SETTING OUR SIGHTS FURTHER

HARBOR STAR
SHIPPING SERVICES, INC.

2015 ANNUAL REPORT

About the COVER

Now on its 17th year of service, Harbor Star has proven time and again that it can conquer challenges. Throughout its journey, the Company has remained unwavering in its efforts to provide total marine services safely, promptly and efficiently. Harbor Star continues to invest in newer tugboats, embark on new business undertakings and initiate expansion programs to fortify its position as a leading integrated marine service provider in the Philippines.

The 2015 Annual Report cover design underlines Harbor Star's resolution to soar above the challenge. Taking with it the commitment to genuine service excellence and the expertise that has made it a frontrunner, Harbor Star is broadening its horizon and setting its sights even further!

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COMPANY
Profile

Harbor Star Shipping Services, Inc. ("Harbor Star" or "the Company") is a leading integrated maritime service provider in the Philippines. Its line of services includes harbor assistance, lighterage, towage, ship salvage, diving and underwater marine works, and other marine services. The Company was registered with the Securities and Exchange Commission ("SEC") on 5 July 1988 under the name "Seatows, Inc". Its primary purpose is to engage in ocean towage, commerce and navigation in the carriage of goods and passengers by water upon the oceans, seas, sounds, lakes, rivers, canals, bays, harbors, and other waterways between the various ports of the Philippines and between such ports and other ports in the world.

In 2009, the Company acquired all three (3) certifications from Det Norske Veritas Germanischer Lloyd ("DNV-GL"), a leading international assurance and classification organization. These certifications include: ISO 9001 for quality, ISO 14001 for environment, and OHSAS 18001 for occupational health and safety. Obtaining the aforementioned accreditations has led to Harbor Star becoming one of the few Integrated Management System ("IMS") certified tugboat-based marine service providers in the Philippines.

The year 2012 marked several milestones for the Company. Harbor Star was internationally recognized as a ship salvor with its acceptance as a member of the International Salvors Union. The Company also commenced its lighterage operations in Surigao and Zambales.

In the same year, Harbor Star invested a 45.0% stake in Peak Flag Sdn. Bhd., a company engaged in the provision of tugboat harbor assist and marine support services in Malaysia. Finally, the year 2012 also saw the Company acquiring its first Anchor Handling Tug Supply ("AHTS") vessel, so as to cater to the offshore industry and towage in the international and domestic market.

On 30 October 2013, Harbor Star's common shares were listed in the Philippine Stock Exchange following the initial public offering of 30% of its shares at an issue price of P1.88 per share.

In 2014, Harbor Star continued its domestic and international expansion program by starting operations in General Santos and by laying the groundwork in Malaysia in preparation for its commercial operations.

February 2015 marked the commencement of Harbor Star's Malaysia operations through its subsidiary Peak Flag Sdn. Bhd. Two (2) tugboats were brought to Malaysia, M/T Hamal and M/T Mirzam. Both vessels serve Malaysia's major ports namely, North Port and Kuantan Port.

On 11 August 2015, Harbor Star secured the approval of the SEC to expand its business scope to include international towage, commerce and navigation in the carriage of goods and passengers, and international manning, recruitment, contracting and ship and crew management for all types of vessels. The approval also included operating liner and feeder vessels and barges, and logistics operations; investing in, developing, managing and/or operating in domestic and international shipyards, ports and terminals; import, export, trade, buy and sell of coal, oil, bunker, construction materials, rice, corn and other commodities; engaging in offshore marine and related works; construction and rehabilitation of marine facilities; to acquire by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop, operate and hold for investments or otherwise, real estate of all kinds, and to perform all acts which are incidental and necessary to the real estate business.

In September 2015, Harbor Star created the Diving and Marine Maintenance unit in its bid to further develop its other business lines which have shown potential in terms of revenue contribution.

Domestically, the Company expanded its presence by opening a regional office in Cebu. Later in the year, Harbor Star established a wholly-owned subsidiary – Harbor Star Subic Corp. – with the intention of operating at the Subic Bay Freeport Zone by 2016.

SUBSIDIARIES

Peak Flag Sdn. Bhd.

Peak Flag Sdn. Bhd. ("Peak Flag") was incorporated in Malaysia on 18 October 2011. Its aim is to provide marine services at select ports in Malaysia which exhibit high vessel traffic.

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.

Harbor Star Subic Corp.

Harbor Star Subic Corp. ("HSSC") was registered with the SEC on 17 September 2015 and was issued a Certificate of Registration and Tax Exemption by the Subic Bay Metropolitan Authority on 20 November 2015. Its primary purpose is to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil spill response, and underwater marine works. HSSC will operate and offer its services to vessels and terminals operating within the Subic Bay Freeport Zone ("SBFZ").

MISSION

Harbor Star's mission is to provide total marine services:

Safely, promptly, and efficiently
Taking care of the environment
Assuring equitable returns to shareholders
Responsive to employees and stakeholder's welfare
Strictly observing good corporate governance

VISION

In 2020, Harbor Star Shipping Services, Inc.,
the leading tug and marine services provider in the Philippines,
will be a major player in South East Asia.

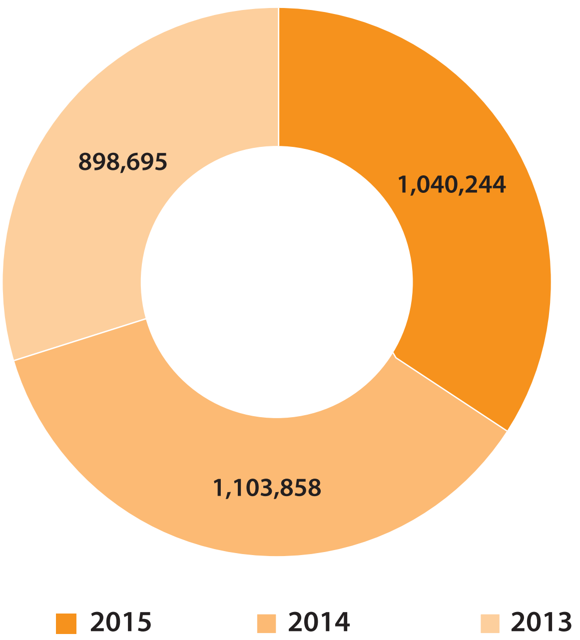
CORE VALUES

Honesty
Accountability
Reliability
Benevolence
Orderliness
Resourcefulness

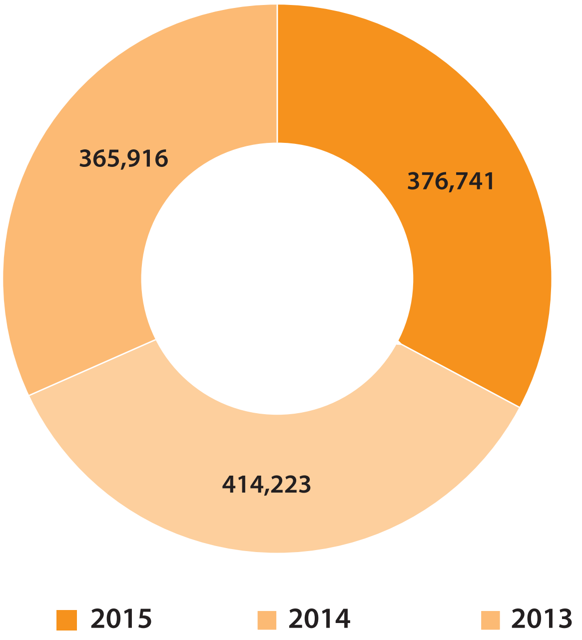
Service-Oriented
Trustworthiness
Adaptability
Respect

FINANCIAL
Highlights

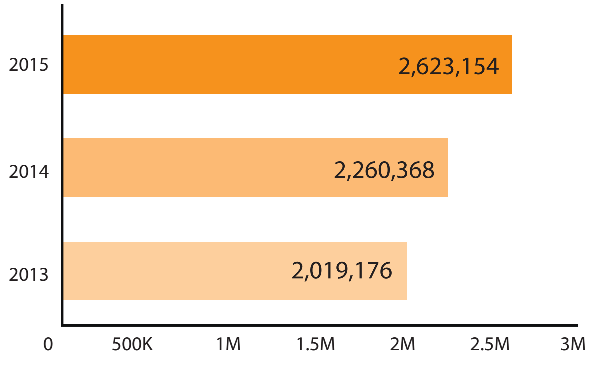
Net Revenue
(In PHP thousands)



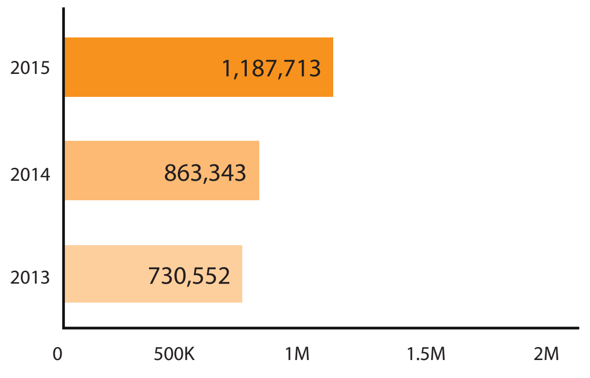
EBITDA
(In PHP thousands)



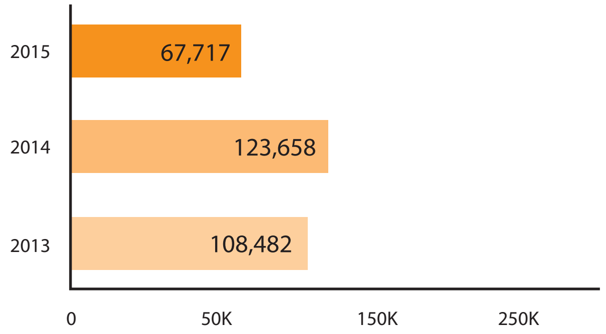
Total Assets
(In PHP thousands)



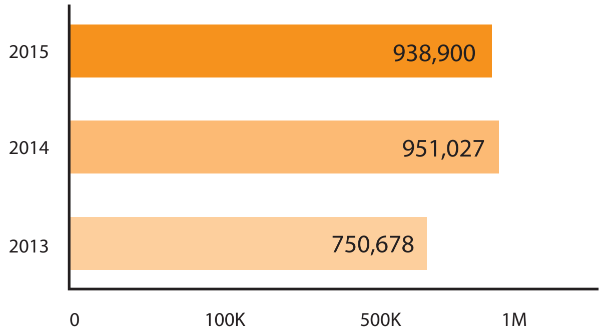
Total Liabilities
(In PHP thousands)



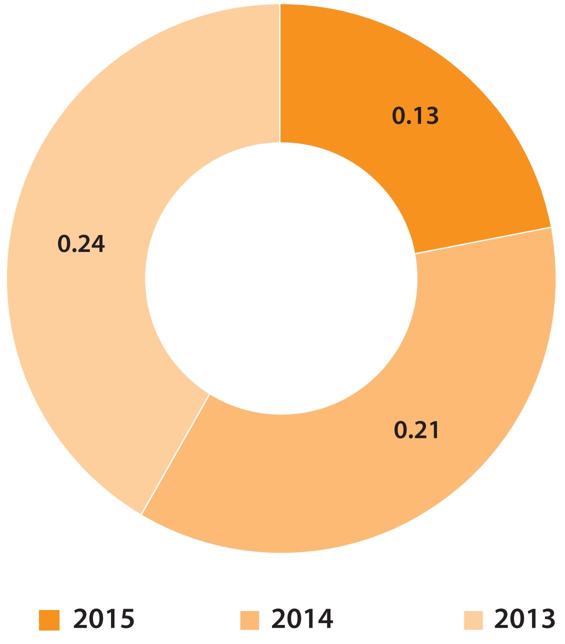
Net Income
(In PHP thousands)



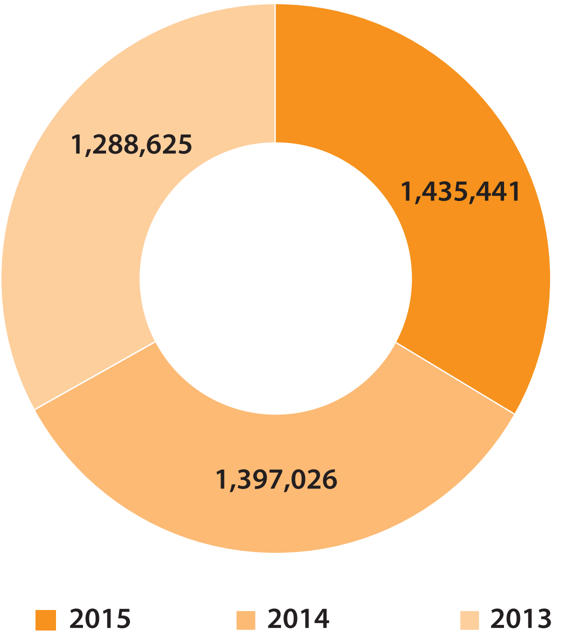
Total Expenses
(In PHP thousands)



Earnings Per Share



Total Equity
(In PHP thousands)



Message to our Stockholders

The year 2015 showcased the resilience of Harbor Star to rise above the challenges. Despite fewer towing and salvage jobs and the overall bearish performance of the shipping industry due to the economic slowdown in China, the Company managed to maintain its revenue in the P1 billion mark. For the year ended 31 December 2015, Harbor Star generated total service income amounting to P1.04 billion, a 5.8% decrease from the previous year's revenue of P1.10 billion.

