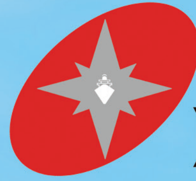

# HARBOR STAR
SHIPPING SERVICES, INC.

## ANNUAL REPORT 2014

Helping Move Commerce and Industry

In Picture: (L-R)
Tug Master Roven T. Gepayo and Chief Engineer Fernando C. Moreno of M/T Adara

# About the **Cover**

For an archipelago such as the Philippines with over 30,000 kilometers of coastline, maritime services are an indispensable part of trade and industry. Cognizant of the vital role that shipping services play, Harbor Star leads the way in providing harbor assistance, lighterage, towage, ship salvage and other marine services in the country.

The time has come to create new horizons and gear up for a more expansive reach. The company is poised to expand its operations to other ports in the domestic and the international market, taking with it the commitment to excellence and expertise that has made it what it is today.

The cover design highlights the value of Harbor Star's operations to the nation's economy and how the company is taking its success beyond borders. It is a proven luminary in the Philippines and it is going full speed ahead to an even brighter future.

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# Company **Profile**

Harbor Star Shipping Services, Inc. (“Harbor Star” or “Company” or “Parent Company”) is a leading integrated maritime service provider in the Philippines. Its line of services includes harbor assistance, lighterage, towage, ship salvage, ship management, diving and underwater marine works, and other specialized services. The Company is headed by Mr. Geronimo P. Bella, Jr., a second generation tugboat company operator, who has been in the industry for four decades.

From a one tugboat company in 1998, Harbor Star now has a fleet of forty-two (42) watercraft comprising of tugboats, barges and specialized vessels. It has the widest coverage of tugboat services in the Philippines. Harbor Star presently services 67 domestic ports and sub-ports. It is the exclusive harbor assist provider of the busiest foreign vessel terminal in the country, the Manila International Container Terminal.

In 2009, Harbor Star obtained an Integrated Management System certification from Det Norske Veritas (now DNV-GL). It is the only domestic tugboat company with a triple certification for ISO 9001:2008 for quality of service, ISO 14001:2004 for environment and OHSAS 18001:2007 for occupational health and safety.

In 2012, Harbor Star was internationally recognized as a ship salvor with its acceptance as a member of the International Salvors Union. Its prior salvage jobs included working with powerhouses Titan Salvage and Svitzer in refloating vessels or retrieving sunken cargo. Harbor Star has the largest private inventory of salvage and oil spill equipment which is strategically deployed in Manila, Batangas, Cagayan de Oro, Cebu, Davao and General Santos.

Also in 2012, Harbor Star expanded its services to include lighterage to cater the logistics needs of the mining and cement industries. The Company’s tug and barge tandems have been transporting iron and nickel ore, coal, cement clinker, limestone, and aggregates since.

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 outstanding shares at an issue price of P1.88.

In 2014, Harbor Star continued its domestic and international expansion program by commencing operations in General Santos and by laying the groundwork in Malaysia and Indonesia in preparation for actual overseas commercial operations by 2015. Simultaneously, the Company focused on developing and marketing its other services such as towage and underwater marine works.

## Core **Values**

**H**onesty
**A**ccountability
**R**eliability
**B**enevolence
**O**rderliness
**R**esourcefulness

**S**ervice-Oriented
**T**rustworthiness
**A**daptability
**R**espect

## Company **Mission**

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

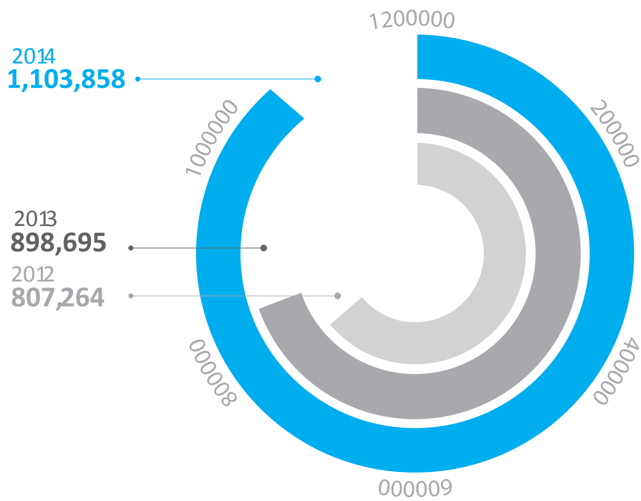
**S**afely, promptly, and efficiently
**T**aking care of the environment
**A**ssuring equitable returns to shareholders
**R**esponsive to employees and stakeholder’s welfare
**S**trictly observing good corporate governance

