended March 31, 2020 of Harbor Star Shipping Services, Inc. and its subsidiaries financial statements for the annual and interim period are prepared in accordance with Philippine Financial Reporting

Condition and Results of Operations

Results of Operations

	For the Three Months Ended March 31 2020 (Unaudited)	2019 (Unaudited)	% Change
Service Income	371,695,175	272,822,057	36.24%
Cost of Services	(298,982,756)	(241,947,449)	23.57%
General and Admin. Expenses	(62,988,866)	(75,063,423)	-16.09%
Other Income (Charges), net	(31,042,195)	(40,421,923)	-23.20%
Net Income (loss) Before Income Tax	(21,318,642)	(84,610,738)	-74.80%

As of March 31, 2020, the Group has posted net service income of P371.69 Million or 36.24% increased from 2019 of the same period of PHP272.82 Million. Of the total posted net service income, 13.22% or PHP49.15 Million accounts for revenue on generation of solar power.

Regular revenue sources such as harbor assistance, lighterage and towing services for the 1st quarter ending March 31, 2020 has improved by 13.40% to PHP285.59 Million from PHP251.85 Million in March 2019 of the same quarter. Further, no activity for salvage services were done in 1st quarter of 2019 because salvage service is fortuitous in nature

Other marine services rendered in 1st quarter of 2020 grew by 112% or PHP18.14 Million to PHP34.35 Million from PHP16.20 Million in 2019 of the same quarter. The increase was attributable to dredging activity entered into by the Parent Company in Tefasco Pier, Port of Davao.

Feeder services in 1st quarter of 2020 has declined by 45.50% to PHP2.59 Million from PHP4.80 Million of the same period. The reason for the decline in feeder services was due to dearth in container delivery shipment from one port to another.

Subsidiaries Peak Flag SDN BDH and Harbor Star Subic Corp. have contributed PHP24.82 Million and PHP8.77 Million, respectively in total net service revenues of the Group in 1st quarter of 2020.

Cost of Services

total cost of services in 1st quarter of 2020 has increased by 23.57% to PHP298.98 from PHP241.94 Million in 2019 of the same period.

The increase was due to the following factors with significant movements from 1st quarter of 2019 to 2020 of the same period: (1) increase in fuel cost amounting to PHP14 Million (2) increase in depreciation of water assets and solar power plant totaling PHP37.46 Million (3) increase in port expenses amounting to PHP4.30 Million and (4) increase in taxes and licenses amounting to It is expected that when revenue increases, cost of services follows.

General and Administrative Expenses

General and administrative expenses for the 1st quarter ending March 2020 has decreased by 16.09% % to PHP62.98 Million from PHP75.06 Million in 2019 of the same quarter. The resulting favorable decrease in general and administrative expenses was due to significant downward movements of the following accounts: (1) transportation and travel (2) representation and entertainment (3) advertising and promotions and (4) taxes and licenses with combined total of P12.67 Million.

Other Income (Charges)

For the three months ended March 31, 2020, the Group has posted other charges, net of other income amounting to PHP31.04 Million, primarily due to interest expense which considerably increased from an average of 4%-5.5% during the first quarter of 2018 to 6.75%- 8% in Q1 2020. However, the resulting difference has favorable decline in this account by 23.20%.

Net Income/(Loss) Before Income Tax

st quarter ending March 31, 2020 has resulted to a pre-tax net loss of PHP21.31 Million st quarter 2020 pre-tax net loss has dropped by 74.80% compared to PHP84.61 Million pre-tax net loss posted in 2019 of the same period. The favorable decline in pre-tax net loss was due to increase in net revenues and decline in general and administrative cost and other charges.

Financial Condition

	As of March 31 2020 (Unaudited)	As of December 31 2019 (Audited)
Total Assets	6,122,192,566	6,144,659,647
Total Liabilities	4,891,490,683	4,898,786,325
Total Equity	1,230,701,884	1,245,873,322

Cash and cash equivalent

ash and cash equivalent has increased by PHP41.68 Million or 41.92% in 1st quarter of 2020 compared to PHP99.44 Million as of December 31, 2019. The increase was due to improve cash flows generated from operating activities for the 1st quarter of 2020 of PHP103.74 Million.

Trade and Other Receivables

rade and other receivables has grown by PHP75.38 Million in 1st quarter of 2020 or 13.63% higher than trade and other receivables of P552.91 Million as of December 31, 2019. The upward change in trade and other receivables was due to billings made to clients for services rendered for the 1st quarter ending March 31, 2020. No other significant movement on other receivables like advances to employees from December 31, 2019 to March 31, 2020.

Advances to Related Parties

No material changes in Advances to Related Party account.

Prepayments and Other Current Assets

As of prepayments and other current assets account has declined by PHP32.81 Million or 6% to PHP514.03 Million from PHP546.84 Million in 2019 of the same period. The decline in this account was due to recognition of expired portion of prepayments such insurance premiums for hull and machinery, property and indemnity covers for fleet and health coverage of employees and dependents, rents and others to expense account.

Investment in an Associate

No material changes in Investment in an Associate account.

Property and Equipment

Movements in this account were mainly caused by assets depreciation. No other material changes in this account from December 31, 2019 to March 31, 2020. Property and Equipment, net of accumulated depreciation is accounts for 66.23% of Group

Pre-development Cost

No pre-development cost incurred from December 31, 2019 to March 31, 2020

Computer Software

No material changes in computer software account from December 31, 2019 to March 31, 2020.

Investment Property

No significant changes in this account from December 31, 2019 to March 31, 2020.

Goodwill

No material changes in goodwill account from December 31, 2018 to March 31, 2019.

Other Non-Current Assets net

Movement in net other non-current assets was due to amortization of deferred input VAT. No other material changes in other non-current asset account from December 31, 2018 to March 31, 2019.

Short-term Loans

As hort-term loans has declined slightly by 0.35% to PHP498 Million from PHP499.50 Million as of December 31, 2019.

Current Portion of Interest-Bearing Loans and Borrowings

interest-bearing loans and borrowings has declined by 2.70% to PHP1.99 Billion from PHP2.04 Billion as of December 31, 2019.

Lease Liabilities

have declined by 2.75% to PHP89.23 Million from PHP91.76 Million as of December 31, 2019.

Trade and Other Payables

PHP52.67 to PHP469.36 Million from PHP416.69 Million as of December 31, 2019. The increase was due to various purchases of goods and services on account made during 1st quarter of 2020 which were necessary for the business.

Income Tax Payable

No material changes in Income tax payable from December 31, 2019 to March 31, 2020. Payment for income tax for the preceding year has yet settled as of reporting date.

Interest bearing loans and borrowings net of current portion

No significant changes in this account from December 31, 2019 to March 31, 2020.

Deferred Income Tax Liabilities

The Group has no deferred income tax liabilities for the 1st quarter of 2020.

Retirement Benefit Obligation

No material changes in retirement benefit obligation account from December 31, 2018 to March 31, 2019.

Revaluation Increment on Property and Equipment

As of March 31, 2020, the Group gross amount of PHP6.60 Million due to recognition of depreciation of revalued assets. The after tax value of depreciation was transferred to retained earnings account .

Cumulative Translation Difference

Effective 1 January 2014, Subsidiary Peak Flag Parent Company Harbor Star Shipping Services, Inc. The subsidiary, having functional currency different from the presentation currency, is translated its results and financial position to presentation currency. As a result, a foreign exchange loss has been recognized amounting to PHP3.61 Million at the end of the 1st quarter ending March 31, 2020.

Retained Earnings

have declined by 14.62% to PHP155.33 from PHP181.93 Million as of December 31, 2019. The resulting difference was the effect of pre-tax net loss incurred in the 1st quarter of 2020.

Discussion and Analysis of Material Events and Uncertainties

As of and for the periods ended March 31, 2020 and December 31, 2019:

or more) and condition that will warrant a more detailed discussion.

The Company is not aware of any known trends, or any known demands, commitments, events, or uncertainties that will result in or that are reasonably likely to result in the

The Company is not aware of any event that would trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

All material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period were considered.

There are no known trends, events, or uncertainties that have had or that are reasonably expected to have materially favorable or unfavorable impact on net revenues or income from continuing operations.
The Company is not aware of any significant elements of income and loss that did not arise

The Company is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations.

Comparative Key Performance Indicators

The Company uses the following financial metrics to assess its performance from period to period.

Financial Soundness Indicator	March 31 2020 (Unaudited)	March 31 2019 (Unaudited)	December 31 2019 (Audited)	December 31 2018 (Audited)
Current Ratio	0.43:1	0.56:1	0.41:1	0.52:1
Quick Ratio	0.26:1	0.39:1	0.22:1	0.37:1
Debt-to-Equity Ratio	3.97:1	2.80:1	4.07:1	2.11:1
Asset-to-Equity Ratio	4.97:1	3.80:1	4.93:1	3.06:1
Interest Coverage Ratio	0.67	-1.08	-0.56	2.52
Net Profit Margin Ratio	-5.20%	-30.33%	-26.95%	7.44%
Gross Profit Margin Ratio	19.56%	11.32%	20.39%	33.82%

Financial Risk Management Objectives and Policies

Please refer to Note 23 of the notes to the consolidated financial statements.

PART II OTHER INFORMATION

There are no disclosures not reported under SEC Form 17-C.

SIGNATURES

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

Issuer: **HARBOR STAR SHIPPING SERVICES, INC.**

GERONIMO P. BELLA JR.	**ADELIA D. VASQUEZ**
Chairman and President	Chief Financial Officer
Date signed: JUN 29 2020	Date signed: JUN 29 2020

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
17Q Unaudited Financial Statements with
Supplemental Schedules for the
Securities and Exchange Commission
March 31, 2020

TABLE OF CONTENTS

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Philippine Peso)

	Notes	Mar-31 2020 (Unaudited)	Dec-31 2019 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	4	141,138,441	99,449,755
Receivables, net	5	628,296,335	552,913,317
Advances to related parties	20	-	553,165
Prepayments and other current assets	6	514,037,282	546,847,612
Total current assets		1,283,472,058	1,199,763,849
Non-current assets			
Investment in an associate	7	116,498,458	116,498,458
Property and equipment, net	8	4,057,264,452	4,148,585,284
Right-of-use assets		140,101,374	138,247,262
Computer software, net	9	27,575,419	27,859,777
Investment property	10	48,083,679	47,626,987
Goodwill	11	154,207,159	154,207,159
Deferred income tax assets, net		26,434,513	24,452,501
Other non-current assets	12	268,555,455	287,418,370
Total non-current assets		4,838,720,508	4,944,895,798
Total assets		6,122,192,566	6,144,659,647
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	469,360,436	416,692,840
Short-term loans	14	498,000,000	499,750,000
Borrowings, current portion	14	1,990,004,066	2,046,181,403
Lease liability, current	14	16,034,222	17,014,185
Advances from related parties	20	7,796,910	7,796,910
Total current liabilities		2,981,195,633	2,987,435,338
Non-current liabilities			
Borrowings, net of current portion	14	1,707,739,825	1,707,246,931
Trade and other payables, net of current portion		15,738,600	15,738,600
Lease liability, net of current portion	14	73,199,044	74,747,877
Deferred income tax liabilities, net		-	
Retirement benefit obligation	19	113,617,580	113,617,579
Total non-current liabilities		1,910,295,049	1,911,350,987
Total liabilities		4,891,490,683	4,898,786,325
Equity			
Share capital	15	907,857,870	907,857,870
Additional paid-in-capital	15	121,632,762	121,632,762
Treasury Stock		-37,614,990	-37,614,990
Revaluation surplus, net of tax	8	75,528,468	80,153,162
Cumulative translation difference		-6,768,327	-6,768,327
Fair value reserve on available-for-sale financial assets		-160,000	-160,000
Retained earnings	15	158,385,696	181,933,854
		1,218,861,480	1,247,034,331
Non-controlling interest		11,840,404	-1,161,009
Total equity		1,230,701,884	1,245,873,322
Total liabilities and equity		6,122,192,566	6,144,659,647

See accompanying Notes to Financial Statements

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

		Three Months Ended March 31	
	Notes	2020	2019
Service income, net	16	371,695,175	272,822,057
Cost of services	17	(298,982,756)	(241,947,449)
Gross profit		72,712,419	30,874,608
General and administrative expen	18	(62,988,866)	(75,063,423)
Other income (charges), net		37,851,548	889,797
Interest income		62,707	114,855
Operating profit/(loss)		47,637,808	(43,184,164)
Finance cost			
Interest expense		(65,424,689)	(40,636,122)
Foreign exchange gains (losses), net		(3,531,761)	(790,452)
		(68,956,450)	(41,426,574)
Share in net income (assoc)		-	-
Profit/(loss) before income tax		(21,318,642)	(84,610,738)
Provision for income tax	21	1,982,012	1,872,619
Profit/(loss) for the period		(19,336,630)	(82,738,119)
Profit/(loss) attributable to:			
Owners of the parent		(21,933,119)	(84,558,468)
Non-controlling interest		2,596,489	1,820,348
		(19,336,630)	(82,738,119)
Earnings per share			
Basic and diluted	15	(0.02)	(0.09)

See accompanying Notes to Financial Statements

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

	Share capital	Treasury Stock	Additional paid in capital	Revaluation surplus	Cumulative translation differences	Fair value reserve on available-for-sale financial assets	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1, 2020, as previously reported	907,857,870	(37,614,990)	121,632,762	80,153,162	(6,768,327)	(160,000)	181,933,854	1,247,034,331	(1,161,009)	1,245,873,322
Net income for the period							(21,933,119)	(21,933,119)	2,596,489	(19,336,630)
Depreciation transfer of revaluation surplus				(4,624,694)			4,624,694	-		-
Acquisition of treasury shares								-		-
Translation adjustment					-			-		-
Non-controlling interest							(6,239,733)	(6,239,733)	10,404,924	4,165,192
Balances at March 31, 2020	907,857,870	(37,614,990)	121,632,762	75,528,468	(6,768,327)	(160,000)	158,385,696	1,218,861,479	11,840,404	1,230,701,884
Balances at January 1, 2019, as previously reported	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
Net income for the period							(84,558,468)	(84,558,468)	1,820,348	(82,738,119)
Depreciation transfer of revaluation surplus		(24,202,790)		(4,624,694)			4,624,694	(24,202,790)	-	(24,202,790)
Translation adjustment					3,747,875			3,747,875	-	3,747,875
Non-controlling interest							(10,242,698)	(10,242,698)	7,088,251	(3,154,447)
Balances at March 31, 2019	907,857,870	(35,056,460)	121,632,762	94,048,852	(3,063,220)	(160,000)	458,468,812	1,543,728,616	13,750,493	1,557,479,109

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

	Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(21,318,642)	(84,091,472)
Adjustments for:		
Depreciation and amortization	116,289,347	84,139,933
Interest expense	65,411,982	40,187,941
Movements in retirement benefit obligation	-	-
Unrealized foreign exchange loss(gain) - net	(256,253)	317,077
Share in net earnings of associates	-	-
Interest income	(62,707)	(114,855)
Operating income before working capital changes	160,063,727	40,438,624
Decrease (increase) in:		
Trade and other receivables	(70,060,790)	(51,549,956)
Prepayments and other current assets	19,644,668	(86,901,735)
Increase in trade and other payables	59,447,357	(34,410,823)
Net cash generated from operations	169,094,962	(132,423,891)
Interest paid	(65,411,982)	(40,187,941)
Income taxes paid	-	-
Interest received	62,707	114,855
Net cash flows from (used in) operating activities	103,745,687	(172,496,977)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment	(26,326,478)	(755,389,331)
Investment property	(267,729)	(27,568,860)
Subsidiary	(456,692)	-
Disposal of property and equipment	-	-
Decrease (increase) in:		
Investment in an Associate	-	(512,844)
Advances to related parties	(25,962,930)	184,420,698
Other noncurrent assets	2,886,725	-
Net cash flows from (used in) investing activities	(50,127,104)	(599,050,337)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of interest-bearing loans and borrowings	-	1,588,248,000
Payment of:		
Interest-bearing loans and borrowings	(57,376,758)	(608,222,598)
Lease liabiities	(451,714)	
Increase in advances from related parties	33,811,419	(184,859,693)
Net cash flows from (used in) financing activities	(24,017,052)	795,165,709
EFFECTS OF EXCHANGE RATE CHANGES IN CASH	(307,615)	(317,077)
NET INCREASE (DECREASE) IN CASH	29,293,915	23,301,320
CASH AT BEGINNING OF THE PERIOD	111,844,525	316,889,515
CASH AT END OF THE PERIOD	141,138,441	340,190,835

See accompanying Notes to Financial Statements

1. **Corporate Information**

Harbor Star Shipping Services,
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. The Parent Company did not have any follow-on offering subsequent to its initial public offering.

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.

:

a) business of power generation and operation of maritime schools, educational and training facilities;
b) incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares; and
c) Follow-
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.

60% shareholdings of Astronergy Development Gensan Inc. (ADGI), an entity engaged in power generation through renewable energy through HSEC, its 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, the Company, 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 is expected to be completed by the 2nd quarter of 2018 but due to delays, the expected completion has been moved to second quarter of 2019.

On March 15, 2018, the
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 reta

ined 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 acquisition whereby the cost of an acquisition is measured at the fair value of the consideration given.

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

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.

A. Bonifacio St. corner Pres. Sergio Osmeña Highway, Bangkal, Makati City,1233, Philippines.

As at March 31, 2019 and as at December 31, 2018, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Peak Flag SDN BHD, Harbor Star Subic Corp., Harbor Star Energy Corporation, Astronergy Development Gensan Inc., Astronergy Development F1, Inc., Astronergy Development F2, Inc., and Harbor Star East Asia (Myanmar) Limited. In both reporting period, they are collectively ref

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

	Relationship	% of interest held 2019	% of interest held 2018	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. 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. 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. 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%	100%	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 March 31, 2019. 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 2019	2018	Registered place of business/ Country of incorporation	Main activity
Astronergy Development F1 Inc. (ADF1)	Subsidiary (indirect)	100%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F1 Inc., an entity engaged in power generation through renewable energy. ADF1 has not started commercial operations as at March 31, 2019. 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%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F2 Inc., an entity engaged in power generation through renewable energy. ADF2 has not started commercial operations as at March 31, 2019. 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%	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. 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.
Harbor Star East Asia (Thailand) Co., Ltd. (HSEAT)	Subsidiary	29%	-	Thailand	HSEAT was incorporated and registered in Thailand on September 20, 2019, primarily engage in providing transportation and warehousing in Thailand. Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Sub-district, Bangna District, Bangkok.
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. 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%	31%	Philippines	During 2018, HSSSI acquired 31% ownership of HEMSI, an entity engaged in towage, mooring, maritime commerce and navigation. Its registered address, which is also its principal place of business, is at Rm. 306, Veloo Center cor. Senior Oca and Delgado Sts., South Port Area, Manila.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

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), 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 available-for-sale financial assets.

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

Changes in accounting policies 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 financial assets and whether the contractual characteristics 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	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. Also, the Group assessed the proper classification of its financial assets based on the new guidance of PFRS 9. The changes in the classification financial assets did not result to adjustments in previously reported balances.

Title	Key requirements	Effective Date	Impact
	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.		
PFRS 15 Revenue from Contracts with Customers	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 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 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 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.	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.
Classification and Measurement of Share-based Payment Transactions	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

Title	Key requirements	Effective Date	Impact
Amendments to PFRS 2 Share-based payment			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

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

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

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.

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-

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carryi
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

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

Distributions received from the associates reduce the carrying amount of the investment.
are 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-

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

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.

3. **Significant Accounting Judgments, Estimates and Assumptions**

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 ma

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.

As of March 31, 2019, there were no judgments, seasonal or cyclical aspects that materially affect the operations of the Group. No substantial nature and changes in estimates of amounts reported in December 31, 2018 audited financial statements and no unusual items that materially affect the

Group equity, net income or cash flows.

4. Cash and Cash Equivalents

	March 31, 2020	December 31, 2019
Cash in bank	**133,157,360**	91,252,861
Cash on hand	**2,080,031**	2,055,044
Cash equivalents	**5,901,050**	6,141,850
	141,138,441	99,449,755

Cash includes cash in hand and deposits held at call with banks. Cash in banks are carried in the consolidated statement of financial position at face or nominal amounts and earn interest at the prevailing bank deposit rates

5. Trade and Other Receivables

	March 31, 2020	December 31, 2019
Trade receivables	**559,130,946**	427,419,698
Advances to employees	**163,413,793**	221,665,231
Others	**10,444,847**	8,521,638
	732,989,585	657,606,567
Less allowance for impairment losses	**104,693,250**	104,693,250
	628,296,335	552,913,317

Trade receivables are noninterest-bearing and are generally on seven (7) to thirty (30) day terms. Advances to employees are noninterest-bearing and are generally collectible on demand.

As at March 31, 2020 and December 31, 2019, trade receivables, considered as individually impaired, with nominal value of PHP28.1 million were impaired and provided with allowance for impairment.

Movements in the allowance for impairment losses are as follows:

	March 31, 2020	December 31, 2019
Beginning balances	**104,693,250**	28,056,479
Provision (Reversal of), net	-	76,728,154
Cumulative translation adjustment	-	-91,383
Ending balances	**104,693,250**	104,693,250

6. Prepayments and Other Current Assets

	March 31, 2020	December 31, 2019
Construction receivables	**62,361,971**	170,230,644
Allowance for construction receivable	**-2,940,464**	-2,940,464
Prepayments	**77,577,858**	42,807,739
Advances to suppliers	**330,549,570**	293,820,180
Input VAT, net of output VAT	**43,799,398**	27,088,735
Refundable deposits	**2,688,949**	15,840,778
Others	-	-
	514,037,282	546,847,612

Prepayments consist mainly of hull and machinery insurance, motor car insurance, life and health insurance, fuel and charter hire of tugboats which is expected to be utilized for a period of less than a year.

7. Investment in an Associate

Associate

financial position using the equity method. Details of investment as at March 31, 2020 and December 31, 2019 are as follows:

Name of associate	Country of Incorporation	Relationship	Percentage of direct ownership
Great Eastern Tug Corporation	Philippines	Associate	20%
Hi-Energy Marine Services, Inc. (HEMSI)	Philippines	Associate	31%

The movements of investment in associate as at March 31, 2020 and December 31, 2019 are as follows:

GETC

	March 31, 2020	December 31, 2019
Beginning of year	**14,965,723**	14,498,937
Share in other comprehensive income	-	-282,000
Share in net income (loss)	-	811,729
Share in adjustments to equity		-62,943
Dividend received	-	-
End of period	**14,965,723**	14,965,723

Summarized financial information of GETC

	March 31, 2020	December 31, 2019
Total current assets	**25,715,520**	25,715,520
Total noncurrent assets	**49,343,215**	49,343,215
Total current liabilities	**230,119**	230,119
Net equity	**74,828,616**	74,828,616
Total revenue	-	14,520,000
Total profit for the period	-	4,058,645
Total other comprehensive income (loss	-	-1,410,000
Total compreshensive income	-	2,648,645

HEMSI

	March 31, 2020	December 31, 2019
Beginning of year	**101,532,735**	86,364,616
Share in net income (loss)		15,168,119
Additions	-	
End of period	**101,532,735**	101,532,735

Summarized financial information of HEMSI

	March 31, 2020	December 31, 2019
Total current assets	138,456,360	138,456,360
Total noncurrent assets	151,025,666	151,025,666
Total current liabilities	56,564,671	56,564,671
Total noncurrent liabilities	-	85,825,057
Net equity	147,092,298	147,092,298
Total revenue	-	252,297,907
Total profit for the period	-	32,414,682
Total compreshensive income	-	32,414,682

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 mark
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.

Property and equipment carried at revalued amounts follow:

Property and equipment

	March 31, 2020	December 31, 2019
Revalued amounts	**3,701,539,732**	3,683,096,274
Beginning balances	**3,683,096,274**	3,504,162,041
Additions	**18,443,458**	178,934,233
Reclassifications from property and equipment at cost		-
Disposals	-	-
Ending balance	**3,701,539,732**	3,683,096,274
Accumulated depreciation	**(2,136,887,393)**	(2,073,820,382)
Beginning balances	**(2,073,820,382)**	(1,855,075,128)
Depreciation and amortization	**(63,067,011)**	(218,745,254)
Disposals	-	-
Ending balance	**(2,136,887,393)**	(2,073,820,382)
Net book values	**1,564,652,338**	1,609,275,892

The movements of revaluation increment as at March 31, 2020 and December 31, 2019 are as follows:

Revaluation surplus

	March 31, 2020	December 31, 2019
Beginning of the year, gross of tax	114,504,517	140,962,208
Amortization of revaluation increment through depreciation	(6,606,705)	(26,457,691)
End of period, gross of tax	107,897,812	114,504,517
Deferred tax liability	(32,369,344)	(34,351,355)
End of period, net of tax	75,528,468	80,153,162

PropertyandEquipment-AtCost

AsatMarch31,2020

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction Equipment	Construction In-Progress	Total
Cost:									
Beginning balances	39,556,011	694,596,314	2,015,627,820	65,580,316	324,855,085	6,181,798	12,260,099	18,144,120	3,176,801,563
Additions		6,340,859	-	-	-	184,198	-	-	6,525,057
Disposal									-
Reclassifications									-
Translation adjustments									-
Ending balances	39,556,011	700,937,173	2,015,627,820	65,580,316	324,855,085	6,365,996	12,260,099	18,144,120	3,183,326,620
Accumulated depreciation:									
Beginning balances	-	338,019,505	82,831,016	47,960,633	156,290,040	4,753,472	7,637,505	-	637,492,171
Depreciation		22,226,121	25,955,350	1,759,889	1,167,868	1,481,542	631,566	-	53,222,335
Disposal									-
Translation adjustments									-
Ending balances	-	360,245,626	108,786,366	49,720,522	157,457,908	6,235,014	8,269,071	-	690,714,506
Net book values	39,556,011	340,691,547	1,906,841,454	15,859,794	167,397,177	130,982	3,991,028	18,144,120	2,492,612,113

AsatDecember31,2019

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction Equipment	Construction In-Progress	Total
Cost									
Beginning balances	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
Business acquisition									-
PFRS 16 adoption		(58,674,654)						(4,832,145)	(73,506,799)
Additions		84,424,364	1,919,621,170	6,066,510	149,664,858	1,119,464	74,643	51,073,741	2,212,044,750
Disposal					(714,379)				(714,379)
Reclassifications		104,245,347	-					(104,245,347)	-
Translation adjustments					(553,798)	(9,539)			(563,337)
Ending balances	39,556,011	694,596,314	2,015,627,820	65,580,316	324,855,085	6,181,798	12,260,099	18,144,120	3,176,801,563
Accumulated depreciation									
Beginning balances		237,952,207	31,132,554	40,054,146	130,466,657	4,135,505	5,127,237		448,868,306
Business acquisition									-
PFRS 16 adoption		(7,471,548)							(7,471,548)
Depreciation		107,538,846	51,698,462	7,906,487	26,537,762	617,967	2,510,268		196,809,792
Disposal					(714,379)	-			(714,379)
Ending balances	-	338,019,505	82,831,016	47,960,633	156,290,040	4,753,472	7,637,505	-	637,492,171
Net book values	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392

9. Computer software, net

The details of computer software, net as at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Revalued amounts		
Beginning balances	**31,083,852**	29,686,748
Additions	**267,731**	1,397,104
Disposals		-
Ending balance	**31,351,583**	31,083,852
Accumulated amortization		
Beginning balances	**3,224,075**	1,896,881
Additions	**552,089**	1,327,194
Disposals		-
Ending balance	**3,776,164**	3,224,075
Net book values	**27,575,419**	27,859,777

10. Investment Property

As at March 31, 2020 and December 31, 2019 investment properties consist of parcels of land in various locations, which are held for capital appreciation.

The movement in investment properties follows:

	March 31, 2020	December 31, 2019
Beginning of year	**47,626,987**	47,626,987
Additions	**456,692**	-
End of period	**48,083,679**	47,626,987

There were no income earned and no direct operating expenses incurred related to the investment properties periods presented.

11. Goodwill

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. As at March 31, 2020, the value of goodwill has been identified provisionally, thus, no impairment test has been performed.

12. Other Noncurrent Assets

This account consists of:

	March 31, 2020	December 31, 2019
Input VAT, net of output VAT	**278,564,459**	294,978,325
Less: allowance for impairment on input VAT	**-50,926,358**	-50,926,358
Input VAT, net	**227,638,101**	244,051,967
Performance bond	-	2,186,512
Lease guarantee deposit	**55,000**	55,000
Investment in golf shares	**810,000**	810,000
Leasehold rights	**40,052,354**	40,265,240
Others	-	49,651
	268,555,455	287,418,370

Input VAT represents tax paid on purchases of applicable goods and services which can be used to offset against output VAT or can be applied as future tax credit certificates which can be used as payments for income taxes due. The Group classified a portion of its input VAT as noncurrent asset since management believes that these will not be recovered in the succeeding year.

The movement in allowance for impairment of Input VAT is as follows:

	March 31, 2020	December 31, 2019
Beginning balances	**50,926,358**	41,867,914
Provision for impairment	-	9,058,444
Ending balances	**50,926,358**	50,926,358

13. Trade and Other Payables

This account consists of:

	March 31, 2020	December 31, 2019
Trade payable	**229,225,522**	197,676,965
Accrued expenses	**168,355,245**	149,313,034
Advances from officers and employees	**11,754,324**	10,611,723
Unearned income	**16,680,003**	16,940,552
Payable to government agencies	**4,209,310**	4,205,057
Advances from customers	-	-
Provisions	**37,945,508**	37,945,509
Others	**1,190,524**	-
	469,360,436	416,692,840

Trade payables are generally noninterest-
term.

Accrued expenses are obligations on the basis of normal credit terms and do not bear interest. These pertain to accruals made for regular monthly fees and other various accruals. Accruals are

months from the end of the reporting period.

Unearned income represents advance collections from customers, which will be recognized as revenue upon the performance of the contractually agreed tasks.

Payable to government agencies consist mainly of amounts due to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund, withholding taxes payable to BIR that are noninterest-

Others mainly consist of payables of the subsidiary to third parties.

14. **Interest-Bearing Loans and Borrowings**

The outstanding short-term, current and noncurrent portion of the foregoing interest-bearing loans, and finance lease liability are as follows:

	March 31, 2020	December 31, 2019
Development Bank of the Philippines	498,000,000	499,750,000
Short term loans	498,000,000	499,750,000
Current portion of long term borrowings:		
Rizal Commercial Banking Corporati	1,221,875,126	1,314,206,538
CTBC Bank (Philippines) Corporatior	492,732,454	420,867,417
Asia United Bank (AUB)	48,854,266	48,854,266
Philippine National Bank	99,503,849	129,762,012
Chailease International Financial Se	-	-
Development Bank of the Philippines	111,654,916	111,654,916
Robinsons Bank Corporation	15,000,000	20,000,000
China Banking Corporation	383,456	505,059
Security Bank Corporation	-	-
	1,990,004,066	2,045,850,208
Noncurrent portion of long term borrowings:		
Development Bank of the Philippines	1,464,535,830	1,464,535,830
CTBC Bank (Philippines) Corporatior	-	-
Rizal Commercial Banking Corporati	119,707,102	119,214,208
Asia United Bank (AUB)	93,291,366	93,291,366
Robinsons Bank Corporation	10,666,667	10,666,667
China Banking Corporation	842,836	842,836
Philippine National Bank	18,696,024	19,027,219
Security Bank Corporation	-	-
Long term loans	1,707,739,825	1,707,578,126
Current	16,034,222	17,014,185
Noncurrent	73,199,044	74,747,877
Lease liability - DBP Leasing	89,233,266	91,762,062

The Parent Company is a lessee under finance lease arrangements covering a barge with a term of ten (10) years with interest at 6%. The finance lease agreement was entered on February 27, 2014. The first monthly lease payment commenced in September 2014. The leased barge is operated by the Parent Company in the course of its business.

This agreement requires the Parent Company to pay a lease guarantee deposit which is presented within other non-current assets (Note 13) in the consolidated statement of financial position. Lease guarantee deposit amounted to PHP4.3 million.

Total interest expense arising from these long term interest-bearing loans and borrowings amounted to PHP65.4 million and PHP256.6 million as of March 31, 2020 and December 31, 2019, respectively.

The Company has not defaulted or has not breached any outstanding loan agreements as at March 31, 2020 and December 31, 2019.