While our service revenue saw a single-digit decline, the Company experienced a 45.2% decrease in its bottom line from P123.7 million in 2014 to P67.7 million in 2015. This was mainly due to lower revenues from high profit margin operations such as towing services (which are not regular in nature) which yielded only P16.9 million in 2015 compared to P100.0 million in 2014; and salvage jobs which generated a modest P31.1 million in 2015 compared to P50.7 million in 2014. Revenue from harbor assistance also dropped to P741.9 million in 2015 from P796.2 million in 2014.

Other reasons for the net income decrease included the decision of Management to take a proactive and conservative stance in its finances by setting up a provision for doubtful accounts in the amount of P18.4 million; and the Company's recognition of losses from its Malaysian subsidiary, Peak Flag Sdn. Bhd., in the amount of P15.2 million, whose operations are still in the development stage. Furthermore, there was a 10.4% or P21.9 million increase in depreciation expenses as a result of strategic capital investments made in 2014.

The Company's long-term plan instituted in 2013 of developing and aggressively marketing ancillary services proved critical. The downturns in its main line of business were partially offset by a 61.3% increase in lighterage services revenue. Underwater marine and maintenance services also slightly increased from P31.4 million in 2014 to P35.3 million in 2015. Add to these, a jetty repair contract accounted for the P12.6 million earnings.

Even though the Company's gross profit decreased by 0.8% in 2015, from P348.5 million to P345.7 million, gross profit margin improved from 31.6% to 33.2%. This was mostly due to the decrease in cost of services resulting from decline in fuel consumption and fuel prices as well as the Company's continuing cost saving measures.

Notably, Harbor Star's total assets grew by 16.0% from P2.26 billion to P2.62 billion in 2015.

Setting our Sights Further

In 2015, Harbor Star remained committed to execute its three-prong plan of strengthening its main business, expanding to other markets, and continuing to develop new businesses. To support its fleet, the Company purchased three (3) tugboats as well as a waterfront property in Batangas which would serve as Harbor Star's future marine base. Commercial operations in Malaysia finally commenced, though sparingly, in February through our subsidiary Peak Flag. We see these tugs being more utilized by 2016 as we slowly penetrate the market. In September 2015, we created the Diving and Marine Maintenance unit to further develop and strengthen this business line which appears promising.

On the local shores, Harbor Star opened its Cebu office in response to our clients' requests that we expand our services to the territory. We also established a wholly-owned subsidiary, Harbor Star Subic Corp., which will operate in the Subic Bay Freeport Zone by 2016.

And in line with your Management's long-term plans, the business purposes of Harbor Star in its Articles of Incorporation were amended last 11 August 2015 to include: (i) operating liner and feeder vessels and barges, and logistics operations; (ii) operation of domestic and international shipyards, ports and terminals; (iii) oil and bunker trading; (iv) offshore marine and engineering works; (v) construction; and (vi) real estate development. This provides us the flexibility to explore business opportunities that may have greater margins than our current service lines, for the main purpose of increasing shareholder's value.

The year that passed showed our resolve to face challenges head on and remain steadfast. For this, we extend our deepest gratitude to our clients, suppliers and shareholders for the mutual benefit that our partnership has brought about. We also thank our Board of Directors for their leadership and guidance that have kept us in the right direction. Lastly, we express our appreciation to all our officers, employees, and most of all, our crew for their hard work and commitment to genuine service excellence.

I am confident that we will maintain our dedication to setting our sights even further in the coming years.

Geronimo P. Bella, Jr.
Chairman of the Board and President

OPERATIONAL
Highlights

OVERVIEW

Cognizant of the critical role that maritime service plays, Harbor Star leads the way in providing a wide range of indispensable marine services. The Company offers harbor assistance, towage, lighterage, ship salvage, wreck removal, firefighting, oil spill abatement and recovery, hazardous material handling, ship management, and 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 2015, Harbor Star has established operations in fourteen (14) base ports all over the country, providing services to approximately six thousand one hundred sixty four (6,164) ship calls as of year-end 2015. The major ports that the Company services include: the Manila International Container Terminal ("MICT"), Bataan, Batangas, Cagayan de Oro (CDO), and Davao.

The Company maintains a fleet of thirty-seven (37) domestically and internationally classed tugboats, five (5) barges, a cargo vessel, an oil spill response vessel, and an Anchor Handling Tug Supply ("AHTS") vessel.

SERVICES

Harbor Star currently derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, (e) marine repair and maintenance works, and (f) other marine services. Other services include oil and chemical spill response, diving and underwater works, 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, Cagayan de Oro (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 2015, revenues from harbor assistance amounted to P741.9 million, equivalent to 71.3% of total revenue.

M/T Merga docking Tanker Rose Diamond at JFI Jetty in Phividec, Tagaloan, Misamis Oriental

M/T Tyl and Barge Corvus unloading limestone at Philippine Sinter Corporation

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 December 31, 2015, revenues from lighterage services amounted to P202.4 million, equivalent to 19.5% 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:

- Regular towing is when a tugboat is chartered to tow a vessel or barge from one port to another port.
- Emergency towing is when a vessel in distress needs a towing service.

As of 31 December 2015, revenues from towing services amounted to P16.9 million, equivalent to 1.6% of total revenue.

M/V Rho Cas towing FB Universe Kim from Guam to South Korea

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:

- Vessels in distress – These include instances when vessels are on fire, capsized or sinking, among others, vessels that require rescuing.
- Wreck removal – This includes refloating of vessels that ran aground, retrieval of vessels, among others.
- Wayward vessels – These pertain to breakaway or abandoned vessels drifting afloat and wandering into waters that are vulnerable to collisions and other maritime accidents.

As of 31 December 2015, revenues from salvage operations amounted to P31.1 million, equivalent to 3.0% of total revenue.

M/T Adara extinguishing fire in the cargo holds of a foreign container vessel berthed in Manila

Harbor Star Diving and Marine Maintenance diver inspecting for possible oil leak in shaft seal

MARINE REPAIR AND MAINTENANCE WORKS

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

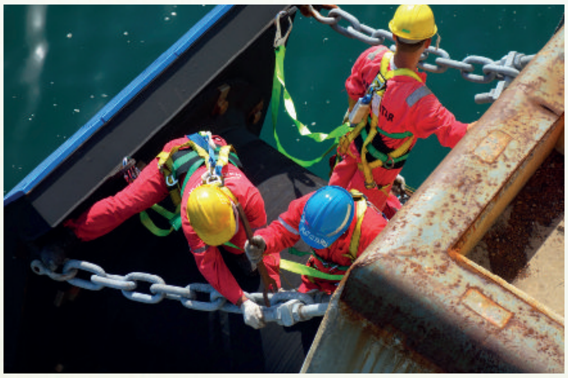
As of 31 December 2015, revenues from marine construction contracts amounted to P12.6 million, equivalent to 1.2% of total revenue.

OTHER MARINE SERVICES

Harbor Star's marine and other ancillary services cover:

- Oil and chemical spill response
- Ship repairs
- Buoy construction, deployment and maintenance
- Diving services, which include underwater repairs and single buoy mooring (SBM) repair
- Ship and crew management
- Firefighting
- Offshore tug services

As of 31 December 2015, revenues from other marine services amounted to P35.3 million, equivalent to 3.4% of total revenue.



Harbor Star Maintenance Unit doing remedial repair tensioning for fender in GNPower, Mariveles

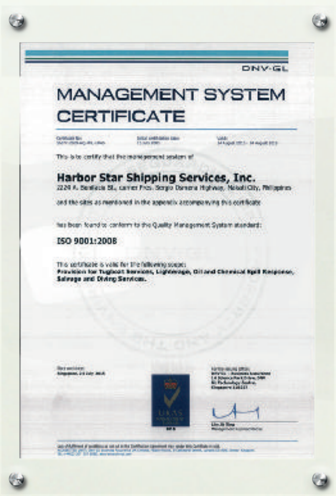
Safety, Quality, Maintenance, and Compliance with Environmental Laws

Harbor Star has obtained international accreditations for its management systems, specifically ISO 9001:2008 (Quality of Services), ISO 14001:2004 (Environment), and OHSAS 18001:2007 (Safety). 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 protocol and procedures to ensure quality and safe service. Completing the three (3) accreditations from DNV-GL has made Harbor Star one of the few tugboat companies to attain IMS Certification.

The Company also has an established maintenance and dry docking program for its vessel fleet to minimize the potential for engine breakdown, engine overhauls, and other types of repairs, to ensure that all vessels shall at all times be in seaworthy condition. As of 31 December 2015, the Company spent P10.3 million for dry docking and maintenance of vessel fleet, representing 0.99% of total revenues.

Harbor Star, likewise, has a Health, Safety, Environment and Security group that monitors the Company's adherence to safety and environmental awareness policies, which are aligned with those of the international accreditations the Company has attained. The group ensures that each employee is given sufficient training to perform tasks pursuant to the Company protocol. This group is also responsible for equipping tugboats with the necessary safety gear.

The Company also complies with environmental laws by MARINA and the Philippine Coast Guard ("PCG"). For the year ended 31 December 2015, Harbor Star incurred P1.1 million for costs relating to compliance of environmental laws. This pertains to daily waste management expenses, permits and costs to comply with environmental-related regulations, which represent an average of less than 0.1% of total revenues.



ISO 9001:2008
QUALITY MANAGEMENT

ISO 14001:2004
ENVIRONMENTAL MANAGEMENT

OHSAS 18001:2007
OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

FLEETLIST

TUGBOATS

M/T Achernar
M/T Adara
M/T Agena
M/T Alphard
M/T Arcturus
M/T Arneb
M/T Atria
M/T Avior
M/T Canopus
M/T Capella
M/T Deneb
M/T Dubhe
M/T Enir
M/T Galina
M/T Giedi
M/T Great Eagle
M/T Merga
M/T Mimosa
M/T Minkar
M/T Mira
M/T Mizar
M/T Procyon
M/T Propus
M/T Regulus
M/T Rigel
M/T Sadr
M/T Sargas
M/T Sarin
M/T Schedar
M/T Sirius
M/T Skat
M/T Spica
M/T Tabit
M/T Tyl
M/T Vega
M/T Wezen
M/T Zaniah

AHTS

M/V Rho Cas

BARGES

Barge Centaurus
Barge Corvus
Barge Hydrus
Barge Kenram
Barge Lynx

OTHER MARINE VESSELS

M/V Cassopeia
M/V Wise

CORPORATE
Governance

Harbor Star Shipping Services, Inc. is committed to conducting all aspects of its business to the highest ethical and legal standards. Hence, the Board of Directors adopted a Manual on Corporate Governance (the "Manual") in order to monitor and assess the Company's compliance with leading practices on good corporate governance as specified in the Manual and relevant SEC circulars and memoranda.

Compliance Officer

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

Compliance Officer: Adelia D. Vasquez

Independent Director

The By-laws of the Corporation stipulate that its Independent Director be a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Corporation.

An Independent Director acts in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He/she exercises leadership, prudence and integrity in directing the Corporation towards sustained progress and to observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as Director.