## Company **Vision**

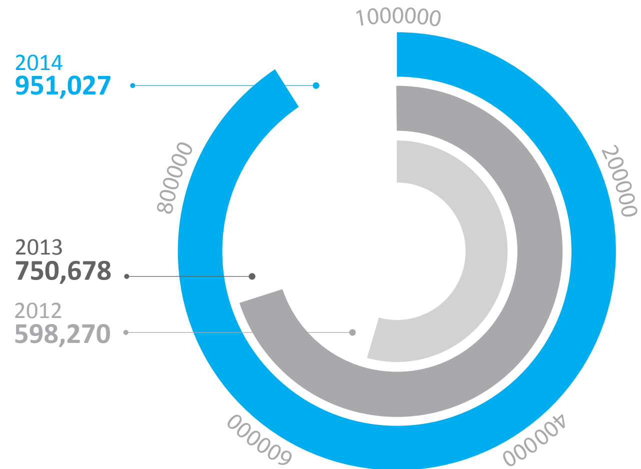
In 2020, Harbor Star Shipping Services, Inc., the leading tug and marine services provider in the Philippines, will be a major player in South East Asia.

# Financial **Highights**

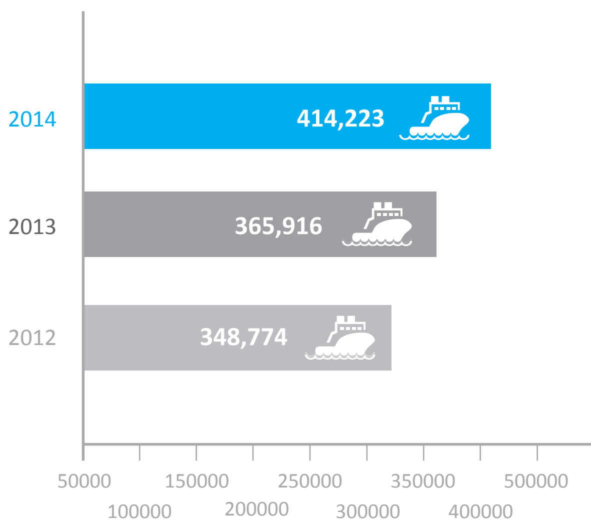
## SERVICE INCOME
(In Thousand Pesos)