15. **Equity**

Authorized and issued capital stock are as follows:

Common Shares at ₱1 par value

	March 31, 2020		December 31, 2019	
	Shares	**Amount**	Shares	Amount
Authorized	**2,000,000,000**	**2,000,000,000**	2,000,000,000	2,000,000,000
Issued and outstanding	**907,857,870**	**907,857,870**	907,857,870	907,857,870

another increase in authorized capital stock from PHP1.0 billion comprised of 1 billion shares with par value of PHP1.00 per share, to Php1.5 billion comprised of 1.5 billion shares with par value of PHP1.00 per share. The SEC approved the increase of the authorized capital stock on September 11, 2012.

In September 2012, the Parent Company issued 12 million additional shares to its existing shareholders for cash considerations.

In October 2012, the Parent Company issued 2,000 shares to two (2) independent directors for cash considerations.

O

PHP1.88 per share resulted to the issuance of 181,600,000 shares resulting to capital stock of PHP181.6 million and additional paid-in capital of PHP121.6 million net of transaction costs amounting to PHP24.6 million. There are no other share offering after the IPO in 2013.

incorporation to increase its authorized capital stock from P1.5 billion to P2 billion shares.

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 (PHP1.00) 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.

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

Retained Earnings and Dividends

On February 6, 2013, the Parent
amounting to PHP14.8 million equivalent to PHP0.03 per share, in favor of the Parent
existing stockholders of record as at December 31, 2012. In 2013, the stockholders agreed to

offset their cash dividends to their advances from the Parent Company.

n of cash dividends

amounting to PHP21.2 million (PHP
shareholders of record as at June 17, 2014 and was paid on July 11, 2014.

amounting to PHP23.1 million (PHP
shareholders of record as at July 10, 2015 and was paid on August 5, 2015.

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

. The movement

in the buyback of shares are as follows:

	March 31, 2020		December 31, 2019	
	Shares	**Amount**	Shares	Amount
Beginning of year	**13,271,000**	**37,614,990**	3,966,000	10,853,670
Additiions	-		9,305,000	26,761,320
End of period	**13,271,000**	**37,614,990**	13,271,000	37,614,990

Basic and Diluted EPS

Basic and diluted EPS were computed as follows:

	Three Months Ended March 31	
	2020	2019
Profit for the year attributable to the owners of the Parent Company	**-21,933,119**	-84,558,468
Weighted average number of common shares	**907,857,870**	907,857,870
Basic/diluted earnings per common share	**-0.02**	-0.09

16. **Service Income**

	Three Months Ended March 31	
	2020	2019
Harbor assistance, net	**240,003,601**	221,642,394
Lighterage services	**33,495,089**	27,696,970
Other Marine Services	**34,352,178**	16,208,112
Feeder services	**2,595,000**	4,761,098
Towing services	**12,093,068**	2,513,482
Salvage Income	-	-
Revenue on generation of solar power	**49,156,240**	-
	371,695,176	272,822,057

17. **Cost of Services**

	Three Months Ended March 31	
	2020	2019
Depreciation	**110,252,822**	72,788,943
Personnel costs	**54,732,025**	50,509,279
Fuel and lubricants	**61,812,926**	47,812,915
Outside services	**19,367,825**	20,096,027
Supplies	**8,899,838**	11,784,438
Insurance	**13,990,934**	11,269,964
Repairs and maintenance	**3,206,322**	6,645,380
Port expense	**10,257,037**	5,950,359
Transportation and travel	**2,722,296**	4,316,554
Rent	**847,784**	4,018,014
Charter hire	**650,000**	1,950,000
Utilities and communication	**846,349**	1,279,402
Taxes and licenses	**1,746,129**	899,369
Representation and entertainment	**867,939**	669,838
Others	**8,782,529**	1,956,967
	298,982,756	241,947,449

18. **General and Administrative Expenses**

	Three Months Ended March 31	
	2020	2019
Personnel costs	**32,403,081.69**	32,847,613
Taxes and licenses	**7,121,614.84**	14,402,882
Depreciation	**6,036,523.70**	5,929,503
Transportation and travel	**3,426,983.01**	5,573,506
Representation and entertainment	**1,766,689.65**	3,768,002
Professional and management fees	**2,669,342.99**	3,359,292
Advertising and promotions	**761,325.38**	1,998,536
Communications	**993,577.46**	1,394,620
Rent	**916,451.00**	1,357,724
Outside services	**1,210,153.67**	1,200,304
Supplies	**786,429.44**	1,040,316
Utilities	**376,273.79**	547,258
Insurance	**1,863,859.93**	369,094
Repairs & maintenance	**1,503,069.29**	349,555
Fuel and lubricants	**1,983.20**	264,057
Bank service charges	**46,338.83**	64,530
Membership fees and dues	-	54,939
Others	**1,105,166.44**	541,692
	62,988,864	75,063,423

19. **Retirement Costs**

The Company has an unfunded, noncontributory defined benefit plan which covers all of its regular employees.

Under the existing regulatory framework, Republic Act (RA) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the lective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

20. **Related Party Transactions**

Transactions with related parties consist of noninterest-bearing advances that have no fixed

follows:

	Terms and conditions	March 31, 2020	December 31, 2019
Purchase of services	Services rendered to the Group are billed based on agreed prices. These are payable within 30 days after invoice date, unsecured, and non-interest bearing		
Associate		-	

	Terms and conditions	March 31, 2020	December 31, 2019
Advances to related party:	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		
Entity under common control			553,165
Advances from related party:	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		
Officers		7,796,910	9,313,168

21. **Income Tax Expense**

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the DIT relate to the same fiscal authority.

The subsidiaries have no unrecognized DIT assets and liabilities as at March 31, 2019 and December 31, 2018.

as at March 31, 2019 and December 31, 2018 follow:

	March 31, 2020	December 31, 2019
Beginning of the year	**24,452,501**	-10,268,998
DIT credited to profit or loss	**1,982,012**	29,970,802
DIT credited (charged) to other comprehensive income		4,750,697
End of period	**26,434,513**	24,452,501

Income tax expense as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
Current		6,678,689
Deferred	**(1,982,012)**	(29,970,802)
	(1,982,012)	(23,292,113)

22. **Financial Instruments, Financial Risk Managements, Objectives and Policies**

Fair Values of Financial Instruments
The following methods and assumptions were used to estimate the amount of fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash, Trade and Other Receivables, Advances to Related Parties, Other Current Assets, Trade and Other Payables and Advances from Related Parties
The Group has determined that the carrying amounts of cash, trade and other receivables, advances to related parties, other current assets, trade and other payables, and advances from related parties based on their notional amounts, reasonably approximate their fair values because these are mostly short-term in nature.

Financial Risk Management Objectives and Policies
The BOD has the overall responsibility for the establishment and oversight of the Group nagement framework. The Group
to identify and manage the Group
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

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

Market Risk
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk
Foreign currency 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 Group nge rates arise from the Group USD. The Group also maintains USD and JPY-denominated bank accounts. To mitigate the Group exposure to foreign currency risk, non-Philippine peso cash flows are monitored on a regular basis.

As at March 31, 2020 and December 31, 2019, the exchange rates of the other currency to the Philippine Peso are as follows:

	March 31, 2019	December 31, 2018
USD	**PHP50.87**	PHP50.65
JPY	**0.47**	0.46

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group
and other receivables. The Group trades only with recognized, creditworthy third parties. It is the Group
procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group

Credit Quality of Financial Instruments

The credit quality of the financial statements is classified into three: high grade, which includes instruments with insignificant risk of default based on historical experience; standard grade, which includes quoted and unquoted equity investments that can be readily sold to a third party; and substandard grade, which includes accounts with pending payment negotiations.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group
always have sufficient funds to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Group
standing.

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.

23. **Capital Management**

The primary objective of the Group management is to safeguard the Group
continue its operations on a going concern basis and maximize shareholder value.

No changes were made in the objectives, policies or processes as at March 31, 2020 and December 31, 2019.

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 -to-equity ratio of 1:1.

24. **Contingencies**

The Group is currently involved in various pending claims and lawsuits which could be decided in favor or against the Group. The information pertaining to such matters is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The Group currently does not believe that these proceedings will have a material effect on its financial position.

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

Aging of Accounts Receivable

As of March 31, 2020

(All amounts in Philippine Peso)

	Neither Past Due	Past Due but not Impaired					
	nor Impaired	1-30 days	31-60 days	61-90 days	Over 90 days	Impaired	Total
Trade	125,293,412	86,655,159	80,207,481	121,748,903	145,225,990	-104,693,250	454,437,695
Officers & Employees	163,413,793						163,413,793
Others	10,444,847						10,444,847
	299,152,052	86,655,159	80,207,481	121,748,903	145,225,990	-104,693,250	628,296,335

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARY
RECONCILIATION OF PARENT COMPANY'S RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE PERIOD ENDED MARCH 31, 2020
(All amounts in Philippine Peso)

Unappropriated retained earnings, January 1, 2019		334,789,370
Net income based on the face of the Parent's separate unaudited financial statements		(18,767,899)
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture		
Unrealized foreign exchange gain - net (except those attributable to cash)		
Unrealized actuarial gain		
Fair value adjustment		
Fair value adjustment of Investment Property resulting to gain		
Adjustment due to deviation from PFRS/GAAP-gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS		
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)		4,624,694
Adjustment due to deviation from PFRS/GAAP - loss		
Loss on fair value adjustment of available for sale financial assets (after tax)		
Profit actually earned/realized during the period		320,646,164
Add: Release of retained earnings appropriation		
Less:	Treasury shares	37,614,990
	Stock dividends declared during the period	
	Cash dividends declared during the period	
Unappropriated retained earnings, as adjsuted, March 31, 2020		283,031,174

HARBORSTARSHIPPINGSERVICES,INC.ANDITSSUBSIDIARIES
ScheduleA.FinancialAssets
AsofMarch31,2020
inPhilippinePeso

Nameofissuingentityand associationofeachissue	Numberofsharesor principal amountofbondsandnotes	Amountshowninthe statementoffinancial position	Valuebasedon market quotationsatendof reportingperiod	Income received andaccrued
LoansandReceivables:				
Cashonhandandwith banks	N/A	141,138,441		62,707
AccountsReceivable-Trade	N/A	488,594,237		
Advancestorelatedparties	N/A	7,389,947		
Refundabledeposits	N/A	2,688,949		
		639,811,573		62,707
Available-for-salefinancialassets				
Investmentingolfshares	N/A	810,000		
Total		640,621,573		62,707

-

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements
As of March 31, 2020
in Philippine Peso

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not current	Balance at end of the period
Advances from related party							
	-	-	-		-		-
Advances to related party							
Peak Flag SDN BHD	18,974,664	174,158,952			193,133,616		193,133,616
Astronergy Development Gensan Inc.	553,669,341		248,663,278		305,006,063		305,006,063
Astronergy Development F1, Inc.	20,000	197,385			217,385		217,385
Astronergy Development F2, Inc.	20,000	197,385			217,385		217,385
Harbor Star East Asia (Myanmar) Ltd.	1,922,520		847,205		1,075,315		1,075,315
Harbor Star Subic Corp.	117,082,756	101,239,517			218,322,273		218,322,273
Harbor Star Energy Corporation	730,214,780		153,810,537		576,404,243		576,404,243
Total	1,421,904,061	275,793,239	403,321,020	-	1,294,376,280	-	1,294,376,280

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

Schedule D. Intangible Assets - Other Assets

As of March 31, 2020

in Philippine Peso

Description	Beginning balance	Additions at cost	Deductions: Charged to cost and expenses	Deductions: Charged to other accounts	Other changes additions (deductions)	Ending balance
Computer Software	27,859,777	267,731	-552,089			27,575,419
Leasehold rights	40,052,354				-810,000	39,242,354
Goodwill	154,207,159					154,207,159
Total	222,119,290	267,731	-552,089	-	-810,000	221,024,932

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule E. Long-term Debt
As of March 31, 2020
in Philippine Peso

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "Long-term debt" in related statement of financial position	Notes
Bank borrowings	1,750,000,000	1,221,875,126	119,707,102	*RCBC, interest at 8% per annum, for 5 years, matures on March 14, 2024;*
Bank borrowings	1,590,000,000	609,654,916	1,464,535,830	*DBP, 503M interest at 6.5% per annum, 75M interest at 8.65% per annum, interest payable quarterly from initial drawdown, principal amortization due starting Jan 19, 2020, matures on April 19, 2030*
Offshore term loan	120,400,000	-	-	*Chailease International Financial Services Co.Ltd., LIBOR plus margin interest rate, payable every 3 months for 3 years, matures on Oct 6, 2019*
Bank borrowings	750,000,000	492,732,454	-	*CTBC, interest at 7.00% per annum, payable quarterly from initial drawdown, expiring 42 months from initial drawdown or Apr 01, 2022*
Bank borrowings	320,000,000	48,854,266	93,291,366	*AUB, interest at 7.25% subject to quarterly repricing,matures on Sep 27, 2022*
Bank borrowings	150,000,000	99,503,849	18,696,024	*PNB, interest at 7% per annum, matures on Dec 19, 2019; car loan interest at 12.5% per annum, for 3 years, matures on Dec 31, 2020*
Bank borrowings	100,000,000	15,000,000	10,666,667	*RB, interest at 5.5% per annum, for 5 years, matures on Jul 5, 2021*
Bank borrowings	4,200,000	383,456	842,836	*CBC, interest at 7.5% per annum, for 10 years, matures on Jun 6, 2022*
Bank borrowings	1,114,400	-	-	*SB, car loan interest at 12.5% per annum, for 3 years, matures on Dec 30, 2019*
	4,785,714,400	2,488,004,066	1,707,739,825	
Finance lease liability	89,233,266	16,034,222	73,199,044	*DBP Leasing, interest at 6% per annum, for 10 years, matures on Sep 15, 2024*
	4,874,947,666	2,504,038,288	1,780,938,869	

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

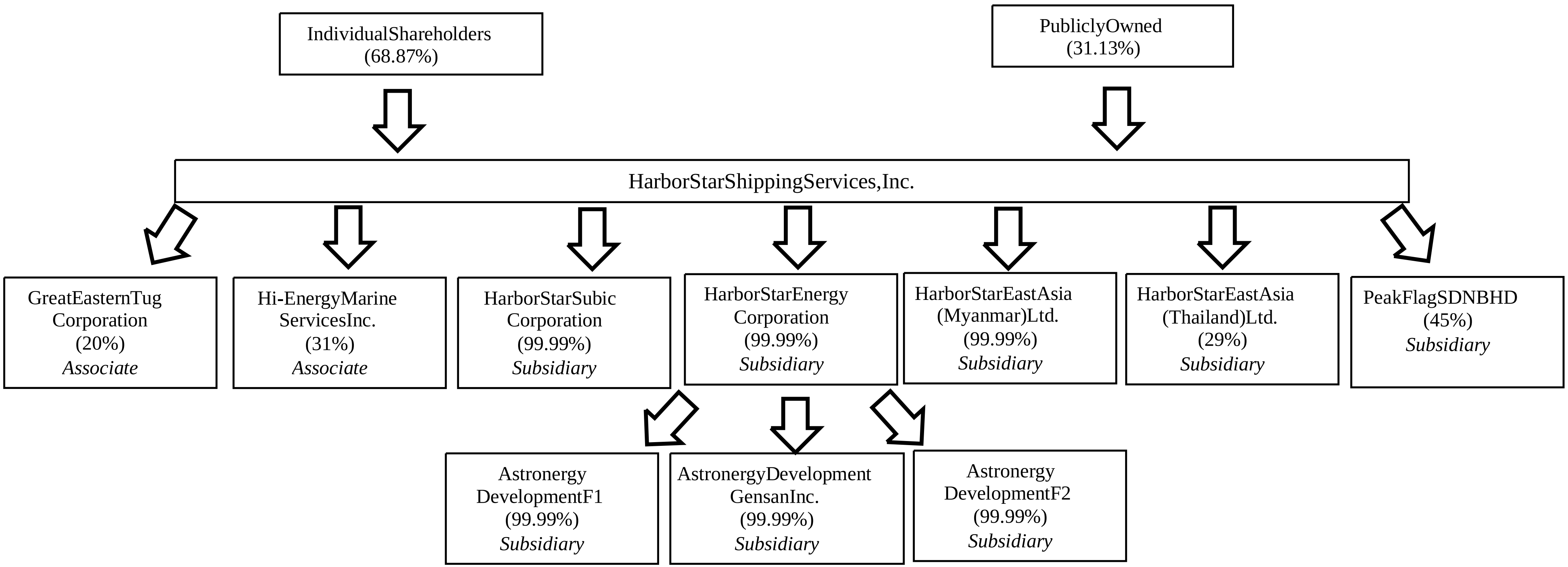
Schedule H. Share Capital

As of March 31, 2020

in Philippine Peso

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - P1 par value	2,000,000,000	894,586,870	-	-	616,138,227	278,448,643

HARBORSTARSHIPPINGSERVICES,INC.ANDITSSUBSIDIARIES
AMapShowingtheRelationshipsbetweenandamongtheParentCompanyanditsUltimateParentCompanyanditsSubsidiariesandAssociate



COVER SHEET

SEC Registration Number

152897

Company Name

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

2224 A BONIFACIO ST., COR. PRES. SERGIO OSMEÑA HIGHWAY, BANGKAL, MAKATI CITY 1233 PHILIPPINES

Form Type	Department requiring the report	Secondary License Type, if applicable
17-Q	CRMD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
www.harborstar.com.ph	886-3703 to 09	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
120	every last Wed. of May	12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
ADELIA VASQUEZ	advasquez@harborstar.com.ph	886-3703	N/A

Contact Person's Address

2224 A. Bonifacio St., corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2020**

2. Commission identification number **152897**

3. BIR Tax Identification No. **201-128-653-000**

4. Exact name of issuer as specified in its charter **HARBOR STAR SHIPPING SERVICES, INC.**

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

6. Industry Classification Code: | (SEC Use Only)

7. Address of issuer's principal office Postal Code
2224 A. Bonifacio St., cor. Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233

8. Issuer's telephone number, including area code **(632)-8886-37-03**

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**894,586,870**
Treasury	**13,271,000**

11. Are any or all of the securities listed on a Stock Exchange?
Yes [**X**] No [ ]
99
If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange **Common stock**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes [**X**] No [ ]

(b) has been subject to such filing requirements in the past 90 days
Yes [**X**] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The summary financial data as of and for the period ended March 31, 2020 are based on the interim unaudited financial statements as at and for the three months ended March 31, 2020 of Harbor Star Shipping Services, Inc. and its subsidiaries (the "Group"). The financial statements for the annual and interim period are prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

	For the Three Months Ended March 31		%
	2020 (Unaudited)	**2019** (Unaudited)	**Change**
Service Income	371,695,175	272,822,057	36.24%
Cost of Services	(298,982,756)	(241,947,449)	23.57%
General and Admin. Expenses	(62,988,866)	(75,063,423)	-16.09%
Other Income (Charges), net	(31,042,195)	(40,421,923)	-23.20%
Net Income (loss) Before Income Tax	(21,318,642)	(84,610,738)	-74.80%

As of March 31, 2020, the Group has posted net service income of P371.69 Million or 36.24% increased from 2019 of the same period of PHP272.82 Million. Of the total posted net service income, 13.22% or PHP49.15 Million accounts for revenue on generation of solar power.

Regular revenue sources such as harbor assistance, lighterage and towing services for the 1st quarter ending March 31, 2020 has improved by 13.40% to PHP285.59 Million from PHP251.85 Million in March 2019 of the same quarter. Further, no activity for salvage services were done in 1st quarter of 2019 because salvage service is fortuitous in nature

Other marine services rendered in 1st quarter of 2020 grew by 112% or PHP18.14 Million to PHP34.35 Million from PHP16.20 Million in 2019 of the same quarter. The increase was attributable to dredging activity entered into by the Parent Company in Tefasco Pier, Port of Davao.

Feeder services in 1st quarter of 2020 has declined by 45.50% to PHP2.59 Million from PHP4.80 Million of the same period. The reason for the decline in feeder services was due to dearth in container delivery shipment from one port to another.

Subsidiaries Peak Flag SDN BDH and Harbor Star Subic Corp. have contributed PHP24.82 Million and PHP8.77 Million, respectively in total net service revenues of the Group in 1st quarter of 2020.

Cost of Services

The Group's total cost of services in 1st quarter of 2020 has increased by 23.57% to PHP298.98 from PHP241.94 Million in 2019 of the same period.

The increase was due to the following factors with significant movements from 1st quarter of 2019 to 2020 of the same period: (1) increase in fuel cost amounting to PHP14 Million (2) increase in depreciation of water assets and solar power plant totaling PHP37.46 Million (3) increase in port expenses amounting to PHP4.30 Million and (4) increase in taxes and licenses amounting to It is expected that when revenue increases, cost of services follows.

General and Administrative Expenses

General and administrative expenses for the 1st quarter ending March 2020 has decreased by 16.09% % to PHP62.98 Million from PHP75.06 Million in 2019 of the same quarter. The resulting favorable decrease in general and administrative expenses was due to significant downward movements of the following accounts: (1) transportation and travel (2) representation and entertainment (3) advertising and promotions and (4) taxes and licenses with combined total of P12.67 Million.

Other Income (Charges)

For the three months ended March 31, 2020, the Group has posted other charges, net of other income amounting to PHP31.04 Million, primarily due to interest expense which considerably increased from an average of 4%-5.5% during the first quarter of 2018 to 6.75%- 8% in Q1 2020. However, the resulting difference has favorable decline in this account by 23.20%.

Net Income/(Loss) Before Income Tax

The Group's operations for the 1st quarter ending March 31, 2020 has resulted to a pre-tax net loss of PHP21.31 Million. The Group's 1st quarter 2020 pre-tax net loss has dropped by 74.80% compared to PHP84.61 Million pre-tax net loss posted in 2019 of the same period. The favorable decline in pre-tax net loss was due to increase in net revenues and decline in general and administrative cost and other charges.

Financial Condition

	As of March 31 2020 (Unaudited)	**As of December 31 2019** (Audited)
Total Assets	6,122,192,566	6,144,659,647
Total Liabilities	4,891,490,683	4,898,786,325
Total Equity	1,230,701,884	1,245,873,322

Cash and cash equivalent

The Group's cash and cash equivalent has increased by PHP41.68 Million or 41.92% in 1st quarter of 2020 compared to PHP99.44 Million as of December 31, 2019. The increase was due to improve cash flows generated from operating activities for the 1st quarter of 2020 of PHP103.74 Million.

Trade and Other Receivables

The Group's trade and other receivables has grown by PHP75.38 Million in 1st quarter of 2020 or 13.63% higher than trade and other receivables of P552.91 Million as of December 31, 2019. The upward change in trade and other receivables was due to billings made to clients for services rendered for the 1st quarter ending March 31, 2020. No other significant movement on other receivables like advances to employees from December 31, 2019 to March 31, 2020.

Advances to Related Parties

No material changes in Advances to Related Party account.

Prepayments and Other Current Assets

As of March 31, 2020, the Group's prepayments and other current assets account has declined by PHP32.81 Million or 6% to PHP514.03 Million from PHP546.84 Million in 2019 of the same period. The decline in this account was due to recognition of expired portion of prepayments such insurance premiums for hull and machinery, property and indemnity covers for the Group's fleet and health coverage of employees and dependents, rents and others to expense account.

Investment in an Associate

No material changes in Investment in an Associate account.

Property and Equipment

Movements in this account were mainly caused by assets depreciation. No other material changes in this account from December 31, 2019 to March 31, 2020. Property and Equipment, net of accumulated depreciation is accounts for 66.23% of Group's total assets.

Pre-development Cost

No pre-development cost incurred from December 31, 2019 to March 31, 2020

Computer Software

No material changes in computer software account from December 31, 2019 to March 31, 2020.

Investment Property

No significant changes in this account from December 31, 2019 to March 31, 2020.

Goodwill

No material changes in goodwill account from December 31, 2018 to March 31, 2019.

Other Non-Current Assets – net

Movement in net other non-current assets was due to amortization of deferred input VAT. No other material changes in other non-current asset account from December 31, 2018 to March 31, 2019.

Short-term Loans

As of March 31, 2020, Group's short-term loans has declined slightly by 0.35% to PHP498 Million from PHP499.50 Million as of December 31, 2019.

Current Portion of Interest-Bearing Loans and Borrowings

As of March 31, 2020, Group's current portion of interest-bearing loans and borrowings has declined by 2.70% to PHP1.99 Billion from PHP2.04 Billion as of December 31, 2019.

Lease Liabilities

As of March 31, 2020, Group's lease liabilities have declined by 2.75% to PHP89.23 Million from PHP91.76 Million as of December 31, 2019.

Trade and Other Payables

The Group's trade and other payables has increased by 16.08% or PHP52.67 to PHP469.36 Million from PHP416.69 Million as of December 31, 2019. The increase was due to various purchases of goods and services on account made during 1st quarter of 2020 which were necessary for the business.

Income Tax Payable

No material changes in Income tax payable from December 31, 2019 to March 31, 2020. Payment for income tax for the preceding year has yet settled as of reporting date.

Interest – bearing loans and borrowings – net of current portion

No significant changes in this account from December 31, 2019 to March 31, 2020.

Deferred Income Tax Liabilities

The Group has no deferred income tax liabilities for the 1st quarter of 2020.

Retirement Benefit Obligation

No material changes in retirement benefit obligation account from December 31, 2018 to March 31, 2019.

Revaluation Increment on Property and Equipment

As of March 31, 2020, the Group's revaluation increment account has declined by 8.24% or gross amount of PHP6.60 Million due to recognition of depreciation of revalued assets. The after tax value of depreciation was transferred to retained earnings account .

Cumulative Translation Difference

Effective 1 January 2014, Subsidiary Peak Flag's financial statements are consolidated with Parent Company Harbor Star Shipping Services, Inc. The subsidiary, having functional currency different from the presentation currency, is translated its results and financial position to presentation currency. As a result, a foreign exchange loss has been recognized amounting to PHP3.61 Million at the end of the 1st quarter ending March 31, 2020.

Retained Earnings

The Group's retained earnings have declined by 14.62% to PHP155.33 from PHP181.93 Million as of December 31, 2019. The resulting difference was the effect of Group's pre-tax net loss incurred in the 1st quarter of 2020.

Discussion and Analysis of Material Events and Uncertainties

As of and for the periods ended March 31, 2020 and December 31, 2019:

- There are no other material changes in the Company's financial position (changes of 5.00% or more) and condition that will warrant a more detailed discussion.

- The Company is not aware of any known trends, or any known demands, commitments, events, or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way.

- The Company is not aware of any event that would trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

- All material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the period were considered.

- There are no known trends, events, or uncertainties that have had or that are reasonably expected to have materially favorable or unfavorable impact on net revenues or income from continuing operations.
- The Company is not aware of any significant elements of income and loss that did not arise from the Company's continuing operations.

- The Company is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations.

Comparative Key Performance Indicators

The Company uses the following financial metrics to assess its performance from period to period.

Financial Soundness Indicator	**March 31 2020** (Unaudited)	**March 31 2019** (Unaudited)	**December 31 2019** (Audited)	**December 31 2018** (Audited)
Current Ratio	0.43:1	0.56:1	0.41:1	0.52:1
Quick Ratio	0.26:1	0.39:1	0.22:1	0.37:1
Debt-to-Equity Ratio	3.97:1	2.80:1	4.07:1	2.11:1
Asset-to-Equity Ratio	4.97:1	3.80:1	4.93:1	3.06:1
Interest Coverage Ratio	0.67	-1.08	-0.56	2.52
Net Profit Margin Ratio	-5.20%	-30.33%	-26.95%	7.44%
Gross Profit Margin Ratio	19.56%	11.32%	20.39%	33.82%

Financial Risk Management Objectives and Policies

Please refer to Note 23 of the notes to the consolidated financial statements.

PART II – OTHER INFORMATION

There are no disclosures not reported under SEC Form 17-C.

SIGNATURES

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

Issuer: **HARBOR STAR SHIPPING SERVICES, INC.**

GERONIMO P. BELLA JR.	**ADELIA D. VASQUEZ**
Chairman and President	Chief Financial Officer
Date signed: JUN 29 2020	Date signed: JUN 29 2020

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
17Q Unaudited Financial Statements with
Supplemental Schedules for the
Securities and Exchange Commission
March 31, 2020

TABLE OF CONTENTS

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Philippine Peso)

	Notes	Mar-31 2020 (Unaudited)	Dec-31 2019 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	4	141,138,441	99,449,755
Receivables, net	5	628,296,335	552,913,317
Advances to related parties	20	-	553,165
Prepayments and other current assets	6	514,037,282	546,847,612
Total current assets		1,283,472,058	1,199,763,849
Non-current assets			
Investment in an associate	7	116,498,458	116,498,458
Property and equipment, net	8	4,057,264,452	4,148,585,284
Right-of-use assets		140,101,374	138,247,262
Computer software, net	9	27,575,419	27,859,777
Investment property	10	48,083,679	47,626,987
Goodwill	11	154,207,159	154,207,159
Deferred income tax assets, net		26,434,513	24,452,501
Other non-current assets	12	268,555,455	287,418,370
Total non-current assets		4,838,720,508	4,944,895,798
Total assets		6,122,192,566	6,144,659,647
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	469,360,436	416,692,840
Short-term loans	14	498,000,000	499,750,000
Borrowings, current portion	14	1,990,004,066	2,046,181,403
Lease liability, current	14	16,034,222	17,014,185
Advances from related parties	20	7,796,910	7,796,910
Total current liabilities		2,981,195,633	2,987,435,338
Non-current liabilities			
Borrowings, net of current portion	14	1,707,739,825	1,707,246,931
Trade and other payables, net of current portion		15,738,600	15,738,600
Lease liability, net of current portion	14	73,199,044	74,747,877
Deferred income tax liabilities, net		-	
Retirement benefit obligation	19	113,617,580	113,617,579
Total non-current liabilities		1,910,295,049	1,911,350,987
Total liabilities		4,891,490,683	4,898,786,325
Equity			
Share capital	15	907,857,870	907,857,870
Additional paid-in-capital	15	121,632,762	121,632,762
Treasury Stock		-37,614,990	-37,614,990
Revaluation surplus, net of tax	8	75,528,468	80,153,162
Cumulative translation difference		-6,768,327	-6,768,327
Fair value reserve on available-for-sale financial assets		-160,000	-160,000
Retained earnings	15	158,385,696	181,933,854
		1,218,861,480	1,247,034,331
Non-controlling interest		11,840,404	-1,161,009
Total equity		1,230,701,884	1,245,873,322
Total liabilities and equity		6,122,192,566	6,144,659,647

See accompanying Notes to Financial Statements

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

		Three Months Ended March 31	
	Notes	2020	2019
Service income, net	16	371,695,175	272,822,057
Cost of services	17	(298,982,756)	(241,947,449)
Gross profit		72,712,419	30,874,608
General and administrative expen	18	(62,988,866)	(75,063,423)
Other income (charges), net		37,851,548	889,797
Interest income		62,707	114,855
Operating profit/(loss)		47,637,808	(43,184,164)
Finance cost			
Interest expense		(65,424,689)	(40,636,122)
Foreign exchange gains (losses), net		(3,531,761)	(790,452)
		(68,956,450)	(41,426,574)
Share in net income (assoc)		-	-
Profit/(loss) before income tax		(21,318,642)	(84,610,738)
Provision for income tax	21	1,982,012	1,872,619
Profit/(loss) for the period		(19,336,630)	(82,738,119)
Profit/(loss) attributable to:			
Owners of the parent		(21,933,119)	(84,558,468)
Non-controlling interest		2,596,489	1,820,348
		(19,336,630)	(82,738,119)
Earnings per share			
Basic and diluted	15	(0.02)	(0.09)

See accompanying Notes to Financial Statements

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

	Share capital	Treasury Stock	Additional paid in capital	Revaluation surplus	Cumulative translation differences	Fair value reserve on available-for-sale financial assets	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1, 2020, as previously reported	907,857,870	(37,614,990)	121,632,762	80,153,162	(6,768,317)	(160,000)	181,333,854	1,247,034,331	(1,161,009)	1,245,873,322
Net income for the period							(21,555,119)	(21,555,119)	2,396,489	(19,158,630)
Depreciation transfer of revaluation surplus				(4,624,694)			4,624,694	-		-
Acquisition of treasury shares								-		-
Translation adjustment					-			-		-
Non-controlling interest							(6,239,733)	(6,239,733)	10,404,924	4,165,192
Balances at March 31, 2020	907,857,870	(37,614,990)	121,632,762	75,528,468	(6,768,317)	(160,000)	158,385,696	1,218,861,479	11,840,404	1,230,701,884
Balances at January 1, 2019, as previously reported	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
Net income for the period							(84,558,468)	(84,558,468)	1,820,348	(82,738,119)
Depreciation transfer of revaluation surplus		(24,202,790)		(4,624,694)			4,624,694	(24,202,790)	-	(24,202,790)
Translation adjustment					3,747,875			3,747,875	-	3,747,875
Non-controlling interest							(10,242,698)	(10,242,698)	7,088,251	(3,154,447)
Balances at March 31, 2019	907,857,870	(35,056,460)	121,632,762	94,048,852	(3,063,220)	(160,000)	458,468,812	1,543,728,616	13,750,493	1,557,479,109

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS - Unaudited
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(All amounts in Philippine Peso)

	Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(21,318,642)	(84,091,472)
Adjustments for:		
Depreciation and amortization	116,289,347	84,139,933
Interest expense	65,411,982	40,187,941
Movements in retirement benefit obligation	-	-
Unrealized foreign exchange loss(gain) - net	(256,253)	317,077
Share in net earnings of associates	-	-
Interest income	(62,707)	(114,855)
Operating income before working capital changes	160,063,727	40,438,624
Decrease (increase) in:		
Trade and other receivables	(70,060,790)	(51,549,956)
Prepayments and other current assets	19,644,668	(86,901,735)
Increase in trade and other payables	59,447,357	(34,410,823)
Net cash generated from operations	169,094,962	(132,423,891)
Interest paid	(65,411,982)	(40,187,941)
Income taxes paid	-	-
Interest received	62,707	114,855
Net cash flows from (used in) operating activities	103,745,687	(172,496,977)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment	(26,326,478)	(755,389,331)
Investment property	(267,729)	(27,568,860)
Subsidiary	(456,692)	-
Disposal of property and equipment	-	-
Decrease (increase) in:		
Investment in an Associate	-	(512,844)
Advances to related parties	(25,962,930)	184,420,698
Other noncurrent assets	2,886,725	-
Net cash flows from (used in) investing activities	(50,127,104)	(599,050,337)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of interest-bearing loans and borrowings	-	1,588,248,000
Payment of:		
Interest-bearing loans and borrowings	(57,376,758)	(608,222,598)
Lease liablities	(451,714)	
Increase in advances from related parties	33,811,419	(184,859,693)
Net cash flows from (used in) financing activities	(24,017,052)	795,165,709
EFFECTS OF EXCHANGE RATE CHANGES IN CASH	(307,615)	(317,077)
NET INCREASE (DECREASE) IN CASH	29,293,915	23,301,320
CASH AT BEGINNING OF THE PERIOD	111,844,525	316,889,515
CASH AT END OF THE PERIOD	141,138,441	340,190,835

See accompanying Notes to Financial Statements

1. **Corporate 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. The Parent Company did not have any follow-on offering subsequent to its initial public offering.