Independent Directors: Jose S. Navarro
Manuel H. Puey

Board Committees

Executive Committee

The Executive Committee, when the Board of Directors is not in session, exercises the powers of the Board of Directors in the management of the business and affairs of the corporation, except with respect to:

(a) Approval of any action for which stockholders' approval is required
(b) The filling of vacancies in the Board of Directors
(c) The amendment or repeal of these By-laws or the adoption of new By-laws
(d) The amendment or repeal of any resolution of the Board of Directors, which, by its express terms is not so amendable or repealable
(e) Distribution of cash dividends to the stockholders, and
(f) Such other matters as may be specifically excluded or limited by the Board of Directors

Actions taken by the Executive Committee for the Corporation shall be submitted to the Board of Directors at its next meeting for ratification.

Executive Committee Members:

Chairman: Geronimo P. Bella, Jr.
Members: Ricardo Rodrigo P. Bella
Manuel H. Puey

Audit Committee

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

Audit Committee Members:

Chairman:	Jose S. Navarro
Members:	Damian L. Carlos
	Ignatius A. Rodriguez

Nominations Committee

The Nominations Committee reviews and evaluates the qualifications of all persons nominated to the Board and other appointments that require Board approval. Part of the Committee's role is to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.

Nominations Committee Members:

Chairman:	Geronimo P. Bella, Jr.
Members:	Ricardo Rodrigo P. Bella
	Jose S. Navarro

Compensation and Remuneration Committee

The Committee's functions, among others, are: Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers, ensuring that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates; Provide oversight on remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Corporation's culture, strategy and control environment; Creation of a formal and transparent procedure for developing policies on executive remuneration packages for directors and executive officers; and Design a performance-based remuneration to complement or reward good performance while at the same time keeping in mind the interests of shareholders.

Compensation and Remuneration Committee Members:

Chairman:	Manuel H. Puey
Members:	Geronimo P. Bella, Jr.
	Ryota Nagata

Risk Management Committee

Harbor Star recognizes the various risks associated with running a business. As such, the Company has a Risk Management Committee in place. The Committee ensures that the Board and Management are aware of all actual and potential risks, both internal and external, facing the business.

Among the Committee's key responsibilities are:

(a) Implement an effective system to identify, monitor and assess risks
(b) Review, on a quarterly basis, the Corporation's business for risk identification, mitigation and monitoring
(c) Establish consistency and best practices rules in the managing, monitoring and reporting of risks
(d) Identify risks, which may be beneficial to the Corporation if properly managed and controlled
(e) Ensure that risk-taking is an informed process within a pre-determined range
(f) When deemed necessary, appoint a Risk Management Officer, and
(g) Operationalize a Risk Management Program

Risk Management Committee Members:

Chairman:	Jose S. Navarro
Members:	Damian L. Carlos
	Ignatius A. Rodriguez

Governance Committee

The Governance Committee assists the Board with respect to governance matters, most especially in the implementation of practices and standards to be observed in an effective stewardship environment. The Committee plays a critical role in fostering a healthier and better culture among the Board Members and Management.

Governance Committee Members:

Chairman:	Geronimo P. Bella, Jr.
Members:	Ricardo Rodrigo P. Bella
	Jose S. Navarro

CORPORATE
Social Responsibility

Harbor Star recognizes its responsibility to the environment and to the community where it operates. The Company does its utmost to sustain the coast where its business is dependent on, gearing its corporate social responsibility (CSR) initiatives mainly towards the conservation of marine life.

The Adopt-a-Mangrove Program is Harbor Star's way of giving back to Mother Nature and underscores the Company's commitment and corporate character – profitability anchored on responsibility.

Adopt-A-Mangrove Program

Harbor Star believes that mangroves are vital to sustaining life not just on water, but on land as well. True to its commitment, the Company marked 2015 with another year of relentless efforts to safeguard and preserve mangrove forests. As of November 2013, a total of 21,612 mangrove propagules were planted. By the end of October 2015, 9,350 more propagules were added, thus, bringing the number to 30,962.

Last December 2015, a total of 24,520 mangroves are already in the surviving stage. Compared to other government-led mangrove projects, the percentage of survival of the Company's Adopt-a-Mangrove is relatively higher with an equivalent of 79% versus 20% to 30%. Through the collaborative efforts of all parties involved, the program has already surpassed its target of 20,000 mangroves. Two species of mangroves are currently being replanted in the area – Rhizophora sps. and avicennia sps.

Mangrove Awareness Initiatives

As part of its unceasing campaign to generate awareness on mangrove preservation, Harbor Star initiated information caravan, mangrove planting, mangrove nursery creation, and cleanup drives among other projects. While the Company has had significant successes in this environmental advocacy for the past years, its mission is far from accomplished. For Harbor Star, every success is an inspiration to outperform. The Company will continue to take a serious and concerted effort to protect the mangroves and the marine resources in general.

As what Harbor Star President Geronimo P. Bella, Jr. stressed "Our bottom line is not only limited to how well we perform as a company, but also perhaps more importantly, to how well we present ourselves as corporate citizens. Ultimately, who else should better take care of our precious coast than a company like Harbor Star, whose business thrives in making sure that its environment remain sustainable not only today but for generations to come."

Board of
DIRECTORS

(Standing: L-R)

Ryota Nagata
Director

Manuel H. Puey
Independent Director

Damian L. Carlos
Director

Jose S. Navarro
Independent Director

(Seated: L-R)

Ricardo Rodrigo P. Bella
Director

Geronimo P. Bella, Jr.
Chairman of the Board

Ignatius A. Rodriguez
Director/Corporate Secretary

KEY Officers

(Standing: L-R)

Ignatius A. Rodriguez
Chief of Staff/Corporate Information Officer

Ricardo Rodrigo P. Bella
Vice President

Geronimo P. Bella, Jr.
President

Adelia D. Vasquez
Chief Finance Officer/Compliance Officer

Dany Cleo B. Uson
Treasurer/Investor Relations Officer/ Corporate Planning Manager

MANAGEMENT
Team

(Standing: L-R)

Pedro C. Mangussad, Jr.
Technical Manager

Elionarda L. Refil
General Services Manager

Cecilia Melany G. Natividad
Accounting Manager

Edwin G. Amejana
Commercial Manager

Lorenzo C. Caranzo
Operations Manager

Ligert Bryan L. Lee
Business Development Manager

(Seated: L-R)

Virginia May P. Bella
Legal Services Manager

Maricel V. Blanco
Internal Audit Manager

Ma. Elizabeth E. Bella
Procurement Officer-in-Charge

Effel T. Santillan
Human Resources Manager

Statement of Management's Responsibility for FINANCIAL STATEMENTS

The management of the Harbor Star Shipping Services, Inc. and its Subsidiary (the "Group") is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated, including the additional components attached therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Isla Lipana & Co., the independent auditors appointed by the shareholders of the Parent Company, has examined the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the shareholders of the Parent Company, has expressed its opinion on the fairness of presentation upon completion of such examination.

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

MR. RICARDO RODRIGO P. BELLA
CHIEF OPERATING OFFICER

MS. ADELIA D. VASQUEZ
CHIEF FINANCIAL OFFICER

pwc

Isla Lipana & Co.

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harbor Star Shipping Services, Inc. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of total comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Harbor Star Shipping Services, Inc. and its Subsidiaries
Page 2

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on March 14, 2014.

Isla Lipana & Co,

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2016, Makati City
SEC A.N. (individual) as general auditors 1202-A, Category A; effective until April 30, 2016
SEC A.N. (Firm) as general auditors 0009-FR-4; effective until July 15, 2018
TIN 152-015-078
BIR A.N. 08-000745-42-2015, issued on January 20, 2015; effective until January 19, 2018
BOA/PRC Reg. No. 0142, effective until December 31, 2016

Makati City
March 16, 2016

Isla Lipana & Co.

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

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

We have audited the consolidated financial statements of Harbor Star Shipping Services, Inc. (the "Parent Company") and its Subsidiaries, collectively referred to as "the Group", as at and for the year ended December 31, 2015, on which we have rendered the attached report dated March 16, 2016. The supplementary information shown in the Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration, a Map Showing the Relationships between and among the Parent Company and its Subsidiary and Associates and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2015, as additional components required by Part I, Section 4 of Rule 68 of the SRC, and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the SRC Code, are presented for purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the SRC.

Isla Lipana & Co,

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2016, Makati City
SEC A.N. (individual) as general auditors 1202-A, Category A; effective until April 30, 2016
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BOA/PRC Reg. No. 0142, effective until December 31, 2016

Makati City
March 16, 2016

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2015 and 2014
(All amounts in Philippine Peso)

	Notes	2015	2014
ASSETS			
Current assets			
Cash	2	124,797,892	93,565,923
Trade and other receivables, net	3	329,609,853	229,359,262
Advances to related party	21	9,389,948	9,389,948
Prepayments and other current assets	4	53,395,343	99,539,631
Total current assets		517,193,036	431,854,764
Non-current assets			
Property and equipment at revalued amounts	6	1,552,387,405	1,141,046,533
Property and equipment at cost	7	370,638,834	570,023,609
Investment properties	8	23,982,490	5,879,413
Investment in associate	5	10,924,435	9,954,453
Other non-current assets, net	9	148,028,048	101,609,000
Total non-current assets		2,105,961,212	1,828,513,008
Total assets		2,623,154,248	2,260,367,772
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	198,163,233	180,939,115
Short-term loans	11	196,000,000	112,000,000
Borrowings, current portion	11	253,635,382	133,432,673
Finance lease liability, current portion	22	3,155,782	2,972,448
Advances from related parties	21	-	2,152,434
Income tax payable		37,079,322	40,260,142
Total current liabilities		688,033,719	471,756,812
Non-current liabilities			
Borrowings, net of current portion	11	357,556,665	233,271,017
Finance lease liability, net of current portion	22	33,993,120	37,148,902
Deferred income tax liabilities, net	24	47,540,115	75,922,274
Retirement benefit obligation	20	60,589,258	45,242,801
Total non-current liabilities		499,679,158	391,584,994
Total liabilities		1,187,712,877	863,341,806
Equity			
Attributable to owners of the Parent Company			
Share capital	12	605,238,580	605,238,580
Additional paid-in-capital	12	121,632,762	121,632,762
Revaluation surplus, net of tax	6	183,225,484	217,868,417
Cumulative translation difference	30.23	1,793,195	(1,429,097)
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings		526,179,026	447,976,197
		1,437,909,047	1,391,126,859
Non-controlling interest		(2,467,676)	5,899,107
Total equity		1,435,441,371	1,397,025,966
Total liabilities and equity		2,623,154,248	2,260,367,772

The notes on pages 1 to 56 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Total Comprehensive Income
For the years ended December 31, 2015 and 2014
(With comparative figures for the year ended December 31, 2013)
(All amounts in Philippine Peso)

	Notes	2015	2014	2013
Service income, net	15	1,040,243,517	1,103,857,628	898,695,497
Cost of services	16	(694,558,002)	(755,382,776)	(577,199,936)
Gross profit		345,685,515	348,474,852	321,495,561
General and administrative expenses	17	(208,490,115)	(172,420,614)	(128,512,785)
Other income, net	19	6,583,653	29,205,041	7,420,874
Operating profit		143,779,053	205,259,279	200,403,650
Finance cost				
Interest expense	11	(36,821,370)	(23,766,686)	(44,577,929)
Foreign exchange loss on borrowings	25	(1,396,810)	(3,032,874)	-
		(38,218,180)	(26,799,560)	(44,577,929)
Share in profit (loss) of associates	5	969,982	542,703	(387,216)
Profit before income tax		106,530,855	179,002,422	155,438,505
Income tax expense	24	(38,813,405)	(55,344,806)	(46,956,742)
Profit for the year		67,717,450	123,657,616	108,481,763
Other comprehensive (loss) income				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	(5,154,601)	(556,810)	944,790
Items that will be subsequently reclassified to profit or loss				
Fair value loss on available-for-sale financial assets	9	-	(160,000)	-
Total other comprehensive (loss) income, net of tax		(5,154,601)	(716,810)	944,790
Total comprehensive income for the year		62,562,849	122,940,806	109,426,553
Profit attributable to:				
Owners of the parent		76,084,233	124,473,077	108,481,763
Non-controlling interest		(8,366,783)	(815,461)	-
		67,717,450	123,657,616	108,481,763
Total comprehensive income (loss) attributable to:				
Owners of the parent		70,929,632	123,756,267	109,426,553
Non-controlling interest		(8,366,783)	(815,461)	-
		62,562,849	122,940,806	109,426,553
Earnings per share				
Basic and diluted	14	0.13	0.21	0.24