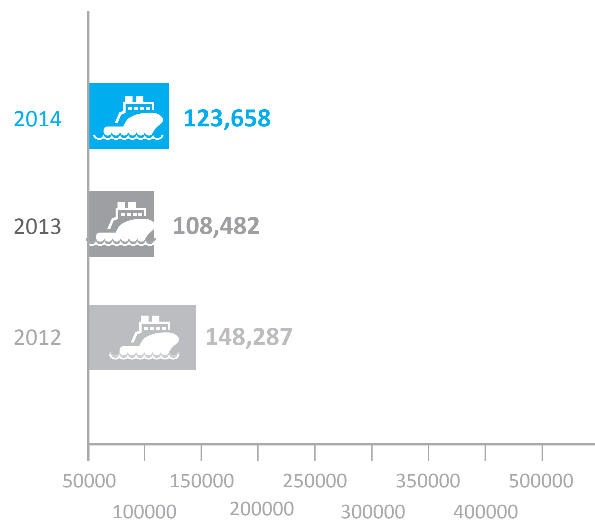

## TOTAL EXPENSES
(In Thousand Pesos)



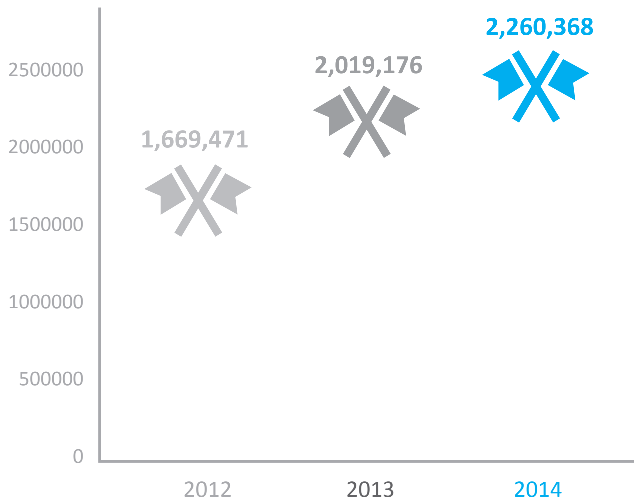

## EBITDA
(In Thousand Pesos)



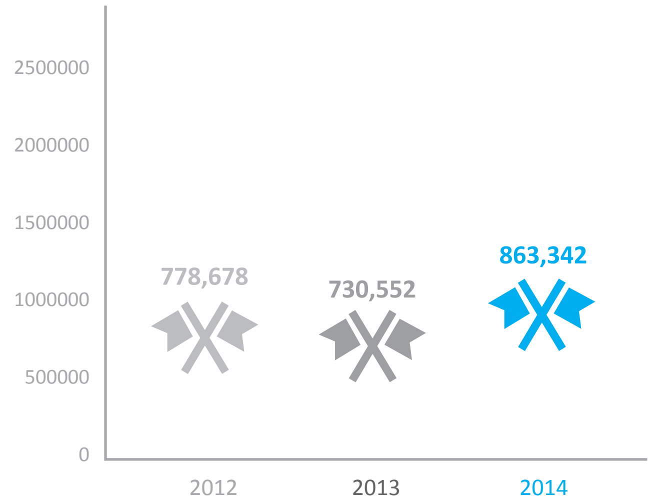

## NET INCOME
(In Thousand Pesos)



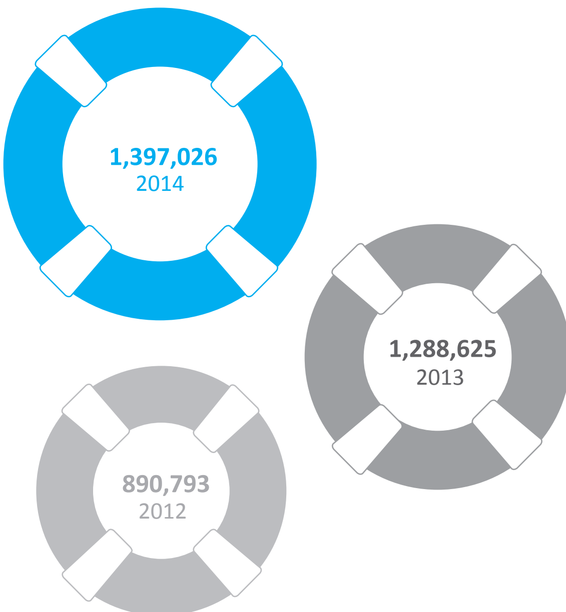
## TOTAL ASSETS
(In Thousand Pesos)



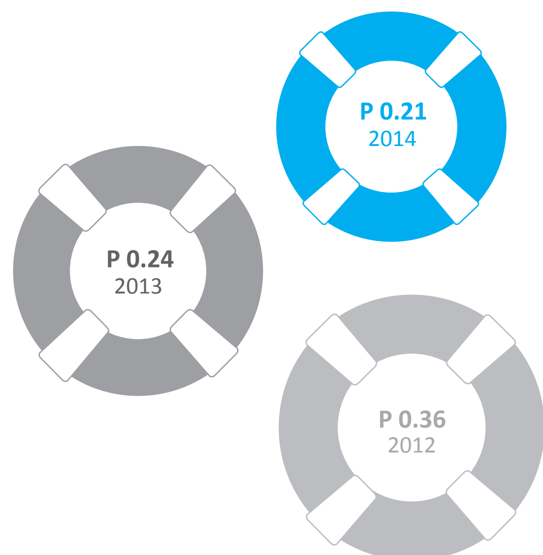

## TOTAL LIABILITIES
(In Thousand Pesos)




## TOTAL EQUITY
(In Thousand Pesos)




## EARNINGS PER SHARE



Message to our
Stockholders

The year 2014 showcased the resilience of Harbor Star in the midst of a crisis that directly struck its industry. An unprecedented 7-month long congestion in the ports of Manila resulted in an astounding 25% decrease in vessel calls in the nation's capital which hit Harbor Star's core business of docking and undocking vessels. Yet, Harbor Star still managed to increase its gross revenues year-on-year by 22.8% and, for the first time, surpass the P1 Billion revenue mark.

Your Management's strategic direction to focus on servicing ports outside traditional commercial ports coupled with a deliberate effort to market Harbor Star's other services was rewarded. The Company's modest revenue growth in harbor assist was boosted by triple digit growths in its lighterage, towing and underwater marine works service lines.

## Growth across the board

While harbor assistance services still contributed the most to the company's service income at P796.2 million or a 72% share, the growth in service income in 2014 is primarily due to a jump in towing service earnings to P99.9 million – a 377.6% increase from the previous year.

Underwater marine, diving services, and ancillary services also increased by 289.9%, from P8.1 million in 2013 to P31.4 million in 2014. In addition to these, Harbor Star also clinched significant salvage projects during the year leading to a 141.4% growth to P50.7 million.

Investments made on newly-acquired vessels, properties and equipment in 2014 increased the company's asset base further to P2.3 billion. While the uptick in overall business activities necessarily resulted in an increase in the cost of services, our EBITDA still improved to P414.2 million in 2014 from P365.9 million in the previous year.

## Moving steadily forward

We look to 2015 and onward with confidence and optimism. Our widest area of coverage, fleet positioning, the quality of service and safety of operations are some of the many advantages that set us apart in the industry. These advantages will translate to further growth and expansion of our business segments moving forward.