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; 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.

On October 6, 2017, the Parent Company's BOD resolved to acquire 60% shareholdings of Astronergy Development Gensan Inc. (ADGI), an entity engaged in power generation through renewable energy through HSEC, its 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, the Company, 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 is expected to be completed by the 2nd quarter of 2018 but due to delays, the expected completion has been moved to second 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 reta

ined 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 acquisition whereby the cost of an acquisition is measured at the fair value of the consideration given.

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

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.

The Parent Company's registered office, which is also its principal place of business, is located at 2224 A. Bonifacio St. corner Pres. Sergio Osmeña Highway, Bangkal, Makati City,1233, Philippines.

As at March 31, 2019 and as at December 31, 2018, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Peak Flag SDN BHD, Harbor Star Subic Corp., Harbor Star Energy Corporation, Astronergy Development Gensan Inc., Astronergy Development F1, Inc., Astronergy Development F2, Inc., and Harbor Star East Asia (Myanmar) Limited. In both reporting period, they are collectively referred to as the "Group".

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

		% of interest held		Registered place of business/ Country of incorporation	
	Relationship	2019	2018		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. 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. 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. 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%	100%	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 March 31, 2019. 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 2019	% of interest held 2018	Registered place of business/ Country of incorporation	Main activity
Astronergy Development F1 Inc. (ADF1)	Subsidiary (indirect)	100%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F1 Inc., an entity engaged in power generation through renewable energy. ADF1 has not started commercial operations as at March 31, 2019. 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%	100%	Philippines	During 2018, HSEC acquired 100% ownership of Astronergy Development F2 Inc., an entity engaged in power generation through renewable energy. ADF2 has not started commercial operations as at March 31, 2019. 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%	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. 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.
Harbor Star East Asia (Thailand) Co., Ltd. (HSEAT)	Subsidiary	29%	-	Thailand	HSEAT was incorporated and registered in Thailand on September 20, 2019, primarily engage in providing transportation and warehousing in Thailand. Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Sub-district, Bangna District, Bangkok.
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. 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%	31%	Philippines	During 2018, HSSSI acquired 31% ownership of HEMSI, an entity engaged in towage, mooring, maritime commerce and navigation. 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.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

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”), 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 available-for-sale financial assets.

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.

Changes in accounting policies 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 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	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. 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.

Title	Key requirements	Effective Date	Impact
	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.		
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 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.	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.
Classification and Measurement of Share-based Payment Transactions –	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

Title	Key requirements	Effective Date	Impact
Amendments to PFRS 2 Share-based payment			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.

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.

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.

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3. Significant Accounting Judgments, Estimates and Assumptions

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.

As of March 31, 2019, there were no judgments, seasonal or cyclical aspects that materially affect the operations of the Group. No substantial nature and changes in estimates of amounts reported in December 31, 2018 audited financial statements and no unusual items that materially affect the

Group's assets, liabilities, equity, net income or cash flows.

4. **Cash and Cash Equivalents**

	March 31, 2020	December 31, 2019
Cash in bank	133,157,360	91,252,861
Cash on hand	2,080,031	2,055,044
Cash equivalents	5,901,050	6,141,850
	141,138,441	99,449,755

Cash includes cash in hand and deposits held at call with banks. Cash in banks are carried in the consolidated statement of financial position at face or nominal amounts and earn interest at the prevailing bank deposit rates

5. **Trade and Other Receivables**

	March 31, 2020	December 31, 2019
Trade receivables	559,130,946	427,419,698
Advances to employees	163,413,793	221,665,231
Others	10,444,847	8,521,638
	732,989,585	657,606,567
Less allowance for impairment losses	104,693,250	104,693,250
	628,296,335	552,913,317

Trade receivables are noninterest-bearing and are generally on seven (7) to thirty (30) day terms. Advances to employees are noninterest-bearing and are generally collectible on demand.

As at March 31, 2020 and December 31, 2019, trade receivables, considered as individually impaired, with nominal value of PHP28.1 million were impaired and provided with allowance for impairment.

Movements in the allowance for impairment losses are as follows:

	March 31, 2020	December 31, 2019
Beginning balances	104,693,250	28,056,479
Provision (Reversal of), net	-	76,728,154
Cumulative translation adjustment	-	-91,383
Ending balances	104,693,250	104,693,250

6. **Prepayments and Other Current Assets**

	March 31, 2020	December 31, 2019
Construction receivables	62,361,971	170,230,644
Allowance for construction receivable	-2,940,464	-2,940,464
Prepayments	77,577,858	42,807,739
Advances to suppliers	330,549,570	293,820,180
Input VAT, net of output VAT	43,799,398	27,088,735
Refundable deposits	2,688,949	15,840,778
Others	-	-
	514,037,282	546,847,612

Prepayments consist mainly of hull and machinery insurance, motor car insurance, life and health insurance, fuel and charter hire of tugboats which is expected to be utilized for a period of less than a year.

7. **Investment in an Associate**

Associate

The Group's investment in associate is accordingly presented in the consolidated statement of financial position using the equity method. Details of investment as at March 31, 2020 and December 31, 2019 are as follows:

Name of associate	Country of Incorporation	Relationship	Percentage of direct ownership
Great Eastern Tug Corporation ("GETC")	Philippines	Associate	20%
Hi-Energy Marine Services, Inc. (HEMSI)	Philippines	Associate	31%

The movements of investment in associate as at March 31, 2020 and December 31, 2019 are as follows:

GETC

	March 31, 2020	December 31, 2019
Beginning of year	**14,965,723**	14,498,937
Share in other comprehensive income	-	-282,000
Share in net income (loss)	-	811,729
Share in adjustments to equity		-62,943
Dividend received	-	-
End of period	**14,965,723**	14,965,723

Summarized financial information of GETC

	March 31, 2020	December 31, 2019
Total current assets	**25,715,520**	25,715,520
Total noncurrent assets	**49,343,215**	49,343,215
Total current liabilities	**230,119**	230,119
Net equity	**74,828,616**	74,828,616
Total revenue	-	14,520,000
Total profit for the period	-	4,058,645
Total other comprehensive income (loss	-	-1,410,000
Total compreshensive income	-	2,648,645

HEMSI

	March 31, 2020	December 31, 2019
Beginning of year	**101,532,735**	86,364,616
Share in net income (loss)		15,168,119
Additions	-	
End of period	**101,532,735**	101,532,735

Summarized financial information of HEMSI

	March 31, 2020	December 31, 2019
Total current assets	138,456,360	138,456,360
Total noncurrent assets	151,025,666	151,025,666
Total current liabilities	56,564,671	56,564,671
Total noncurrent liabilities	-	85,825,057
Net equity	147,092,298	147,092,298
Total revenue	-	252,297,907
Total profit for the period	-	32,414,682
Total compreshensive income	-	32,414,682

8. **Property and Equipment -** at Revalued Amounts

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.

Property and equipment carried at revalued amounts follow:

Property and equipment

	March 31, 2020	December 31, 2019
Revalued amounts	**3,701,539,732**	3,683,096,274
Beginning balances	**3,683,096,274**	3,504,162,041
Additions	**18,443,458**	178,934,233
Reclassifications from property and equipment at cost		-
Disposals	-	-
Ending balance	**3,701,539,732**	3,683,096,274
Accumulated depreciation	**(2,136,887,393)**	(2,073,820,382)
Beginning balances	**(2,073,820,382)**	(1,855,075,128)
Depreciation and amortization	**(63,067,011)**	(218,745,254)
Disposals	-	-
Ending balance	**(2,136,887,393)**	(2,073,820,382)
Net book values	**1,564,652,338**	1,609,275,892

The movements of revaluation increment as at March 31, 2020 and December 31, 2019 are as follows:

Revaluation surplus

	March 31, 2020	December 31, 2019
Beginning of the year, gross of tax	**114,504,517**	140,962,208
Amortization of revaluation increment through depreciation	**(6,606,705)**	(26,457,691)
End of period, gross of tax	**107,897,812**	114,504,517
Deferred tax liability	**(32,369,344)**	(34,351,355)
End of period, net of tax	**75,528,468**	80,153,162

Property and Equipment - At Cost

As at March 31, 2020

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction Equipment	Construction In-Progress	Total
Cost:									
Beginning balances	39,556,011	694,596,314	2,015,627,820	65,580,316	324,855,085	6,181,768	12,260,099	18,144,120	3,176,801,563
Additions		6,340,859	-	-	-	184,198	-	-	6,525,057
Disposal									-
Reclassifications									-
Traslation adjustments									-
Ending balances	39,556,011	700,937,173	2,015,627,820	65,580,316	324,855,085	6,365,966	12,260,099	18,144120	3,183,326,620
Accumulated depreciation:									
Beginning balances	-	338,019,505	82,831,016	47,960,633	156,290,040	4,753,472	7,637,505	-	637,492,171
Depreciation		22,226,121	25,955,350	1,759,889	1,167,868	1,481,542	631,566	-	53,222,335
Disposal									-
Traslation adjustments									-
Ending balances	-	360,245,626	108,786,366	49,720,522	157,457,908	6,235,014	8,269,071	-	690,714,506
Net book values	39,556,011	340,691,547	1,906,841,454	15,859,794	167,397,177	130,952	3,991,028	18,144120	2492,612,113

As at December 31, 2019

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction Equipment	Construction In-Progress	Total
Cost									
Beginning balances	39,556,011	574,601,257	96,306,650	59,513,806	176,458,404	5,071,873	12,185,456	76,147,871	1,039,541,328
Business acquisition									-
PFRS 16 adoption		(66,674,654)						(4,832,146)	(73,506,799)
Additions		84,424,384	1,919,321,170	6,066,510	148,644,050	1,119,464	74,643	51,073,741	2,212,044,760
Disposal					(714,379)				(714379)
Reclassifications		104,245,347	-					(104,245,347)	-
Translation adjustments					(563,798)	(9,539)			(563337)
Ending balances	39,556,011	694596314	2015,627,820	65,580,316	324,855,085	6,181,768	12260,099	18,144,120	3,176,801,563
Accumulated depreciation:									
Beginning balances		237,952,207	31,132,554	40,054,146	130,466,657	4,135,505	5,127,237		448,868,306
Business acquisition									-
PFRS 16 adoption		(7,471,548)							(7,471,548)
Depreciation		107,538,846	51,198,462	7,906,487	26,537,762	617,967	2,510,268		196,809,792
Disposal					(714,379)	-			(714379)
Ending balances	-	338,019,505	82,331,016	47,960,633	156,290,040	4,753,472	7,637,505	-	637,492,171
Net book values	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392

9. **Computer software, net**

The details of computer software, net as at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Revalued amounts		
Beginning balances	31,083,852	29,686,748
Additions	267,731	1,397,104
Disposals		-
Ending balance	31,351,583	31,083,852
Accumulated amortization		
Beginning balances	3,224,075	1,896,881
Additions	552,089	1,327,194
Disposals		-
Ending balance	3,776,164	3,224,075
Net book values	27,575,419	27,859,777

10. **Investment Property**

As at March 31, 2020 and December 31, 2019, the Group's investment properties consist of parcels of land in various locations, which are held for capital appreciation.

The movement in investment properties follows:

	March 31, 2020	December 31, 2019
Beginning of year	47,626,987	47,626,987
Additions	456,692	-
End of period	48,083,679	47,626,987

There were no income earned and no direct operating expenses incurred related to the investment properties periods presented.

11. **Goodwill**

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. As at March 31, 2020, the value of goodwill has been identified provisionally, thus, no impairment test has been performed.

12. **Other Noncurrent Assets**

This account consists of:

	March 31, 2020	December 31, 2019
Input VAT, net of output VAT	278,564,459	294,978,325
Less: allowance for impairment on input VAT	-50,926,358	-50,926,358
Input VAT, net	227,638,101	244,051,967
Performance bond	-	2,186,512
Lease guarantee deposit	55,000	55,000
Investment in golf shares	810,000	810,000
Leasehold rights	40,052,354	40,265,240
Others	-	49,651
	268,555,455	287,418,370

Input VAT represents tax paid on purchases of applicable goods and services which can be used to offset against output VAT or can be applied as future tax credit certificates which can be used as payments for income taxes due. The Group classified a portion of its input VAT as noncurrent asset since management believes that these will not be recovered in the succeeding year.

The movement in allowance for impairment of Input VAT is as follows:

	March 31, 2020	December 31, 2019
Beginning balances	50,926,358	41,867,914
Provision for impairment	-	9,058,444
Ending balances	50,926,358	50,926,358

13. **Trade and Other Payables**

This account consists of:

	March 31, 2020	December 31, 2019
Trade payable	229,225,522	197,676,965
Accrued expenses	168,355,245	149,313,034
Advances from officers and employees	11,754,324	10,611,723
Unearned income	16,680,003	16,940,552
Payable to government agencies	4,209,310	4,205,057
Advances from customers	-	-
Provisions	37,945,508	37,945,509
Others	1,190,524	-
	469,360,436	416,692,840

Trade payables are generally noninterest-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 regular monthly fees and other various accruals. Accruals are made based on prior month's billings and/or contracts and are normally settled within twelve (12) months from the end of the reporting period.

Unearned income represents advance collections from customers, which will be recognized as revenue upon the performance of the contractually agreed tasks.

Payable to government agencies consist mainly of amounts due to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund, withholding taxes payable to BIR that are noninterest-bearing and are settled in ten (10) to fifteen (15) days' term.

Others mainly consist of payables of the subsidiary to third parties.

14. **Interest-Bearing Loans and Borrowings**

The outstanding short-term, current and noncurrent portion of the foregoing interest-bearing loans, and finance lease liability are as follows:

	March 31, 2020	December 31, 2019
Development Bank of the Philippines	**498,000,000**	499,750,000
Short term loans	**498,000,000**	499,750,000
Current portion of long term borrowings:		
Rizal Commercial Banking Corporati	**1,221,875,126**	1,314,206,536
CTBC Bank (Philippines) Corporatior	**492,732,454**	420,867,417
Asia United Bank (AUB)	**48,854,266**	48,854,266
Philippine National Bank	**99,503,849**	129,762,012
Chailease International Financial Se	-	-
Development Bank of the Philippines	**111,654,916**	**111,654,916**
Robinsons Bank Corporation	**15,000,000**	20,000,000
China Banking Corporation	**383,456**	505,059
Security Bank Corporation	-	-
	1,990,004,066	2,045,850,208
Noncurrent portion of long term borrowings:		
Development Bank of the Philippines	**1,464,535,830**	1,464,535,830
CTBC Bank (Philippines) Corporatior	-	-
Rizal Commercial Banking Corporati	**119,707,102**	119,214,208
Asia United Bank (AUB)	**93,291,366**	93,291,366
Robinsons Bank Corporation	**10,666,667**	10,666,667
China Banking Corporation	**842,836**	842,836
Philippine National Bank	**18,696,024**	19,027,219
Security Bank Corporation	-	-
Long term loans	**1,707,739,825**	**1,707,578,126**
Current	**16,034,222**	17,014,185
Noncurrent	**73,199,044**	74,747,877
Lease liability - DBP Leasing	**89,233,266**	91,762,062

The Parent Company is a lessee under finance lease arrangements covering a barge with a term of ten (10) years with interest at 6%. The finance lease agreement was entered on February 27, 2014. The first monthly lease payment commenced in September 2014. The leased barge is operated by the Parent Company in the course of its business.

This agreement requires the Parent Company to pay a lease guarantee deposit which is presented within other non-current assets (Note 13) in the consolidated statement of financial position. Lease guarantee deposit amounted to PHP4.3 million.

Total interest expense arising from these long term interest-bearing loans and borrowings amounted to PHP65.4 million and PHP256.6 million as of March 31, 2020 and December 31, 2019, respectively.

The Company has not defaulted or has not breached any outstanding loan agreements as at March 31, 2020 and December 31, 2019.

15. **Equity**

Authorized and issued capital stock are as follows:

Common Shares at ₱1 par value

	March 31, 2020		December 31, 2019	
	Shares	**Amount**	Shares	Amount
Authorized	**2,000,000,000**	**2,000,000,000**	2,000,000,000	2,000,000,000
Issued and outstanding	**907,857,870**	**907,857,870**	907,857,870	907,857,870

On May 10, 2012, the Parent Company's BOD and shareholders approved another increase in authorized capital stock from PHP1.0 billion comprised of 1 billion shares with par value of PHP1.00 per share, to Php1.5 billion comprised of 1.5 billion shares with par value of PHP1.00 per share. The SEC approved the increase of the authorized capital stock on September 11, 2012.

In September 2012, the Parent Company issued 12 million additional shares to its existing shareholders for cash considerations.

In October 2012, the Parent Company issued 2,000 shares to two (2) independent directors for cash considerations.

On October 30, 2013, the IPO of the Parent Company's share issued with an offer price of PHP1.88 per share resulted to the issuance of 181,600,000 shares resulting to capital stock of PHP181.6 million and additional paid-in capital of PHP121.6 million net of transaction costs amounting to PHP24.6 million. There are no other share offering after the IPO in 2013.

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

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 (PHP1.00) 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.

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

Retained Earnings and Dividends

On February 6, 2013, the Parent Company's BOD approved the declaration of cash dividends amounting to PHP14.8 million equivalent to PHP0.03 per share, in favor of the Parent Company's existing stockholders of record as at December 31, 2012. In 2013, the stockholders agreed to offset their cash dividends to their advances from the Parent Company.

On June 2, 2014, the Parent Company's BOD approved the declaration of cash dividends amounting to PHP21.2 million (PHP0.035 per share), in favor of the Parent Company's existing shareholders of record as at June 17, 2014 and was paid on July 11, 2014.

On June 17, 2015, the Parent Company's BOD approved the declaration of cash dividends amounting to PHP23.1 million (PHP0.038 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. The movement in the buyback of shares are as follows:

	March 31, 2020		December 31, 2019	
	Shares	**Amount**	Shares	Amount
Beginning of year	**13,271,000**	**37,614,990**	3,966,000	10,853,670
Additiions	-		9,305,000	26,761,320
End of period	**13,271,000**	**37,614,990**	13,271,000	37,614,990

Basic and Diluted EPS

Basic and diluted EPS were computed as follows:

	Three Months Ended March 31	
	2020	2019
Profit for the year attributable to the owners of the Parent Company	**-21,933,119**	-84,558,466
Weighted average number of common shares	**907,857,870**	907,857,870
Basic/diluted earnings per common share	**-0.02**	-0.09

16. **Service Income**

	Three Months Ended March 31	
	2020	2019
Harbor assistance, net	**240,003,601**	221,642,394
Lighterage services	**33,495,089**	27,696,970
Other Marine Services	**34,352,178**	16,208,112
Feeder services	**2,595,000**	4,761,098
Towing services	**12,093,068**	2,513,482
Salvage Income	-	-
Revenue on generation of solar power	**49,156,240**	-
	371,695,176	272,822,057

17. **Cost of Services**

	Three Months Ended March 31	
	2020	2019
Depreciation	**110,252,822**	72,788,943
Personnel costs	**54,732,025**	50,509,279
Fuel and lubricants	**61,812,926**	47,812,915
Outside services	**19,367,825**	20,096,027
Supplies	**8,899,838**	11,784,438
Insurance	**13,990,934**	11,269,964
Repairs and maintenance	**3,206,322**	6,645,380
Port expense	**10,257,037**	5,950,359
Transportation and travel	**2,722,296**	4,316,554
Rent	**847,784**	4,018,014
Charter hire	**650,000**	1,950,000
Utilities and communication	**846,349**	1,279,402
Taxes and licenses	**1,746,129**	899,369
Representation and entertainment	**867,939**	669,838
Others	**8,782,529**	1,956,967
	298,982,756	241,947,449

18. **General and Administrative Expenses**

	Three Months Ended March 31	
	2020	2019
Personnel costs	**32,403,081.69**	32,847,613
Taxes and licenses	**7,121,614.84**	14,402,882
Depreciation	**6,036,523.70**	5,929,503
Transportation and travel	**3,426,983.01**	5,573,506
Representation and entertainment	**1,766,689.65**	3,768,002
Professional and management fees	**2,669,342.99**	3,359,292
Advertising and promotions	**761,325.38**	1,998,536
Communications	**993,577.46**	1,394,620
Rent	**916,451.00**	1,357,724
Outside services	**1,210,153.67**	1,200,304
Supplies	**786,429.44**	1,040,316
Utilities	**376,273.79**	547,258
Insurance	**1,863,859.93**	369,094
Repairs & maintenance	**1,503,069.29**	349,555
Fuel and lubricants	**1,983.20**	264,057
Bank service charges	**46,338.83**	64,530
Membership fees and dues	**-**	54,939
Others	**1,105,166.44**	541,692
	62,988,864	75,063,423

19. **Retirement Costs**

The Company has an unfunded, noncontributory defined benefit plan which covers all of its regular employees.

Under the existing regulatory framework, Republic Act (RA) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

20. **Related Party Transactions**

Transactions with related parties consist of noninterest-bearing advances that have no fixed repayment terms and are due and demandable. The Company's related party transactions are as follows:

	Terms and conditions	March 31, 2020	December 31, 2019
Purchase of services	Services rendered to the Group are billed based on agreed prices. These are payable within 30 days after invoice date, unsecured, and non-interest bearing.		
Associate		-	

	Terms and conditions	March 31, 2020	December 31, 2019
Advances to related party:	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		
Entity under common control			553,165
Advances from related party:	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		
Officers		7,796,910	9,313,168

21. **Income Tax Expense**

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the DIT relate to the same fiscal authority.

The subsidiaries have no unrecognized DIT assets and liabilities as at March 31, 2019 and December 31, 2018.

The movements in the Parent Company's net DIT liabilities as at March 31, 2019 and December 31, 2018 follow:

	March 31, 2020	December 31, 2019
Beginning of the year	**24,452,501**	-10,268,998
DIT credited to profit or loss	**1,982,012**	29,970,802
DIT credited (charged) to other comprehensive income		4,750,697
End of period	**26,434,513**	24,452,501

Income tax expense as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
Current		6,678,689
Deferred	**(1,982,012)**	(29,970,802)
	(1,982,012)	(23,292,113)

22. **Financial Instruments, Financial Risk Managements, Objectives and Policies**

Fair Values of Financial Instruments
The following methods and assumptions were used to estimate the amount of fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash, Trade and Other Receivables, Advances to Related Parties, Other Current Assets, Trade and Other Payables and Advances from Related Parties
The Group has determined that the carrying amounts of cash, trade and other receivables, advances to related parties, other current assets, trade and other payables, and advances from related parties based on their notional amounts, reasonably approximate their fair values because these are mostly short-term in nature.

Financial Risk Management Objectives and Policies
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.

Market Risk
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk
Foreign currency 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 Group's functional currency. Exposures to currency exchange rates arise from the Group's overseas transactions, which are primarily denominated in USD. The Group also maintains USD and JPY-denominated bank accounts. To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored on a regular basis.

As at March 31, 2020 and December 31, 2019, the exchange rates of the other currency to the Philippine Peso are as follows:

	March 31, 2019	December 31, 2018
USD	**PHP50.87**	PHP50.65
JPY	**0.47**	0.46

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms be subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Credit Quality of Financial Instruments

The credit quality of the financial statements is classified into three: high grade, which includes instruments with insignificant risk of default based on historical experience; standard grade, which includes quoted and unquoted equity investments that can be readily sold to a third party; and substandard grade, which includes accounts with pending payment negotiations.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Group's credit standing.

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.

23. **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 and maximize shareholder value.

No changes were made in the objectives, policies or processes as at March 31, 2020 and December 31, 2019.

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 of 1:1.

24. **Contingencies**

The Group is currently involved in various pending claims and lawsuits which could be decided in favor or against the Group. The information pertaining to such matters is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The Group currently does not believe that these proceedings will have a material effect on its financial position.

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Aging of Accounts Receivable
As of March 31, 2020
(All amounts in Philippine Peso)

	Neither Past Due	Past Due but not Impaired					
	nor Impaired	1-30 days	31-60 days	61-90 days	Over 90 days	Impaired	Total
Trade	125,293,412	86,655,159	80,207,481	121,748,903	145,225,990	-104,693,250	454,437,695
Officers & Employees	163,413,793						163,413,793
Others	10,444,847						10,444,847
	299,152,052	86,655,159	80,207,481	121,748,903	145,225,990	-104,693,250	628,296,335

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARY
RECONCILIATION OF PARENT COMPANY'S RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE PERIOD ENDED MARCH 31, 2020
(All amounts in Philippine Peso)

Unappropriated retained earnings, January 1, 2019		334,789,370
Net income based on the face of the Parent's separate unaudited financial statements		(18,767,899)
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture		
Unrealized foreign exchange gain - net (except those attributable to cash)		
Unrealized actuarial gain		
Fair value adjustment		
Fair value adjustment of Investment Property resulting to gain		
Adjustment due to deviation from PFRS/GAAP-gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS		
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)		4,624,694
Adjustment due to deviation from PFRS/GAAP - loss		
Loss on fair value adjustment of available for sale financial assets (after tax)		
Profit actually earned/realized during the period		320,646,164
Add: Release of retained earnings appropriation		
Less:	Treasury shares	37,614,990
	Stock dividends declared during the period	
	Cash dividends declared during the period	
Unappropriated retained earnings, as adjsuted, March 31, 2020		283,031,174

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule A. Financial Assets
As of March 31, 2020
in Philippine Peso

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Value based on market quotations at end of reporting period	Income received and accrued
Loans and Receivables:				
Cash on hand and with banks	N/A	141,138,441		62,707
Accounts Receivable - Trade	N/A	488,594,237		
Advances to related parties	N/A	7,389,947		
Refundable deposits	N/A	2,688,949		
		639,811,573		62,707
Available-for-sale financial assets				
Investment in golf shares	N/A	810,000		
Total		640,621,573	-	62,707

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements
As of March 31, 2020
in Philippine Peso

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not current	Balance at end of the period
Advances from related party							
	-	-	-		-		-
Advances to related party							
Peak Flag SDN BHD	18,974,664	174,158,952			193,133,616		193,133,616
Astronergy Development Gensan Inc.	553,669,341		248,663,278		305,006,063		305,006,063
Astronergy Development F1, Inc.	20,000	197,385			217,385		217,385
Astronergy Development F2, Inc.	20,000	197,385			217,385		217,385
Harbor Star East Asia (Myanmar) Ltd.	1,922,520		847,205		1,075,315		1,075,315
Harbor Star Subic Corp.	117,082,756	101,239,517			218,322,273		218,322,273
Harbor Star Energy Corporation	730,214,780		153,810,537		576,404,243		576,404,243
Total	1,421,904,061	275,793,239	403,321,020	-	1,294,376,280	-	1,294,376,280

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
As of March 31, 2020
in Philippine Peso

Description	Beginning balance	Additions at cost	Deductions: Charged to cost and expenses	Deductions: Charged to other accounts	Other changes additions (deductions)	Ending balance
Computer Software	27,859,777	267,731	-552,089			27,575,419
Leasehold rights	40,052,354				-810,000	39,242,354
Goodwill	154,207,159					154,207,159
Total	222,119,290	267,731	-552,089	-	-810,000	221,024,932

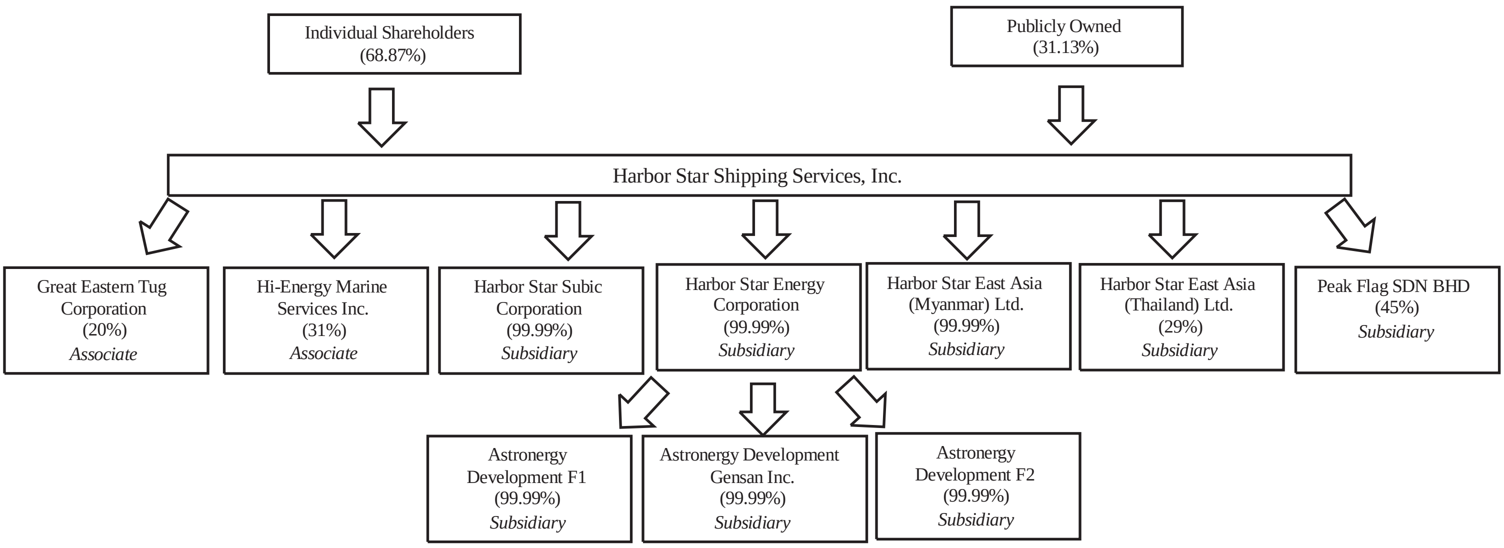
HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule E. Long-term Debt
As of March 31, 2020
in Philippine Peso

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "Long-term debt" in related statement of financial position	Notes
Bank borrowings	1,750,000,000	1,221,875,128	119,707,102	*RCBC, interest at 8% per annum, for 5 years, matures on March 14, 2024*
Bank borrowings	1,590,000,000	609,654,916	1,464,535,830	*DBP, 503M interest at 6.5% per annum, 75M interest at 6.65% per annum, interest payable quarterly from initial drawdown, principal amortization due starting Jan 19, 2020, matures on April 19, 2030*
Offshore term loan	120,400,000	-	-	*Chailease International Financial Services Co.Ltd., LIBOR plus margin interest rate, payable every 3 months for 3 years, matures on Oct 6, 2019*
Bank borrowings	750,000,000	492,732,454	-	*CTBC, interest at 7.00% per annum, payable quarterly from initial drawdown, expiring 42 months from initial drawdown or Apr 01, 2022*
Bank borrowings	320,000,000	48,854,266	93,291,366	*AUB, interest at 7.25% subject to quarterly repricing, matures on Sep 27, 2022*
Bank borrowings	150,000,000	99,503,849	18,696,024	*PNB, interest at 7% per annum, matures on Dec 19, 2019; car loan interest at 12.5% per annum, for 3 years, matures on Dec 31, 2020*
Bank borrowings	100,000,000	15,000,000	10,666,667	*RB, interest at 5.5% per annum, for 5 years, matures on Jul 5, 2021*
Bank borrowings	4,200,000	383,458	842,836	*CBC, interest at 7.5% per annum, for 10 years, matures on Jun 6, 2022*
Bank borrowings	1,114,400	-	-	*SB, car loan interest at 12.5% per annum, for 3 years, matures on Dec 30, 2019*
	4,785,714,400	2,488,004,066	1,707,739,825	
Finance lease liability	89,233,266	16,034,222	73,199,044	*DBP Leasing, interest at 6% per annum, for 10 years, matures on Sep 15, 2024*
	4,874,947,666	2,504,038,288	1,780,938,869	

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
Schedule H. Share Capital
As of March 31, 2020
in Philippine Peso

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - P1 par value	2,000,000,000	894,586,870	-	-	616,138,227	278,448,643

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES
A Map Showing the Relationships between and among the Parent Company and its Ultimate Parent Company and its Subsidiaries and Associate



MJF

From:	Kathleen Mae Castro <ktcastro@harborstar.com.ph>
Sent:	Thursday, July 16, 2020 12:23 PM
To:	mjflores@htc-law.com.ph
Subject:	Fwd: Acknowledgement Notice Re: HSSSI Annual Report (SEC Form 17-A) FY 2019

Get Outlook for iOS

From: ICTD Submission <ictdsubmission@sec.gov.ph>
Sent: Tuesday, June 30, 2020 12:31:48 PM
To: Kathleen Mae Castro <ktcastro@harborstar.com.ph>
Subject: Acknowledgement Notice Re: HSSSI Annual Report (SEC Form 17-A) FY 2019

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of the quality of the attached document)

Thank you.