The notes on pages 1 to 56 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014
(With comparative figures for the year ended December 31, 2013)
(All amounts in Philippine Peso)

	Equity attributable to equity shareholders of the Parent Company								
	Share capital (Note 12)	**Additional paid-in capital** (Note 12)	**Revaluation surplus** (Note 6)	**Cumulative translation difference** (Note 30.23)	**Fair value reserve on available-for-sale financial assets**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2013	423,638,580	-	274,113,152	-	-	193,040,853	890,792,585	-	890,792,585
Comprehensive income									
Profit for the year	-	-	-	-	-	108,481,763	108,481,763	-	108,481,763
Other comprehensive income								-	
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	944,790	944,790	-	944,790
Total comprehensive income	-	-	-	-	-	109,426,553	109,426,553	-	109,426,553
Depreciation transfer of revaluation surplus	-	-	(21,601,802)	-	-	21,601,802	-	-	-
Transactions with owners									
Issuance of common shares (Note 12)	181,600,000	146,203,891	-	-	-	-	327,803,891	-	327,803,891
Transaction costs of issuing common shares (Note 12)	-	(24,571,129)	-	-	-	-	(24,571,129)	-	(24,571,129)
Declaration of cash dividends (Note 13)	-	-	-	-	-	(14,827,350)	(14,827,350)	-	(14,827,350)
Total transactions with owners	181,600,000	121,632,762	-	-	-	(14,827,350)	288,405,412	-	288,405,412
Balances at December 31, 2013	605,238,580	121,632,762	252,511,350	-	-	309,241,858	1,288,624,550	-	1,288,624,550
Comprehensive income									
Profit for the year	-	-	-	-	-	124,473,077	124,473,077	(815,461)	123,657,616
Other comprehensive loss									
Remeasurements on retirement benefits, net of tax (Note20)	-	-	-	-	-	(556,810)	(556,810)	-	(556,810)
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	-	(160,000)	-	(160,000)	-	(160,000)
Total comprehensive income	-	-	-	-	(160,000)	123,916,267	123,756,267	(815,461)	122,940,806
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,642,933)	-	-	34,642,933	-	-	-
Translation adjustments (Note 30.23)	-	-		(1,429,097)		1,358,489	(70,608)	(86,297)	(156,905)
Transactions with owners									
Non-controlling interest	-	-		-		-	-	6,800,865	6,800,865
Declaration of cash dividends (Note 13)	-	-	-	-	-	(21,183,350)	(21,183,350)	-	(21,183,350)
Total transactions with owners	-	-	-	-	-	(21,183,350)	(21,183,350)	6,800,865	(14,382,485)
Balances at December 31, 2014	605,238,580	121,632,762	217,868,417	(1,429,097)	(160,000)	447,976,197	1,391,126,859	5,899,107	1,397,025,966
Comprehensive Income									
Profit for the year	-	-	-	-	-	76,084,233	76,084,233	(8,366,783)	67,717,450
Other comprehensive loss									
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	(5,154,601)	(5,154,601)	-	(5,154,601)
Total comprehensive income	-	-	-	-	-	70,929,632	70,929,632	(8,366,783)	62,562,849
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,642,933)	-	-	34,642,933	-	-	-
Translation adjustments (Note 30.23)	-	-	-	3,222,292	-	(4,255,379)	(1,033,087)	-	(1,033,087)
Transactions with owners									
Declaration of cash dividends (Note 13)	-	-	-	-	-	(23,114,357)	(23,114,357)	-	(23,114,357)
Balances at December 31, 2015	605,238,580	121,632,762	183,225,484	1,793,195	(160,000)	526,179,026	1,437,909,047	(2,467,676)	1,435,441,371

The notes on pages 1 to 56 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(With comparative figures for the year ended December 31, 2013)
(All amounts in Philippine Peso)

	Notes	2015	2014	2013
Cash flows from operating activities				
Profit before income tax		106,530,855	179,002,422	155,438,505
Adjustments for:				
Share in (profit) loss of associate	5	(969,982)	(542,703)	387,216
Provision for impairment of receivables	3,17	18,448,896	936,139	33,177
Provision for impairment of input VAT	9,17	12,306,405	12,306,405	-
Depreciation	6,7,16,17	233,389,097	211,454,091	165,899,386
Retirement benefit expense	18,20	7,982,741	7,310,857	6,717,800
Unrealized foreign exchange loss (gain),net	25	3,159,930	(11,825,999)	(1,263,952)
Gain on sale of property and equipment	19	-	(1,307,997)	(698,794)
Interest income	2,19	(136,862)	(445,548)	(351,244)
Interest expense	11	36,821,370	23,766,686	44,577,929
Operating profit before changes in assets and liabilities		417,532,450	420,654,353	370,740,023
(Increase) decrease in:				
Trade and other receivables		(117,032,318)	19,030,248	(78,781,933)
Prepayments and other current assets		46,144,288	(55,925,937)	(39,312,356)
Advances to related parties		-	(6,329)	-
Other non-current assets		(58,725,453)	(4,301,032)	-
Increase (decrease) in:				
Trade and other payables		16,591,612	(27,240,621)	55,150,832
Advances from related parties		(2,152,434)	(8,216,301)	-
Cash generated from operations		302,358,145	343,994,381	307,796,566
Income taxes paid		(68,167,269)	(81,649,010)	(61,216,151)
Interest received		136,862	445,548	351,244
Net cash from operating activities		234,327,738	262,790,919	246,931,659
Cash flows from investing activities				
Acquisition of property and equipment	6,7,27	(451,139,094)	(280,242,253)	(373,936,592)
Proceeds from disposal of property and equipment		-	2,599,330	713,221
Acquisition of investment properties	8	(18,103,077)	-	-
Dividend received	5	-	109,800	-
Increase in advances to related parties		-	-	30,475,165
Net cash used in investing activities		(469,242,171)	(277,533,123)	(342,748,206)
Cash flows from financing activities				
Increase in other non-current assets	27	-	-	(86,751,480)
Proceeds from issuance of shares	12	-	-	327,803,891
Net proceeds (payments) from short-term loans	11	84,000,000	(73,222,076)	144,822,076
Proceeds from borrowings	11	568,365,688	363,670,816	97,065,010
Payment of borrowings	11	(325,274,139)	(210,384,128)	(332,111,687)
Payment of finance lease liabilities	22	(2,972,448)	(2,888,976)	-
Interest paid	11	(34,227,440)	(21,055,442)	(44,577,929)
Dividends paid	13,27	(23,114,357)	(20,033,158)	-
Increase in advances from related parties		-	-	7,562,288
Net cash from financing activities		266,777,304	36,087,036	113,812,169
Net increase in cash		31,862,871	21,344,832	17,995,622
Cash balance				
Beginning of year		93,565,923	69,530,676	51,482,125
Effect of foreign exchange rate changes on cash		(630,902)	2,690,415	52,929
End of year	2	124,797,892	93,565,923	69,530,676

The notes on pages 1 to 56 are integral part of these consolidated financial statements.

Harbor Star Shipping Services, Inc. and its Subsidiaries

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2015 and 2014
(With comparative figures and notes for the year ended December 31, 2013)
(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 12). 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.

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.

As at December 31, 2015, the Parent Company has 158 shareholders each holding at least 100 common shares (2014 - 160). The Parent Company’s major shareholders are its own directors holding 70.15% of its total issued shares (2014 - 70.47%). The remaining 29.85% of the total issued shares as at December 31, 2015 are held by the public (2014 - 29.53%).

The Parent Company’s registered office, which is also its principal place of business, is located at 2224 A. Bonifacio St. corner South Super Highway, Bangkal, Makati City. It has 416 employees as at December 31, 2015 (2014 - 392 employees).

As at December 31, 2015, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Peak Flag SDN. BHD. and Harbor Star Subic Corp., collectively referred to as the “Group”.

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

	Relationship	% of interest held 2015	2014	2013	Registered place of business/ Country of incorporation	Main activity
Harbor Star Subic Corp. (HSSC)	Subsidiary	100%	-	-	Philippines	Harbor Star Subic Corp. 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.
Peak Flag SDN. BHD. (Peak Flag)	2015 - Subsidiary 2014 - Subsidiary 2013 - Associate	45%	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 Level 18 The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra Kuala Lumpur.
Great Eastern Tug Corporation (GETC)	Associate	20%	20%	20%	Philippines	GETC was incorporated and registered with the Philippine Securities and Exchange Commission (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.

Critical accounting judgments

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

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

Having a significant influence based on the percentage ownership, the Parent Company initially considered Peak Flag as associate. However, effective January 1, 2014, the Parent Company has gained control over the key economic decisions and policies affecting Peak Flag under the duly signed amended shareholders' agreement including majority board representation. Consequently, based on management's judgment and continuous assessment of the Parent Company, Peak Flag is considered as subsidiary as at December 31, 2015 and 2014.

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.

	2015	2014
Total current assets	17,357,627	10,634,520
Total non-current assets	9,651,739	410,827
Total current liabilities	31,352,325	319,698
Net (capital deficiency) equity	(4,342,960)	10,725,649
Total revenue	8,481,374	-
Total expenses	23,693,707	-
Total loss for the year	15,212,333	1,482,655
Total other comprehensive income for the year	-	-
Total comprehensive loss for the year	15,212,333	1,482,655
Net cash used in operating activities	16,634,120	2,847,451
Net cash from financing activities	-	-
Net cash from investing activities	9,240,912	-

1.2 Approval of the consolidated financial statements

The consolidated financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 10, 2016. There were no events subsequent to date of the consolidated financial statements up to opinion date, March 16, 2016, which would require adjustments or disclosures in these consolidated financial statements.

Note 2 - Cash

Cash at December 31 consist of:

	2015	2014
Cash in banks	120,952,347	90,480,942
Cash on hand	2,325,882	3,084,981
Short-term placements	1,519,663	-
	124,797,892	93,565,923

Interest income earned from cash in banks and short-term placements for the year ended December 31, 2015 amounted to P136,862 (2014 - P445,548; 2013 - P351,244) (Note 19).

Note 3 - Trade and other receivables, net

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

	2015	2014
Trade receivables	345,253,719	212,930,892
Less: allowance for impairment of trade receivables	(19,844,693)	(1,395,797)
	325,409,026	211,535,095
Advances to employees	4,200,827	17,824,167
	329,609,853	229,359,262

The movements in allowance for impairment of trade receivables for the years ended December 31 are as follows:

	Note	2015	2014
Beginning of year		1,395,797	684,658
Provision	17	18,448,896	936,139
Write-off		-	(225,000)
End of year		19,844,693	1,395,797

For the year ended December 31, 2015, provision for impairment of trade receivables amounting to P18,448,896 (2014 - P936,139; 2013 - P33,177) was charged to general and administrative expenses (Note 17), as results of management's assessment of collectability.

For the year ended December 31, 2014, the Group has written-off uncollected receivable which was previously provided with allowance amounting to P225,000. The Group has not written off any receivables for the year ended December 31, 2015.

The carrying value of trade and other receivables as at December 31, 2015 and 2014 approximates their fair value as at reporting date.

Critical accounting judgment

Allowance for impairment of receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of provision is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables, designed to identify potential charges to the provision, is performed on a continuous basis throughout the year. Management evaluates specific accounts of customers who are unable to meet their financial obligations. In these cases, management uses judgment based on the best available facts and circumstances, including but not limited to, the length of relationship with the customers and the customers' payment history. The amount and timing of recorded expenses for any period would therefore differ based on the judgments made.

In relation to receivables which are past due but not impaired, no provision for impairment for the years ended December 31, 2015, 2014 and 2013 has been determined by management to be necessary considering customer relationship and historical experience. Historically, the Group did not experience any material default from concerned customers.