"Investments made on newly-acquired vessels, properties and equipment in 2014 **increased the company's asset base further to P2.3 billion.** While the uptick in overall business activities necessarily resulted in an increase in the cost of services, **our EBITDA still improved to P414.2 million in 2014 from P365.9 million in the previous year.**"

Proceeds from our IPO in 2013 were utilized for additional investments in vessels and port service operations. While our towing, salvaging, underwater marine, diving services, and ancillary services saw prolific growth in 2014, we expect to strengthen these operations even more in the coming years. Our main service lines of harbor assistance and lighterage will also be expanded by increasing geographical coverage and seeking out more charter hire contracts. These strategies would help minimize the effects of issues such as port congestion in our business.

The impending ASEAN Economic Integration is timely as we continue to develop business partnerships in countries such as Indonesia, Malaysia and Vietnam. Our extensive experience as harbor tug operator remains an attractive value proposition to our potential international partners.

We have accomplished much in 16 years. From a one-tug company in 1998 to the expansive operations we have now, Harbor Star has gotten this far thanks to the continued support of our shareholders, partners and associates. We would like to take this opportunity to thank all of our stakeholders – from the management team and Board of Directors for their leadership and guidance, to the officers, workforce and crew for their commitment to genuine service excellence. Rest assured, we at Harbor Star are going full speed ahead towards a brighter future.

**GERONIMO P. BELLA, JR.**
Chairman of the Board
and President

# Operational **Highlights**

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

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 2014, Harbor Star has established operations in 13 base ports all over the country, providing services to approximately 5,214 ship calls as of yearend 2014. The major ports that the Company services include: MICT, Bataan, Batangas, CDO, and Davao.

The Company maintains a fleet of thirty five (35) domestically and internationally classed tug boats, four (4) barges, a cargo vessel, an oil spill response vessel, and an Anchor Handling Tug Supply ("AHTS") vessel.

## Tug Boats

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 Giedi
M/T Great Eagle
M/T Merga
M/T Mimosa
M/T Minkar
M/T Mira
M/T Mizar
M/T Procyon
MT Propus
M/T Regulus
M/T Rigel
M/T Sadr
M/T Sargas
MT Sarin
M/T Schedar
M/T Sirius
MT 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 Lynx

## Other Marine Vessels

M/V Cassopeia
M/V Wise

## Services

Harbor Star currently derives the bulk of its revenues from five (5) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, and (e) other marine services. Other services include oil and chemical spill response, diving and underwater services, and ship and crew management.

### Harbor Assistance

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

As of 31 December 2014, revenues from harbor assistance amounted to P796.2 million, equivalent to 72.1% of total revenue.

Harbor Assistance

### Lighterage

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

As of 31 December 2014, revenues from lighterage amounted to P125.5 million, equivalent to 11.4% of total revenue.

Lighterage

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

As of 31 December 2014, revenues from salvage operations amounted to P50.7 million, equivalent to 4.6% of total revenue.

Towage

Salvage

### 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
- Emergency towing is when a vessel in distress needs a towing service

As of 31 December 2014, revenues from towing services amounted to PHP 100.0 million, equivalent to 9.1% of total revenue.

### Other Marine Services

Harbor Star's marine and other ancillary services include:

**a.** Oil and Chemical Spill Response

**b.** Ship repairs

**c.** Buoy construction, deployment and maintenance

**d.** Diving services which includes: underwater repairs and Single Buoy Moorings (SBM) repair

**e.** Ship and crew management

**f.** Fire fighting

**g.** Offshore tug services

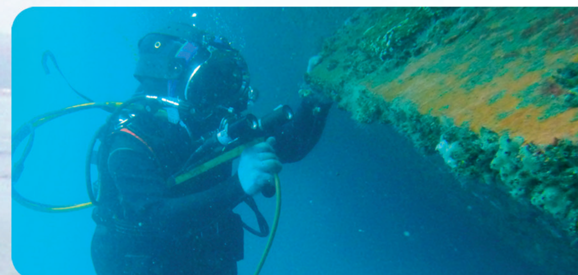
As of 31 December 2014, revenues from other marine services amounted to P31.4 million, equivalent to 2.8% of total revenue.

Offshore Tug Services

Ship Repairs

Fire Fighting

Oil and Chemical Spill Response



Diving Services

## Safety, Quality, Maintenance, and Compliance with Environmental Laws

Harbor Star consistently maintains its international accreditations for its management systems, specifically ISO 9001:2008-Quality of Services, ISO 14001:2004-Environment, and OHSAS 18001:2007-Occupational Healthy and Safety.

The Company is annually evaluated for all its major processes and enacted the necessary reforms to be in line with international standards. To keep these certifications, the Company exercises strict adherence to ISO protocol and procedures to ensure quality and safe service. The Company achieved IMS Certification, having completed the three (3) accreditations from DNV Business Assurance under Det Norske Veritas.