SEC ICTD.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **31 DECEMBER 2019**

2. SEC Identification Number **152897**

3. BIR Tax Identification No. **201-128-653-000**

4. Exact name of issuer as specified in its charter

   HARBOR STAR SHIPPING SERVICES, INC.

5. **PHILIPPINES**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. Address of principal office **2224 A. BONIFACIO ST., CORNER PRES. SERGIO OSMEÑA HIGHWAY, BRGY. BANGKAL, MAKATI CITY** Postal Code **1233**

8. Issuer's telephone number, including area code **(+632) 8886-37-03**

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	894,586,870
Treasury	13,271,000

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

    Yes [X] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    PHILIPPINE STOCK EXCHANGE **COMMON STOCK**

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

    Yes [X] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [X] No [ ]

13. The aggregate market value as of the voting stock held by non-affiliates is about PHP1.3 Billion, based on average price of Harbor Star common shares as of 31 December 2019.

SEC FORM 17-A

TABLE OF CONTENTS

PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

1.1 BUSINESS DEVELOPMENT AND UPDATES

Parent Company

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.

For its maritime business, Harbor Star is the leading marine services company having the widest area of service coverage and most diverse service lines. In 2009, 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. The Company continues to maintain and upgrade its certifications with DNV-GL.

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

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 in force until 2020.

In 2016, Harbor Star created the Diving, Marine Maintenance and Construction (DMMC) 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). In 2018, HSEC acquired 100% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), and 100% of ADGI's subsidiaries, ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions 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.

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").

In 2019, Harbor Star continued its market dominance rendering its core competence of harbor assist by assisting 3,912 foreign vessels during the year. The Company also won biddings and contracts as it sought to strengthen its market position and develop its other service lines.

In January 2019, Harbor Star began its contract to provide various diving and marine maintenance services to GN Power Mariveles Coal Plant such as underwater inspection, supply of chain tensioner & shackles and removal and installation of fenders.

In the same month, the Company was engaged by Philippine National Oil Corporation to supply, remove and install rubber fenders located in PNOC Alternative Fuels Corp. (PAFC) Terminal in Mariveles, Bataan.

In February 2019, Harbor Star signed a Tug Assist and Mooring Service Contract with Chevron Philippines, Inc. ("Chevron"). TUGS will provide harbor assist and mooring services to tankers calling Chevron's terminals in Batangas, Cebu, Davao, and Misamis Oriental. TUGS was awarded the contract after competitive bidding and selection, with nationwide presence, safety, reliability, and track-record used as among the criteria. The contract will be for three (3) years beginning 1 February 2019.

Also in February 2019, Harbor Star signed the contract with Cebu-Link Joint Venture for one (1) year charter hire of Barge Kenram with tug in tandem. The barge will be used as working platform in the construction of Cebu-Cordova bridge, as part of Government Build-Build-Build project.

In March 2019, General Santos Shipyard awarded a contract to HSSSI to conduct bathymetric survey and deploy sinkers for the repositioning of the yard's floating dock.

On 1 April 2019, Harbor Star signed a Two (2) year Service Agreement with Mariveles Grains Corporation ("MGC"), which owns and operates a grains and commodities terminal in Mariveles, Bataan. Harbor Star will exclusively provide harbor assist services to all vessels calling the terminal.

In May 2019, Petron Bataan Refinery engaged the diving service of Harbor Star for their annual turnaround shutdown for the removal of the SBM hoses and product swivel for repair and maintenance in Limay Lamao, Bataan.

In July 2019, Harbor Star participated in the salvage of M/V Diamond Highway, a 200-meter car carrier ship. The said vessel caught fire close to Recto Bank in the West Philippine Sea. On 17 June 2019, TUGS's M/T Mimosa, as first salvor responder, conducted firefighting and then towed the abandoned M/V Diamond Highway preventing said vessel from drifting to marine protected and populated areas. With the burning vessel in tow, M/T Mimosa rendezvoused with TUGS's M/T Lucida, M/T Markab, and M/T Merak which continued the firefighting until the blaze was extinguished on 19 June 2019.

In September 2019, Harbor Star participated the bidding and signed a Tug Service Agreement with LMG Land Development Corporation ("LMG") to provide harbor assistance and tending to chemical tankers calling at LMG terminal in Pinamucan, Batangas. TUGS was awarded the contract for three (3) years term.

In December 2019, Harbor Star was engaged to tow and rescue the 7,600 GRT Tanker vessel "Celanova" (Spanish Flag), with rudder problem at West Philippine Sea. The vessel was laden with Butadiene cargo of about 7000 metric tons. Tugboat "Procyon" and "Caph" was dispatched and safely towed the ship to Manila. While the ship was anchored at Manila Bay, Harbor Star continued to provide emergency towing and shifting services, also for the supply of provisions.

In the same month, Harbor Star was hired to tow PHINMA "Power Barge 101" from Iloilo to Subic for drydocking and towed back to Iloilo after the repair. The towing job was performed by tugboat "Procyon" with the assistance of Harbor Star's tugboat during pull-out and positioning at Subic Dockyard.

Also in December 2019, Harbor Star was contracted to rescue the drifting vessel "London Trader" with main engine problem at Cayangon point, Cebu. M/T "Achernar" towed the vessel away from a marine protected area and brought her safely to Cebu City.

Finally in December 2019, Harbor Star's M/T Merga towed Fishing Vessel "Paul Reynald" from the vicinity of Palau Island. Vessel was loaded of about 15,000 tons of fish tuna and powerless due to fire onboard. The vessel was delivered safely to General Santos City and saved her cargo from spoiling.

Subsidiaries

Peak Flag Sdn. Bhd.

Peak Flag Sdn. Bhd. ("Peak Flag") was incorporated in Malaysia on 18 October 2011. Peak Flag aims to provide marine services at select ports in Malaysia which exhibit high vessel traffic and the opening of additional berthing areas.

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

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

In 2019, Peak Flag was awarded a contract to provide harbor tug services to Westports Malaysia Sdn Bhd in Port Klang, Malaysia ("Westports Malaysia"). Peak Flag will provide a sixty (60) ton bollard pull tug for a period of three (3) years with an option for extension for another two (2) years. On 30 May 2019, Peak Flag acquired the 2500 bhp M/T Pollux.

Harbor Star owns a 45.0% stake at 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.

In December 2018, Harbor Star Subic has now two deployed vessels, M/T Lucida and M/T Zaniah, to service calling the economic zone.

On 15 March 2019, Peak Flag acquired the 3600 bhp M/T Jabbah to support its operations in Subic.

Harbor Star owns 99.9% of HSSC.

Harbor Star Energy Corporation

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.

In 2018, HSEC acquired 100% shareholdings of ASTRONERGY Development Gensan Inc. (ADGI), and 100% of ADGI's subsidiaries, ASTRONERGY Development F1, Inc. and ASTRONERGY Development F2, Inc. The said acquisitions 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.

General Santos City is the regional center for commerce and industry of the SOCCSKSARGEN Region, and is geographically located within the province of South Cotabato.

In April 2019, Astronergy Development Gensan, Inc. ("ADGI") inaugurated its 25-megawatt solar power plant on April 25, 2019 at Sitio Changco, Barangay Siguel, General Santos City.

In July 2019, the power plant delivered its first electricity to the local distribution utility, South Cotobato II Electric Cooperative, Inc. (SOCOTECO II)

As of 31 December 2019, ADGI has delivered 12,996,000 KWh of electricity to SOCOTECO II.

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., primarily to explore several business opportunities in Myanmar by marketing its expertise in integrated maritime services.

Harbor Star owns 99.99% of HSEA.

Harbor Star East Asia (Thailand) Co., Ltd.

On 20 September 2019, the Department of Business Development of Malaysia approved the incorporation of Harbor Star East Asia (Thailand) Co., Ltd. The company was registered to be engaged in the maritime business.

Harbor Star owns 28.99% of HSEA Thailand.

1.2 BUSINESS OF THE ISSUER

1.2.1 OVERVIEW

Harbor Star offers a wide range of indispensable maritime services such as harbor assistance, towing, lighterage, ship salvage, marine construction, repair and maintenance works, wreck removal, firefighting, oil spill abatement and recovery, handling hazardous chemical, ship and crew management, diving and underwater marine works.

With strategically deployed tugs in Luzon, Visayas, and Mindanao, Harbor Star is renowned as having the widest area of coverage of tug services in the Philippine archipelago.

As of 31 December 2019, Harbor Star, including its domestic subsidiaries and affiliates, has established operations in sixteen (16) base ports all over the country, providing services to approximately nine thousand three hundred (9,300) ships as of yearend 2019. The major ports that the Company services include: the Manila International Container Terminal

("MICT"), Manila South Harbor, Bataan, Batangas, Cagayan de Oro ("CDO"), 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 (2) Cargo Ship; one (1) Tanker, and one (1) Dredger. The company has a total of fifty seven (57) vessels.

1.2.2 MARINE SERVICES

Harbor Star derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, (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 at ports with heavy vessel traffic, such as MICT, and the ports of Bataan, Batangas, CDO, and Davao. 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 2019, revenues from harbor assistance amounted to PHP1,054 million, equivalent to 81.8% of total revenue.

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

As of 31 December 2019, revenues from lighterage services amounted to PHP103 million, equivalent to 8.0% 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 2019, revenues from salvage operations amounted to PHP32 million, equivalent to 2.5% of total revenue.

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 a towing service.

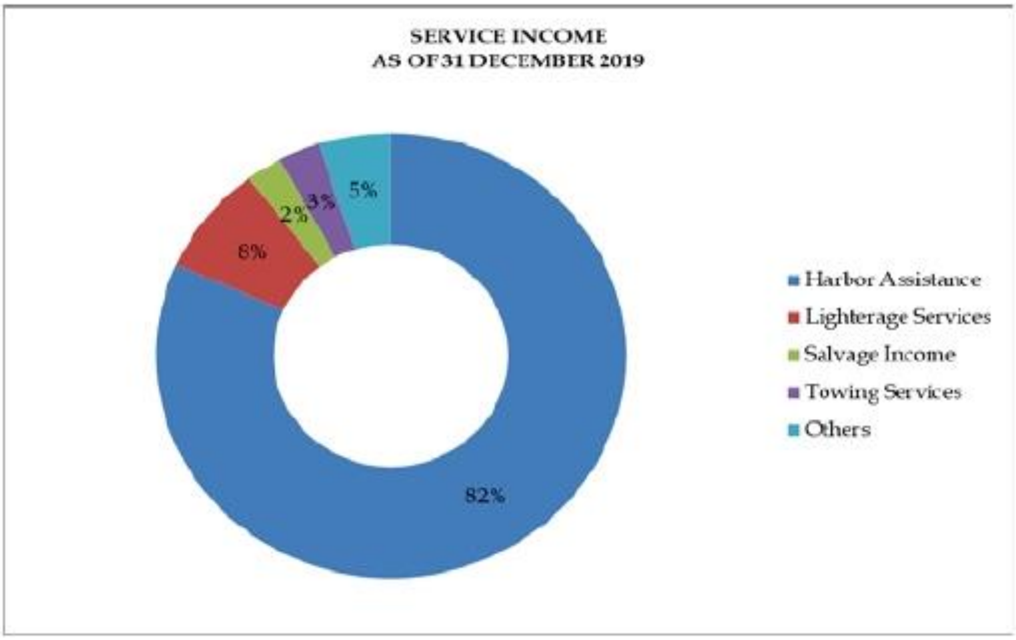
As of 31 December 2019, revenues from towing services amounted to PHP37 million, equivalent to 2.9% of total revenue.

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 2019, revenues from other marine services amounted to PHP64 million, equivalent to 4.8% of total revenue.



1.2.3 **MARKET**

As of 31 December 2019, Harbor Star services approximately eighty nine (89) ports within the Philippines, of which sixteen (16) are base or hub ports. These base ports include the following:

1	Bacolod	7	Davao	13	Quezon: Mauban
2	Bataan	8	General Santos	14	Quezon: Sariaya
3	Batangas	9	Iloilo	15	Subic
4	Bohol	10	Leyte	16	Surigao
5	Cagayan de Oro	11	MICT		
6	Cebu	12	Negros Oriental: Amlan		

In some of the base ports mentioned above, there are a number of sub-ports or privately owned and operated ports that the Company also provides maritime services. There are seven (7) sub-ports in Bataan, sixteen (16) in Batangas, seventeen (17) in CDO, twenty six (26) in Davao, and six (6) in Cebu.

1.2.4 COMPETITION

The Company has identified Malayan Salvage and Towage Corporation ("Salvtug"), Davao Gulf Marine Services, Inc. ("DGMI"), Golden Star Manning & Ship Management Corp. ("Golden Star"), and Sedar Tug Services Corp as major competitors in the marine services industry. There are also regional competitors, namely: Pilotage Integrated Services, Corp. ("PISCOR"), North Harbor Tugs, Eagle Asia Marine, Marcoso, Speedy Vismin, Aguilar Maritime, Assist Tow, Fortis Tugs Corporation, Orient Star Tugs, Metro Cebu Tugs Services, Ouano Tugs Services, Panguil Bay Marine, Iligan Coast Marine Services, Genesis Tugs Services, and FF Cruz & Co.

While there are several tug operators, only Salvtug compares to the Company in terms of services offered and market reach.

Harbor Star believes it can effectively and successfully compete in the marine services industry given that it has the widest area of coverage among harbor assistance service providers. Its strategic positioning of its fleet allows the Company to rapidly deploy its vessels to service a vast number of ports nationwide.

Further, Harbor Star is acknowledged as being at par with international standards proven by its accreditation from various local and domestic associations. The accreditations and memberships in the organizations, which impose very stringent entry requirements, bolster Harbor Star's image of focusing on quality of service and safety of operations, both of which are of paramount importance when dealing with multinational clients.

Finally, Harbor Star has a classed vessel fleet and an established maintenance and dry docking program for its vessel fleet to ensure optimal engine performance and hull quality. Having classed vessels distinguishes the Company's fleet as meeting operational and safety standards. Its vessel maintenance and dry docking program minimizes the potential for engine breakdowns, engine overhauls and other types of repairs.

1.2.5 PRINCIPAL SUPPLIERS

Harbor Star is not dependent on a single supplier nor has it executed a major supply contract. For its primary cost for operation, fuel expense which as of 31 December 2019 accounts for 20% of total cost of service, the Company maintains three (3) fuel suppliers namely: Paragon Petroleum Corp., Unioil, and Megs Fuels and Lubes Inc.

Meanwhile, Harbor Star purchases its tugboats from the following traders namely: Fuji Kaiji Company Ltd., Ocean Wing Corporation, One Royal Shipping Pte Ltd, Pacific Workboat Pte Ltd and JX Nippon Oil & Energy Marine Service Corporation.

1.2.6 CUSTOMERS

Harbor Star services a variety of customers, including but not limited to, domestic and international containerized vessels, bulk carriers and Port Operators. The Company also services cement, mining, and power generation companies while also catering to government projects that were awarded to the company through biddings.

1.2.7 RELATED PARTIES

The Company, in its ordinary course of business, engages in transactions with its affiliates. Transactions with related parties include investments in and advances granted to or obtained from the related parties. Advances granted to and obtained from the related parties are for working capital requirements and other related purposes. Other related parties include investees which investments are accounted for under the equity method and other entities which are owned and managed by investors/owners of the Company.

Major related party transactions are discussed in Note 21, *Related Party Transactions*, to the Annual Audited Financial Statements.

1.2.8 INTELLECTUAL PROPERTY, LICENSES, CONTRACTS, AND AGREEMENTS

Harbor Star's operations require various licenses and permits from different government offices and agencies. Government approvals are discussed further under "Government Regulations and Licenses".

Contracts and agreements that the Company entered into is done in the ordinary course of business, which includes but are not limited to: tugboat charter agreements, marine tugboat service agreements or service contracts, purchase agreements, marketing agreements, and insurance contracts.

1.2.9 GOVERNMENT REGULATIONS AND LICENSES

The government approvals required for services rendered by the Company are enumerated in the succeeding table below, including the issuing government agency, validity of license/accreditation, and expiration date of license/accreditation.

Table 1: Summary of Licenses and Accreditation

As of 31 Dec 2019

	Accreditation		Issuing Government Agency	Validity	Issued Date	Expiration
1	**Marina Circular 2006-003 issued to Sec. 4 Par. 2 & Sec. 6(a) of PD # 474 & Sec. 12 of EO # 125-A**	Domestic Shipping Business	MARINA	3 years	24-Jul-19	09-Sep-22
2	**PCG Rep. Act 9993 & Implementing Rules & Regulations & HPCG Memo Cir. 06-96**	Salvor Certificate	Philippine Coast Guard	3 years	26-Nov-19	26-Nov-22
3	**NTC License of Harbor Star Shipping Services, Inc.**	Coastal Radio Station License	NTC	3 years	3-May-18	19-May-21
4	**Memorandun Circular No. 108 Series of 1995 issued Pursuant to Section 3(a),6(a) and 4 of Presidential Dec. No. 474 & Sec. 12(1) of EO No. 125A**	Underwater Survey	MARINA	3 years	25-Jul-18	13-Jun-21
5	**Memorandum Circular 186 issued pursuant to Section 4 Par. 2 & Section 6(a) of Presidential Dec. No. 474 & Section 12(a) of EO No. 125-A**	Ship Management Business	MARINA	3 years	23-Aug-18	10-Sep-21

6	**Memorandun Circular No. 186 issued pursuant to Section 4 Paragraph 2 & Section 6 (a) of Presidential Decree No. 474 and Section 12 (a) of Executive Order No. 125-A**	Ship Management Business	MARINA	3 years	24-Jul-19	10-Aug-22
7	**Pursuant to the Revised Charter of the PPA (PD857), Sec. 84 of PP AO No. 13-77 & Regulations for the frant Ancillary Service Permit under PPA AO No. 08-96 and PPA Memo. Cir. No 07-97**	Permit to Operate (Batangas) Based Port	Philippine Ports Authority	1 year	31-May-19	31-Dec-19
8	**Pursuant to the Revised Charter of the PPA (PD857), Sec. 84 of PP AO No. 13-77 & Regulations for the frant Ancillary Service Permit under PPA AO No. 08-96 and PPA Memo. Cir. No 07-97**	Permit to Operate (Batangas) Based Port - Supply & Delivery of Equipment for Own Vessel	Philippine Ports Authority	1 year	25-Mar-19	31-Dec-19
9	**Pursuant to the Revised Charter of the PPA (PD857), Sec. 84 of PP AO No. 13-77 & Regulations for the frant Ancillary Service Permit under PPA AO No. 08-96 and PPA Memo. Cir. No 07-97**	Permit to Operate (Batangas) - Private Ports in the Provinces of Batangas	Philippine Ports Authority	1 year	31-May-19	31-Dec-19
10	**Pursuant to the provisions of Sction 6 Par. (a) (ii) of Presidential Decree No. 857, othewise known as the Revised Charte of the PPA Administrative Order No. 07-2013**	Permit to Operate - Port of Dumaguete (Towing / Tugging)	Philippine Ports Authority	1 year	17-Apr-19	16-Apr-20
11	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Underwater Surveying Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
12	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Oil Spill Equipment Shed Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
13	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Mooring / Unmooring Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22

14	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Vessel Repair / Maintenance Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
15	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Bunkering Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
16	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Tug Assistance Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
17	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Cleaning Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
18	**Pursuant to the Provision of PD No. 857 as amended & PPA AO No. 10-2018**	PPA Accreditation - Towing /Tugging / Tugboat Services	Philippine Ports Authority	3 years	20-Feb-19	20-Feb-22
19	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 1st Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
20	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 2nd Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
21	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 3rd Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
22	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 4th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
23	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 5th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
24	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 6th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37

25	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 7th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
26	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 8th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
27	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 9th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
28	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 10th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
29	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - 12th Amendment	MARINA	25 years	18-Jul-17	13-Jul-37
30	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - CDO 12-018	MARINA	25 years	18-Jul-17	13-Jul-37
31	**Pursuant to Republic Act 9295 (RA9295) and its Implementing Rules and Regulations (IRR)**	Certificate of Public Convenience - CDO 16-001	MARINA	25 years	18-Jul-17	13-Jul-37

1.2.10 EFFECTS OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS ON THE BUSINESS

The Company believes that it complies with relevant laws, rules and regulations for all the business activities that it is currently engaged in. The Company cannot provide assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail further exploration or development. Additionally, new rules and regulations that may be enacted may increase the Company's operating costs and may adversely affect the Company's results of operations and financial condition.

1.2.11 DEVELOPMENT ACTIVITIES EXPENSES

The company's efforts in development and expansion of business activities in Southeast Asia led to the acquisition of 29% or equivalent to 5,799 shares of the 100,000 authorized shares of Harbor Star East Asia (Thailand) Co. (HSEAT) on the third quarter of 2019. With the acquisition of 29% of the shares and a seat in the BOD gave the Parent Company controlling interest over HSEAT. The said company is primarily engaged in providing transportation and warehousing in Thailand.

1.2.12 SAFETY, QUALITY, MAINTENANCE, AND COMPLIANCE WITH ENVIRONMENTAL LAWS

Harbor Star maintained its international certifications for its management systems, specifically ISO 9001:2015 Certification - Quality Management System (Validity: September 17, 2018 – August 14, 2021), ISO 14001:2015 Certification - Environmental Management System (Validity: September 17, 2018 – August 14, 2021), and OHSAS 18001:2007 Certification - Occupational Health & Safety Management System (Validity: September 17, 2018 – March 12, 2021). The Company was evaluated for all its major processes and enacted the necessary reforms to be in line with international standards. Having obtained these certifications, the Company consistently maintains strict adherence to ISO standards to ensure quality of service, safe and healthy workplace for employees and protection of the environment. The Company achieved IMS Certification, having completed the three (3) certifications from DNV GL.

The company also has an Occupational Health, Safety & Environment Committee that ensures compliance with the Occupational Health and Safety Standard, DENR & PCG environmental rules and regulations and other government regulatory bodies, and endeavor to maintain an injury/illness free workplace while conserving and preserving the environment which are aligned with those of the international accreditations Harbor Star has attained. It has complied with DOLE reportorial requirements; Report of the Safety Organization, Annual Medical Report (AMR), Annual Exposure Data Report (AEDR), Work Accident Illness Report (WAIR), Self-Monitoring Report (SMR) and Fire and Earthquake Drill. Harbor Star also received DOLE awards in two consecutive joint assessments since 2015: Certificate of Compliance to Occupational Safety and Health Standards (Issued last June 30, 2017 valid until June 30, 2019) and Certificate of Compliance to General Labor Standards (Issued last June 30, 2017 valid until June 30, 2019). The company also does various supported training such as:

Employee Training and Development

1. New Employee Orientation
2. Drug Free Workplace
3. HIV-AIDS Prevention and Control
4. Pulmonary Tuberculosis Prevention and Control
5. Hepa-B Prevention and Control
6. First Aid and Basic Life Support Training
7. Emergency Response Training (High Angle Rescue Training)

8. Basic Occupational Safety and Health (BOSH)
9. Construction Occupational Safety and Health (COSH)
10. Maritime Occupational Safety and Health (MOSH)
11. Fire Safety Practitioner Training
12. Pollution Control Officer Training
13. Hazardous Waste Operations & Emergency Response (HAZWOPER)
14. Behavior Based Safety
15. Chemical Safe Handling
16. Work Improvements in Small / Medium Enterprises (WISE)
17. Work Improvements On-board
18. 8-hour OSH Training
19. The Program on Occupational Safety and Health Management and Work Environment Improvement (ERWM)

IMS Trainings

1. IMS Refresher Training for Managers and Internal Auditors
2. ISO 14001:2015 Application and Interpretation
3. ISO 45001:2018 Application and Interpretation
4. ISO 9001:2015 Application and Interpretation
5. IRCA ISO 9001:2015 Lead Auditor's Training

The Company continues to have a robust and pro-active maintenance and dry docking program for its vessel fleet to minimize the potential for engine breakdown, engine overhauls, and other types of repairs.

1.2.13 EMPLOYEES

As of 31 December 2019, the Company has a total of six hundred five (605) employees, of which four hundred forty-four (444) are crewmen and are stationed at various ports of operation, while the other one hundred sixty one (161) employees are office personnel or are members of support services.

Benefits received by employees include government mandated benefits (Social Security System, Pag-Ibig, and Philhealth), rice subsidies, vacation leave of fifteen (15) days per year, health plans, and retirement pay. The Company supports employee development through the conduct of in-house seminars, drills and training. Employees are enrolled in various technical, professional, management and leadership training, here and abroad. The Company has no existing collective bargaining agreement with its employees. Furthermore, there is no labor union in the Company. Also, there has been no incidence of labor strikes in the past three (3) years, up to the present. There is also no impending or threatened labor strike.

The following table presents the breakdown of employees per category and employment status.

Table 2: Employee per Category

As of 31 December 2019

Category	Regular/ Probationary	Casual	Total
Office of the President	4	0	4
Operations	79	1	80
Finance & Procurement	19	1	20
Support Services	51	0	51
Sales & Marketing	6	0	6
Vessel (Crew Members)	365	79	444
Total	**524**	**81**	**605**

The Company projects that it will need an additional twenty (20) to thirty (30) crewmen and land-based employees that will operate and work in the newly purchased tugboats and provide the additional support for the expansion of the Company's business operations.

1.2.14 DISCUSSION OF RISKS

Tugboats, the Company's primary assets are susceptible to maritime accidents such as collision with target vessels and/or to the port where it is docked while in the course of operations. Such accidents may result in extensive damage to the tugboat's hull and may result to the integrity and safety of the tugboat being compromised or even a complete loss of the tugboat. To mitigate this risk, the Company ensures that its crew members have undergone necessary orientations and trainings on operations and safety. Crewmen are also required to complete quarterly safety training seminars, semi-annual IMS seminars, and yearly assessments to promote the progressive enhancement of their skills. The Company also conducts drills to ensure crew safety and minimize damage to property and environment.

Harbor Star's operations are susceptible to acts of piracy and terrorism as the clients it services are potential targets of maritime pirates and terrorists. To mitigate this risk, the Company works closely with the PCG and the Philippine National Police to ensure safety during operations. The Company also maintains insurance policies for its vessel fleet to shield it from losses arising from vessel damage, including war-risk coverage for tugboats deployed at high-risk areas.

Tugboats, which are mechanical vessels, are susceptible to regular wear and tear that can cause operational downtime and opportunity losses for the Company. To mitigate this risk, the Company has a programmed maintenance schedule for its tugboats. The Company also allocates extra tugboats at major ports to limit suspension of operations. It also has a strategic deployment plan to allow quick redeployment of tugboats in ports where they are needed.

Harbor Star is obliged to continue investing in capital-intensive assets such as its tugboat fleet in order to remain competitive in the market, thus necessitating significant capital expenditures on a regular basis. To address this, the Company formulated a re-fleeting plan that presents a systematic retirement and acquisition of tugboats.

Harbor Star is exposed to the volatility of global petroleum prices since diesel fuel is a key component in tug operations. In the event of a sudden increase in world petroleum prices, the Company may not be able to impose a reactionary increase in its service fees in order to keep clients, and will have to absorb the increase in direct costs, which will then decrease its profit margins. To mitigate this, the Company has negotiated tariff adjustments to ensure that a certain margin is maintained by the Company for each assist.

Harbor Star bears the risk of losing its technically skilled boat-captains, engineers, and crewmen that seek employment in other countries that offer more attractive compensation packages. Given the technical expertise and experience necessary in operating tugboats, foreign companies seek to recruit personnel from the Philippine shipping industry. To mitigate this, the Company progressively evaluates its employees' compensation packages and overall job satisfaction.

The vertical integration of port operators may result in Harbor Star's loss of some clients. Private port operators may choose to provide tug assistance services themselves, thereby negating the need for third party tug assistance services providers. To mitigate this risk, Harbor Star constantly markets and seeks new clients. The Company also strives to maintain a high service quality to satisfy existing clients.

At present, the Philippine government is looking at possible privatization of certain public ports, which may increase the barrier to entry for Harbor Star into new ports and displace the Company from current ports serviced. Port operators of such privatized ports may opt to engage an exclusive tug assistance services provider. The Company is currently expanding its port coverage and is dedicated in maintaining market share at current ports it services. It is also strengthening its operations in other service lines such as lighterage and salvage.

The prospective deregulation of Philippine ports may cause the removal of existing cabotage restrictions and may increase the level of competition from foreign players, which may impede Harbor Star's plans in maintaining and increasing market share at the ports it currently services, and penetrating up and coming ports. Existing law disallows the entry of foreign marine services providers in the Philippines as long as there exists a Philippine entity that has the capability and capacity to provide the specific marine service. A repeal of this law will allow foreign operators to service ports that the Company currently services. To address this, the Company co-founded the Harbor Tugowners Association of the Philippines or HTAP, which is an industry group formed to protect the interests of local marine service providers and aims to become the official organization of the industry.

Harbor Star is exposed to reputational risk when the Company conducts salvage operations. Unsuccessful salvage attempts may have an adverse impact on Harbor Star's reputation. To minimize such incidents, the Company implements risk assessment procedures that attempt to measure the probability of succeeding in a salvage operation. In addition, for major salvage projects, the Company partners with established institutional salvors based in Singapore, Australia, and the USA who initially fund the salvage operation. The Company also employs highly competent maritime professionals and requires its crew members to attend training seminars both locally and abroad to further improve their knowledge and proficiency in conducting salvage operations.

Harbor Star's tugboats may inadvertently damage high cost port infrastructure in the course of its operations and may expose the Company to potential lawsuits, resulting in financial expenditures. The port operators may also impose a service ban on the Company. These types of accidents may negatively affect the Company's reputation in the shipping industry and the general public. To mitigate this, the Company hires highly competent crewmen and provides them with adequate training to progressively improve their skills. The Company also implements international best practices in its systems and operational safety procedures. Financial liabilities arising from these occurrences are covered by the Company's indemnity coverage from the Shipowners' Mutual Protection and Indemnity Association (Luxembourg), a P&I Club to which Harbor Star is a contributor.