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 at December 31 consist of:

	Notes	2015	2014
Prepayments		27,962,122	24,236,851
Input value added tax (VAT), net of output VAT - current	9	21,605,543	49,362,645
Advances to suppliers		3,601,416	25,802,852
Refundable deposits	22	226,262	137,283
		53,395,343	99,539,631

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

Note 5 - Investment in associate

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

	2015	2014	2013
Beginning of year	9,954,453	15,085,894	15,473,110
Share in net profit (loss)	969,982	542,703	(387,216)
Dividend received	-	(109,800)	-
Recognition of Peak Flag as subsidiary (Note 30.2)	-	(5,564,344)	-
End of year	10,924,435	9,954,453	15,085,894

Set out below is the summarized financial information of the Parent Company's associate, GETC, at December 31:

	2015	2014	2013
Total current assets	29,750,828	18,229,832	30,254,909
Total non-current assets	27,103,063	32,666,290	38,013,951
Total current liabilities	2,231,716	1,123,857	20,661,111
Net equity	54,622,175	49,772,265	47,607,749
Total revenue	15,060,000	13,376,071	21,692,405
Total profit for the year	4,849,910	2,713,516	6,270,820
Total other comprehensive income	-	-	-
Total comprehensive income	4,849,910	2,713,516	6,270,820

	2015	2014	2013
Net assets, January 1	49,772,265	47,607,749	41,336,929
Profit for the year	4,849,910	2,713,516	6,270,820
Other comprehensive income	-	-	-
Dividends paid	-	(549,000)	-
Net assets, December 31	54,622,175	49,772,265	47,607,749
Group's share in %	20%	20%	20%
Group's share in net assets	10,924,435	9,954,453	9,521,550

Set out below is the summarized financial information of the Parent Company's associate, Peak Flag, at December 31, 2013:

Total current assets	12,365,209
Total liabilities	-
Net equity	12,365,209
Total revenue	-
Total loss for the year	3,645,511
Total other comprehensive income	-
Total comprehensive loss	3,645,511

Net assets, January 1	16,010,720
Loss for the year	(3,645,511)
Translation gain	-
Other comprehensive income	-
Dividends paid	-
Net assets, December 31	12,365,209
Group's share in %	45%
Group's share in net assets	5,564,344

Critical accounting judgment

Impairment of investment in associate

The Group's investment in associate 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, 2015 and 2014, 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 associate may not be recoverable.

Note 6 - Property and equipment at revalued amounts

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

	Notes	2015	2014
As at January 1			
Revalued amount		2,381,946,540	2,235,705,133
Accumulated depreciation		(1,240,900,007)	(1,083,393,779)
Net carrying amount		1,141,046,533	1,152,311,354
Year ended December 31			
Opening net carrying amount		1,141,046,533	1,152,311,354
Additions		80,700,205	54,103,071
Reclassification from property and equipment at cost	7	514,057,714	92,138,336
Depreciation	16	(183,417,047)	(157,506,228)
Closing net carrying amount		1,552,387,405	1,141,046,533
At December 31			
Revalued amount		2,976,704,459	2,381,946,540
Accumulated depreciation		(1,424,317,054)	(1,240,900,007)
Net carrying amount		1,552,387,405	1,141,046,533

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	2015	2014
As at January 1			
Cost		1,347,555,952	1,201,314,545
Accumulated depreciation		(517,750,015)	(409,733,691)
Net carrying amount		829,805,937	791,580,854
Year ended December 31			
Opening net carrying amount		829,805,937	791,580,854
Additions		80,700,205	54,103,071
Reclassification from property and equipment at cost	7	514,057,714	92,138,336
Depreciation		(133,927,143)	(108,016,324)
Closing net carrying amount		1,290,636,713	829,805,937
At December 31			
Cost		1,942,313,871	1,347,555,952
Accumulated depreciation		(651,677,158)	(517,750,015)
Net carrying amount		1,290,636,713	829,805,937

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

	Note	2015	2014
Beginning of year		311,240,596	360,730,500
Amortization of revaluation increment through depreciation		(49,489,904)	(49,489,904)
End of year, gross of tax		261,750,692	311,240,596
Deferred income tax liability (at 30%)	24	(78,525,208)	(93,372,179)
End of year, net of tax		183,225,484	217,868,417

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 11). As at December 31, 2015, the Group's tugboats used as collaterals have net carrying amount of P937,111,065 (2014 - P480,245,919).

The cost of fully depreciated tugboats still used in operation amounted to P184,174,945 in 2015 and 2014.

Critical accounting estimates

Useful lives of property and equipment at revalued amounts

The Group's management determines the estimated useful lives for its property and equipment at revalued amounts 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.

A reduction/increase in the estimated useful life would impact the recorded net carrying amounts of property and equipment at revalued amounts 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, 2011. The valuation was determined by reference to recent market transactions on arm's length terms. 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 date based on recent acquisitions of similar assets. The Group considers revaluing its assets in 2016.

Note 7 - Property and equipment at cost

Details of property and equipment at December 31 are as follows:

	Land	Barges	Building and building improvements	Transportation equipment	Diving and oil spill equipment	Furniture, fixtures and leasehold improvements	Construction-in-progress	Total
As at January 1, 2014								
Cost	39,556,011	215,006,889	25,676,701	37,885,904	84,628,078	2,870,373	16,481,702	422,105,658
Accumulated depreciation	-	(45,900,892)	(13,680,326)	(24,418,094)	(69,950,069)	(2,625,267)	-	(156,574,648)
Net carrying amount	39,556,011	169,105,997	11,996,375	13,467,810	14,678,009	245,106	16,481,702	265,531,010
Year ended December 31, 2014								
Opening net carrying amount	39,556,011	169,105,997	11,996,375	13,467,810	14,678,009	245,106	16,481,702	265,531,010
Additions	-	81,824,593	151,786	14,231,750	13,393,420	16,429	342,252,153	451,870,131
Disposals								
Cost	-	-	-	(7,138,000)	-	-	-	(7,138,000)
Accumulated depreciation	-	-	-	5,846,667	-	-	-	5,846,667
Reclassification (Note 6)	-	-	-	-	-	-	(92,138,336)	(92,138,336)
Depreciation	-	(33,707,264)	(2,693,195)	(6,181,727)	(11,233,703)	(131,974)	-	(53,947,863)
Closing net carrying amount	39,556,011	217,223,326	9,454,966	20,226,500	16,837,726	129,561	266,595,519	570,023,609
At December 31, 2014								
Cost	39,556,011	296,831,482	25,828,487	44,979,654	98,021,498	2,886,802	266,595,519	774,699,453
Accumulated depreciation	-	(79,608,156)	(16,373,521)	(24,753,154)	(81,183,772)	(2,757,241)	-	(204,675,844)
Net carrying amount	39,556,011	217,223,326	9,454,966	20,226,500	16,837,726	129,561	266,595,519	570,023,609
Year ended December 31, 2015								
Opening net carrying amount	39,556,011	217,223,326	9,454,966	20,226,500	16,837,726	129,561	266,595,519	570,023,609
Additions	-	31,980,704	259,868	6,795,605	18,611,372	983,435	306,368,590	364,999,574
Reclassification (Note 6)	-	-	-	-	-	-	(514,057,714)	(514,057,714)
Depreciation	-	(30,994,895)	(2,498,583)	(6,453,736)	(9,782,963)	(241,873)	-	(49,972,050)
Translation adjustments	-	-	-	-	-	(13,917)	(340,668)	(354,585)
Closing net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	58,565,727	370,638,834
At December 31, 2015								
Cost	39,556,011	328,812,186	26,088,355	51,775,259	116,632,870	3,870,237	58,906,395	625,641,313
Accumulated depreciation	-	(110,603,051)	(18,872,104)	(31,206,890)	(90,966,735)	(2,999,114)	-	(254,647,894)
Cumulative translation adjustments	-	-	-	-	-	(13,917)	(340,668)	(354,585)
Net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	58,565,727	370,638,834

As at December 31, 2015, the cost of fully depreciated property and equipment still used in operation amounted to P83,687,328 (2014 - P77,438,786).

As at December 31, 2015, the Group's unpaid acquisitions of property and equipment amounted to P66,838,447 (2014 - P72,632,348).

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

	Notes	2015	2014	2013
Cost of services	16	38,085,928	41,809,914	33,688,504
General and administrative expenses	17	11,886,122	12,137,949	11,070,061
		49,972,050	53,947,863	44,758,565

Construction-in-progress as at December 31, 2014 mainly comprise of new tugboats being constructed outside the Philippines as well as on-going software development covering business processes of the Parent Company.

Construction-in-progress as at December 31, 2015 mainly comprise of on-going software development covering business processes of the Parent Company and of a new building being constructed.

Total cost incurred as at December 31, 2015 for the on-going software development amounted to P21,018,381 (2014 - P12,018,381).

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 11) amounted to P12.2 million and P106.1 million, respectively, as at December 31, 2015 (2014 - P10.9 million and P92 million, respectively).

As at December 31, 2015, barges include an asset held under finance lease amounting to P76,890,554 (2014 - P68,694,432) (Note 22).

Critical accounting estimates

Useful lives of property and equipment at cost

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

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

Critical accounting judgment

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

As at December 31, 2015 and 2014, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment may not be recoverable.

Note 8 - Investment properties

As at December 31, 2015 and 2014, 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:

	2015	2014
Beginning of year	5,879,413	5,879,413
Additions	18,103,077	-
End of year	23,982,490	5,879,413

The estimated fair value of the investment properties as at December 31, 2015 amounted to P24.3 million (2014 - P7.9 million), based on the recent selling price per square meter (Note 30.7).

There were no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2015 and 2014.

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, 2015 and 2014, 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 properties may not be recoverable.

Note 9 - Other non-current assets, net

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

	Note	2015	2014
Input VAT, net of output VAT		166,179,826	107,454,373
Less: allowance for impairment of input VAT		(24,612,810)	(12,306,405)
Input VAT, net		141,567,016	95,147,968
Lease guarantee deposit	22	4,301,032	4,301,032
Available-for-sale financial assets		810,000	810,000
Others		1,350,000	1,350,000
		148,028,048	101,609,000

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

	Note	2015	2014
Beginning of year		12,306,405	-
Provision for impairment	17	12,306,405	12,306,405
End of year		24,612,810	12,306,405

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, 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, 2015, P21,605,543 presented under "Prepayments and other current asset" in the statement of financial position (2014 - P49,362,645) will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P141,567,016 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2014 - P95,147,968).

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

Note 10 - Trade and other payables

Trade and other payables at December 31 consist of:

	Note	2015	2014
Trade payable		103,406,305	103,023,094
Advances from customers - construction contract	23	29,781,859	-
Accrued expenses			
Fuel		14,502,050	15,239,286
Marketing		13,549,935	9,555,063
Interest		5,305,174	2,711,244
Tug assistance		1,414,980	8,371,227
Others		12,232,333	24,270,706
Unearned income		11,024,273	8,647,344
Advances from officers and employees		3,685,047	2,642,495
Payable to government agencies		2,899,026	3,715,596
Others		362,251	2,763,060
		198,163,233	180,939,115

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

Accrued expenses are obligations on the basis of normal credit terms and do not bear interest. These pertain to accruals made for professional fees and delivered goods and services not yet billed by suppliers as of reporting period. Accruals are made based on prior month's billings and/or contracts and are normally settled within twelve (12) months from the reporting period.

Unearned income pertains to advance collection from customers.

Other accruals mainly composed payable to insurance companies which are expected to be settled in the subsequent year.

Note 11 - Short-term loans and borrowings

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

	2015	2014
Current		
Short-term loans	196,000,000	112,000,000
Current portion of long term borrowings	253,635,382	133,432,673
Non-current		
Long-term borrowings	357,556,665	233,271,017
	807,192,047	478,703,690

As at December 31, 2015 and 2014, the Group's unsecured short-term loans from local banks bear interest rates ranging from 4.5% to 5.5% and have maturity of one to three months from reporting date.

As at December 31, 2015, the Group's long-term borrowings bear annual interest rate ranging from 7.51% to 14. 65% (2014- 6.5% to 13.5%) subject to repricing and are payable in various installments maturing on various dates up to 2022. These are secured by chattel mortgages to certain Group-owned tugboats (Note 6), transportation equipment and barges (Note 7).

The long-term borrowings agreement requires compliance by Parent Company to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2015 and 2014, Parent Company had complied with those financial ratios.