The Company 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 2014, the Company spent P7.9 million for dry docking and maintenance of vessel fleet, which represents 0.7% of total revenues.

The Company also has a Health, Safety, Environment and Security group which monitors the Company's adherence to safety and environmental awareness policies, which are aligned with those of the international accreditations Harbor Star 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 complies with environmental laws by MARINA and PCG. For the year ended 31 December 2014, the Company incurred P1.0 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. For the years 2013 and 2012, the Company has incurred P0.8 million and P0.3 million, respectively.

**ISO 9001:2008-Quality of Services**

**ISO 14001:2004-Environment**

**OHSAS 18001:2007-Occupational Healthy and Safety**

**Harbor Star Tugboats**

# Corporate **Governance**

The Board of Directors adopted a Manual on Corporate Governance (the "Manual") in order to monitor and assess the compliance by the Company with leading practices on good corporate governance as specified in the Manual and relevant SEC circulars and memoranda.

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 - Ms. Adelia D. Vasquez

## Independent Director

The By-Laws of the Corporation provides 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 judgement 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. An Independent Director 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 also required;

(b) the filling of vacancies in the Board of Directors;

(c) the amendment or repeal of these By-Laws or the adoption of new By-Laws;

(d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;

(e) 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.
Member : Ricardo Rodrigo P. Bella
Member : 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: Company's financial statements and financial reporting process; Company's internal control systems; Company's internal and external auditors; Compliance by the Company with accounting standards, legal and regulatory requirements, including the Company's 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, he/she shall be free from interference by outside parties.

**Audit Committee Members**
Chairman : Jose S. Navarro
Member : Ignatius A. Rodriguez
Member : Damian L. Carlos

## Nomination Committee

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

**Nomination Committee Members**
Chairman : Geronimo P. Bella, Jr.
Member : Ricardo Rodrigo P. Bella
Member : Ryota Nagata

## Compensation and Renumeration Committee

The Committees' function establishes a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the 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 Renumeration Committee Members**
Chairman : Manuel H. Puey
Member : Geronimo P. Bella, Jr.
Member : Ignatius A. Rodriguez

## Risk Management

The Risk Management Committee ensures that the Board and Management are aware of all actual and potential risks, both internal and external, facing the business; Implement an effective system to identify, monitor and assess risks; Review, on a quarterly basis, the Corporation's business for risk identification, mitigation and monitoring; Establish consistency and best practices rules in the managing, monitoring and reporting of risks; Identify risks which may be beneficial to the Corporation if properly managed and controlled; Ensure that risk-taking is an informed process within a pre-determined range; When deemed necessary, appoint a Risk Management Officer; and Operationalize a Risk Management Program.

### Risk Management Committee Members

Chairman : Ricardo Rodrigo P. Bella
Member : Manuel H. Puey
Member : Jose S. Navarro

## Governance

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 Governance Committee plays a critical role in fostering a healthier and better culture among the Board members and Management.

### Governance Committee Members

Chairman : Damian L. Carlos
Member : Ryota Nagata
Member : Jose S. Navarro

# Corporate Social **Responsibility**

## Environmental Stewardship

Aiming to plant a total of 20,000 propagules starting February 2011, the project is being done in partnership with the Coastal Conservation and Education Foundation, Inc. (CCEF). It is ongoing at Barangay Banoyo in San Luis, Batangas.

The company also enlisted provincial and local government units, and schools in San Luis, Batangas to help ensure that the program's objectives will be met.

As of July 2013, 8,244 mangrove seedlings out of the 15,012 planted 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 55% versus 10% to 20%.

By the end of November 2013, a total of 6,600 mangroves were added, thus bringing the number to 21,612 mangroves planted. Through the collaborative efforts of all parties involved, the project has already exceeded its target of 20,000 mangroves. Two species of mangroves are currently being replanted in the area – rhizophora sps. and avicennia sps.community.

Aside from mangrove reforestation, the program also promotes the creation of mangrove nurseries for biodiversity enhancement in the planting sites. Recently, a learning visit with several volunteers to a community-managed nursery was organized as part of the sustainability planning process.

Imparting knowledge on the importance of protecting the country's marine resources to the youth also plays a crucial role in the development and sustainability of the Adopt-a-Mangrove project.

An information caravan was rolled out in various elementary and high school institutions in Barangay Banoyo. Materials like posters and bookmarks were disrtibuted to the students to raise awareness on the protection of mangroves.

Special community-based activities like the production of mangrove protection signs and the mounting of a community exhibit were also held. In addition to this, the company is also involved in mentoring activities with the community mangrove management group in terms of project implementation and evaluation.