ITEM 2. PROPERTIES

2.1 PRINCIPAL FACILITIES (FLEET)

Harbor Star maintains and manages a fleet of forty-five (45) domestically and internationally classed tugboats; seven (7) barges; one (1) LCT (Landing Craft Tank); two (2) Cargo Ship; one (1) Tanker and, one (1) Dredger. The company has a total of fifty-seven (57) vessels. The table below enumerates the Company's fleet as of 31 December 2019.

Table 3: Fleet List

As of 31 December 2019

NO	VESSEL NAME	ENCUMBRANCE
TUGBOATS		
1	M/T ACHERNAR	Mortgaged
2	M/T ADARA	Mortgaged
3	M/T AGENA	Mortgaged

4	M/T ALPHARD	Mortgaged
5	M/T ALUDRA	Mortgaged
6	M/T ARNEB	Mortgaged
7	M/T ATRIA	Mortgaged
8	M/T AVIOR	Mortgaged
9	M/T CANOPUS	None
10	M/T CAPELLA	Mortgaged
11	M/T CAPH	None
12	M/T DENEB	Mortgaged
13	M/T DUBHE	Mortgaged
14	M/T ENIR	Mortgaged
15	M/T GALINA	Mortgaged
16	M/T GIEDI	Mortgaged
17	M/T GREAT HAWK	Mortgaged
18	M/T HOMAM	Mortgaged
19	M/T JABBAH	Mortgaged
20	M/T KEID	Mortgaged
21	M/T KRAZ	Mortgaged
22	M/T LUCIDA	Mortgaged
23	M/T MARKAB	Mortgaged
24	M/T MERAK	Mortgaged
25	M/T MERGA	Mortgaged
26	M/T MIMOSA	Mortgaged
27	M/T MINKAR	Mortgaged
28	M/T MIRA	Mortgaged
29	M/T MIZAR	Mortgaged
30	M/T PROCYON	Mortgaged
31	M/T PROPUS	Mortgaged
32	M/T REGULUS	Mortgaged
33	M/T RIGEL	Mortgaged
34	M/T SARGAS	Mortgaged
35	M/T SARIN	Mortgaged
36	M/T SCHEDAR	Mortgaged
37	M/T SHAULA	Mortgaged
38	M/T SIRIUS	Mortgaged
39	M/T SKAT	Mortgaged
40	M/T SPICA	Mortgaged
41	M/T TABIT	Mortgaged
42	M/T TYL	Mortgaged
43	M/T VEGA	Mortgaged
MALAYSIA TUGBOATS		
44	M/T WEZEN	Mortgaged
45	M/T ZANIAH	Mortgaged
BARGES		
1	Barge AQUILA	Mortgaged
2	Barge CENTAURUS	Mortgaged

3	Barge CORVUS	Mortgaged
4	Barge FORNAX	Mortgaged
5	Barge HYDRUS	Mortgaged
6	Barge KENRAM	Mortgaged
7	Barge LYNX	Mortgaged
OTHER VESSELS		
1	LCT DRACO	Mortgaged
2	M/V CASSOPEIA	Mortgaged
3	M/V WISE	Mortgaged
4	M/V AQUILA	Mortgaged
5	M/V HYDRA	Mortgaged

2.2 OTHER PROPERTIES

The Company invested in the following properties and/or mortgages the same:

a. A 1,253.38 sq. m. parcel of land located at 2224 A. Bonifacio St. cor. Pres. Sergio Osmeña Highway, Bangkal, Makati City with improvements consisting of a 2-storey commercial building.
b. A 377 sq. m. parcel of land located at Lot 11, Block 8, Phase 5A, Ayala Greenfield Estates, Calamba City, Laguna.
c. A 356 sq. m. parcel of land located at Bansalangin Street, Barangay San Martin De Porres, Parañaque City.
d. A 200 sq. m. parcel of land located at No. 31 Belarmino St., Bangkal, Makati City with improvements consisting of a 7-storey commercial building.
e. A 95 sq. m. office condominium units with 2 parking units at 12.5 sq. m each located at 11th Ave. cor. 26th Street, High Street South Block, Bonifacio Global City, Taguig.
f. A 39,930 sq. m. parcel of land located at Brgy. Balanga, Lemery, Batangas.

The Company leases/exercises real rights over the following properties for its operations:

a. An 80 sq. m. office space located at Door No. 2, G/F, Bldg. 1, Insular Village Phase 1, Lanang, Davao City with a lease rate of PHP17,000.00 per month plus 12.0% VAT.
b. A commercial 71 sq. meter office located at Door 15B, 2nd Floor, Mio Central Arcade, Cugman, Cagayan De Oro City, monthly rate of 12,018.72
c. A 29.16 sq. m office space located at Door No. 5, JMP3 Building, Makar National Highway, General Santos City with a monthly lease rate of PHP9,681.70 net, inclusive of 12.0% input tax, less withholding tax, and PHP758.16 for common area maintenance services. (This is closed as of Sept 2019)
d. A 47.5 sq. m office space located at Unit 1, Benley Building, J. De Veyra Street, North Reclamation Area, Cebu City, 6000 with a monthly lease rate of PHP20,160.00 net, inclusive of 12.0% input tax, less withholding tax, and PHP1,187.50 for common area maintenance services.
e. A 200 sq. m storage facility located at SOS, Mabini Batangas with a lease rate of US$660.00 per month.
f. A 40 sq meter office located at San Pedro Port, Iloilo City with a lease rate of 15,000.00 per month
g. A 37.5 square meter office located at Unit G 2 - 1 , Net Square 4 Bldg., Brgy Capipiza, Tanza, Cavite, Vat inclusive, with a lease rate of 16,875.00 per month
h. A 53.33 square meter office located at B1, 2/F Unit 1-2, The Ex-works Building along diversion, Bolbok, Batangas City, water and Vat inclusive, with a lease rate of 37,550.00 per month
i. A 4.68 square meters office space in ICTSI (one workstation in the shipping lines area inside the G/F of the Admin Bldg, Vat inclusive, with a lease rate of 5,600 per month

2.3 ESTIMATED CAPITAL EXPENDITURES AND SOURCES OF FINANCING

Harbor Star's capital expenditures for 2019 is approximately PHP220 million for the acquisition of tugboats M/T Pollux for our international fleet expansion & Tug Jabbah. For domestic expansion, dredger Hydra for the Davao project and barge Auriga and M/T Caph for feeder services. The Company funded these capital expenditures through bank financing.

ITEM 3. LEGAL PROCEEDINGS

The Company has no pending legal proceedings which would materially affect its financial auditing or operational capability to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Except for the matters taken up during the regular annual meeting held 30 May 2019 covered by the Company's SEC Form 20-IS report, no matter was submitted to a vote of security holders through solicitation of proxies or otherwise during the calendar year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

5.1 MARKET INFORMATION

Principal Market where Company's common equity is traded: **Philippine Stock Exchange**

Principal Market for the Company's common equity: **Philippine Stock Exchange**

Harbor Star's share was listed in the Philippine Stock Exchange on 30 October 2013. The Company's common stock is traded in the PSE under the stock symbol "TUGS". As of the latest practicable trading date on 31 March 2020, the share prices of Harbor Star were:

		Price/Common Share *(in Philippine Peso)*
Opening	:	0.74
High	:	0.76
Low	:	0.65
Closing	:	0.75

The high and low share prices for 2017, 2018 and first quarter of 2019 are indicated below:

	Price/Common Share *(in Philippine Peso)*	
Calendar Period	**High**	**Low**
2020		
1st Quarter	3.34	2.69
2019		
4th Quarter	1.68	1.54
3rd Quarter	2.26	1.50
2nd Quarter	3.12	3.01
1st Quarter	3.34	2.69
2018		
4th Quarter	3.63	2.48
3rd Quarter	4.31	2.32
2nd Quarter	5.41	3.02
1st Quarter	6.09	4.20
2017		
4th Quarter	5.32	2.10
3rd Quarter	3.19	2.03
2nd Quarter	3.59	2.74
1st Quarter	4.13	2.65

As of 31 March 2019, Harbor Star's public float is 32.13%.

5.2 HOLDER

The number of stockholders of record as of the latest practicable date on 31 March 2020 was fifteen (15). Common shares outstanding as of the same date were Eight Hundred Ninety Four Million Five Hundred Eighty Six Thousand and Eight Hundred Seventy (894,586,870) shares.

The following are the Company's registered common stockholders as of 31 December 2019:

Table 4: Registered Stockholders

As of 31 December 2019

	NAME	NUMBER OF SHARES HELD	% OF TOTAL
1	PCD Nominee Corporation (Filipino)	750,249,812	82.64%
2	PCD Nominee Corporation (Non-Filipino)	60,451,070	6.66%
3	Bella Jr., Geronimo P.	42,000,000	4.63%
4	Bella, Ricardo Rodrigo P.	41,553,487	4.58%
5	Bella, Maria Elizabeth Jean E.	225,000	Less than 1.0%
6	Galicia, Filomena G.	30,000	Less than 1.0%
7	Villanueva, Myra P.	20,000	Less than 1.0%
8	Villanueva, Milagros P.	19,000	Less than 1.0%
9	Cabreza, Juan Carlos V.	9,000	Less than 1.0%
10	Villanueva, Myrna P.	9,000	Less than 1.0%
11	Cabreza, Marietta V.	9,000	Less than 1.0%
12	Tacub, Felicitas F.	3,000	Less than 1.0%
13	Herrera, Joselito C.	3,000	Less than 1.0%
14	Soliven, Stephen G.	2,500	Less than 1.0%
15	Valencia, Jesus San Luis	1,500	Less than 1.0%
16	Reiterer, Alfred	1,500	Less than 1.0%
17	Bautista, Joselito T.	1	Less than 1.0%

5.3 DIVIDENDS AND DIVIDEND POLICY

The Company's dividend policy empowers its Board of Directors to declare at least 20.0% of the Company's prior year's net income as dividends, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings and at such time as the Board may deem proper. No dividend shall be declared that will impair the capital stock of the Company.

No dividends were declared in 2019.

5.4 RECENT SALE OF UNREGISTERED SECURITY

No sales of unregistered securities were executed in 2019.

5.5 DESCRIPTION OF REGISTRANT'S SECURITIES

Harbor Star's capital stock is all common shares and is listed in the Philippine Stock Exchange. A discussion of the Company's Capital Stock may be seen in Note 13 of the Audited Financial Statement.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis relate to the consolidated financial condition and results of operations of Harbor Star Shipping Services, Inc. and its subsidiary (the "Group") and should be read in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the year ended 31 December 2019. References to "Harbor Star" and "the Company" pertain to Harbor Star Shipping Services, Inc., Parent Company, while references to "the Group" pertain to Harbor Star Shipping Services, Inc. and its subsidiaries.

6.1 RESULTS OF OPERATION

The table shows a summary of the consolidated results of operations for the years ended 31 December 2019, 2018, and 2017 as derived from the accompanying audited financial statements.

Table 5: Condensed Statements of Income

In PHP thousands	**2019**	**2018**	**2017**	**% Change**	**% Change**
				2019 vs 2018	*2018 vs 2017*
Net revenues	1,396,054	1,436,968	1,326,909	-2.85%	8.30%
Total income(net revenues, interest and other income)	1,411,972	1,490,410	1,363,867	-5.26%	9.30%
Total expenses (operating, financing and other expenses)	1,788,227	1,334,807	1,192,979	33.97%	11.90%
EBITDA (1)	275,574	548,289	503,311	-49.74%	8.90%
EBIT (2)	-142,930	257,953	223,922	-155.4%	15.20%
Net income	-376,255	106,911	108,806	-452.93%	-1.70%
EARNINGS PER SHARE					
Basic	-0.41	0.11	0.11	272.73%	0.00%
Diluted	-0.41	0.11	0.11	272.73	0.00%

(1) EBITDA is not a uniform or legally defined financial measure. It generally represents earnings before interest, taxes, depreciation and amortization. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. EBITDA is also frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the industry. The Group's EBITDA figures are not; however, readily comparable with other companies' EBITDA figures as they are calculated differently and thus, must be read in conjunction with related additional explanations. EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under PFRS. Some of the limitations concerning EBITDA are:

EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for working capital needs;

EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal debt payments;

Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

Other companies in the industry may calculate EBITDA differently, which may limit its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of the business. The Group compensates for these limitations by relying primarily on the PFRS results and uses EBITDA only as supplementary information.

(2) EBIT, or Earnings Before Interest and Taxes, is calculated by taking net revenues and deducting cash operating expenses and depreciation and amortization.

6.2 COMPARISON OF OPERATING RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 VS. 31 DECEMBER 2018

Service Income

The breakdown of service income is presented as follows:

Table 6: Service Income Breakdown December 2019 vs. December 2018

In PHP thousands	**December 2019**	**December 2018**	**YOY Increase**	**December 2019 % Contribution**	**December 2018 % Contribution**
Harbor assistance**	1,054,400	971,874	8.5%	81.8%	67.6%
Lighterage services	103,338	127,300	-18.8%	8.0%	8.9%
Towing services	36,927	19,024	94.1%	2.9%	1.3%
Salvage income	31,855	210,095	-84.8%	2.5%	14.6%
Others	62,389	108,676	-42.6%	4.8%	7.6%
Service Income	**1,288,911**	**1,436,968**	**-10.3%**	**100.0%**	**100.0%**
Revenue on generation of solar power	107,142	-	100%	100%	-
	1,396,054	**1,436,968**	**-2.8%**		

**Differences are due to rounding off.*
***Net of service discount, which refers to discounts given to client for Harbor assistance service only.*

The Group's consolidated service income deteriorated by 2.8% from PHP1,436.9 million to PHP1,396.1 million as of December 31, 2018 and 2019, respectively.

Major positive contributor is the harbor assistance which grew from PHP971.8 million as of December 31, 2018 to PHP1,054.1 million as of December 31, 2019. Likewise, towing services provided revenue inflow of PHP36.9 million, a PHP17.9 million increase from PHP19.0 million for the same period of 2018.

Lighterage services decreased by 18.8% from PHP127.3 million as of December 31, 2018 to only PHP103.3 million as of December 31, 2019. Salvage income declined by 84.8% from PHP210.0 million as of December 31, 2018 to only PHP31.8 million as of December 31, 2019. The decline is something that could not be controlled as the service is fortuitous in nature.

Other marine services also contributed to the decline of the service income as it dropped by 42.6% from PHP108.6 million as of December 31, 2018 to only PHP62.3 million as of December 31, 2019.

Revenue generated from ADGI as of December 31, 2019 amounting to PHP107.1 million.

Subsidiaries, such as Peak Flag Sdn. Bhd and Harbor Star Subic Corp., contributed to the Group's revenue at PHP55.6 million and PHP35.4 million, respectively.

Cost of Services

Cost of services increased by 16.9% from PHP950.9 million to PHP1,111.4 million. The increase was mainly due to higher depreciation cost and fuel charges brought about by additional manpower requirement for the additional vessels acquired and the surge of fuel cost per liter, respectively. Insurance, likewise contributed to the rose in cost of services relative to additional vessels covered.

Below presents the breakdown of the cost of services.

Table 7: Cost of Services Breakdown December 2019 vs. December 2018

In PHP thousands	**December 2019**	**December 2018**	**YOY Increase**	**December 2018 % Contribution**	**December 2017 % Contribution**
Depreciation	412,263	266,600	54.6%	37.1%	28.0%
Personnel costs	214,258	211,024	1.5%	19.3%	22.2%
Fuel and lubricants	211,362	199,458	6.0%	19.0%	21.0%
Supplies	24,210	60,924	-60.3%	2.2%	6.4%
Outside services	40,419	64,614	-37.4%	3.6%	6.8%
Insurance	53,390	48,940	9.1%	4.8%	5.1%
Rent	24,739	5,078	387.2%	2.2%	0.5%
Repairs and maintenance	15,984	17,582	-9.1%	1.4%	1.8%
Charter hire	32,567	6,267	419.7%	2.9%	0.7%
Port expense	20,509	12,199	68.1%	1.8%	1.3%
Transportation & travel	8,161	10,660	-23.4%	0.7%	1.1%
Communication, light, & water	4,395	2,976	47.7%	0.4%	0.3%
Professional fee	4,121	11,449	-64.0%	0.4%	1.2%
Taxes and licenses	2,814	3,464	-18.8%	0.3%	0.4%
Others	42,221	29,729	29.6%	3.8%	3.1%
Cost of Services	**1,111,421**	**950,967**	**16.9%**	**100.0%**	**100.0%**

Gross Profit and Gross Profit Margin

The Group's gross profit is lower by 41.5% from PHP486.0 million in 2018 to PHP284.6 million in 2019, primarily due to higher cost of services. Consequently, gross profit margin is lower at 20.4% from 33.8% in 2018.

Operating Income and Operating Income Margin

General and administrative expenses for the year ended 31 December 2019 surged to PHP428.8 million, compared to last year's PHP284.5 million. Personnel cost, professional fees, representation and entertainment, insurance, collectively increased by PHP25.2 million from PHP137.8 million in December 31, 2018 to PHP163.1 million in December 31, 2019. Taxes and licenses also rose by PHP13.4 million from PHP21.4 million in December 31, 2018 to PHP34.9 million in December 31, 2019. For the year ended December 31, 2019, provision for impairment of trade receivables amounting to PHP76.7 million, provision for assessment amounting to PHP28.6 million, provision for impairment of input VAT amounting to PHP9.0 million, and provision for advances to related party amounting to PHP7.3 million was charged to general and administrative expenses as a result of management's assessment of collectability.

Other income (loss), net, for the year ended 31 December 2019 decreased to PHP14.6 million compared to PHP53.4 million in 2018 due to the foreign exchange loss, net amounting to -PHP20.6 million.

As a result, operating income decreased from PHP254.9 million in 2018 to a loss of PHP158.8 million in 2019. Operating income margin, in like manner, deteriorated from 17.7% in 2018 to 11.4% in 2019.

Finance Cost

The Company incurred finance costs, consisting of interest expense and unrealized foreign exchange loss in the amount of PHP256.6 million as of 31 December 2019, PHP154.3 million higher from PHP102.3 million posted as of 31 December 2018. The increase is attributable to the accumulation of borrowings throughout the year to support the Company's expansion and diversification activities.

EBITDA

EBITDA (earnings before interests, taxes, depreciation and amortization) decreased by 49.7% from PHP548.3 million in 31, December 2018 to PHP275.6 million in 31, December 2019. The decrease could be attributed to the lower service income in 2019 compared to 2018.

Net Income and Net Income Margin

The resulting consolidated net income decreased from PHP106.9 million for the year ended 31 December 2018 to a loss of PHP376.2 million for the year ended 31 December 2019 due mainly to higher finance cost. The ratio of consolidated net income to consolidated service income stood at -27.0%% and 7.4% in 2019 and 2018, respectively.

6.3 MATERIAL CHANGES TO THE STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2019 COMPARED TO THE STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

Cash

Cash as of 31 December 2019 amounted to PHP99.4 million, from the PHP316.6 million recorded as of 31 December 2018. Higher demands for funds were used in investing activities such as acquisition and set-up of subsidiaries and solar energy's pre-development cost.

Trade and Other Receivables

Receivable balance as of December 31, 2019 is at PHP552.9 million from the December 31, 2018 figure of PHP538.2 million.

6.7 LIQUIDITY

The table below shows the Group's cash flows for the years ended 31 December 2019, 2018 and 2017:

Table 11: Cash Flows

In PHP thousands,	**2019**	**2018**	**2017**	% **Change** *2019 vs 2018*	% **Change** *2018 vs 2017*
Net cash flow from operating activities	1,110,195	227,306	289,786	388.4%	-21.6%
Net cash flow used in investing activities	(2,302,051)	(1,500,098)	(725,606)	53.5%	106.7%
Net cash flow from (used in) financing activities	976,093	1,191,149	743,803	-18.1%	60.1%
EFFECTS OF EXCHANGE RATE CHANGES IN CASH	(1,348)	89	470	-1614.6%	-81.0%
NET INCREASE IN CASH	(215,763)	(81,554)	308,453	-164.6%	-126.4%
CASH AT BEGINNING OF THE YEAR	316,561	398,115	89,662	-20.5%	344.0%
CASH AT THE END OF THE YEAR	99,550	316,561	398,115	-68.6%	-20.5%

Cash decreased by PHP217.0 million or 20.5% due mainly to higher net cash used in financing and investing activities.

Net cash provided by operating activities increased by 388.4%, brought about by the increase in cash generated from operations for the year. Net cash used in investing activities is higher by 53.5% than 2018's. Investing activities entered into were acquisition and set-up of subsidiaries, acquisition of two (2) tugs, and infusion to solar energy's pre-development cost. Net cash used in financing activities decreased by 18.1%, due to higher payment in borrowing and interest.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					1	5	2	8	9	7

GROUP NAME

HARBOR STAR SHIPPING SERVICES, INC. AND ITS SUBSIDIARIES

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

2224 A BONIFACIO ST., COR. PRES. SERGIO OSMENA HIGHWAY, BANGKAL, MAKATI CITY, 1233, PHILIPPINES

Form Type	Department requiring the report	Secondary License Type, if Applicable
AFS	CRR	NA

GROUP INFORMATION

Group's Email Address	Group's Telephone Number/s	Mobile Number
advasquez@harborstar.com.ph	886-3793	NA

No. of Stockholders	Annual Meeting (Month/Day)	Fiscal Year (Month/Day)
	Last Wednesday of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Adelia Vasquez	advasquez@harborstar.com.ph	886-3703	NA

CONTACT PERSON's ADDRESS

2224 A. Bonifacio Street corner Pres. Sergio Osmeña Highway, Bangkal, Makati City, 1233, Philippines

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

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

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, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019 and 2018;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2019;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2019; 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.

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 impairment of goodwill:

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. For the year ended December 31, 2019 the Group has recognized net revenue amounting to P1.4 billion (2018 - P1.4 billion; 2017 - P1.3 billion). 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, towing services and energy fees. There is an inherent risk of cut-off across all revenue streams given the Group's centralized accounting function that relies on certain manual systems to process high volume of transactions.	We have addressed the matter by evaluating and validating key controls surrounding revenue recognition process, performing detailed tests of sales transactions including cut-off review and review of manual adjustments. Our controls testing and test of details covered all assertions surrounding revenue. Cut-off testing was performed by validating proper recognition of revenue recognized days before and after year-end through inspection of related documents that evidenced delivery of services rendered. We also assessed the consistency of the application of the revenue recognition policy for the Group's various revenue streams and evaluated whether they are in compliance with PFRS 15, Revenue from contracts with customers. Our revenue cut-off procedures resulted in an adjustment which was properly taken up in the Group's financial statements as at December 31, 2019 and 2018.

Isla Lipana & Co.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill Refer to Note 28.3 to the consolidated financial statements for the discussion of Group's policy on goodwill. The Group has an existing goodwill arising from its acquisition of Astronergy Development Gensan Inc., Astronergy Development F1 Inc., and Astronergy Development F2 Inc. in 2017 and 2018. Under PFRS, the amount of goodwill is required to be tested annually for impairment. This annual impairment test was significant to our audit since the goodwill amounting to P154.2 million as at December 31, 2019 and 2018 is material to the consolidated financial statements. In addition, management's assessment process is complex and is based on management judgment and assumptions, specifically average revenue growth rate and pre-tax adjusted discount rate, which are affected by expected future market or economic conditions.	Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used in management's valuation. We found the methodology used in valuation to be appropriate and consistently applied. The procedures performed to assess the reasonableness of management's assumptions include, among others, the following: • Forecasted revenue growth We have assessed revenue growth based on the Group's renewable energy supply agreement with its sole customer and solar power plant's actual capacity. • Pre-tax adjustment discount rate The discount rate used in determining value in use is based on internally developed benchmarks using the weighted average cost of capital, with reference to selected comparable companies. • Discounted cash flows In testing the discounted cash flow calculation, we also performed the following: - Tested the mathematical accuracy of the discounted cash flow calculation; - Tested the calculation of the carrying amount of the CGU; and - Checked the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. Based on the work performed, we found the calculations to be appropriate and the assumptions to be consistent and in line with our expectations.

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.

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.

- 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 Pocholo C. Domondon.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

pwc

Isla Lipana & Co.

Independent Auditor's Report on
Components of Financial Soundness Indicators

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated June 10, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

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

We have audited the consolidated financial statements of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at and for the year ended December 31, 2019, on which we have rendered the attached report dated June 10, 2020. The supplementary information shown in Annex 68-C, Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration and Ownership Structure as required by Part I Section 4 and Schedules A, B, C, D, E, F, G as required by Part II Section 6 of Rule 68 of the Securities Regulation Code, are presented for purposes of filing with the Securities and Exchange Commission and are not required parts of the basic financial statements. Such supplementary information and schedules are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information and schedules have been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.

Pocholo C. Domondon
Partner
CPA Cert. No. 108839
P.T.R. No. 0011401; issued on January 7, 2020 at Makati City
SEC A.N. (individual) as general auditors 1567-AR-1, Category A; effective until May 27, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
T.I.N. 213-227-235
BIR A.N. 08-000745-128-2019; issued on January 14, 2019; effective until January 13, 2022
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 10, 2020

FIRST SECTION

Audited Consolidated Financial Statements with
Supplemental Schedules for the
Securities and Exchange Commission
December 31, 2019

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First Section

HARBOR STAR
SHIPPING SERVICES, INC.

DNV·GL ISO 9001 • ISO 14001 OHSAS 18001

ISU MEMBER

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, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of 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, 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.

MR. GERONIMO P. BELLA JR.
CHAIRMAN / PRESIDENT

MR. RICARDO RODRIGO P. BELLA
CHIEF OPERATING OFFICER

MS. ADELIA D. VASQUEZ
CHIEF FINANCIAL OFFICER

Signed this 10th day of June, 2020.

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN TO BEFORE ME, this JUN 26 2020 day of ________, 2020, affiants exhibiting to me the following:

Name	Community Tax Certificate	Date / Place Issued
GERONIMO P. BELLA JR.	# 07553647	06 Jan 2020 / Makati City
RICARDO RODRIGO P. BELLA	# 07553648	06 Jan 2020 / Makati City
ADELIA D. VASQUEZ	# 07553654	06 Jan 2020 / Makati City

Doc. No. 495
Page No. 100
Book No. 1
Series of 2020

FLORANGELA T. SABAUPAN
Notary Public for Makati City
Appointment No. M-223
Until December 31, 2020
Roll of Attorneys No. 62608
PTR No. MKT8178406 / January 30, 2020 / Makati City
IBP Lifetime No. 013018 / PPLM
MCLE Compliance No. VI - 0015636 / December 19, 2018
2224 A. Bonifacio St. cor. President Sergio Osmeña Highway, Bangkal, Makati City

Harbor Star Shipping Services, Inc. and Subsidiaries

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

	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	2	99,449,755	316,560,503
Trade and other receivables, net	3	552,913,317	538,165,509
Advances to a related party	21	553,165	7,389,954
Prepayments and other current assets	4	546,847,612	339,526,261
Total current assets		1,199,763,849	1,201,642,227
Non-current assets			
Property and equipment at revalued amounts, net	6	1,609,275,892	1,649,086,913
Property, plant and equipment at cost, net	7	2,539,309,392	590,389,665
Pre-development cost	1.2	-	1,064,590,866
Right-of-use assets, net	22	138,247,262	-
Computer software, net	8	27,859,777	27,789,867
Investment properties	9	47,626,987	47,626,987
Investment in associates	5	116,498,458	100,863,553
Goodwill	1.2	154,207,159	154,207,159
Deferred income tax assets, net	23	24,452,501	-
Other non-current assets, net	10	287,418,370	256,617,184
Total non-current assets		4,944,895,798	3,891,172,194
Total assets		6,144,659,647	5,092,814,421
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	416,692,840	340,416,985
Short-term loans	12	499,750,000	465,000,000
Borrowings, current portion	12	2,045,850,208	1,478,332,994
Lease liabilities, current portion	22	17,014,185	-
Finance lease liability, current portion	22	-	3,776,463
Advances from related parties	21	7,796,910	7,796,910
Income tax payable		-	26,031,418
Total current liabilities		2,987,104,143	2,321,354,770
Non-current liabilities			
Trade payables, net of current portion	11	15,738,600	-
Non-current portion of loans payable	12	331,195	-
Borrowings, net of current portion	12	1,707,246,931	990,980,984
Lease liabilities, net of current portion	22	74,747,877	-
Finance lease liability, net of current portion	22	-	23,309,163
Deferred income tax liabilities, net	23	-	10,268,998
Retirement benefit obligation	20	113,617,579	83,073,916
Total non-current liabilities		1,911,682,182	1,107,633,061
Total liabilities		4,898,786,325	3,428,987,831
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	80,153,162	98,673,546
Cumulative translation difference	28.24	(6,768,327)	(6,811,095)
Fair value reserve on financial assets at fair value through other comprehensive income		(160,000)	(160,000)
Treasury stock	13	(37,614,990)	(10,853,670)
Retained earnings		181,933,854	548,645,283
		1,247,034,331	1,658,984,696
Non-controlling interest		(1,161,009)	4,841,894
Total equity		1,245,873,322	1,663,826,590
Total liabilities and equity		6,144,659,647	5,092,814,421

The notes on pages 1 to 66 are integral part of these consolidated financial statements.

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, 2019
(All amounts in Philippine Peso)

	Notes	2019	2018	2017
Service income, net	15	1,396,054,651	1,436,968,376	1,326,908,771
Cost of services	16	(1,111,421,445)	(950,966,767)	(906,461,511)
Gross profit		284,633,206	486,001,609	420,447,260
General and administrative expenses	17	(428,832,806)	(284,536,407)	(233,922,429)
Other income (loss), net	19	(14,618,721)	53,441,515	36,832,595
Operating profit (loss)		(158,818,321)	254,906,717	223,357,426
Finance cost				
Interest expense	12,22	(256,617,636)	(102,350,268)	(53,034,593)
Foreign exchange income (loss) on borrowings	12,24	(28,546)	-	125,257
		(256,646,182)	(102,350,268)	(52,909,336)
Share in profit of associates	5	15,916,905	3,046,290	439,499
Profit (Loss) before income tax		(399,547,598)	155,602,739	170,887,589
Income tax benefit (expense)	23	23,292,113	(48,691,357)	(62,081,927)
Profit (Loss) for the year		(376,255,485)	106,911,382	108,805,662
Other comprehensive income (loss)				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	(11,084,958)	1,284,995	3,444,398
Share in other comprehensive income (loss) of associates	5	(282,000)	(231,000)	408,500
Total other comprehensive income (loss), net of tax		(11,366,958)	1,053,995	3,852,898
Total comprehensive income (loss) for the year		(387,622,443)	107,965,377	112,658,560
Profit (Loss) attributable to:				
Owners of the parent		(370,200,311)	99,240,852	102,850,817
Non-controlling interest		(6,055,174)	7,670,530	5,954,845
		(376,255,485)	106,911,382	108,805,662
Total comprehensive income (loss) attributable to:				
Owners of the parent		(381,567,269)	100,294,847	106,703,715
Non-controlling interest		(6,055,174)	7,670,530	5,954,845
		(387,622,443)	107,965,377	112,658,560
Earnings (Loss) per share				
Basic and diluted	14	(0.41)	0.11	0.11

The notes on pages 1 to 66 are integral part of these consolidated financial statements.