Both short-term loans and long-term borrowings were obtained specifically for working capital purposes.

Total interest expense from borrowings charged to profit or loss for the year ended December 31, 2015 amounted to P36,821,370 (2014 - P23,766,686; 2013 - P44,577,929). There are no qualifying assets as at December 31, 2015 and 2014, hence, no borrowing costs are capitalized.

Note 12 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2015 and 2014 are as follows:

	Shares	Amount
Common shares at P1 par value share		
Authorized	1.5 billion	1.5 billion
Issued and outstanding	605,238,580	605,238,580

There were no issuance of shares for the years ended December 31, 2015 and 2014.

As discussed in Note 1.1, on October 30, 2013, the IPO of the Parent Company's shares were issued with an offer price of P1.88 per share. Total shares registered and subscribed was 181.6 million shares resulting to 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.

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

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

Note 13 - Dividend declaration

On February 6, 2013, the Parent Company's BOD approved the declaration of cash dividends amounting to P14.8 million (P0.035 per share), in favor of the Parent Company's existing shareholders of record as at December 31, 2012. In 2013, the Parent Company had a non-cash transaction with its shareholders in which both parties agreed to offset the shareholders' cash dividends against its advances from the Parent Company (Note 27).

On June 2, 2014, the Parent Company's BOD approved the declaration of cash dividends amounting to P21.2 million (P0.035 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 P23.1 million (P0.038 per share), in favor of the Parent Company's existing shareholders of record as at July 10, 2015 and was paid on August 5, 2015.

Note 14 - Earnings per share

The calculation of earnings per share at December 31 is as follows:

	2015	2014	2013
Profit for the year attributable to owners of the Parent Company	76,084,233	124,473,077	108,481,763
Weighted average number of common shares	605,238,580	605,238,580	453,905,247
Basic and diluted earnings per share	0.13	0.21	0.24

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting period and the date of completion of these consolidated financial statements.

Note 15 - Service income, net

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

	Note	2015	2014	2013
Harbor assistance, net of discounts		741,913,577	796,225,802	728,116,282
Lighterage services		202,429,743	125,514,847	120,582,576
Salvage income		31,060,024	50,714,351	21,005,033
Towing services		16,894,364	99,993,704	20,935,017
Income from construction contract	23	12,628,855	-	-
Others		35,316,954	31,408,924	8,056,589
		1,040,243,517	1,103,857,628	898,695,497

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 P78.7 million (2014 - P92.2 million; 2013 - P115.7 million).

Others consist of income generated from diving and other underwater services, among others.

All of the above revenues are considered as one business segment of the Group.

Note 16 - Cost of services

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

	Notes	2015	2014	2013
Depreciation	6,7	221,502,975	199,316,142	154,829,325
Personnel costs	18	142,653,209	138,879,762	112,836,677
Fuel and lubricants		127,668,490	224,590,722	134,135,771
Supplies		48,566,131	46,661,492	37,405,490
Outside services		46,099,142	32,090,491	27,754,026
Insurance		33,458,995	32,025,915	40,332,842
Charter hire		17,618,491	16,097,063	23,530,230
Repairs and maintenance		14,737,646	19,194,058	14,859,416
Port expense		10,001,269	10,729,496	8,045,158
Professional fees		5,654,747	5,983,650	3,864,112
Rent	22	2,464,422	239,695	503,367
Taxes and licenses		849,888	3,656,758	1,874,226
Others		23,282,597	25,917,532	17,229,296
		694,558,002	755,382,776	577,199,936

Others mainly composed of expenses such as travel and transportation, 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	2015	2014	2013
Personnel costs	18	74,774,651	65,935,284	55,443,298
Transportation and travel		20,375,650	21,120,890	11,878,833
Provision for impairment of trade receivable	3	18,448,896	936,139	33,177
Professional and management fees		15,183,661	10,463,779	4,504,498
Representation and entertainment		13,958,003	13,773,821	8,657,949
Provision for impairment of input VAT	9	12,306,405	12,306,405	-
Depreciation	7	11,886,122	12,137,949	11,070,061
Taxes and licenses		9,113,428	5,668,460	2,737,629
Supplies		5,051,670	3,295,308	3,836,953
Advertising and promotions		4,789,108	5,469,978	2,644,860
Communications		4,590,153	3,891,769	2,796,550
Rent	22	3,244,919	1,245,398	750,180
Repairs and maintenance		2,735,345	2,233,939	2,830,097
Insurance		2,234,313	1,642,827	1,101,829
Utilities		1,791,861	1,459,748	1,493,594
Fuel and lubricants		1,791,326	2,752,192	3,043,392
Outsourced services		1,259,185	1,175,988	24,271
Others		4,955,419	6,910,740	15,665,614
		208,490,115	172,420,614	128,512,785

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

Note 18 - Personnel costs

The components of employee benefit expense for the years ended December 31 are:

	Note	2015	2014	2013
Cost of services				
Salaries and wages		77,177,172	69,586,165	57,825,202
Crew expense		33,569,578	41,146,551	29,350,558
Tug and barge operations		15,059,402	13,676,028	13,368,037
Retirement benefit expense	20	5,587,919	3,655,428	4,702,460
Other employee benefits		11,259,138	10,815,590	7,590,420
		142,653,209	138,879,762	112,836,677
General and administrative expenses				
Salaries and wages		65,267,625	55,458,088	49,184,835
Retirement benefit expense	20	2,394,822	3,655,429	2,015,340
Other employee benefits		7,112,204	6,821,767	4,243,123
		74,774,651	65,935,284	55,443,298
		217,427,860	204,815,046	168,279,975

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

Note 19 - Other income, net

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

	Notes	2015	2014	2013
Foreign exchange gain, net	25	3,180,020	16,680,889	2,127,016
Insurance claims		3,022,242	7,163,779	420,000
Interest income	2	136,862	445,548	351,244
Gain on sale of property and equipment		-	1,307,997	698,794
Ship management		-	1,388,905	1,572,289
Others		244,529	2,217,923	2,251,531
		6,583,653	29,205,041	7,420,874

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

Others pertain to recharges and special projects provided by the Group to its customers which do not fall under regular service income.

Note 20 - Retirement benefit

The Parent Company has an unfunded non-contributory 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.

The amount recognized in the consolidated statement of financial position as at December 31 is as follows:

	2015	2014
Present value of defined benefit obligation	60,589,258	45,242,801

The Parent Company does not have any plan assets.

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

	2015	2014
Beginning of year	45,242,801	37,136,500
Current service cost	5,933,900	5,390,900
Interest cost	2,048,841	1,919,957
Remeasurement (gain) loss due to:		
Experience adjustments	10,675,928	(1,957,456)
Changes in demographic assumptions	(3,312,212)	2,752,900
End of year	60,589,258	45,242,801

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

	2015	2014	2013
Current service cost	5,933,900	5,390,900	4,946,900
Net interest cost	2,048,841	1,919,957	1,770,900
Retirement benefit expense	7,982,741	7,310,857	6,717,800

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

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

	Note	2015	2014	2013
Due to change in demographic assumption		(3,312,212)	2,752,900	2,093,200
Due to experience		10,675,928	(1,957,457)	(3,442,900)
Remeasurement loss (gain)		7,363,716	795,443	(1,349,700)
Deferred income tax (benefit) expense	24	(2,209,115)	(238,633)	404,910
Remeasurement loss, net of tax		5,154,601	556,810	(944,790)

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 consolidated statement of financial position follows:

	Note	2015	2014	2013
Beginning of year		11,680,578	11,123,767	12,068,557
Remeasurement loss (gain) for the year		7,363,716	795,444	(1,349,700)
Deferred income tax effect	24	(2,209,115)	(238,633)	404,910
End of year, net of tax		16,835,179	11,680,578	11,123,767

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

	2015	2014
Less than one year	1,528,200	1,071,703
More than one year to five year	41,704,186	4,475,993
More than five years to 10 years	36,323,099	37,291,927
More than 10 years to 15 years	54,191,177	42,422,199
More than 15 years to 20 years	73,133,905	52,973,603
More than 20 years	183,588,090	128,391,050
Total expected payments	390,468,657	266,626,475

The average duration of the defined benefit obligation at the end of the reporting period is 18.59 years (2014 - 18.30 years).

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 pensions 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 were as follows:

	2015	2014
Discount rate	5.09%	4.57%
Salary growth rate	5.00%	5.00%

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

	2015			2014		
	Increase (decrease) on defined benefit obligation					
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rates	1%	(5,616,474)	6,583,060	1%	(4,470,100)	5,265,200
Salary growth rate	1%	6,200,406	(5,407,820)	1%	4,946,800	(4,298,300)

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 in the consolidated statement of financial position.

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

Note 21 - Related party transactions and balances

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

	Terms and conditions	2015	2014	2013
(a) Purchase of services				
Associate	Services rendered to the Parent Company are billed based on agreed prices. These are unsecured, non-interest bearing and are payable within 30 days after invoice date.	6,964,286	5,892,857	4,285,714
(b) Advances to related party				
Entity under common control	Reimbursements from related party are billed at cost and collectible on demand. These receivables are unsecured and non-interest bearing.	-	6,329	10,365,460
(c) Advances from related parties				
Shareholders	Reimbursements to related parties are billed at cost and payable on demand. These payables are unsecured and non-interest bearing.	-	12,933,700	23,571,249

Intercompany balances eliminated in these consolidated financial statements pertain to the Parent Company's investments and advances to its subsidiaries amounting to P8,455,724 and P33,042,289, respectively, as at December 31, 2015 (2014 - P5,564,344 and P498,296, respectively).

The Group has no other intercompany transactions. There are no unrealized gains and losses eliminated in the consolidation.

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

	Terms and conditions	2015	2014
Advances to related party:			
Entity under common control	These unsecured, non-interest bearing, due and demandable receivables are settled in cash.	9,389,948	9,389,948
Advances from related parties:			
Shareholders	These unsecured, non-interest bearing, due and demandable payables are paid in cash.	-	2,152,434

Key management compensation and benefits

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

	Terms and conditions	2015	2014	2013
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.	80,511,147	80,478,982	80,454,809
Retirement benefits	Retirement benefits are determined and payable in accordance with policies disclosed in Note 30.18. These will be settled upon retirement of key management.	999,767	999,748	999,721
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	110,000	120,000	120,000
		81,620,914	81,598,730	81,574,530

There are no amounts due from or payable to key management personnel arising from the above compensation arrangement at December 31, 2015 and 2014. 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, 2015, 2014 and 2013.

Note 22 - Lease commitments

(a) Finance lease

On February 27, 2014, the Parent Company entered into a finance lease agreement covering a specific barge for ten years. The annual interest rate of the said agreement is 6%. The first monthly lease payment commenced in September 2014.

This agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,301,032, which is presented within other non-current assets in the consolidated statement of financial position as at December 31, 2015 and 2014 (Note 9).

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

	2015	2014
Not later than 1 year	5,157,030	5,157,030
Later than 1 year but not more than 5 years	20,628,122	20,628,122
More than 5 years	18,909,112	24,066,142
Minimum lease payments	44,694,264	49,851,294
Future finance charges	(7,545,362)	(9,725,944)
Total finance lease liabilities	37,148,902	40,121,350

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

	2015	2014
Not later than 1 year	3,155,782	2,972,448
Later than 1 year but not more than five years	14,693,344	13,839,739
More than five years	19,299,776	23,309,163
	37,148,902	40,121,350

(b) Operating lease

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

These agreements require the Parent Company to pay refundable deposits which are presented within prepayments and other current assets in the consolidated statement of financial position. Refundable deposits amounted to P226,262 as at December 31, 2015 (2014 - P137,283) (Note 4).

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

	Notes	2015	2014	2013
Cost of services	16	2,464,422	239,695	503,367
General and administrative expenses	17	3,244,919	1,245,398	750,180
		5,709,341	1,485,093	1,253,547

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2015 amounted to P194,354 (2014 - P115,663).

Critical accounting judgment

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

Note 23 - Construction contract

In 2015, the Parent Company has entered into an agreement with a third party to construct and repair a jetty in Quezon province. The contract is expected to be rendered within 12 months. As at December 31, 2015, the percentage of completion of the construction agreement is at nineteen percent using cost-to-cost method.