# Board of Directors

(L-R) **MANUEL H. PUEY** Independent Director • **RICARDO RODRIGO P. BELLA** Director, Vice President • **GERONIMO P. BELLA, JR.** Chairman of the Board and President

(L-R) **DAMIAN L. CARLOS** Director • **IGNATIUS A. RODRIGUEZ** Director, Corporate Secretary • **JOSE S. NAVARRO** Independent Director • **RYOTA NAGATA** Director

# Principal **Officers**

(L-R) **RICARDO RODRIGO P. BELLA** Director, Vice President • **GERONIMO P. BELLA, JR.** Chairman of the Board and President • **IGNATIUS A. RODRIGUEZ** Chief of Staff, Corporate Information Officer

(L-R) **ADELIA D. VASQUEZ** Chief Finance Officer, Compliance Officer • **DANY CLEO B. USON** Treasurer, Corporate Planning Manager, Investor Relations Officer • **LORENZO C. CARANZO** Safety Manager, OIC - Operations

# Principal **Officers**

(L-R) **EDWIN G. AMEJANA** Commercial Manager • **JOSE G. TABINGO, JR.** Technical Manager • **EFFEL T. SANTILLAN** Human Resource Manager • **MARICEL V. BLANCO** Internal Audit Manager

(L-R) **ELIONARDA L. REFIL** General Services Manager • **VIRGINIA MAY P. BELLA** Legal Services Manager • **MA. ELIZABETH E. BELLA** Assistant to the Operations Division Head • **CECILIA MELANY G. NATIVIDAD** Accounting Manager

# Statement of Management's Responsibility for **Financial Statements**

The management of **HARBOR STAR SHIPPING SERVICES, INC.** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014, 2013 and 2012, including the additional components attached therein (Reconciliation of Retained Earnings Available for Dividend Declaration and Schedule of All the Effective Standards and Interpretations), in accordance with Philippine Financial Reporting Standards (PFRS). 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 circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Isla Lipana & Co., the independent auditors, appointed by the stockholders and the Board of Directors has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders and Board of Directors, 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

Isla Lipana & Co.

**Independent Auditor's Report**

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

***Report on the Separate Financial Statements***

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

*Management's Responsibility for the Separate Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these separate financial statements based on our audit. 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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.
Page 2

*Opinion*

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

*Other Matter*

The separate financial statements of the Company as at December 31, 2013 and for each of the two years in the period ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on March 14, 2014.

***Report on Bureau of Internal Revenue Requirements***

Our audit was conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 29 to the separate financial statement is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic separate financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

**Isla Lipana & Co.**

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2015, Makati City
SEC A.N. (individual) as general auditors 1202-A, Category A; effective until March 31, 2015
SEC A.N. (Firm) as general auditors 0009-FR-3; effective until August 15, 2015
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 9, 2015

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.**
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 Subsidiary, collectively referred to as "the Group", as at and for the year ended December 31, 2014, on which we have rendered the attached report dated March 9, 2015. 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, 2014, as additional component(s) required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, and Schedules A, C, E, and H, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code, are presented for purposes of filing with the Securities and Exchange Commission and are not 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 have been prepared in accordance with Rule 68 of the Securities Regulation Code.

**Isla Lipana & Co.**

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2015, Makati City
SEC A.N. (individual) as general auditors 1202-A, Category A; effective until March 31, 2015
SEC A.N. (Firm) as general auditors 0009-FR-3; effective until August 15, 2015
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 9, 2015

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

Consolidated Statement of Financial Position
December 31, 2014
(With comparative figures as at December 31, 2013)
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 5 | 93,565,923 | 69,530,676 |
| Trade and other receivables, net | 6 | 229,359,262 | 238,388,781 |
| Advances to related parties | 24 | 9,389,948 | 9,383,619 |
| Prepayments and other current assets | 7 | 99,539,631 | 75,524,018 |
| Total current assets | | 431,854,764 | 392,827,094 |
| **Non-current assets** | | | |
| Investment in associate | 8 | 9,954,453 | 15,085,894 |
| Property and equipment at revalued amounts | 9 | 1,141,046,533 | 1,152,311,354 |
| Property and equipment at cost | 10 | 570,023,609 | 265,531,010 |
| Investment property | 11 | 5,879,413 | 5,879,413 |
| Other non-current assets, net | 12 | 101,609,000 | 187,541,497 |
| Total non-current assets | | 1,828,513,008 | 1,626,349,168 |
| **Total assets** | | 2,260,367,772 | 2,019,176,262 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 180,939,115 | 144,715,021 |
| Short-term loans | 14 | 112,000,000 | 185,222,076 |
| Borrowings, current portion | 14 | 133,432,673 | 113,319,118 |
| Finance lease liability, current portion | 25 | 2,972,448 | - |
| Advances from related parties | 24 | 2,152,434 | 10,368,736 |
| Income tax payable | 26 | 40,260,142 | 36,591,942 |
| Total current liabilities | | 471,756,812 | 490,216,893 |
| **Non-current liabilities** | | | |
| Borrowings, net of current portion | 14 | 233,271,017 | 97,065,010 |
| Finance lease liability, net of current portion | 25 | 37,148,902 | - |
| Deferred income tax liabilities, net | 26 | 75,922,274 | 106,133,309 |
| Retirement benefit obligation | 23 | 45,242,801 | 37,136,500 |
| Total non-current liabilities | | 391,584,994 | 240,334,819 |
| Total liabilities | | 863,341,806 | 730,551,712 |
| **Equity** | | | |
| Attributable to owners of the Parent Company | | | |
| Share capital | 15 | 605,238,580 | 605,238,580 |
| Additional paid-in-capital | 15 | 121,632,762 | 121,632,762 |
| Revaluation surplus, net of tax | 9 | 217,868,417 | 252,511,350 |
| Cumulative translation difference | 2.25 | (1,429,097) | - |
| Fair value reserve on available-for-sale financial assets | 12 | (160,000) | - |
| Retained earnings | 16 | 447,976,197 | 309,241,858 |
| | | 1,391,126,859 | 1,288,624,550 |
| Non-controlling interest | | 5,899,107 | - |
| Total equity | | 1,397,025,966 | 1,288,624,550 |
| **Total liabilities and equity** | | 2,260,367,772 | 2,019,176,262 |