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, 2019
(All amounts in Philippine Peso)

		Equity attributable to owners of the Parent Company									
	Notes	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	Total	Non-controlling interest	Total equity
Balances at January 1, 2017		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	20	-	-	-	-	-	-	3,444,398	3,444,398	-	3,444,398
Share of other comprehensive income of associate	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	6	-	-	-	(31,585,946)	-	-	31,585,946	-	-	-
Transactions with owners											
Declaration of stock dividends	13	302,619,290	-	-	-	-	-	(302,619,290)	-	-	-
Non-controlling interest from business acquisition	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	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											
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	20	-	-	-	-	-	-	1,284,995	1,284,995	-	1,284,995
Share of other comprehensive loss of associate	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	6	-	-	-	(18,498,776)	-	-	18,498,776	-	-	-
Transaction with owners											
Acquisition of treasury shares	13	-	(10,853,670)	-	-	-	-	-	(10,853,670)	-	(10,853,670)
Translation adjustments	28.24	-	-	-	-	290,280	-	4,238,165	4,528,445	-	4,528,445
Transaction with NCI	1.2	-	-	-	-	-	-	(83,342,728)	(83,342,728)	18,695,948	(64,646,780)
Balances at December 31, 2018, as previously reported		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
Impact of adoption of PFRS 16	22	-	-	-	-	-	-	(2,893,557)	(2,893,557)	-	(2,893,557)
Balances at December 31, 2018, as restated		907,857,870	(10,853,670)	121,632,762	98,673,546	(6,811,095)	(160,000)	545,751,726	1,656,091,139	4,841,894	1,660,933,033
Comprehensive loss											
Loss for the year		-	-	-	-	-	-	(370,200,311)	(370,200,311)	(6,055,174)	(376,255,485)
Other comprehensive income											
Remeasurements on retirement benefits, net of tax	20	-	-	-	-	-	-	(11,084,958)	(11,084,958)	-	(11,084,958)
Share of other comprehensive loss of associate	5	-	-	-	-	-	-	(282,000)	(282,000)	-	(282,000)
Total comprehensive income		-	-	-	-	-	-	(381,567,269)	(381,567,269)	(6,055,174)	(387,622,443)
Depreciation transfer of revaluation surplus	6	-	-	-	(18,520,384)	-	-	18,520,384	-	-	-
Transactions with owners										-	
Acquisition of treasury shares	13	-	(26,761,320)	-	-	-	-	-	(26,761,320)	-	(26,761,320)
Translation adjustments	28.24	-	-	-	-	42,768	-	(770,987)	(728,219)	52,271	(675,948)
Balances at December 31, 2019		907,857,870	(37,614,990)	121,632,762	80,153,162	(6,768,327)	(160,000)	181,933,854	1,247,034,331	(1,161,009)	1,245,873,322

The notes on pages 1 to 66 are integral part of these consolidated financial statements.

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, 2019
(All amounts in Philippine Peso)

	Notes	2019	2018	2017
Cash flows from operating activities				
Profit (Loss) before income tax		(399,547,598)	155,602,739	170,887,589
Adjustments for:				
Depreciation and amortization	6,7,8,10,16,17	418,503,707	290,335,950	279,388,593
Provision for impairment of trade receivables	3	76,728,154	7,950,572	1,719,356
Provision for assessment	17	28,672,234	-	-
Retirement benefit expense	18,20	16,332,353	13,154,118	12,225,905
Provision for impairment of input VAT	10,17	9,058,444	6,470,663	2,156,888
Provision for impairment of advances to a related party	17,21	7,389,948	-	-
Amortization of right-of-use assets	22	19,129,320	-	-
Direct write-off of accounts receivable	17	5,534,061	-	-
Provision for construction receivables	4,19	2,940,464	-	-
Unrealized foreign exchange loss (gain), net	24	1,755,520	(1,633,099)	3,612,176
Gain on reversal of finance lease liability	19	(2,363,989)	-	-
Share in profit of associate	5	(15,916,905)	(3,046,290)	(439,499)
Loss on sale of property, plant and equipment	19	-	56,871,044	18,670
Interest income	2,19	(886,384)	(418,559)	(392,425)
Interest expense	12,22	256,617,636	102,350,268	53,034,593
Operating profit before changes in working capital		423,946,965	627,637,406	522,211,846
Decrease (Increase) in:				
Trade and other receivables		(97,584,617)	(152,363,409)	4,917,032
Prepayments and other current assets		(218,587,862)	(190,984,208)	(57,279,748)
Advances to a related party		(553,159)	399,994	1,600,000
Other non-current assets		(45,732,478)	(50,184,615)	(36,896,957)
Increase (Decrease) in:				
Trade and other payables		1,082,811,469	61,602,477	14,553,393
Advances from related parties		(8,211,843)	7,796,910	(82,825,013)
Cash generated from operations		1,136,088,475	303,904,555	366,280,553
Interest received		886,384	418,559	392,425
Income taxes paid		(25,155,047)	(76,472,775)	(75,740,701)
Retirement obligation paid	20	(1,624,345)	(544,400)	(1,187,400)
Net cash provided by operating activities		1,110,195,467	227,305,939	289,744,877
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment		-	29,857,636	269,465
Dividends received	5	-	800,000	-
Acquisition of investment properties	9	-	(4,150,000)	(19,407,936)
Acquisition of subsidiary and associates, net of cash acquired	1.2	-	(276,908,036)	(20,509,425)
Acquisition of property, plant and equipment and computer software	6,7,8	(2,302,051,107)	(510,358,815)	(381,440,200)
Increase in pre-development cost	1.2	-	(739,339,124)	(304,476,559)
Net cash used in investing activities		(2,302,051,107)	(1,500,098,339)	(725,564,655)
Cash flows from financing activities				
Proceeds from borrowings	12	3,993,012,609	3,385,777,118	995,909,349
Payment of finance lease liabilities	22	-	(3,557,070)	(3,350,424)
Payment of lease liabilities	22	(26,535,598)	-	-
Acquisition of treasury shares	13	(26,761,320)	(10,853,670)	-
Net proceeds from (payments of) short-term loans	12	34,750,000	(95,000,000)	370,000,000
Interest paid	12	(283,221,324)	(98,340,623)	(49,108,473)
Interest payments on lease liabilities	22	(6,225,067)	-	-
Payments of borrowings	12	(2,708,926,799)	(1,986,876,860)	(569,647,365)
Net cash provided by financing activities		976,092,501	1,191,148,895	743,803,067
Net increase (decrease) in cash		(215,763,139)	(81,643,505)	307,983,309
Cash balance				
Beginning of year		316,560,503	398,114,751	89,661,565
Effect of foreign exchange rate changes on cash		(1,347,609)	89,257	469,877
End of year	2	99,449,755	316,560,503	398,114,751

The notes on pages 1 to 66 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2019 and 2018 and
for each of the three years in the period ended December 31, 2019
(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, 2019, the Parent Company has 121 shareholders, 120 of which holds at least 100 common shares (2018 - 122). The Group's major shareholders are its own directors holding 68.87% of its total issued shares and the remaining 31.13% of total issued shares as at December 31, 2019 and 2018 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 622 employees as at December 31, 2019 (2018 - 578 employees).

1.2 Significant developments

On July 17, 2014, the Parent Company's Board of Directors (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 was not executed in 2019 due to unsuitable market conditions. In 2020, the Parent Company no longer plans to proceed with this offering.

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 2nd 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.

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, plant 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. Subsequently, in 2019 the PPA was finalized with no further adjustment to the values of the asset and goodwill acquired.

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

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

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.

The amount of pre-development costs represents total expenditures incurred to date net of revenue from saleable material recognized during the pre-commercial production period, if any. Deduction is only appropriate if it can clearly be shown that the production of the saleable material is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management. As at December 31, 2019 pre-development cost amounting to P1,833,391,594 was reclassified to property, plant and equipment (Note 7).

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

	2019	2018
Beginning Balance	1,064,590,866	325,251,742
PFRS 16 adoption adjustment	3,136,961	-
Beginning balance as restated	1,067,727,827	325,251,742
Additions	759,001,090	739,339,124
Less: Reclassified to Property, Plant and Equipment	(1,826,728,917)	-
	-	1,064,590,866

ADGI's 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. On July 27, 2019, ADGI has started the commercial operation of its solar power plant in Sitio Changco, Brgy. Bawing, General Santos City, South Cotabato with a capacity of 25MW.

On May 29, 2019, ADGI has received the Certificate of Approval of Increase in Capital Stock from the SEC. The authorized capital stock was increased from P2,000,000 divided into 2,000,000 shares with a par value of P1 each to P600,000,000 divided into 600,000,000 shares with a par value of P1. Subsequently, HSEC, the parent company of ADGI, has subscribed to an additional 300,000,000 shares with a par value of P1 for a total of P300,000,000. HSEC has settled P92,000,000 from the subscribed amount through application of its advances of deposit for future subscription.

On December 3, 2019, Energy Regulatory Commission (ERC) granted the Certificate of Compliance (COC No. 19-12-M-00188M) to ADGI after having found to comply with all the requirements in the 2014 Revised COC Rules, the Philippine Grid Code, the Philippine Distribution Code, the Wholesale Electricity Spot Market (WESM) Rules and related laws, orders and regulations. The COC shall be valid for a period of five (5) years, from December 31, 2019 to December 2, 2024, and its application for renewal shall be filed at least six (6) months before its expiration date.

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 (HSEAM) and paid 50% of the subscription amounting to P1,354,522 which gave the Parent Company 100% controlling interest over HSEAM.

HSEAM 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. HSEAM 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.

Other significant investments in 2019

On September 20, 2019, the Parent Company subscribed to 29% or equivalent to 5,799 shares of the 100,000 authorized shares of Harbor Star East Asia (Thailand) Co. (HSEAT). The total subscribed amount of P49,651 is has yet to be paid as at December 31, 2019. The subscribed shares of 29% and a seat in the BOD gave the Parent Company controlling interest over HSEAT.

HSEAT was incorporated and registered with The Partnership and Company Registration Office of Bangkok Metropolis in Thailand on September 20, 2019. HSEAT is primarily engaged in providing transportation and warehousing in Thailand.

Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Subdistrict, Bangna District, Bangkok.

Other business updates

On January 29, 2020, the Maritime Industry Authority (MARINA) issued its first endorsement that it has no objection to the amendment of the Second Article of the Articles of Incorporation of TUGS authorizing it to engage in operation of maritime schools/ educational/training facilities. This is in line with the process of applying for an amendment on AOI with SEC based on the BOD resolution issued last March 6, 2017. The application for amendment of AOI is still under process with the SEC.

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; HSEAM; 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 2019	% of interest held 2018	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. 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). 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. 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%	100%	Philippines	In 2018, HSEC completed full subscription to total share of ADGI, an entity engaged in power generation through renewable energy. Its registered address, which is also its principal place of business, is at Unit 202 Midway Court Building, EDSA Mandaluyong, Metro Manila.
Astronergy Development F1 Inc. (ADF1)	Subsidiary (indirect)	100%	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). ADF1has not started commercial operations as at December 31, 2019. 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%	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). ADF1has not started commercial operations as at December 31, 2019. 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 (HSEAM)	Subsidiary	100%	100%	Myanmar	During 2018, HSSSI acquired 97% ownership of HSEAM, an entity providing consultancy and support services including underwater, marine and maritime related business (Note 1.2).

	Relationship	% of interest held 2019	2018	Registered place of business/ Country of incorporation	Main activity
					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.
Harbor Star East Asia (Thailand) Co., Ltd. (HSEAT)	Subsidiary	29%	-	Thailand	HSEAT was incorporated and registered in Thailand on September 20, 2019, primarily engage in providing transportation and warehousing in Thailand. Its registered address is 589/2 Central City Tower 1, 17th floor, Debaratana Road, Bangnaneua Sub-district, Bangna District, Bangkok.
Hi-Energy Marine Services, Inc. (HEMSI)	Associate	31%	31%	Philippines	During 2018, HSSSI acquired 31% ownership of HEMSI, an entity engaged in towage, mooring, maritime commerce and navigation. 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.
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. Its registered address, which is also its principal place of business, is located at 11F Marc 2000 Tower, 1973 Taft Avenue, Malate, Manila.

HSEAT, although assessed as having controlling interest is not included in consolidation since it is not a material component to the Group as at December 31, 2019.

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 Board of Directors (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, 2019 and 2018.

Assessment of control over subscribed shares of HSEAT is disclosed in Note 1.2.

Non-controlling interest

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

	2019	2018
Total current assets	125,999,907	129,763,351
Total non-current assets	139,188,030	13,156,614
Total current liabilities	273,157,341	96,911,084
Total non-current liabilities	-	43,110,364
Net capital deficiency	(7,969,404)	(2,945,945)
Total revenue	79,555,792	24,931,318
Total expenses	(90,565,201)	45,228,909
Total income (loss) for the year	(11,009,409)	13,301,349
Total comprehensive income (loss) for the year	(11,009,409)	13,301,349
Net cash used in operating activities	188,237,998	(73,820,821)
Net cash provided by financing activities	(59,066,367)	79,721,202

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 June 5, 2020. There were no events subsequent to date of the consolidated financial statements up to opinion date, June 10, 2020, 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:

	2019	2018
Cash in banks	91,252,861	304,617,127
Cash equivalents	6,141,850	10,124,640
Cash on hand	2,055,044	1,818,736
	99,449,755	316,560,503

Interest income earned from cash in banks and cash equivalents for the year ended December 31, 2019 amounted to P886,384 (2018 - P418,559; 2017 - P392,425) (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:

	2019	2018
Trade receivables	427,419,698	525,102,517
Allowance for impairment of trade receivables	(70,536,709)	(25,164,430)
	356,882,989	499,938,087
Advances to officers, employees and others	221,665,231	33,061,841
Deposit bond	8,521,638	8,057,630
Allowance for impairment of advances to employees and others	(34,156,541)	(2,892,049)
	552,913,317	538,165,509

Advances to officers and employees represent outstanding balances with existing employees and regular collections are made through liquidation and salary deduction. As at December 31, 2019, advances to officers representing key management personnel amounted to P75,682,901 (2018 - nil) (Note 21).

The Group has a deposit bond with the Bureau of Customs related to importations.

The carrying value of trade and other receivables as at December 31, 2019 and 2018 approximates its 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, 2019 and 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, 2019 and 2018 (on adoption of PFRS 9) was determined as follows:

	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%	
2019					
Trade receivables	290,693,095	55,482,789	45,379,267	35,864,547	427,419,698
Loss allowance	33,805,884	764,867	101,411	35,864,547	70,536,709
2018					
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

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

	Notes	2019	2018
Beginning of year		28,056,479	20,105,907
Provision, net	17	76,728,154	7,950,572
Cumulative translation adjustment	28.24	(91,383)	-
End of year		104,693,250	28,056,479

For the year ended December 31, 2019, a net provision for impairment of trade and other receivables amounting to P76,728,154 (2018 - P7,950,572; 2017 - P1,719,356 reversal/credited) was charged to general and administrative expenses (Note 17), as a result of management's assessment of collectability. Of this amount, P21,227,953 is for impairment of advances to inactive employees of the Parent Company in 2019 (2018 and 2017 - nil).

The Group has directly written off trade receivables of P5,534,061 in 2019 (2018 and 2017 - nil) (Note 17).

Critical accounting estimates and assumptions

Recoverability of trade and other receivables

The allowance for impairment related to the Group's trade and other receivables is 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.

Judgments related to provision for impairment of receivables are continually evaluated based on historical experiences and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Note 4 - Prepayments and other current assets

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

	Notes	2019	2018
Construction receivables		170,230,644	242,270,335
Allowance for construction receivables	19	(2,940,464)	-
		167,290,180	242,270,335
Advances to suppliers		293,820,180	20,699,300
Prepayments		42,807,739	52,020,149
Input value-added tax (VAT), net	10	27,088,735	18,894,556
Refundable deposits	22	15,840,778	3,817,530
Others		-	1,824,391
		546,847,612	339,526,261

Allowance for construction receivables amounting to P2,940,464 as of December 31, 2019 pertain to uncollectible portion of uncompleted projects charged to other expenses (Note 19).

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

Investments in associates as at December 31 consist of:

	2019	2018
GETC	14,965,723	14,498,937
HEMSI	101,532,735	86,364,616
	116,498,458	100,863,553

The movement of investments in associate for the years ended December 31 are as follows:

	Note	2019	2018
Beginning of year		100,863,553	13,479,290
Additions	1.2	-	85,368,973
Share in net profit		15,916,905	3,046,290
Share in other comprehensive loss		(282,000)	(231,000)
Dividends		-	(800,000)
End of year		116,498,458	100,863,553

(a) GETC

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

	2019	2018	2017
Beginning of year	14,498,937	13,479,290	12,631,291
Share in net profit	811,729	2,794,391	439,499
Share in other comprehensive income (loss)	(282,000)	(231,000)	408,500
Share in adjustments to equity	(62,943)	(743,744)	-
Dividends received	-	(800,000)	-
End of year	14,965,723	14,498,937	13,479,290

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

	2019	2018	2017
Total current assets	25,715,520	15,963,086	48,029,731
Total non-current assets	49,343,215	56,821,724	19,674,137
Total current liabilities	230,119	290,127	307,418
Net assets or equity	74,828,616	72,494,683	67,396,450
Total revenue	14,520,000	25,811,667	11,112,821
Total profit for the year	4,058,645	13,971,955	2,197,495
Total other comprehensive income (loss)	(1,410,000)	(1,155,000)	2,042,500
Total comprehensive income	2,648,645	12,816,955	4,239,995

	2019	2018	2017
Net assets, January 1	72,494,683	67,396,450	63,156,455
Profit for the year	4,058,645	13,971,955	2,197,495
Other comprehensive income (loss)	(1,410,000)	(1,155,000)	2,042,500
Dividends declared	-	(4,000,000)	-
Adjustment to equity	(314,712)	(3,718,722)	-
Net assets, December 31	74,828,616	72,494,683	67,396,450
Group's share in %	20%	20%	20%
Group's share in net assets	14,965,723	14,498,936	13,479,290

(b) HEMSI

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

	2019	2018
Beginning of year	86,364,616	-
Investment in HEMSI	-	85,368,973
Share in net profit	15,168,119	995,643
End of year	101,532,735	86,364,616

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

	2019	2018
Total current assets	138,456,360	114,842,721
Total non-current assets	151,025,666	166,823,389
Total current liabilities	56,564,671	40,054,035
Total non-current liabilities	85,825,057	122,273,975
Net assets or equity	147,092,298	119,338,100
Total revenue	252,927,907	294,173,588
Total profit for the year	32,414,682	9,956,436
Total comprehensive income	32,414,682	9,956,436

	2019	2018
Net assets, January 1	278,595,535	109,381,664
Profit for the year	32,414,682	9,956,436
Goodwill	-	159,257,435
Adjustment to equity	16,514,737	-
Net assets, December 31	327,524,954	278,595,535
Group's share in %	31%	31%
Group's share in net assets	101,532,735	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, 2019 and 2018, 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	2019	2018
As at January 1			
Revalued amount		3,504,162,041	3,469,394,434
Accumulated depreciation		(1,855,075,128)	(1,797,343,661)
Net carrying amount		1,649,086,913	1,672,050,773
Year ended December 31			
Opening net carrying amount		1,649,086,913	1,672,050,773
Additions		178,934,233	180,487,845
Disposals			
Cost		-	(227,419,743)
Accumulated depreciation		-	139,098,533
Reclassification from property and equipment at cost	7	-	81,488,630
Depreciation	16	(218,745,254)	(196,619,125)
Closing net carrying amount		1,609,275,892	1,649,086,913
At December 31			
Revalued amount		3,683,096,274	3,503,951,166
Accumulated depreciation		(2,073,820,382)	(1,854,864,253)
Net carrying amount		1,609,275,892	1,649,086,913

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	2019	2018
As at January 1			
Cost		2,469,560,579	2,435,003,846
Accumulated depreciation		(961,435,873)	(930,342,104)
Net carrying amount		1,508,124,706	1,504,661,742
Year ended December 31			
Opening net carrying amount		1,508,124,706	1,504,661,742
Additions		178,934,233	180,487,845
Disposals			
Cost		-	(227,419,743)
Accumulated depreciation		-	139,098,533
Reclassification from property and equipment at cost	7	-	81,488,630
Depreciation		(192,287,564)	(170,192,301)
Closing net carrying amount		1,494,771,375	1,508,124,706
At December 31			
Cost		2,648,494,812	2,469,560,578
Accumulated depreciation		(1,153,723,437)	(961,435,872)
Net carrying amount		1,494,771,375	1,508,124,706

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

	Note	2019	2018
Beginning of year		140,962,208	167,389,031
Amortization of revaluation increment through depreciation		(26,457,691)	(26,426,823)
End of year, gross of tax		114,504,517	140,962,208
Deferred income tax liability (at 30%)	23	(34,351,355)	(42,288,662)
End of year, net of tax		80,153,162	98,673,546

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12). As at December 31, 2019, the Group's tugboats used as collaterals have net carrying amount of P1,091,472,846 (2018 - P1,640,319,058).

Critical accounting estimates

Useful lives of property, plant and equipment at revalued amount

The Group's management determines the estimated useful lives for its property, plant 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, plant 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, plant 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, plant and equipment at cost, net

Details of property, plant 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
At January 1, 2018									
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
Year ended December 31, 2019									
Opening net carrying amount, as previously reported	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
PFRS 16 adoption (Note 22)									
Cost	-	(68,674,654)	-	-	-	-	-	(4,832,145)	(73,506,799)
Accumulated depreciation	-	7,471,548	-	-	-	-	-	-	7,471,548
Opening net carrying amount, as restated	39,556,011	275,445,944	64,874,096	19,459,660	45,708,390	936,368	7,058,219	71,315,726	524,354,414
Additions	-	84,424,364	1,919,621,170	6,066,510	149,664,858	1,119,464	74,643	51,073,741	2,212,044,750
Disposal									
Cost	-	-	-	-	(714,379)	-	-	-	(714,379)
Accumulated depreciation	-	-	-	-	714,379	-	-	-	714,379
Reclassification	-	104,245,347	-	-	-	-	-	(104,245,347)	-
Write-off	-	-	-	-	-	-	-	-	-
Depreciation	-	(107,538,846)	(51,698,462)	(7,906,487)	(26,537,762)	(617,967)	(2,510,268)	-	(196,809,792)
Translation adjustments	-	-	-	-	(270,441)	(9,539)	-	-	(279,980)
Closing net carrying amount	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392
At December 31, 2019									
Cost	39,556,011	694,596,314	2,015,627,820	65,580,316	325,408,883	6,191,337	12,260,099	18,144,120	3,177,364,900
Accumulated depreciation	-	(338,019,505)	(82,831,016)	(47,960,633)	(156,290,040)	(4,753,472)	(7,637,505)	-	(637,492,171)
Cumulative translation adjustments	-	-	-	-	(553,798)	(9,539)	-	-	(563,337)
Net carrying amount	39,556,011	356,576,809	1,932,796,804	17,619,683	168,565,045	1,428,326	4,622,594	18,144,120	2,539,309,392

As at December 31, 2019, building and building improvements include capitalized cost on solar power plant amounting to P1,826,728,917.

As at December 31, 2019, the cost of fully depreciated property, plant and equipment still used in operation amounted to P182,383,434 (2018 - P134,625,345).

As at December 31, 2019, the Group's unpaid acquisitions of property, plant and equipment amounted to P43,640,685 (2018 - P28,678,250).

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

	Notes	2019	2018	2017
Cost of services	16	176,013,876	69,981,038	48,040,347
General and administrative expenses	17	20,475,024	22,635,152	14,756,657
Other income (loss), net	19	320,892	-	-
		196,809,792	92,616,190	62,797,004

In July 2019, ADGI started its commercial operations and recognized depreciation expense of P43.85 million in relation to the solar power plant capitalized.

Construction-in-progress as at December 31, 2018 mainly comprise of tugboats and barge being prepared for intended use which were capitalized in 2019. Construction-in-progress as at December 31, 2019 mainly comprise of additional office space being prepared for its intended use.

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 12) amounted to P9.9 million and P222.3 million, respectively as at December 31, 2019 (2018 - P12.9 million and P331.9 million, respectively).

As at December 31, 2018, net carrying value of barge held under finance lease amounted to P70,994,036. On January 1, 2019, the net carrying value of the acquisition cost of the barge amounting to P61,203,106 was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

On January 1, 2019, construction-in-progress cost related to the bareboat charter agreement amounting to P P4,832,145 was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

Reclassification of pre-development cost is disclosed in Note 1.2.

Critical accounting estimates

Useful lives of property, plant and equipment at cost

The Group's management determines the estimated useful lives for its property, plant 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, plant 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, plant 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, plant 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, plant and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2019 and 2018, 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, plant and equipment may not be recoverable.

Note 8 - Computer software, net

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

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
Year ended December 31, 2019	
Opening net carrying amount	27,789,867
Additions	1,397,104
Amortization (Note 17)	(1,327,194)
Closing net carrying amount	27,859,777
At December 31, 2019	
Cost	31,083,852
Accumulated amortization	(3,224,075)
Net carrying value	27,859,777

Note 9 - Investment properties

As at December 31, 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:

	2019	2018
Beginning of year	47,626,987	43,476,987
Additions	-	4,150,000
End of year	47,626,987	47,626,987

The estimated fair value of the investment properties as at December 31, 2019 amounted to P284.9 million (2019 - P281.0 million) based on the recent selling price per square meter and land reclassification to industrial in 2017.

Direct operating expenses amounting to P4.6 million (2018 - nil), pertaining to professional expenses to obtain an Environmental Compliance Certificate (ECC) and real property tax, were incurred related to the investment properties for the years ended December 31, 2019. There was no income earned related to the investment properties for the years ended December 31, 2019 and 2018.

There was no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2019, 2018 and 2017.

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, 2019 and 2018, 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	2019	2018
Input VAT, net of output VAT		294,978,325	243,220,956
Allowance for impairment of input VAT		(50,926,358)	(41,867,914)
Input VAT, net		244,051,967	201,353,042
Performance bond		2,186,512	9,799,638
Lease guarantee deposit	22	55,000	4,356,032
Financial asset at fair value through other comprehensive income (FVOCI)		810,000	810,000
Leasehold rights, net		40,265,240	40,298,472
Others		49,651	-
		287,418,370	256,617,184

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 leasehold rights for a piece of land in San Vicente, Palawan for 25 years with a carrying value amounting to P19.8 million (2018 - P19.0 million).

The movements in leasehold rights for the years ended December 31 are as follows:

	Note	2019	2018
Cost			
As at January 1		19,010,000	1,350,000
Additions		1,588,235	17,660,000
As at December 31		20,598,235	19,010,000
Accumulated amortization			
As at January 1		-	-
Amortization	17	(769,929)	-
As at December 31		(769,929)	-
Net book value		19,828,306	19,010,000

ADF1 and ADF2 have existing rights over a property in General Santos City for 25 years. Details of leasehold rights as at December 31 is as follows:

	Note	2019	2018
Cost			
As at January 1 and December 31		21,288,472	21,288,472
Accumulated amortization			
As at January 1		-	-
Amortization	17	(851,538)	-
As at December 31		(851,538)	-
Net book value		20,436,934	21,288,472

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

	Note	2019	2018
Beginning of year		41,867,914	35,397,251
Provision for impairment	17	9,058,444	6,470,663
End of year		50,926,358	41,867,914

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, 2019, P27,088,735, presented under "Prepayments and other current assets" in the statement of financial position (2018 - P52,020,149) (Note 4), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P244,051,967 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2018 - P201,353,042).

Management believes that the net 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:

	2019	2018
Current		
Trade payables	197,676,965	227,842,528
Accrued expenses		
Construction costs	71,931,276	-
Fuel	25,662,531	16,543,211
Interest	25,292,372	11,236,634
Marketing	12,178,560	7,404,762
Tug assistance	11,884,592	11,390,219
Others	2,363,703	25,687,277
Advances from customers	-	10,363,257
Unearned income	16,940,552	7,822,614
Advances from officers and employees	10,611,723	8,693,163
Payable to government agencies	4,205,057	4,526,544
Provisions	37,945,509	-
Others	-	8,906,776
	416,692,840	340,416,985
Non-current		
Trade payable	15,738,600	-

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

In 2019, HSSC entered into a purchase agreement with one supplier for the purchase of tugboat with the balance bearing an interest rate of 2.87 % to be settled in twenty-four (24) monthly installments. For the year-ended December 31, 2019, total interest expense charged to total comprehensive income amounted to P641,813 (2018 - nil).

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.

Accrued construction costs pertain to unliquidated expenses pertain to advances of employees from operations in relation to the construction projects of the Parent Company.

Unearned income pertains to advance collection from customers. Unearned revenue amounting to P7,882,614 as at January 1, 2019 was recognized as service income in 2019 (2018 - P7,570,882)

Provisions pertains to provision on separation pay, discounts and rebates and assessments.
The Parent Company has outstanding advances from officers amounting to P1,516,258 in 2019 (2018 - nil) (Note 21).

Note 12 - Short-term loans and borrowings

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

	2019	2018
Current		
Short-term loans	499,750,000	465,000,000
Current portion of long-term borrowings	2,045,850,208	1,478,332,994
Non-current		
Non-current portion of loans payable	331,195	-
Long-term borrowings	1,707,246,931	990,980,984
	4,253,178,334	2,934,313,978

Movement of long-term borrowings during the year is as follows:

	2019	2018
Beginning balance	2,469,313,978	1,070,413,720
Proceeds	3,993,012,609	3,385,777,118
Payments	(2,708,926,799)	(1,986,876,860)
Total	3,753,399,788	2,469,313,978
Unrealized foreign exchange loss	28,546	-
Ending balance	3,753,428,334	2,469,313,978

Parent Company

As at December 31, 2019 and 2018, 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, 2019 and 2018, the Parent Company's long-term borrowings bear annual interest rates 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, 2019, the Parent Company is in the process of securing waivers for debt covenants not complied with as at reporting date. Consequently, certain long-term borrowings were presented as current amounting to P112,500,000.

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 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, 2019, ADGI has obtained long-term borrowings bear annual interest rate ranging from 5.20% to 6.50% (2018 - 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 after a year of commercial operations. As at December 31, 2019, these debt covenants are not yet applicable as commercial operations only started in July 2019.

Total interest expense from Group borrowings charged to profit or loss for the year ended December 31, 2019 amounted to P249,887,364 (2018 - P102,350,268; 2017 - P53,034,593). Subsequent to the start of commercial operations in July 2019, borrowing cost are no longer capitalized. Total interest expense capitalized amounted to P52,157,946.

The fair values of long-term borrowings approximate their carrying values as at December 31, 2019 and 2018.

Net debt reconciliation

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

	Notes	2019	2018
Cash and cash equivalents	2	97,394,711	314,741,767
Short-term loans	12	(499,750,000)	(465,000,000)
Borrowings, current portion	12	(2,045,850,208)	(1,478,332,994)
Borrowings, net of current portion	12	(1,707,246,931)	(990,980,984)
Non-current portion of loans payable	12	(331,195)	-
Interest payable	11	(25,292,372)	(11,236,634)
Unrealized foreign currency exchange loss	12	(28,546)	-
Lease liability, current portion	22	(17,014,185)	-
Lease liability, net of current portion	22	(74,747,877)	-
Finance lease liability, net of current portion	22	-	(23,309,163)
Net debt		(4,272,866,603)	(2,654,118,208)

Net foreign exchange adjustments for the year ended December 31, 2018 is not material. Total borrowings denominated in foreign currency as at December 31, 2019 amounted to P797,328 (2018 - P2,388,839).

Note 13 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2019 and 2018 are as follows:

	2019	2018
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 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 October 31, 2017 (Note 25). This is considered as a non-cash financing activity.

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

(a) Dividend declaration

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.

No dividends were declared for the years ended December 31, 2019 and 2018.

(a) Treasury stocks

On September 24, 2018, the Group's BOD approved the share buyback program which was implemented in 2019 and 2018 as follows:

Trade Date	Date Paid	Shares	Per share	Amounts
Year 2018				
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

Trade Date	Date Paid	Shares	Per share	Amounts
Year 2019				
December 12, 2018	January 4, 2019	110,000	2.97	326,720
January 18,2019	January 23, 2019	300,000	3.00	899,500
January 30, 2019	Febraury 4, 2019	265,000	2.84	752,570
January 31, 2019	Febraury 6, 2019	80,000	2.80	224,000
March 7, 2019	March 12, 2019	1,600,000	2.80	4,480,000
March 8, 2019	March 13, 2019	3,000,000	2.85	8,550,000
March 12, 2019	March 15, 2019	3,000,000	2.99	8,970,000
April 30, 2019	May 6, 2019	150,000	2.79	417,800
May 2, 2019	May 7, 2019	150,000	2.85	427,500
May 3, 2019	May 8, 2019	150,000	2.82	423,100
May 8, 2019	May 14, 2019	300,000	2.60	779,010
May 9, 2019	May 15, 2019	62,000	2.59	160,710
May 10, 2019	May 16, 2019	138,000	2.54	350,410
		9,305,000		26,761,320
		13,271,000		37,614,990

Note 14 - Earnings (Loss) 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:

	2019	2018	2017
Net income (loss) attributable to Parent Company	(370,200,311)	99,240,852	102,850,817
Weighted average number of common shares - basic and diluted	899,721,152	907,123,856	907,857,870
Basic and diluted earnings (loss) per share	(0.41)	0.11	0.11

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:

	2019	2018	2017
Over time			
Harbor assistance, net of discounts	1,054,400,631	971,873,553	1,049,202,992
Lighterage services	103,338,093	127,299,870	91,432,697
Towing services	36,927,505	19,023,887	64,407,902
Salvage income	31,855,709	210,094,818	77,161,337
Others	62,389,873	108,676,248	44,703,843
	1,288,911,811	1,436,968,376	1,326,908,771
Point in time			
Revenue on generation of solar power	107,142,840	-	-
	1,396,054,651	1,436,968,376	1,326,908,771

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 P123.0 million (2018 - P116.0 million; 2017 - P117.6 million).