The details of the Parent Company's construction contract for the year ended December 31, 2015 are as follows:

	Notes	
Contract revenue	15	12,628,855
Less: contract costs	16	(6,667,463)
Gross profit		5,961,392

The amount of advance billings to customers for contract work as at December 31, 2015 is as follows:

	Note	
Contract revenue		12,628,855
Less: progress billings to date		(42,410,714)
	10	(29,781,859)

The above net liability is recognized as "advances from customers - construction contract" and presented as part of trade and other payables in the consolidated statement of financial position.

Note 24 - Income tax expense

The Parent Company's deferred income tax (DIT) assets (liabilities), net as at December 31 consist of:

	2015	2014
DIT assets		
Retirement benefit obligation	18,176,777	13,572,840
Allowance for impairment of input VAT	7,383,843	3,691,922
Allowance for impairment of receivables	5,953,408	418,739
Unearned income		2,594,204
Accrued expenses		720,000
	31,514,028	20,997,705
DIT liabilities		
Revaluation increment on property and equipment	(78,525,208)	(93,372,179)
Unrealized foreign exchange gains	(528,935)	(3,547,800)
	(79,054,143)	(96,919,979)
DIT liabilities, net	(47,540,115)	(75,922,274)

The maturity of DIT assets and liabilities are as follows:

	2015	2014
DIT assets:		
Expected to be recovered within 12 months	-	3,314,204
Expected to be recovered more than 12 months	31,514,028	17,683,501
	31,514,028	20,997,705
DIT liabilities		
Expected to be settled within 12 months	(15,375,906)	(18,394,771)
Expected to be settled more than 12 months	(63,678,237)	(78,525,208)
	(79,054,143)	(96,919,979)
	(47,540,115)	(75,922,274)

Due to the loss making position of its subsidiary, Peak Flag, the taxes are mainly relating to the Parent Company's operations.

Peak Flag and HSSC have no DIT assets and liabilities as at December 31, 2015 and 2014.

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

	Note	2015	2014
Beginning of year		75,922,274	106,133,309
DIT credited to profit or loss		(26,173,044)	(29,972,402)
DIT credited to other comprehensive income	20	(2,209,115)	(238,633)
End of year		47,540,115	75,922,274

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

	2015	2014	2013
Current	64,986,449	85,317,208	62,043,083
Deferred	(26,173,044)	(29,972,402)	(15,086,341)
	38,813,405	55,344,806	46,956,742

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

	2015	2014	2013
Income tax computed at 30%	36,576,396	54,145,523	46,631,552
Adjustments to income tax resulting from:			
Non-deductible expenses	2,569,063	1,495,758	314,398
Interest income subjected to final tax	(41,059)	(133,664)	(105,373)
Share in (profit) loss of associates	(290,995)	(162,811)	116,165
Income tax expense	38,813,405	55,344,806	46,956,742

Critical accounting judgment

Significant judgment is required in determining the recorded income tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Group recognizes liabilities for anticipated tax assessment issues when it is probable. The liabilities are based on assessment and judgment of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Group's income tax and DIT provisions in the period in which such determination is made.

Further, 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 amounts to the extent that is probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. The Group's management believes that the DIT assets at the end of each reporting period will be fully realized.

Note 25 - Foreign currency denominated financial assets and liabilities

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

	In USD	In JPY	In MYR
At December 31, 2015			
Assets			
Cash	368,810	1,899,099	686,861
Trade and other receivables	269,793	-	893,749
	638,603	1,899,099	1,580,610
Liabilities			
Trade and other liabilities	-	(146,658,320)	(3,190)
Borrowings	(475,250)	-	-
	(475,250)	(146,658,320)	(3,190)
Net foreign currency assets (liabilities)	163,353	(144,759,221)	1,577,420
Year-end exchange rates	47.17	0.39	10.98
Peso equivalent	7,705,361	(56,456,096)	17,320,072
At December 31, 2014			
Assets			
Cash	522,723	1,158,402	9,193
Trade and other receivables	276,857	-	1,600
	799,580	1,158,402	10,793
Liabilities			
Trade and other liabilities	-	(246,863,481)	(3,190)
Borrowings	(558,250)	-	-
	(558,250)	(246,863,481)	(3,190)
Net foreign currency assets (liabilities)	241,330	(245,705,079)	7,603
Year-end exchange rates	44.72	0.37	12.79
Peso equivalent	10,792,278	(90,910,879)	97,242

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

	Note	2015	2014	2013
Realized foreign exchange gain		4,943,140	1,822,016	863,064
Unrealized foreign exchange (loss) gain		(1,763,120)	14,858,873	1,263,952
	19	3,180,020	16,680,889	2,127,016

Unrealized foreign exchange loss, net on borrowings presented under finance cost in the consolidated statement of total comprehensive income for the year ended December 31 amounted to P1,396,810 (2014 - P3,032,874; 2013 - nil).

Note 26 - 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 consolidated financial statements.

On August 20, 2014, the Parent Company received from the Bureau of Customs (BOC) a seizure order for a particular tugboat by reason of alleged under declaration of the imported tugboat. It is the position of the Parent Company that the seizure order had no legal basis since the Parent Company faithfully paid the proper duties and taxes supported by a certificate of conversion authorizing the clearance of said tugboat. This has been cleared and settled in 2015.

Note 27 - Supplemental disclosure to consolidated statement of cash flows

Non-cash financing activities in 2013 pertain to settlement of cash dividend payable amounting to P14,827,350 through offsetting against receivable from shareholders and charging of the total deferred IPO costs amounting to P24.6 million to additional paid-in capital.

Non-cash financing activities in 2014 pertain to settlement of cash dividends payable amounting to P1,150,192 through offsetting against receivable from shareholders.

Non-cash investing activities in 2014 pertain to acquisition of property and equipment amounting to P152,687,776 using the escrow funds and finance lease amounting to P109,677,448 (Note 9) and P4,301,032 (Note 22), respectively.

Note 28 - 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*

- Revaluation of tugboats (Note 6)
- Useful lives of property and equipment (Notes 6 and 7)
- Retirement benefit obligation (Note 20)

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

- Determining control over investments with ownership of less than half of the entity's total equity (Note 1.1)
- Recoverability of trade and other receivables (Note 3)

- Impairment of investment in associate (Note 5)
- Impairment of property and equipment (Notes 6 and 7)
- Recoverability of input VAT (Note 9)
- Lease agreements (Note 22)
- Current and deferred income tax (Note 24)

Note 29 - Financial risk and capital management

29.1 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.

29.2 Components of financial assets and liabilities

Financial assets

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

	Notes	2015	2014
Cash	2	124,797,892	93,565,923
Trade receivables, gross	3	345,253,719	212,930,892
Advances to related parties	21	9,389,948	9,389,948
Refundable deposits	4	226,262	137,283
Available-for-sale financial assets	9	810,000	810,000
		480,477,821	316,834,046

Trade receivables are presented gross of allowance for impairment amounting to P19,844,693 as at December 31, 2015 (2014 - P1,395,797).

Advances to employees amounting to P4,200,827 as at December 31, 2015 (2014 - P17,824,167) are considered non-financial assets as it is mainly subject to liquidation.

Lease guarantee deposits amounting to P4,301,032 is also considered as non-financial asset as it will be applied as final payment at the end of the finance lease term (Note 9).

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

Financial liabilities

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

	Notes	2015	2014
Trade and other payables	10	154,458,075	168,576,175
Advances from related parties	21	-	2,152,434
Short-term loans	11	196,000,000	112,000,000
Borrowings	11	611,192,047	366,703,690
Finance lease liability	22	37,148,902	40,121,350
		998,799,024	689,553,649

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

	Note	2015	2014
Advances from customers - construction contract	10	29,781,859	-
Unearned income	10	11,024,273	8,647,344
Payable to government agencies	10	2,899,026	3,715,596
		43,705,158	12,362,940

29.3 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 dollars (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 to fund the purchase of certain tugboats (Note 11) 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, 2015, if the US Dollar had strengthened/weakened by 1.25% (2014 - 1.43% weakened/strengthened) with all other variables held constant, pre-tax profit for the year and equity would have been P83,345 lower/higher (2014 - P154,330 higher/lower), mainly as a result of net foreign exchange gains on translation of US Dollar-denominated net foreign currency denominated financial assets.

For the year ended December 31, 2015, if the Japanese Yen had strengthened/weakened by 2.5% (2014 - 0.6% weakened/strengthened) with all other variables held constant, pre-tax profit for the year and equity would have been P1,411,402 higher/lower (2014 - P54,065 lower/higher), mainly as a result of net foreign exchange gains on translation of Japanese Yen-denominated net foreign currency denominated financial liabilities.

For the year ended December 31, 2015, if the Malaysian Ringgit had strengthened/weakened by 4.0% (2014 - 4.57% weakened/strengthened) with all other variables held constant, equity would have been P500,043 higher/lower (2014 - P483,433 lower/higher), mainly as a result of net foreign exchange gains on translation of Malaysian Ringgit-denominated net foreign currency denominated financial assets.

The reasonable possible change in foreign exchange rate used in the sensitivity analysis is the rate of change in foreign currency between the 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 available-for-sale financial assets in the consolidated statement of financial position.

At December 31, 2015 and 2014, the Group's exposure to price risk is not considered significant.

(c) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flows interest rate risk.

At December 31, 2015, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year and equity would have been P2,945,372 (2014 -P2,769,243) lower/higher, mainly as a result of higher/lower interest expense. The reasonable possible shift in interest rates was determined by management based on the average interest rate movements during the last quarter of the year.

The Group has no significant financial assets and liabilities that are subject to fixed interest rates. Accordingly, the Group does not foresee fair value interest rate risk to be significant.

29.4 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 due are as follows:

	Notes	Gross amount	Neither past due nor impaired	Past due but not impaired Up to 60 days	Over 60 days	Overdue and impaired
December 31, 2015						
Cash	2	122,472,010	122,472,010	-	-	-
Trade receivables	3	345,253,719	241,237,887	42,412,308	41,758,831	19,844,693
Advances to related party	21	9,389,948	9,389,948	-	-	-
Refundable deposits	4	226,262	226,262	-	-	-
		477,341,939	373,326,107	42,412,308	41,758,831	19,844,693
December 31, 2014						
Cash	2	90,480,942	90,480,942	-	-	-
Trade receivables	3	212,930,892	146,464,566	24,719,482	40,351,047	1,395,797
Advances to related party	21	9,389,948	9,389,948	-	-	-
Refundable deposits	4	137,283	137,283	-	-	-
		312,939,065	246,472,739	24,719,482	40,351,047	1,395,797

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 2015 and 2014.

As at December 31, 2015 and 2014, the Group holds a maritime lien over the ships owned and operated by a government-owned corporation as security for a receivable amounting to P2,536,633. The carrying amount of the maritime lien amounted to P12,025,458.

Credit quality of fully performing financial assets

(a) Neither past nor impaired

Cash in banks

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

	2015	2014
Universal banks	108,059,482	82,141,759
Commercial banks	10,741,443	7,781,184
Thrift banks	3,671,085	557,999
	122,472,010	90,480,942

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P2,325,882 as at December 31, 2015 (2014 - P3,084,981) (Note 2).

Trade receivables

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As at December 31, 2015, trade receivables amounting to P241,237,887 (2014 - P146,464,566) which are neither past due nor impaired, are fully recoverable and no provision for impairment as a result of management's assessment of existing relationship with these customers and historical experience. To minimize credit risk, the Group transacts only with counterparty with good credit standing.

Advances to related parties

Advances to related parties amounting to P9,389,948 as at December 31, 2015 and 2014 that are neither past due nor impaired consists primarily of various charges and advances for working capital purposes. These advances are fully recoverable as at December 31, 2015 and 2014 and no provision for impairment is required.

Refundable deposits

Refundable deposits amounting to P226,262 as at December 31, 2015 (2014 - P137,283) pertain to deposits made to lessors for the lease of the Group's office space and warehouse, which are refundable at the end of the respective lease term.

(*b*) *Past due but not impaired*

Past due but not impaired trade receivables as at December 31, 2015 amounting to P84,171,139 (2014 - P65,070,529) are related to a number of independent customers with no recent history of default. Management has assessed based on existing relationship with customers and historical experience that these accounts are fully collectible and therefore no provision for impairment is required.