(The notes on pages 1 to 51 are integral part of these consolidated financial statements)

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

Consolidated Statement of Total Comprehensive Income
For the year ended December 31, 2014
(With comparative figures for the years ended December 31, 2013 and 2012)
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Service income, net | 18 | 1,103,857,628 | 898,695,497 | 807,263,889 |
| Cost of services | 19 | (755,382,776) | (577,199,936) | (416,427,848) |
| **Gross profit** | | 348,474,852 | 321,495,561 | 390,836,041 |
| General and administrative expenses | 20 | (172,420,614) | (128,512,785) | (134,295,122) |
| Other income (expenses), net | 22 | 29,205,041 | 7,420,874 | (10,189,622) |
| **Operating profit** | | 205,259,279 | 200,403,650 | 246,351,297 |
| **Finance cost** | | | | |
| Interest expense | 14 | (23,766,686) | (44,577,929) | (36,473,649) |
| Foreign exchange loss on borrowings | 3.3 | (3,032,874) | - | - |
| | | (26,799,560) | (44,577,929) | (36,473,649) |
| Share in profit (loss) of associate | 8 | 542,703 | (387,216) | 1,272,332 |
| **Profit before income tax** | | 179,002,422 | 155,438,505 | 211,149,980 |
| Income tax expense | 26 | (55,344,806) | (46,956,742) | (62,863,053) |
| **Profit for the year** | | 123,657,616 | 108,481,763 | 148,286,927 |
| **Other comprehensive income (loss)** | | | | |
| **Items that will not be subsequently reclassified to profit or loss** | | | | |
| Remeasurements on retirement benefits, net of tax | 23 | (556,810) | 944,790 | (5,979,837) |
| **Items that will be subsequently reclassified to profit or loss** | | | | |
| Fair value loss on available-for-sale financial assets | 12 | (160,000) | - | - |
| **Total other comprehensive (loss) income, net of tax** | | (716,810) | 944,790 | (5,979,837) |
| **Total comprehensive income for the year** | | 122,940,806 | 109,426,553 | 142,307,090 |
| Profit attributable to: | | | | |
| Owners of the parent | | 124,473,077 | 108,481,763 | 148,286,927 |
| Non-controlling interest | | (815,461) | - | - |
| | | 123,657,616 | 108,481,763 | 148,286,927 |
| Total comprehensive income (loss) attributable to: | | | | |
| Owners of the parent | | 123,756,267 | 109,426,553 | 142,307,090 |
| Non-controlling interest | | (815,461) | - | - |
| | | 122,940,806 | 109,426,553 | 142,307,090 |
| **Earnings per share** | | | | |
| Basic and diluted | 17 | P0.21 | P0.24 | P0.36 |

(The notes on pages 1 to 51 are integral part of these consolidated financial statements)

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

Consolidated Statement of Changes in Equity
For the year ended December 31, 2014
(With comparative figures for the years ended December 31, 2013 and 2012)
(All amounts in Philippine Peso)