The Parent Company has a claim amounting to $8 million USD for the completed salvage of MV Diamond Highway in June 2019 which has been endorsed for arbitration proceedings. Accordingly, the Parent Company recognized salvage income amounting to P29.4 million which represents collectible portion as at reporting date based on preliminary discussions with counterparties. The hearing in September 2020 will determine final claimable amount from the vessel and cargo owners.

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	2019	2018	2017
Depreciation	6,7	412,263,609	266,600,163	264,046,565
Personnel costs	18	214,258,577	211,024,430	208,749,994
Fuel and lubricants		211,362,481	199,458,024	181,255,629
Insurance		53,390,235	48,939,736	39,120,738
Outside services		40,419,797	64,613,760	40,792,774
Charter hire		32,567,761	6,267,389	4,082,708
Rent	22	24,739,717	5,078,369	2,552,475
Supplies and construction supplies		24,210,201	60,923,514	65,849,705
Port expense		20,509,006	12,198,867	11,191,975
Repairs and maintenance		15,984,637	17,582,342	21,478,917
Transportation and travel		8,161,788	10,660,517	5,028,592
Communications, light and water		4,395,658	2,976,982	6,097,289
Professional fees		4,121,782	11,449,248	8,722,550
Taxes and licenses		2,814,464	3,464,288	2,417,391
Others		42,221,732	29,729,138	45,074,209
		1,111,421,445	950,966,767	906,461,511

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

Note 17 - General and administrative expenses

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

	Notes	2019	2018	2017
Personnel costs	18	112,851,999	104,681,711	84,933,136
Provision for impairment of trade and other receivables	3	76,728,154	7,950,572	1,719,356
Transportation and travel		37,097,074	40,397,271	31,334,433
Taxes and licenses		34,950,465	21,464,057	21,881,423
Provision for assessment	11	28,672,234	-	-
Professional fees		24,078,867	16,799,755	12,091,228
Depreciation and amortization	7, 10	22,096,491	23,735,787	15,342,028
Representation and entertainment		20,329,567	14,896,205	15,753,760
Provision for impairment of input VAT	10	9,058,444	6,470,663	2,156,888
Provision for advances to a related party	21	7,389,948	-	-
Insurance		5,909,178	1,500,580	2,167,725
Outsourced services		5,892,389	6,573,813	4,876,422
Write-off of receivable	3	5,534,061	-	-
Supplies and construction materials		5,436,284	5,280,424	5,587,820
Communications		5,319,131	7,321,945	6,512,346
Advertising and promotions		4,519,679	9,571,995	7,238,490
Rent	22	4,227,435	5,061,971	3,498,727
Repairs and maintenance		3,954,901	3,098,655	2,262,041
Utilities		2,631,120	2,213,057	1,624,005
Amortization of right-of-use assets	22	1,624,841	-	-
Amortization of computer software	8	1,327,194	-	-
Registration and membership fees		272,807	500,208	5,524,112
Fuel and lubricants		59,051	3,479,355	2,684,671
Others		8,871,492	3,538,383	6,733,818
		428,832,806	284,536,407	233,922,429

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	2019	2018	2017
Cost of services				
Salaries and wages		116,375,001	118,263,703	105,169,402
Crew expense		38,194,581	41,402,575	61,985,633
Tug and barge operations		20,750,245	19,888,998	19,414,758
Retirement benefit expense	20	11,361,937	9,035,412	8,558,134
Other employee benefits		27,576,813	22,433,742	13,622,067
	16	214,258,577	211,024,430	208,749,994
General and administrative expenses				
Salaries and wages		94,288,958	88,694,796	71,746,221
Retirement benefit expense	20	4,970,416	4,118,706	3,667,771
Other employee benefits		13,592,625	11,868,209	9,519,144
	17	112,851,999	104,681,711	84,933,136
		327,110,576	315,706,141	293,683,130

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

Note 19 - Other income (loss), net

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

	Notes	2019	2018	2017
Gain on reversal of finance lease liability		2,363,989	-	-
Interest income	2	886,384	418,559	392,425
Insurance claims		-	49,520,158	28,560,624
Ship management		-	400,000	2,000,000
Provision on construction receivables	4	(2,940,464)	-	-
Foreign exchange loss, net	24	(20,606,210)	(7,796,659)	(9,913,783)
Loss on sale of property and equipment		-	(56,871,044)	(18,670)
Others		5,677,580	67,770,501	15,811,999
		(14,618,721)	53,441,515	36,832,595

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 P113,617,579 and P83,073,916 as at December 31, 2019 and 2018, 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:

	2019	2018
Beginning of year	83,073,916	71,749,193
Current service cost	10,392,867	9,116,522
Interest cost	5,939,486	4,037,596
Benefits paid	(1,624,345)	(544,400)
Remeasurement (gain) loss due to:		
Experience adjustments	5,208,112	3,412,057
Changes in financial assumptions	10,627,543	(3,480,242)
Changes in demographic assumptions	-	(1,216,810)
End of year	113,617,579	83,073,916

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

	2019	2018
Current service cost	10,392,867	9,116,522
Net interest cost	5,939,486	4,037,596
Retirement benefit expense	16,332,353	13,154,118

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

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

	Note	2019	2018
Due to change in financial assumptions		10,627,543	(3,480,242)
Due to experience		5,208,112	3,412,057
Due to change in demographic assumption		-	(1,216,810)
Remeasurement loss (gain)		15,835,655	(1,284,995)
Deferred income tax benefit	23	(4,750,697)	-
Remeasurement gain, net of tax		11,084,958	(1,284,995)

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	2019	2018
Beginning of year		8,090,862	9,375,857
Remeasurement gain for the year		(15,835,655)	(1,284,995)
Deferred income tax effect	23	4,750,697	-
End of year, net of tax		(2,994,096)	8,090,862

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

	2019	2018
Less than one year	35,123,039	4,748,745
More than one year to five years	13,292,114	44,351,025
More than five years to 10 years	72,553,004	64,617,290
More than 10 years to 15 years	67,446,756	64,725,816
More than 15 years to 20 years	95,161,966	103,534,337
More than 20 years	209,269,210	268,598,246
Total expected payments	492,846,089	550,575,459

The average duration of the defined benefit obligation at the end of the reporting period is 17.19 years (2018 - 18.57 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 2019 are consistent with those applied in 2018.

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:

	2019	2018
Discount rate	4.93%	7.36%
Salary growth rate	5.00%	6.00%

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

	2019			2018		
	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%	(8,094,011)	9,448,123	1%	(5,587,976)	6,472,151
Salary growth rate	1%	9,916,874	(8,661,238)	1%	6,924,180	(6,082,275)

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.

HSEC, HSSC and ADGI provides for the estimated retirement benefits based on the retirement due under Republic Act (RA) No. 7641, the Retirement Pay Law. Under the Retirement Pay Law, the retirement benefit obligation is computed as one-half of monthly salary for every year of service, a fraction of six months being considered as one whole year. The term one-half of monthly salary shall mean 15 days plus the one-twelfth of the 13th month, and the cash equivalent of not more than five days service incentive leaves.

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	2019	2018	2017
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

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

	Terms and conditions	Notes	2019	2018
Advances to related party, net of provision:				
Entity under common control	These are unsecured, non-interest bearing, due on demand and are to be collected in cash.		553,165	7,389,954
Officers	These are unsecured, non-interest bearing and are subject to liquidation.	3	75,682,901	-
Advances from related parties:				
Officers	These are unsecured, non-interest bearing, due on demand and are to be paid in cash.	11	9,313,168	7,796,910

Key management compensation and benefits

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

	Terms and conditions	2019	2018	2017
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.	84,067,198	81,348,674	81,186,301
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.	5,390,789	999,767	999,767
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	1,182,119	-	-
		90,640,106	82,348,441	82,186,068

As of December 31, 2019, amounts due from to and from key management personnel are reflected as part of advances to officers (Notes 3 and 11) and retirement benefit obligation. There are no amounts due from or payable to key management personnel, other than retirement benefit obligation as of December 31, 2018.

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, 2019, 2018 and 2017.

Receivable from a related party, a foreign entity has been determined to be uncollectible, hence, fully provided for an allowance amounting to P7,389,948 (2018 - nil) (Note 3).

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

	2019	2018	2017
Advances to related parties	1,266,026,741	1,421,904,061	989,860,726
Advances from related parties	1,476,259,237	1,421,904,061	989,860,726
Investment in subsidiaries and associate	(519,192,305)	222,475,585	59,080,724
Service income	-	-	7,218,274
Cost of services	(4,251,699)	7,579,866	8,186,627
Other income, net	3,866,210	7,579,866	15,404,901

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

Note 22 - Leases

The Group adopted PFRS 16, "Leases" beginning January 1, 2019. The lease accounting for lessee changed upon adoption of PFRS 16, "Leases". The Group has adopted PFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as at January 1, 2019 (Note 28.1).

From January 1, 2019 (PFRS 16)

(a) Long-term lease agreements

(i) Office space and warehouse lease

The Parent Company entered into two (2) operating lease agreement for its Cebu and Davao branch office space. The Cebu Branch office is located at Unit No. 1 Benley Building, J. de Veyra Street, North Reclamation Area, Cebu City. The lease term of the Cebu Branch office covers a period of two (2) years from February 15, 2019 to February 14, 2021 subject to renewal upon agreement by both parties. The Davao Branch office is located at DR 2 Ground Floor Building 1, Insular Village One Commercial Area, Lanang, Davao City. The lease term of the Davao branch office covers a period of one (1) year from April 1, 2019 to March 31, 2020 subject to renewal upon option of the lessee. As at December 31, 2019, the required security deposit amounted to P50,400 (2018 - nil). These are presented as refundable deposits under "Prepayments and other current assets" in the separate statements of financial position.

The Parent Company entered into an operating lease agreement for the lease of 200 square meter warehouse space in SOS Mabini Storage Facility, Mabini, Batangas. The lease term initially covers a period of one (1) year from January 9, 2019 to January 4, 2020 which was subsequently renewed for another year to end on January 4, 2021. The lease agreement is renewable for another year upon agreement by both parties.

(ii) Barge Queen Jade

The Parent Company entered into a lease agreement covering Barge Queen Jade with the Development Bank of the Philippines (DBP) on February 27, 2014. The lease term covers a period of ten (10) years with an annual interest rate of 6%. The first monthly lease payment commencing on September 15, 2014 until September 15, 2024. The lease agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,301,032 at the inception of the contract. This was presented within "Other non-current assets" in the consolidated statement of financial position as at December 31, 2018 (Note 11). On January 1, 2019, the lease guarantee deposit was reclassified as part of the right-of-use asset upon adoption of PFRS 16 as it will be applied as final payment at te end of the lease term.

As at December 31, 2018, net carrying value of barge held under finance lease amounted to P61,203,106. On January 1, 2019, the carrying value of the barge was reclassified as right-of-use asset upon adoption of PFRS 16 (Note 22).

(iii) Bareboat charter

The Parent Company entered into two (2) standard bareboat charter lease agreement covering the lease of Crest 2801, a barge, and Crest Opal, a tugboat, with Pacific Crest Pte. Ltd. on September 21, 2018. The lease term covers a period of twelve months (12) months from delivery of the barge and tugboat on October 31, 2018 until October 31, 2019. The lease is renewable annually upon mutual agreement by both parties. The Parent Company has issued a letter of intent to lease the barge and tugboat for a period of five (5) years from the commencement of the lease.

(iv) Land

On April 12, 2016, ADGI entered into a forest land use agreement with the Department of Environment and Natural Resources (DENR). The agreement provides ADGI with the exclusive right to occupy, manage and develop approximately one hundred fifty-six (156) hectares of forestland in Sitio Chanco, Barangay Bawing, General Santos City, South Cotabato, for the solar power plant project for a period of twenty-five (25) years to expire on April 12, 2041. The agreement is renewable for another twenty-five (25) years subject to mutual agreement by both parties. ADGI shall pay an annual lease of P468,000 upon the signing of the agreement to be increased cumulatively by 10% every year.

(b) Short-term lease agreements

(i) Office space

The Parent Company and subsidiaries have various operating lease agreements covering office spaces for provincial branches for periods ranging from six (6) months to one (1) year which can be extended or renewed upon mutual agreement by both parties.

(ii) Other variable lease agreements

The Parent Company also entered into various operating lease agreements with third parties for rental of generator set, equipment, boats, truck, car, housing and other items as the need arises during the normal course of its business operations. The lease term covers a period ranging for one (1) day to less than one (1) year.

Rent expense from the foregoing lease agreements recognized in profit or loss for the years ended December 31, 2019 are as follows:

	Notes	Amount
Cost of services	16	24,739,717
General and administrative expenses	17	4,227,435
		28,967,152

These short-term lease agreements require the Parent Company to pay the refundable deposits which are presented within prepayments and other current assets (Note 4) in the separate statement of financial position. As at December 31, 2019 and 2018, refundable deposits amounted to P1.9 million and P1.6 million, respectively (Note 4).

These lease agreements were considered as short-term and low value lease under PFRS 16, "*Leases*" because the lease term is less than 12 months.

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

(c) Amounts recognized in the consolidated statement of financial position

For 2019, leased assets and lease liability are presented as a separate line items in the consolidated statement of financial position. As at December 31, 2019, the carrying amount of right-of-use asset related to the lease agreements above is shown below:

	Notes	Office space and warehouse	Barge	Land	Total
Cost					
Adoption of PFRS 16 at January 1, 2019		-	142,863,878	20,956,053	163,819,931
Additions		1,714,867	-	-	1,714,867
Reclassification		-	4,301,032	-	4,301,032
December 31, 2019		1,714,867	147,164,910	20,956,053	169,835,830
Accumulated amortization					
Adoption of PFRS 16 at January 1, 2019		-	9,944,522	2,514,726	12,459,248
Amortization	16,17	786,599	17,504,479	838,242	19,129,320
December 31, 2019		786,599	27,449,001	3,352,968	31,588,568
Net carrying amount					
Adoption of PFRS 16 at January 1, 2019		-	132,919,356	18,441,327	151,360,683
December 31, 2019		928,268	119,715,909	17,603,085	138,247,262

Movements in the lease liabilities for the year ended December 31, 2019 follow:

	Amount
Lease liabilities	
Adoption of PFRS 16 at January 1, 2019	116,077,588
Additions	1,714,867
Principal payments	(26,535,598)
Interest payments	(6,225,067)
Interest expense	6,730,272
Lease liability - December 31, 2019	91,762,062
Lease liabilities	
Current	17,014,185
Non-current	74,747,877
	91,762,062

(d) Amounts recognized in the statements of total comprehensive income

Amounts recognized in the consolidated statement of total comprehensive income for the year ended December 31, 2019 related to the lease agreements above follow:

	Notes	Amount
Amortization expense of right-of-use asset	16,17	19,129,320
Expense relating to short-term lease	16,17	28,967,152
Interest expense on lease liability		6,730,272
		58,826,744

The total cash outflows for leases for the year ended December 31, 2019 amounted to P32,760,665.

(e) Discount rate

The lease payments for office space and warehouse lease and barge are discounted at 5.23% to 7.03% which is Group's incremental range of borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(f) Extension and termination options

Extension and termination options are included in the lease agreements of the Group. These are used to maximize the operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable upon mutual agreement by both parties unless specifically stated that extension and termination is at the option of the lessee.

(g) Reconciliation of operating lease commitments and lease liability

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

		Amount
Operating lease commitments, December 31, 2018		
	Finance lease	31,626,526
	Operating lease	215,575
Add:	Forest land use agreement	44,477,344
	Contract price	85,462,377
Less:	Short-term leases recognized on a straight-line basis as expense	(191,975)
	Application of lease guarantee deposit	(2,403,354)
	Discounting effect using weighted average incremental borrowing at (5.23% to 7.03%)	(38,673,743)
	Construction in progress	(4,411,562)
	Others	(23,600)
Lease liability, January 1, 2019		116,077,588

Prior to January 1, 2019 (PAS 17)

(a) Finance lease

The carrying amount of barge subject to finance lease amount to P70,994,036 as at December 31, 2018 (Note 7).

The commitments in relation to above finance lease agreement as at December 31, 2018 are payable as follows:

	Amount
Not later than 1 year	5,157,030
Later than 1 year but not more than 5 years	20,628,122
More than 5 years	5,841,374
Minimum lease payments	31,626,526
Future finance charges	(4,540,900)
Total finance lease liabilities	27,085,626

The present value of finance lease liability as at December 31, 2018 are as follows:

	Amount
Not later than 1 year	3,776,463
Later than 1 year but not more than 5 years	17,583,238
More than 5 years	5,725,925
	27,085,626

(b) Operating lease

The Parent Company and subsidiaries have 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.

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

	Notes	2019	2018
Cost of services	16	5,078,369	2,552,475
General and administrative expenses	17	5,061,971	3,498,727
		10,140,340	6,051,202

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2018 amounted to P215,575.

Critical accounting judgment

(a) Classification of leases

Prior to 2019, 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.

(b) Incremental borrowing rate of lease liabilities

Payments for leases of properties and office equipment are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. Where third party financing cannot be obtained, the Group uses the government bond yield, adjusted for the (1) credit spread specific to each entity under the Group and (2) security using the right-of-use asset.

(c) Extension and termination options of lease agreements

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

Extension options are considered in the bareboat charter lease agreement of the Parent Company based on the letter of intent.

(d) Determining lease terms

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

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

Note 23 - Income tax expense

All the companies in the Group are subject to normal corporate income tax of 30% except for HSSC and ADGI. HSSC is registered under Republic Act No. 7227, otherwise known as Bases Conversion and Development Act of 1992, that enables it to be under Gross Income Taxation (GIT) of 5%. ADGI is registered under the Renewable Act 9531, an Act Promoting The Development, Utilization, and Commercialization of Renewable Energy Resources and For Other Purposes, that provides for fiscal incentives including income tax holiday.

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

	Note	2019	2018
DIT assets			
Retirement benefit obligation		33,965,385	24,922,175
Allowance for impairment of receivables		21,562,563	7,549,329
Provision for service discounts		2,089,739	-
Provision for tax assessment		1,649,318	-
Provision for loss on construction receivable		882,139	-
Provision for separation pay		692,243	-
Unrealized foreign exchange loss, net		435,824	-
		61,277,211	32,471,504
DIT liabilities			
Unrealized foreign exchange gain, net		-	(451,840)
Lease liability		(2,473,355)	-
Revaluation increment on property and equipment	6	(34,351,355)	(42,288,662)
		(36,824,710)	(42,740,502)
DIT assets (liabilities), net		24,452,501	(10,268,998)

The maturity of DIT assets and liabilities are as follows:

	2019	2018
DIT assets:		
Expected to be recovered within 12 months	27,311,826	-
Expected to be recovered more than 12 months	33,965,385	32,471,504
	61,277,211	32,471,504
DIT liabilities		
Expected to be settled within 12 months	(2,473,355)	(8,338,599)
Expected to be settled more than 12 months	(34,351,355)	(34,401,903)
	(36,824,710)	(42,740,502)
	24,452,501	(10,268,998)

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of deferred income tax assets related to net operating loss carryover (NOLCO) for the years ended December 31, 2019 which could be carried over as deductible expense from taxable income for three (3) consecutive years following the year of incurrence are as follows:

	Year of incurrence	Year of expiration	2019
	2017	2020	3,372,620
	2018	2021	16,050,226
	2019	2022	214,996,550
			234,419,396
Applicable tax rates			5%, 10% and 30%
			63,876,7823

Where higher than normal income tax, the individual companies in the Group are required to pay Minimum Corporate Income Tax (MCIT) equal to 2% of gross profit as required by the Tax Reform Act of 1997. This amount may separately be offset against normal income tax liabilities for the three (3) immediately succeeding taxable years. The details of deferred income tax asset on MCIT for the years ended December 31, 2019 which could be carried forward on an annual basis and credited against normal income tax payable within three (3) immediately succeeding years from the period when the MCIT was paid until 2022 amounted to P5,403,066 (2018 - nil).

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors, including the companies' ability to generate taxable income within the NOLCO and MCIT period. Management has considered these factors in reaching its conclusion on the realizability of the deferred income tax assets. The Parent Company did not recognize deferred income tax assets in respect of its NOLCO and MCIT as it does not expect that future taxable profits will be available against which these can be utilized.

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

	Note	2018	2017
Beginning of year		(10,268,998)	(21,704,001)
DIT credited to profit or loss		29,970,802	11,435,003
DIT credited to other comprehensive income	20	4,750,697	-
End of year		24,452,501	(10,268,998)

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

	2019	2018	2017
Current	6,678,689	60,126,360	80,185,770
Deferred	(29,970,802)	(11,435,003)	(18,103,843)
	(23,292,113)	48,691,357	62,081,927

The reconciliation between income tax expense (benefit) 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:

	2019	2018	2017
Income tax expense (benefit) computed	(106,589,878)	44,611,979	51,266,277
Adjustments to income tax resulting from:			
Unrecognized NOLCO	60,638,636	-	-
Non-deductible expenses	17,187,413	5,058,546	11,055,212
Unrecognized MCIT	5,403,066	-	-
Unrecognized movement in deferred tax	3,686,828	-	-
Final income tax expense	1,275,623	-	-
Limitation on interest expense	79,097	45,150	-
Interest income subjected to final tax	(197,826)	(110,431)	(107,712)
Share in net income of associates	(4,775,072)	(913,887)	(131,850)
Income tax expense (benefit)	(23,292,113)	48,691,357	62,081,927

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 other than on the Parent Company's MCIT and NOLCO.

Note 24 - Foreign currency denominated monetary assets and liabilities

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

	2019			2018	
	In USD	In JPY	In MYR	In USD	In JPY
Assets					
Cash	337,433	2,114,237		1,047,162	2,114,237
Trade and other receivables	684,826	-		-	-
Advances to related parties	-	-	16,323,044		
	1,022,259	2,114,237	16,323,044	1,047,162	2,114,237
Liabilities					
Trade and other liabilities	(1,240,000)	(68,000,000)	-	(85,000)	(42,451,066)
Advances from related parties	(22,500)	-	-	-	-
Borrowings	(15,714)	-	-	(47,143)	-
	(1,278,214)	(68,000,000)	16,323,044	(132,143)	(42,451,066)
Net foreign currency assets (liabilities)	(255,955)	(65,885,763)	16,323,044	915,019	(40,336,829)
Year-end exchange rates	50.74	0.46	12.28	52.72	0.48
Peso equivalent	(12,987,157)	(30,307,451)	200,446,980	48,239,802	(19,361,678)

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

	Note	2019	2018	2017
Realized foreign exchange loss		(18,850,690)	(9,429,758)	(6,301,607)
Unrealized foreign exchange gain (loss)		(1,755,520)	1,633,099	(3,612,176)
	19	(20,606,210)	(7,796,659)	(9,913,783)

Unrealized foreign exchange loss on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2019 is P28,546 (2018 - nil; 2017 - P125,257 gain).

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, 2019 and 2018.

As at December 31, 2019, pre-development cost amounting to P1,826,728,917 was reclassified to property, plant and equipment (Note 7).

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, plant and equipment (Notes 6 and 7)
- Retirement benefit obligation (Note 20)
- Incremental borrowing rate (Note 22)

(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 associates (Note 5)
- Impairment of property, plant and equipment (Note 7)
- Impairment of investment properties (Note 9)
- Recoverability of input VAT (Note 10)
- Classification of leases (Note 22)
- Determining lease terms (Note 22)
- Extension and termination options of 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

(a) Financial assets

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

	Notes	2019	2018
Cash	2	99,449,755	316,560,503
Trade receivables, gross	3	427,419,698	525,102,517
Construction receivables, gross	4	170,230,644	242,270,335
Deposit bond	3	8,521,638	8,057,630
Advances to related parties	21	553,165	7,389,954
Refundable deposits	4	15,840,778	3,817,530
Financial assets at fair value through other comprehensive income (FVOCI)	10	810,000	810,000
		722,825,678	1,104,008,469

Trade receivables are presented gross of allowance for impairment amounting to P70,536,709 as at December 31, 2019 (2018 - P25,164,430) (Note 3).

Advances to officers and employees amounting to P155,790,667 as at December 31, 2019 (2018 - P33,061,841) 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, 2019 and 2018 are also considered as non-financial asset as these will be applied as final payment at the end of the lease term (Notes 10 and 22).

Construction receivables are presented gross of allowance for loss on construction receivables amounting to P2,940,464 as at December 31, 2019 (2018 - nil) (Note 4).

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

(b) Financial liabilities

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

	Notes	2018	2017
Trade and other payables	11	323,615,955	328,067,827
Short-term loans	12	499,750,000	465,000,000
Borrowings	12	3,753,428,334	2,469,313,978
Lease liabilities	22	91,762,062	-
Finance lease liability	22	-	27,085,626
		4,668,556,351	3,289,467,431

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

	Note	2018	2017
Accrued construction costs	11	71,931,276	-
Unearned income	11	16,940,552	7,822,614
Payable to government agencies	11	4,205,057	4,526,544
		93,076,885	12,349,158

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, 2019, if the US Dollar had weakened/strengthened by 3.76% (2018 - 5.61%) with all other variables held constant, pre-tax loss for the year and equity would have been P487,758 lower/higher (2018 - P1,894,032), mainly as a result of net foreign exchange gains (losses) on translation of US Dollar-denominated net foreign currency monetary liabilities.

For the year ended December 31, 2019, if the Japanese Yen had strengthened/weakened by 4.17% (2018 - 7.98% weakened/strengthened) with all other variables held constant, pre-tax loss for the year and equity would have been P1,262,810 lower/higher (2018 - P1,070,137 lower/higher), mainly as a result of net foreign exchange gains (losses) 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, 2019 and 2018, 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:

	Notes	Gross amount	High performing	Underperforming		Credit impaired
December 31, 2019						
Cash and cash equivalents	2	97,394,711	97,394,711	-	-	-
Trade receivables	3	427,419,698	256,887,211	54,717,922	45,277,856	70,536,709
Deposit bond	3	8,521,638	8,521,638	-	-	-
Advances to related party	21	553,165	553,165	-	-	-
Refundable deposits	4	15,840,778	15,840,778	-	-	-
		549,729,990	379,197,503	54,717,922	45,277,856	70,536,709
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	3,817,530	3,817,530	-	-	-
		859,109,398	571,996,420	216,069,391	45,879,157	25,164,430

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 2019 and 2018.

As at December 31, 2019 and 2018, 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 P2,536,663. The fair value of the maritime lien amounted to P12,025,458.

Credit quality of fully performing financial assets

(a) High performing

(i) Cash in banks

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

	2019	2018
Universal banks	73,188,238	205,459,983
Commercial banks	24,206,473	109,281,784
	97,394,711	314,741,767

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P2,055,044 as at December 31, 2019 (2018 - P1,818,736) (Note 2).

(ii) Trade and other receivables

There is no concentration of credit risk with respect to trade and other receivables as the Group has a large number of customers. To minimize credit risk, the Group transacts only with counterparties with good credit standing. As at December 31, 2019, trade receivables amounting to P256,887,211 (2018 - P237,989,539) are fully performing thus, collectible.

(iii) Deposit bond

Deposit bond amounting to P8,521,638 (2018 - P8,057,630) that are neither past due nor impaired pertains to deposit made to the Bureau of Customs the imported materials, which are refundable within 12 months.

(iv) Advances to related parties

Advances to related parties amounting to P553,165 as at December 31, 2019 (2018 - P7,389,954) 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, 2019 and 2018 and no provision for impairment is required.

(v) Refundable deposits

Refundable deposits amounting to P15,840,778 as at December 31, 2019 (2018 - P3,817,530) 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) Underperforming

Underperforming trade receivables as at December 31, 2019 amounting to P99,995,778 (2018 - P261,948,548) are related to a number of independent customers with delay in payments but 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.

(c) Credit impaired

As at December 31, 2019, trade receivables amounting to P70,536,709 (2018 - P25,164,430) 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 to 12 months	More than one year
December 31, 2019					
Trade and other payables	11	339,354,555	323,615,955	-	15,738,600
Short-term loans	12	505,929,139	269,855,382	236,073,757	-
Borrowings	12	4,516,937,059	397,136,579	1,749,266,638	2,370,533,842
Lease liabilities	22	123,400,321	5,290,180	15,878,536	102,231,605
		5,485,621,074	995,898,096	2,001,218,931	2,488,504,047
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

Short term loans and borrowings as at December 31, 2019 include the undiscounted cash flows on future interest payable of P6,179,139 and P763,508,725, respectively (2018 - P5,502,000 and P46,456,787, respectively).

The Group expects to settle above financial liabilities in accordance with their contractual maturity. 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.

As of December 31, 2019, the Group has undrawn credit lines with local banks.

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, 2019 and 2018.

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:

	2019	2018
Total debt	4,777,040,641	3,301,816,589
Total equity	1,173,649,496	1,567,122,245
Debt-to-equity ratio	4.07:1	2.11:1

As at December 31, 2019, the Parent Company has not complied with certain financial ratios including debt to equity and debt service cover ratio that resulted in the reclass of a portion of loans to current.

The Parent Company has debt-to-equity ratio of 231% and debt-service cover ratio of 10.62%.

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

	Notes	2019	2018
Trade and other payables	11	432,431,440	340,416,985
Short-term loans	12	499,750,000	465,000,000
Borrowings	12	3,753,097,139	2,469,313,978
Lease liabilities	22	91,762,062	-
Finance lease liability	22	-	27,085,626
		4,777,040,641	3,301,816,589

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

	Note	2019	2018
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		181,933,854	548,645,283
Financial asset at fair value through other comprehensive income		(160,000)	(160,000)
Treasury stock		(37,614,990)	(10,853,670)
		1,173,649,496	1,567,122,245

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, 2019 and 2018.

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 and interpretations adopted by the Group

There are a number of new accounting standards, amendments and interpretations that have been published that are mandatory for December 31, 2019 reporting periods. None of these standards, amendments and interpretations have a significant impact on the Group's financial statements except for:

PFRS 16, Leases

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

On adoption of PFRS 16, applying the modified retrospective approach, the Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

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

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

a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
c) accounted for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
d) excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying PAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The effects of adoption of PFRS 16 on the Group's financial statements as at January 1, 2019 are as follows:

	Notes	Increase (decrease)
Right-of-use-assets, net	22	151,360,683
Leased liabilities	22	116,077,588
Pre-development cost	1.2	3,136,961
Retained earnings		(2,893,557)

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of PFRS 16.

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

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

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

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

Based on the Group's assessment, the interpretation did not result to significant changes on its current recognition and measurement of deferred and current income tax assets and liabilities.

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

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

(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, 2019 reporting period 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 but the more relevant ones are as follows:

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

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

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

None of these amendments are expected to have significant impact on the Group's consolidated financial statements.

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

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

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

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The above is not expected to have significant impact on the Group's consolidated financial statements.

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.

Financial assets

(a) Classification

The Group classifies its financial assets in the following categories:

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group only holds financial assets classified as financial assets at amortized cost as at December 31, 2019 and 2018 which comprise cash and cash equivalents (Note 28.4), trade and other receivables (Note 28.8), advances to related parties (Note 28.29), financial assets at fair value through other comprehensive income and refundable deposits in the consolidated statements of financial position.

(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.

Subsequent to initial recognition, measurement depends on the Group's business model for managing the asset and cash flow characteristic of the asset. For financial assets at amortized cost, interest income, if any, from these financial assets is included within other income in the statement of total comprehensive income using the effective interest rate method. Impairment losses are presented as separate line item in profit or loss.

Where the Group's management has elected to present fair value gains and losses on 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 when the Group's right to receive payments is established.

(d) Impairment

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

Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance. The Group applies the ECL model to measure the impairment for all financial assets at FVOCI and at amortized costs.

The Group calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. ECL are measured through an allowance at an amount equal to:

- the 12-month ECL (that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime ECL (that result from all possible default events over the life of the financial instrument).

Financial liabilities

(a) Classification

The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and other financial liabilities. As at December 31, 2019 and 2018, the Group's financial liabilities are limited to other financial liabilities at amortized cost.

The Group's trade and other payables (excluding payable to government agencies, unliquidated expenses and unearned income) (Note 28.15), advances from related parties (Note 28.29), short-term loans and borrowings (Note 28.16), finance lease liabilities and lease liabilities (Note 28.27) are classified under other financial liabilities at amortized cost.

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

(b) Initial recognition and derecognition

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

(c) Subsequent measurement

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

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 Parent Company has right to offset intercompany payables and receivables as at December 31, 2019. Total intercompany receivables offset against payables amounts to P72,831,949 (2018 - nil).