(c) Overdue and impaired

As at December 31, 2015, trade receivables amounting to P19,844,693 (2014 - P1,395,797) were 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.

29.5 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	Due and demandable	Less than 3 months	3-12 months	More than one year
December 31, 2015						
Trade and other payables	10	154,458,075	-	154,458,075	-	-
Short-term loans	11	196,581,250	-	-	196,581,250	-
Borrowings	11	655,194,887		7,878,000	256,352,192	390,964,695
Finance lease liability	22	44,694,264	-	1,289,258	3,867,772	39,537,234
		1,050,928,476	-	163,625,333	456,801,214	430,501,929
December 31, 2014						
Trade and other payables	10	168,576,175	-	168,576,175	-	-
Advances from related parties	21	2,152,434	2,152,434	-	-	-
Short-term loans	11	114,967,500	-	22,135,000	92,832,500	-
Borrowings	11	410,606,612	-	3,508,806	146,622,888	260,474,918
Finance lease liability	22	49,851,294	-	1,289,258	3,867,772	44,694,264
		746,154,015	2,152,434	195,509,239	243,323,160	305,169,182

Short-term loans and long-term borrowings at December 31, 2015 include the undiscounted cash flows on future interest payable of P581,250 and P44,002,840, respectively (2014 - P2,967,500 and P43,902,922, 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. Loans may be obtained only when there is a material capital expenditure.

29.6 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, 2015 and 2014.

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.

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

	2015	2014
Total debt	844,340,949	518,825,040
Total equity	1,252,890,368	1,174,687,539
Debt-to-equity ratio	0.67:1	0.44:1

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

	Notes	2015	2014
Short-term loans	11	196,000,000	112,000,000
Borrowings	11	611,192,047	366,703,690
Finance lease liability	22	37,148,902	40,121,350
		844,340,949	518,825,040

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

	Notes	2015	2014
Share capital	12	605,238,580	605,238,580
Additional paid-in capital	12	121,632,762	121,632,762
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings attributable to the owners of Parent Company		526,179,026	447,976,197
		1,252,890,368	1,174,687,539

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 ten percent (10%) of their listed issued and outstanding shares to be held by public. The Parent Company is compliant with respect to this requirement as at December 31, 2015 and 2014.

Note 30 - 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.

30.1 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), 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. 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 28.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group effective January 1, 2015:

- *Annual improvements 2012 (effective July 1, 2014).* These amendments include changes from the 2010-12 cycle of the annual improvements project.

  - *PFRS 13, Fair value measurement.* When PFRS 13 was published, paragraphs B5.4.12 of PFRS 9 and AG79 of PAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of PFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. The amendment did not have a significant effect on the Group's consolidated financial statements.

- Annual improvements 2013 (effective July 1, 2014). The amendments include changes from the 2011-13 cycle of the annual improvements project.

  - *PFRS 13, Fair value measurement.* The amendment clarifies that the portfolio exception in PFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of PAS 39 or PFRS 9. An entity shall apply the amendment prospectively from the beginning of the first annual period in which PFRS 13 is applied. The amendment did not have a significant effect on the Group's consolidated financial statements since financial instruments measured at fair value are not significant.

Other standards, amendments and interpretations which are effective for the financial year beginning January 1, 2015 are not considered material or relevant to the Group.

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

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2015 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

- *PFRS 9 'Financial Instruments' (effective January 1, 2018).* PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 'Financial Instruments: Recognition and Measurement' 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 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 Group's initial assessment of the potential impact of PFRS 9 is that it is not significant. The Group will update its assessment upon adoption of the new standard. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

- PFRS 15, 'Revenue from Contracts with Customers' (effective January 1, 2018). This standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so that the notion of control replaces the existing notion of risks and rewards.

  The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognize transitional adjustments in retained earnings on the date of initial application, i.e. without restating the comparative period. Entities will only need to apply the new rules to contracts that are not completed as of the date of initial application.

  The Group is assessing the impact of PFRS 15. Based on its initial assessment, management does not expect a significant impact on its consolidated financial statements as a result of the adoption of this standard. The Group will continuously update its assessment on or before adoption of the new standard. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted.

- PFRS 16, 'Leases' (effective January 1, 2018). This standard replaces PAS 17 'Leases'. PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts) has been updated, lessors will also be affected by the new standard.

  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.

  PFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with PFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered"). The Group's initial assessment of the potential impact of PFRS 16 is that it is not significant. The Group will update its assessment upon adoption of the new standard.

- PAS 1 (Amendments), Presentation of financial statements - Disclosure Initiative. The amendments provide clarifications on a number of issues, including:

a) Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

b) Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

c) Notes – confirmation that the notes do not need to be presented in a particular order.

d) OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in PAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments. The amendment is effective for annual periods beginning on or after January 1, 2016. This may impact the disclosure in the consolidated financial statements of the Group but changes if any, are not expected to be significant.

- Annual improvements 2014 (effective January 1, 2016). These amendments include changes from the 2012-14 cycle of the annual improvements project.

  - PAS 19, Employee benefit. The amendment clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise. The amendment did not have a significant effect on the Group's consolidated financial statements.

There are no other standards, amendments or interpretations that are effective beginning after January 1, 2015 that would be expected to have a material impact on the Group.

30.2 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 PAS 39 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.

On January 1, 2014, the Parent Company has obtained control over key operating policies and decision of Peak Flag under a shareholder agreement executed by and between the shareholders of Peak Flag. Consequently, purchase accounting under PFRS 3 has been applied effective January 1, 2014. There was no goodwill or gain on the acquisition because the total carrying value of investments and calculated non-controlling interest is substantially equal to the fair value of the net assets of the subsidiary due to the limited assets acquired and liabilities assumed. The subsidiary is at pre-operating stage as at December 31, 2014 and had limited operating activities in 2015. Non-controlling interest at January 1, 2014 amounted to P6,800,865 calculated using the proportionate share of recognized identifiable net assets of the subsidiary.

The purchase price allocation is presented below:

Consideration		-
Non-controlling interest		6,800,865
Previously held equity interest		5,564,344
Total		12,365,209
Less:	Recognized value of 100% of identifiable assets	
	Cash	2,878,308
	Trade and other receivables	9,486,901
Goodwill		-

(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 subsidiary 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 as other charges to 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.

30.3 Cash

Cash includes cash on hand, deposits held at call with banks and short-term placements. 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.

Short-term placements are cash investments with the banks with maturities of greater than three months up to one year from the dates of acquisition. These are carried in the consolidated statement of financial position at amortized cost using effective interest rate method.

30.4 Financial assets

(a) Classification and presentation

The Group classifies its financial assets in the following categories: (i) loans and receivables, (ii) at fair value through profit or loss, (iii) held-to-maturity and (iv) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Loans and receivables

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

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

Available-for-sale financial assets

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

The Group's available-for-sale financial assets consist of investment in golf club shares (Note 9), which is presented under non-current assets in the consolidated statement of financial position.

(b) Recognition and measurement

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

Loans and receivables

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

Available-for-sale financial assets

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

(c) Impairment

Loans and receivables

The Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant using the criteria above. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss within general and administrative expense.

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

Impairment testing of trade receivables is described in Note 30.8.

Available-for-sale financial assets

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

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

(d) Derecognition

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

30.5 Financial liabilities

(a) Classification and presentation

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

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

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

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

(b) Recognition and measurement

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

The Group's other financial liabilities at amortized cost are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

(c) Derecognition

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

30.6 Offsetting of financial instruments

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

The Group has no financial instruments that meet the offsetting criteria as at December 31, 2015 and 2014.

30.7 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.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's available-for-sale financial asset with quoted market price is valued using Level 1 of the fair value hierarchy.

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

The carrying amount of significant financial assets and liabilities (Note 29.2) approximates their fair value as the impact of discounting is not considered significant considering that the remaining significant financial assets and liabilities generally have short term maturity.

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

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

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

The Group determines the fair value of its investment properties, which is carried at cost (Note 8), 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.

30.8 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, they are classified as current assets. If not, they 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.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Write-offs represent either direct charge against profit or loss at the time the receivable deemed uncollectible or the release of previously recorded provision from the allowance account and credited to the related receivable account following the Group's assessment that the related receivable will no longer be collected after all collection efforts have been exhausted, including filing a legal case.

Subsequent recoveries of amounts previously written-off are credited against the provision account in profit or loss. Reversals of previously recorded impairment provision are credited in profit or loss based on the result of management's update assessments, considering 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 receivable at reporting date.

Receivables are derecognized when actually collected, written-off, the rights to receive cash flows have expired or the Group has transferred substantially all risks and rewards of ownership to the receivable.

30.9 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) which 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.

Prepayments and other non-financial 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.

30.10 Property and equipment

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

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

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

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

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

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

Dry docking cost represent major inspection and overhaul costs and are depreciated to reflect consumption benefits which are to be replaced or restored by the subsequent dry docking generally every two years. 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 cost 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
Diving and oil spill equipment	3 to 5
Furniture, fixtures and leasehold improvements	3 to 4

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and are available for use. Tugboats under construction is classified as "Property and equipment at cost" and subsequently transferred to "Property and equipment at revalued amounts" upon completion.

Leasehold improvements are amortized over the estimated useful life of the improvements, which is shorter than the lease term, considering the renewal option.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 30.13).

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

30.11 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 5 years from the start of its use. Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

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.

As at December 31, 2015 and 2014, the Group's computer software is recorded under property and equipment (Note 7) as this is still in progress as at reporting dates.

Relevant disclosures for Group's accounting policies on impairment of computer software are discussed in Note 30.13.

30.12 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.

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

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

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

30.13 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as land, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property and equipment, investment properties, input VAT and investment in associate, 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 against the provision account in profit or loss.

30.14 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, they 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.

30.15 Borrowings and borrowing cost

Borrowings

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

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

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

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

Borrowing costs

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

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

30.16 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.

30.17 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 investment in associate only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

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

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

The Group re-assesses at each reporting date the need to recognize a previously unrecognized DIT asset, if any.

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

30.18 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 and 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 other comprehensive income in the period in which they 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.

30.19 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.

30.20 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.

30.21 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.

30.22 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.

30.23 Foreign currency transactions and translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiary

The results and financial position of the subsidiary, (which has no currency of a hyperinflationary economy), that have 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 within retained earnings.

As at December 31, 2015, cumulative translation differences recognized in equity amounted to P1,793,195 gain (2014 - P1,429,097 loss).

30.24 Revenue recognition

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

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

(a) Sale of services

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

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

(b) Income from construction contracts

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

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

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. They 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 statement of financial position.

(c) Interest income

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

(d) Dividend income

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

(e) Other income

Other income is recognized in profit or loss when earned.

30.25 Costs and expenses

Costs and expenses are recognized in profit or loss in the period in which they are incurred.

30.26 Leases where Group is a lessee

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

(a) Operating lease

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

(b) Finance lease

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

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated consistent with that for comparable depreciable assets that are owned and the depreciation shall be calculated in accordance with the policy stated in Note 30.10.

30.27 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

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, 2015 and 2014.

30.28 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.

30.29 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 BOD that makes strategic decisions.

As at December 31, 2015, the Group has one operating business segment which pertains to revenue and related economic activities arising from harbor assistance and related services. In 2015, the Group started to operate in Malaysia creating two geographical segments (2014 - one geographical segment, which is Philippines).

Below are the geographical segments of the Group:

	Philippines	Malaysia	Elimination	Total
Revenue	1,031,762,143	8,481,374	-	1,040,243,517
Segment result	158,991,386	(15,212,333)	-	143,779,053
Share in net profit of associate	969,982	-	-	969,982
Finance costs	(38,218,180)	-	-	(38,218,180)
Income tax expense	(38,813,405)	-	-	(38,813,405)
Profit for the year	82,929,783	(15,212,333)	-	67,717,450

	Philippines	Malaysia	Elimination	Total
Segment assets	2,630,468,460	27,009,365	(34,323,577)	2,623,154,248
Segment liabilities	1,188,226,029	31,352,325	(31,865,477)	1,187,712,877
Capital expenditures	426,751,704	9,240,912	-	435,992,616
Depreciation and amortization	233,364,140	24,957	-	233,389,097
Non-cash expenses other than depreciation and amortization	40,927,990	-	-	40,927,990

30.30 Subsequent events (or Events after the reporting date)

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

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