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 asset at FVOCI 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 28.5) 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, plant and equipment

All property, plant 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, plant 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, plant 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, plant 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 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, plant and equipment still under construction are subsequently transferred to "Property, plant and equipment at cost" upon completion.

28.13 Investment property

Investment property is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment property will flow to the 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, plant 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, plant 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

(a) 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.

(b) 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, plant 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

(a) 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.

(b) 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.

(c) 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) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
b) 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
c) All resulting exchange differences are recognized as cumulative translation differences as a separate line item under equity.

As at December 31, 2019, cumulative loss on translation differences recognized in equity amounted to P6,768,327 (2018 - P6,811,095).

28.25 Revenue recognition

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 subsequent 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) Revenue on generation and sale of solar energy

The Group is engaged in the generation and sale of solar energy. Revenue is recognized monthly based on the transmission of solar energy to its sole customer. Revenue is recognized when the solar energy is delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Revenue is also recognized based on the price agreed with the costumer and is only recognized to the extent that it is probably that a significant reversal will not occur. No element of financing is deemed present as the sale are made with a credit of ten (10) to 15 days.

(c) 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.

(d) 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.

Other income

(a) 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 may 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.

The Group recognizes on a net basis when it satisfies its promise to facilitate the service over a period of time when it is not a principal in a contract. For all the construction contracts, the Group does not control the service before as it is transferred to the customer. The Group is also is not solely responsible for the service and discretion in establishing contract prices. The indicators therefore support that the Group is not the principal for the construction contracts.

(b) 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.

(c) Dividend income

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

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

From January 1, 2019 (PFRS 16)

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

(a) Measurement of lease liabilities

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

(b) Measurement of right-of-use assets

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

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

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

(c) Extension and termination options

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

(d) Short-term leases and leases of low-value assets

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

Prior to January 1, 2019 (PAS 17)

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, plant and equipment. Leases of property, plant 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, plant 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

(a) 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.

(b) 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, 2019, 2018 and 2017.

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, 2019, the Group has two (2) operating business segments which pertains to revenue and related economic activities arising from harbor assistance including those of Jetty construction services 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, 2019

	Harbor assistance	Renewable energy	Elimination	Total
Revenue	1,288,911,811	107,142,840	-	1,396,054,651
Segment result	(154,427,225)	(4,776,585)	385,489	(158,818,321)
Share in net profit of associate	15,916,905	-	-	15,916,905
Finance costs	(214,571,492)	(42,074,690)	-	(256,646,182)
Income tax benefit	23,292,113	-	-	23,292,113
Loss for the year	(329,789,699)	(46,851,275)	385,489	(376,255,485)
Segment assets	4,998,321,120	2,813,344,210	(1,667,005,683)	6,144,659,647
Segment liabilities	(3,621,286,121)	(2,753,759,441)	1,476,259,237	(4,898,786,325)
Capital expenditures	502,024,031	1,916,499,863	-	2,418,523,894
Depreciation and amortization	369,053,633	43,553,801	-	412,607,434
Non-cash expenses other than depreciation and amortization	-	-	-	-

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
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	-	-	-	-

28.31 Subsequent events (or Events after the reporting date)

The shipping industry is among the identified industries to be severely affected by the COVID-19 pandemic. The quarantine of factory workers as well as restricted travel in China stifled production. Being a key piece in the delivery of goods and commodities in the supply chain, shipping is necessarily affected by the low production and manufacture of goods. The Group's main service line is docking and undocking foreign container vessels calling the various international ports in the Philippines. In response to lack of cargo, some international shipping lines have lessened their vessel calls and/or have consolidated their calls with other shipping lines. We therefore see a reduction in the number of foreign vessels calling the Philippines during this time. We however remain optimistic that the volumes will return since China appears to have controlled the spread of the virus and business will return to normal in the coming months, if not increase to make up for the previous lag in production.

SECOND SECTION

Second Section

Schedules	Supplementary Schedules	Remarks
A	Financial Assets	Schedule A
B	Amounts Receivable and Payable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)	Schedule B
C	Amounts Receivable and Payable from Related Parties which are eliminated during the consolidation of financial statements	Schedule C
D	Intangible Assets - Other Assets	Schedule D
E	Long-term Debt	Schedule E
F	Indebtedness to Related Parties	Schedule F
G	Guarantees of Securities of Other Issuers	Schedule G
H	Share Capital	Schedule H
	Financial Soundness Indicators	
Annex 68-C	Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration	Annex 68-C
Annex 68-H	A Map Showing the Relationship between and among the Parent Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-subsidiaries and Associate	Annex 68-H

SCHEDULE A

Harbor Star Shipping Services, Inc. and Subsidiaries

Financial Assets
December 31, 2019

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Value based on market quotations at end of reporting period	Income received and accrued
Financial assets at amortized cost				
Cash on hand and in banks	-	99,449,755	-	886,384
Trade receivables	-	427,419,698	-	-
Construction receivables	-	170,230,644	-	-
Deposit bond	-	8,521,638	-	-
Advances to related parties	-	553,164	-	-
Refundable deposits	-	15,840,778	-	-
	-	722,015,677	-	886,384
Financial asset at fair value through other comprehensive income				
Investment in golf shares- Rancho Palos Verdes Golf and Country Club	-	810,000	-	-
Total	-	722,825,677	-	886,384

SCHEDULE B

Harbor Star Shipping Services, Inc. and Subsidiaries

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders
(Other than Related Parties)
December 31, 2019
(All amounts in Philippine Pesos)

Name of designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Balance at end of the period
Bella, Geronimo Dela Paz (President)	-	61,859,319	(19,057,777)	(10,300)	42,791,242	42,791,242
Bella, Ricardo Rodrigo Dela Paz (Vice President)	8,741,614	80,592,667	(56,828,434)	(325,534)	32,180,313	32,180,313
Rodriguez, Ignatius Alafriz (Corporate Secretary)	131,431	17,748,908	(16,539,879)	(639,465)	700,995	700,995
Vasquez, Adelia Diaz (Chief Financial Officer)	10,351	3,638,473	(3,638,473)	-	10,351	10,351
	8,883,396	163,839,367	(96,064,563)	(975,299)	75,682,901	75,682,901

SCHEDULE C

Harbor Star Shipping Services, Inc. and Subsidiaries

Amounts Receivable and Payable from Related Parties which are eliminated
during consolidation of financial statements
December 31, 2019
(All amounts in Philippine Pesos)

Name of designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Balance at end of the period
Advances to related party						
Peak Flag SDN BHD	18,974,664	181,532,711	-	-	200,507,375	200,507,375
Astronergy Development Gensan Inc.	553,669,341	880,419,390	(1,147,107,231)	-	286,981,500	286,981,500
Astronergy Development F1, Inc.	20,000	150,198	-	-	170,198	170,198
Astronergy Development F2, Inc.	20,000	150,198	-	-	170,198	170,198
Harbor Star Subic Corp.	117,082,756	325,855,050	(14,940,978)	-	427,996,828	427,996,828
Harbor Star Energy Corporation	730,214,780	864,494,419	(1,036,508,557)	-	558,200,642	558,200,642
Harbor Star East Asia (Myanmar) Ltd.	1,922,520	311,643	(1,667)	-	2,232,496	2,232,496
	1,421,904,061	2,252,913,609	(2,198,558,433)	-	1,476,259,237	1,476,259,237

SCHEDULE D

Harbor Star Shipping Services, Inc. and Subsidiaries

Long-term Debt
December 31, 2019

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "long-term debt" in related statement of financial position"	Notes
Bank borrowings	1,750,000,000	1,314,206,538	119,214,208	RCBC, interest at 8.5% per annum, for 5 years, matures on March 14, 2024.
Bank borrowings	1,590,000,000	111,654,916	1,464,535,830	DBP, 499.75M interest at 5% per annum, interest payable quarterly from initial drawdown, principal amortization due starting January 19, 2020, matures on April 19, 2030.
Offshore term loan	120,400,000	-	-	Chailease International Financial Services Co.Ltd., LIBOR plus margin interest rate, payable every 3 months for 3 years, matures on October 6, 2019.
Bank borrowings	750,000,000	420,867,417	-	CTBC, interest at 6.75% per annum, payable quarterly from initial drawdown, expiring 42 months from initial drawdown or April 1, 2022.
Bank borrowings	320,000,000	48,854,266	93,291,366	AUB, interest at 7.5% subject to quarterly repricing, matures on September 27, 2022.
Bank borrowings	150,000,000	129,762,012	19,027,219	PNB, interest at 7% per annum, matures on December 19, 2019; car loan interest at 12.5% per annum, for 3 years, matures on December 31, 2020.
Bank borrowings	100,000,000	20,000,000	10,666,667	RB, interest at 5.5% per annum, for 5 years, matures on July 5, 2021
Bank borrowings	4,200,000	505,059	842,836	CBC, interest at 7.5% per annum, for 10 years, matures on June 6, 2022.
Bank borrowings	1,114,400	-	-	SB, car loan interest at 12.5% per annum, for 3 years, matures on December 30, 2019. DBP Leasing, interest at 6% per annum, for 10 years, matures on September 15, 2024.
	4,785,714,400	2,045,850,208	1,707,578,126	

SCHEDULE E

Harbor Star Shipping Services, Inc. and Subsidiaries

Indebtedness to Related Parties
(Long-term Loans from Related Companies)
December 31, 2019

Name of related party	Balance at beginning of period	Balance at end of period
NONE		

SCHEDULE F

Harbor Star Shipping Services, Inc. and Subsidiaries

Guarantees of Securities of Other Issuers
December 31, 2019

Name of issuing entity of securities guaranteed by the Group for which this statement is filed	Title of issue of each class of securities guaranteed	Amount owned by person for which statement is filed	Nature of guarantee
NONE			

SCHEDULE G

Harbor Star Shipping Services, Inc. and Subsidiaries

Share Capital
December 31, 2019

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - P1 par value	2,000,000,000	894,596,870	-	-	616,101,977	278,494,893

Annex 68-C

Harbor Star Shipping Services, Inc. and its Subsidiaries
2224 A. Bonifacio St., and Pres. Sergio Osmeña
Bangkal, Makati City

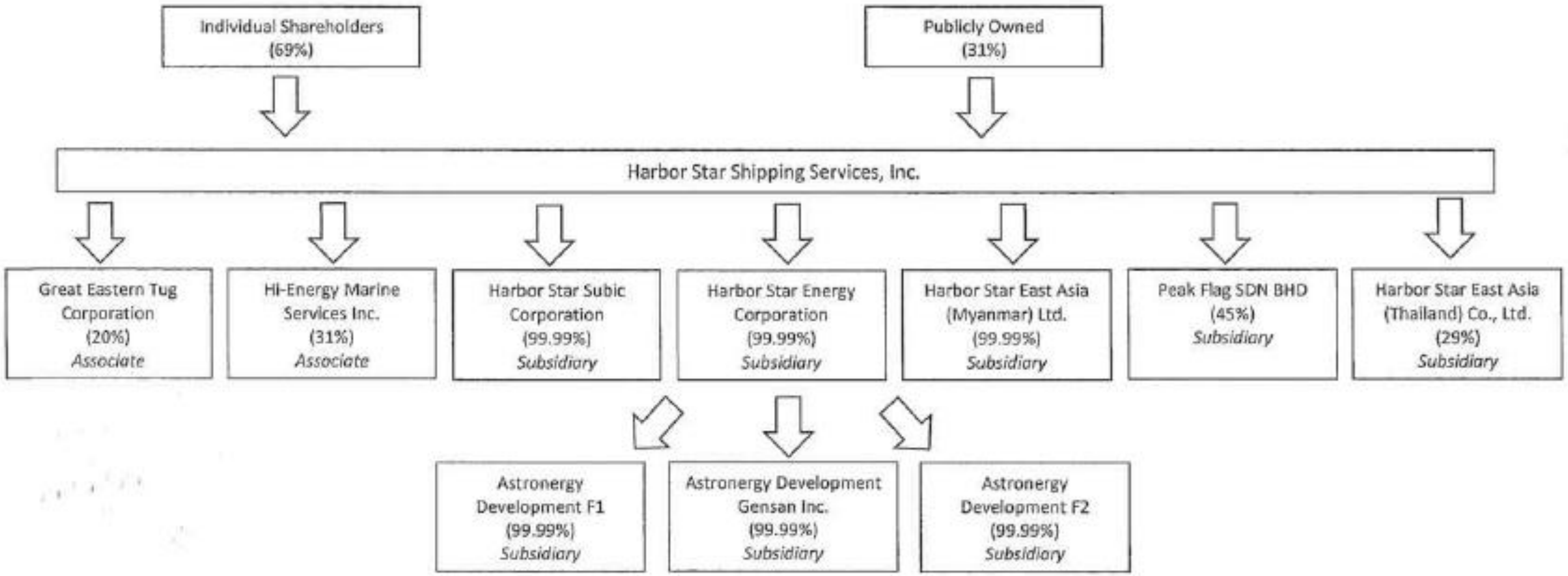
Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration
For the year ended December 31, 2019
(All amounts in Philippine Peso)

Unappropriated retained earnings, January 1, 2019		639,034,563
Impact of adoption of PFRS 16		(2,893,557)
Unappropriated retained earnings, as adjusted		636,141,006
Net income (loss) based on the face of the audited financial statements		(315,555,384)
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	-	
Unrealized foreign exchange gain - net (except those attributable to cash)	-	
Unrealized actuarial gain	-	
Fair value adjustment (M2M gains)	-	
Fair value adjustment of Investment Property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP-gain	-	
Other unrealized gains (losses) or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP - loss	-	
Loss on fair value adjustment of available-for sale financial assets (after tax)	-	-
Profit (loss) actually earned/realized during the year		(315,555,384)
Add: Release of retained earnings appropriation		
Less: Treasury shares		
Stock dividends declared during the year		-
Cash dividends declared during the year		-
Unappropriated retained earnings, as adjusted, December 31, 2019		320,585,622

Annex 68-H

Harbor Star Shipping Services, Inc. and Subsidiaries
2224 A. Bonifacio St., and Pres. Sergio Osmeña
Bangkal, Makati City

A Map Showing the Relationships between and among the Parent Company and its
Subsidiaries and Associate
December 31, 2019



Harbor Star Shipping Services, Inc. and Subsidiaries

Schedule of Financial Soundness Indicator
December 31, 2019 and 2018

Ratio	Formula	2019	2018
Current ratio	Current assets / Current liabilities	0.40:1	0.52:1
Acid test ratio	Cash and cash equivalents+ Trade and other receivables, net+ Advances to a related party / Current liabilities	0.22:1	0.37:1
Debt to equity ratio	Total debt / Total equity	4.07:1	2.11:1
Asset-to-equity ratio	Total assets / Total equity	4.93	3.06
Interest coverage ratio	Operating profit (loss) / Interest expense	(0.62)	2.26
Return (Loss) on average equity (%)*	Profit (Loss) / Average issued and outstanding shares	(0.26)	0.09
Return (Loss) on average assets (%)*	Profit (Loss) / Average total assets	(0.07)	0.04
Net income (loss) attributable to majority shareholders (% to Sales)	Net income (loss) attributable to majority shareholders / Net sales	(26.5)	6.9

**Attributable to majority shareholders*

Harbor Star Shipping Services, Inc.
Sustainability Report

This report has been prepared in accordance with the GRI Standards: Core Option. It is the maiden report that covers the period of January to December 2019. ***(102-48, 102-49, 102-54)***

Mission, Vision and Values

Sustainability Framework

This sustainability framework is crafted for PLCs operating in the Philippines. It is a systematic approach that serves as our guidelines to manage our issues and improve our business practices in achieving the company's sustainability.

SUSTAINABILITY FRAMEWORK		
HSSSI is a Sustainable Business	We conduct our businesses in an ETHICAL and RESPONSIBLE manner	Corporate Governance
	We manage our KEY IMPACTS	Economic
		Environmental
		Social
	Our services create VALUE TO SOCIETY	Contribution to Sustainable Development

Materiality

In identifying the materiality of the topics to be included in the report, we have involved the department heads by providing them a risk assessment form to identify the stakeholders and its significant issues that reasonably have adverse and beneficial impacts to the origination's economic, environmental, and social or those that can influence the decisions of the stakeholders. After collating the contextual issues, top management conducted several dialogues to finalize which topics are considered significant. *(102-46)*

MATERIALITY MATRIX				
	Topics	**Influence on Stakeholders' Assessment and Decisions**	**Significance of Economic, Environmental and Social Impacts**	**Result of Materiality Assessment**
ECONOMIC	Economic Performance	H	H	HH
	Procurement Practices	H	L	HL
	Anti-corruption	H	L	HL
ENVIRONMENT	Resource Management	H	H	HH
	Ecosystem and Biodiversity	H	L	HL
	Environmental Impact	H	H	HH
	Environmental Compliance	H	H	HH
SOCIAL	Employee Management	H	H	HH
	Workplace Conditions, Labor Standards and Human Rights	H	H	HH
	Supply Chain Management	L	L	LL
	Relationship with Community	L	H	LH
	Customer Management	H	H	HH
	Data Security	H	L	HL

Legends:

H	High
M	Moderate
L	Low
LL	Respond to Request / Monitor
LH	Keep Informed
HH	Focus Efforts / Key players

Material Topics and Boundaries

(102-46, 102-47)

The list below is the identified material topics and its boundaries based on two (2) dimensions of the Materiality principles.

Sustainability Framework	Topics *(102-47)*	Boundaries *(102-46)*	Influence on Stakeholders' Assessment and Decisions	Significance of Economic, Environmental and Social Impacts	Result of Materiality Assessment
Corporate Governance	Sustainable value for stakeholders	Within HSSSI and stockholders	H	H	HH
Economic	Business Economic Performance	Within HSSSI	H	H	HH
	Business Strategic Plans	Within HSSSI	H	H	HH
	Value for Customers	Within HSSSI and Customers	H	H	HH
Environmental	Marine environment protection	Within HSSSI ports of operations	H	H	HH
	Sustainable operations	Within HSSSI	H	H	HH
	Environmental Law compliance obligation	Within HSSSI	H	H	HH
Social	Benefits and compensation	Within HSSSI	H	H	HH
	Occupational Safety & Health	Within HSSSI	H	H	HH
	Training & Development	Within HSSSI	H	H	HH
	Employee Welfare	Within HSSSI	H	H	HH
	Performance Evaluation	Within HSSSI	H	H	HH
	Corporate Social Responsibility (CSR)	Within HSSSI and partner community	H	H	HH
	General Labor Law Compliance Obligation	Within HSSSI	H	H	HH
Contribution to Sustainable Development	Contribution to UN Sustainable Goals	Within HSSSI and other affected civil societies	H	H	HH

Legends:

H	High
M	Moderate
L	Low
LL	Respond to Request / Monitor
LH	Keep Informed
HH	Focus Efforts / Key players

Stakeholder Engagement

(102-40, 102-42, 102-43, 102-44)

STAKEHOLDER ENGAGEMENT					
Item	Stakeholder Groups *(102-40)*	Name of the Stakeholders	Relevance to the Organization *(102-42)*	Topics / Concerns Raised *(102-44)*	Approach to Stakeholder Engagement *(102-43)*
1	Employees	All employees	Workforce/manpower that helps the company meets vision, mission, and strategic objectives.	1. Benefits and compensation 2. Occupational Safety & Health 3. Training & Development 4. Employee Welfare 5. Performance Evaluation 6. Corporate Social Responsibility (CSR) 7. General Labor Law Compliance Obligation 8. Marine Environment Protection	100% compliance to Occupational Safety & Health Standard; General Labor Standard; Environmental Laws Provision of internal and external training based on the Training Needs Analysis (TNA) Involvement of all employees in CSR activities.
2	Clients or Customers	Vessel owners / Port Operators	Patrons of HSSSI operations	1. Value for Customers	1. Client call 2. Customer feedback form 2. Continuous improvement of services
3	Investors	Stockholders	Contribute capital to the business	1. Business economic performance 2. Business strategic plans 3. Sustainable value for stakeholders	1. Annual Stockholder's Meeting
4	Business partners	Suppliers / Service providers / Contractors	Provide resources and services essentials to the operation	1. Value for suppliers	1. Supplier Accreditation and audit 2. Second Party Audit (Supplier's Audit)
		Manning agencies	Provide manpower for an international voyage		1. Contract with the manning agency
		Insurance company	Insured assets	1. Incident/ Accident Reporting	1. Insurance claim process
		ISO Certifying Body	Continuous improvement of the management system performance; Fulfillment of legal requirements and other requirements; Achievement of objectives.	Maintenance of ISO certification	1. Renewal of certification
5	Community	Local community partner in CSR	Helps the company and other stakeholders to be socially accountable	Corporate Social Responsibility (CSR)	1. Quarterly visitation of the partner community
		Indigenous people			1. Providing work for IP.
6	Government	Local government regulatory bodies; NGOs	Issuance of permit to operate	Sustainable operation	1. ISO Certification to ensure compliance with legal requirements 2. Attend Conferences
7	Trade Organization	International and Local Trade Unions	Compliance to international standards To get more clients	Compliance with the requirements	1. Renewal of membership 2. Ensure compliance with the requirements

Sustainable Fleet Operation

Economic Performance

Direct Economic Value Generated and Distributed (201-1)		
Disclosure	Amount	Units
Direct economic value generated (revenue)	1,396,054,651	PhP
Direct economic value distributed:		
a. Operating costs	484,899,259	PhP
b. Employee wages and benefits	327,110,576	PhP
c. Payments to suppliers, other operating costs	160,918,320	Php
d. Dividends given to stockholders and interest payments to loan providers	256,617,636	PhP
e. Taxes given to government	23,292,113	PhP
f. Investments to community (e.g. donations, CSR)	56,835	PhP

Employee Management

Employee Data (401-1)		
Disclosure	**Quantity**	**Units**
Total number of employees	605	
a. Number of female employees	48	#
b. Number of male employees	557	#
Attrition rate	0.0793	rate

Employee Benefits (401-2)			
Disclosure	**Y/N**	**% of female employees who availed for the year**	**% of male employees who availed for the year**
SSS	Y	13%	19%
PhilHealth	Y	21%	9%
Pag-ibig	Y	19%	17%
Parental leaves	Y		2%
Vacation leaves	Y	98%	94%
Sick leaves	Y	88%	15%
Medical benefits (aside from PhilHealth))	Y	79%	
Housing assistance (aside from Pag- ibig)	N		
Retirement fund (aside from SSS)	Y		1%
Further education support	N		
Company stock options	Y		1%
Telecommuting	Y	2%	0
Flexible-working Hours	Y	100%	100%
(Others)			

***Employee Training and Development** (404-1)*		
Disclosure	**Quantity**	**Units**
Total training hours provided to employees		
a. Female employees	508	hours
b. Male employees	3236	hours
Average training hours provided to employees		
a. Female employees	11	hours/employee
b. Male employees	6	hours/employee

***Diversity and Equal Opportunity** (405-1)*		
Disclosure	**Quantity**	**Units**
% of female workers in the workforce	8	%
% of male workers in the workforce	92	%
Number of employees from indigenous communities and/or vulnerable sector*	47 - single parents but no solo parent IDs; 1 HIV	#

Workplace Conditions, Labor Standards, and Human Rights		
***Occupational Health and Safety** (403-9)*		
Disclosure	**Quantity**	**Units**
Safe Man-Hours	2,586,198	Man-hours
No. of work-related injuries	2	#
No. of work-related fatalities	0	#
No. of work related ill-health	0	#
No. of safety drills	2	#

Relationship with Community					
***Significant Impacts on Local Communities** (413-1)*					
Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	**Location**	**Vulnerable groups (if applicable)**	**Does the particular operation have impacts on indigenous people (Y/N)?**	**Collective or individual rights that have been identified that or particular concern for the community**	**Mitigating measures (if negative) or enhancement measures (if positive)**
Mangrove Planting	Brgy. Banoyo, San Luis Batangas	Elderly	N	None	
Gift giving and feeding activity to kids	Brgy.Bangkal, Makati City	Children between 5 and 12 yrs old	N	None	

Resource Management

Energy consumption within the organization (302-1)		
Disclosure	**Quantity**	**Units**
Energy consumption (gasoline)	0.0042	GJ
Energy consumption (diesel)	0.6524	GJ
Energy consumption (electricity)	205,873.00	kWh

Water consumption within the organization (303-3, 303-5)		
Disclosure	**Quantity**	**Units**
Water withdrawal	77,017.15	cum
Water consumption	77,017.15	cum
Water recycled and reused	0	cum

Hazardous Waste (306-4)		
Disclosure	**Quantity**	**Units**
Total weight of hazardous waste generated	35100	kg
Total weight of hazardous waste transported	35100	kg

Air Emissions : GHG (305-1, 305-2,305-6)		
Disclosure	**Quantity**	**Units**
Direct (Scope 1) GHG Emissions	95	Tonnes
	289.01	CO2e
Energy indirect (Scope 2) GHG Emissions		Tonnes
	38.23	CO2e
Emissions of ozone-depleting substances (ODS)	0	Tonnes

United Nation Sustainable Development Goals			
2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	7 AFFORDABLE AND CLEAN ENERGY	14 LIFE BELOW WATER
Feeding and gift giving activity	Blood Letting Program	Solar Power Farm	Adopt-A-Mangrove Program
School Supplies Distribution and Feeding activity			Participation in Annual Coastal Clean-up

School Supplies Distribution and Feeding activity:
Harbor Star distributed school supplies and conducted a feeding program for indigenous (Blaan) students from Colot S. Aligado IP High School in Southern Mindanao to share blessings and establish a relationship with the community.

Feeding and gift-giving activity:
To give joy to the less privileged children within the community and to celebrate the true spirit of the Yuletide season, Harbor Star extended its blessings to children from Barangay Bangkal where HSSSI's Head Office is located. In coordination with the officials of Barangay Bangkal, selected employees of HSSSI Head Office including Company President Mr. Geronimo Bella, Jr. joined in the distribution of loot bags and packed lunches to indigent children.

Blood donation activity:
Harbor Star supports one of the main activities of the Philippine Red Cross (PRC) - Blood Services which aim to provide the country with an adequate and safer blood supply from volunteers and non-remunerated blood donors. To contribute to blood-banking efforts and to promote a healthy lifestyle among employees, HSSSI facilitates Blood Donation activities in the Head Office annually.

Annual Coastal clean-up:
Together with Ocean Conservancy and the International Coastal Clean-up, Harbor Star participates annually in a worldwide coastal cleanup aimed at combating the global solid waste problem and, the proliferation of marine debris.

Mangrove Planting:
Through its Adopt-A-Mangrove Program, Harbor Star works to conserve marine resources and protects people living in coastal areas against natural hazards. In 2011, employees of Harbor Star together with Barangay Banoyo, the Municipality of San Luis, Batangas, the Provincial Government Environment and Natural Resource Office (PGENRO), and the Coastal Conservation and Education Foundation, Inc. (CCEF) planted the first batch of 5,000 propagules (mangrove seedlings). Over the years, Harbor Star has ensured the growth and sustainability of the seedlings through monitoring and replanting of propagules. As a result, there are an estimated 25,000 healthy mangrove plants in the area today.

GRI Content Index

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is presented and the references for Disclosures 102-40 to 10249 align with appropriate sections in the body of the report.

GRI Standard	Disclosure		Page Number(s), direct answers and/or URLs	Reason for Omission
GRI 101: Foundation 2016				
General Disclosures				
GRI 102: General Disclosures 2016	**Organizational Profile**			
	102-1	Name of the organization	Refer to 17-A Page 2: Business Development and Updates	
	102-2	Activities, brands, products, and services	Refer to 17-A Page 5 : Business of the Issuer	
	102-3	Location of headquarters	Refer to 17-A Page 1	
	102-4	Location of operations	Refer to 17-A Page 2 : Business Development and Updates	
	102-5	Ownership and legal form	Refer to 17-A Page 2 : Business Development and Updates	
	102-6	Markets served	Refer to 17-A Page 7 : Market	
	102-7	Scale of the organization	Refer to Employee Management	
	102-8	Information on employees and other workers	Refer to Employee Management	
	102-9	Supply chain	The company's key focus of the operation is providing maritime services and not a supply chain. However, the company has a supplier/service provider accreditation process to ensure compliance with ISO standards and for sustainable development.	
	102-10	Significant changes to the organization and its supply chain		None to report
	102-11	Precautionary Principle or approach	Since the company is an IMS certified, we are using the ISO standards when planning our processes and projects balancing the three pillars of sustainability.	
	102-12	External initiative	See UN SDGs, Page 9	
	102-13	Membership of associations	1. International Salvage Union (ISU) 2. Employer Confederation of the Philippines (ECOP) 3. Philippine Chamber of Commerce and Industry (PCCI) 4. People Management Association of the Philippines (PMAP) 5. Harbor Tugs Association of the Philippines (HTAP) 6. Philippine Inter-island Shipping Association (PISA)	
	Strategy			
	102-14	Statement from senior decision-maker	Refer to Annual Report	

	Ethics and Integrity			
	102-16	Values, principles, standards, and norms of behavior	Page 2	
	Governance			
	102-18	Governance structure	Refer to Company Website: http://www.harborstar.com.ph/csr	
	Stakeholder Engagement			
	102-40	List of stakeholder groups	Page 5	
	102-41	Collective bargaining agreements		None to report
	102-42	Identifying and selecting stakeholders	Page 5	
	102-43	Approach to stakeholder engagement	Page 5	
	102-44	Key topics and concerns raised	Page 5	
	Reporting Practice			
	102-45	Entities included in the consolidated financial statements	Parent and Subsidiaries	
	102-46	Defining report content and topic Boundaries	Page 4	
	102-47	List of material topics	Page 4	
	102-48	Restatements of information	Page 1	
	102-49	Changes in reporting	Maiden Report	
	102-50	Reporting period	Page 1	
	102-51	Date of most recent report	Maiden Report	
	102-52	Reporting cycle	Annual	
	102-53	Contact point for questions regarding the report	Jay-R L. Castillo , QHSE Manager	
	102-54	Claims of reporting in accordance with the GRI Standards	Page 1	
	102-55	GRI Content Index		
	102-56	External assurance		Not applicable

GRI Standard	**Disclosure**		**Page Number(s), direct answers and/or URLs**	**Reason for Omission**
MATERIAL TOPICS				
Economic Performance				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 201: Economic Performance 2016	201-1	Direct Economic Value Generated and Distributed	Page 5	
Environmental Performance				
Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	Page 8	
Water				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 303: Water 2016	303-1	Water withdrawal	Page 8	
Emission				
GRI 103: Management	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4	

Approach 2016			Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 305: Air Emissions 2016	305-1	Direct (Scope 1) GHG Emissions	Page 8	
	305-2	Energy indirect (Scope 2) GHG Emissions	Page 8	
Hazardous Wastes				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 302: Waste 2016	306-4	Hazardous Waste	Page 8	
Social Performance				
Employment				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 401: Employment 2016	401-1	Employee Data	Refer to Page 6 : Employee Management	
	401-2	Employee Benefits	Page 6	
Occupational Safety and Health				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 403: Occupational Health and Safety	403-9	Occupational Health and Safety	Page 7	
Training and Education				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 404 : Training and Education	404-1	Employee Training and Development	Pages 6-7	
Diversity and Equal Opportunity				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 405: Diversity and Equal Opportunity	405-1	Diversity and Equal Opportunity	Page 7	
Local Communities				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	Page 4	
	103-2	The management approach and its components	Pages 3-4 Refer to Development Activities (Annual Report)	
	103-3	Evaluation of the management approach	Pages 3-4, 5	
GRI 413 : Local Communities 2016	413-1	Significant Impacts on Local Communities(	Page 7	

Harbor Star Shipping Services, Inc.
Schedule of Financial Soundness Indicators
December 31,2019 and 2018

Ratio		2019	2018
Liquidity Ratio			
Current Ratio	Current Asset / Current Liabilities	40%	52%
Acid Test Ratio	Cash and cash equivalent + trade and other receivables, net + advances to a related party / Current Liabilities	22%	37%
Solvency Ratio			
Debt to equity ratio	Total debt / Total equity	4.07	2.11
Asset to equity ratio	Total assets / Total equity	4.93	3.06
Interest coverage ratio	Operating profit or loss / Interest expense	-0.62	2.26
Profitability ratio			
Return (loss) on average equity (%)	Profit (loss) / Average issued and outstanding shares	-0.26	0.09
Return (loss) on average assets (%)	Profit (loss) / Average total assets	-0.07	0.04
Net income (loss) attributable to Majority shareholders (% to sales)	Net income (loss) attributable to majority shareholders / Net Sales	-26.5	6.9