| | Equity attributable to equity shareholders of the Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 15) | Additional paid in capital (Note 15) | Deposit for future stock subscription (Note 2.24) | Revaluation surplus (Note 9) | Cumulative translation differences | Fair value reserve on available-for-sale financial assets (Note 12) | Retained earnings (Note 16) | Total | Non-controlling interest | Total equity |
| **Balances at January 1, 2012** | 40,000,000 | - | 110,000,000 | 320,823,262 | - | - | 265,660,233 | 736,483,495 | - | 736,483,495 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 148,286,927 | 148,286,927 | - | 148,286,927 |
| Other comprehensive income | | | | | | | | | | |
| Remeasurements on retirement benefits, net of tax | - | - | - | - | - | - | (5,979,837) | (5,979,837) | - | (5,979,837) |
| **Total comprehensive income** | - | - | - | - | - | - | 142,307,090 | 142,307,090 | - | 142,307,090 |
| **Depreciation transfer of revaluation surplus** | - | - | - | (46,710,110) | - | - | 46,710,110 | - | - | - |
| **Transactions with owners** | | | | | | | | | | |
| Issuance of common shares | 12,002,000 | - | - | - | - | - | - | 12,002,000 | - | 12,002,000 |
| Conversion of deposit for future stock subscription (Note 2.24) | 110,000,000 | - | (110,000,000) | - | - | - | - | - | - | - |
| Declaration of stock dividends | 261,636,580 | - | - | - | - | - | (261,636,580) | - | - | - |
| **Total transactions with owners** | 383,638,580 | - | (110,000,000) | - | - | - | (261,636,580) | 12,002,000 | - | 12,002,000 |
| **Balances at December 31, 2012** | 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 | - | - | - | - | - | - | 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 | 181,600,000 | 146,203,891 | - | - | - | - | - | 327,803,891 | - | 327,803,891 |
| Transaction costs of issuing common shares | - | (24,571,129) | - | - | - | - | - | (24,571,129) | - | (24,571,129) |
| Declaration of cash dividends | - | - | - | - | - | - | (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 (loss) for the year | - | - | - | - | - | - | 124,473,077 | 124,473,077 | (815,461) | 123,657,616 |
| Other comprehensive income | | | | | | | | | | - |
| Remeasurements on retirement benefits, net of tax | - | - | - | - | - | - | (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** | - | - | - | (34,642,933) | - | - | 34,642,933 | - | - | - |
| **Translation adjustment (Note 2.25)** | - | - | - | - | (1,429,097) | - | 1,358,489 | (70,608) | (86,297) | (156,905) |
| **Transactions with owners** | | | | | | | | | | |
| Non-controlling interest (Note 2.2) | - | - | - | - | - | - | - | - | 6,800,865 | 6,800,865 |
| Declaration of cash dividends | - | - | - | - | - | - | (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 |

(The notes on pages 1 to 51 are integral part of these consolidated financial statements)

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

Consolidated Statement of Cash Flows
For the year ended December 31, 2014
(With comparative figures for the years ended December 31, 2013 and 2012)
(All amounts in Philippine Peso)

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before income tax | | 179,002,422 | 155,438,505 | 211,149,980 |
| Adjustments for: | | | | |
| Share in net loss (profit) of associate | 8 | (542,703) | 387,216 | (1,272,332) |
| Provision for impairment of receivables | 6,20 | 936,139 | 33,177 | 141,201 |
| Provision for impairment of input VAT | 12,20 | 12,306,405 | - | - |
| Depreciation | 19,20 | 211,454,091 | 165,899,386 | 101,150,653 |
| Retirement benefit expense | 23 | 7,310,857 | 6,717,800 | 4,136,218 |
| Unrealized foreign exchange (gain) loss,net | 3.3 | (11,825,999) | (1,263,952) | 2,630,785 |
| Gain on sale of property and equipment | 22 | (1,307,997) | (698,794) | (3,664,966) |
| Interest income | 5,22 | (445,548) | (351,244) | (883,875) |
| Interest expense | 14 | 23,766,686 | 44,577,929 | 36,473,649 |
| Operating profit before working capital changes | | 420,654,353 | 370,740,023 | 349,861,313 |
| (Increase) decrease in: | | | | |
| Trade and other receivables | | 19,030,248 | (78,781,933) | (18,433,542) |
| Prepayments and other current assets | | (55,925,937) | (39,312,356) | (23,176,247) |
| Advances to related parties | | (6,329) | - | - |
| Other non-current assets | | (4,301,032) | - | (10,092,748) |
| Increase (decrease) in: | | | | |
| Trade and other payables | | (80,296,454) | 55,150,832 | 64,373 |
| Advances from related parties | | (8,216,301) | - | - |
| Cash from operations | | 290,938,548 | 307,796,566 | 298,223,149 |
| Income taxes paid | | (81,649,010) | (61,216,151) | (39,502,861) |
| Interest received | | 445,548 | 351,244 | 883,875 |
| Net cash from operating activities | | 209,735,086 | 246,931,659 | 259,604,163 |
| **Cash flows from investing activities** | | | | |
| Acquisition of investment in associate | 8 | - | - | (7,205,724) |
| Acquisition of investment property | | - | - | (5,879,413) |
| Acquisition of property and equipment | 9,10 | (227,186,420) | (373,936,592) | (300,639,710) |
| Proceeds from disposal of property and equipment | | 2,599,330 | 713,221 | 932,094 |
| Dividend received | 8 | 109,800 | - | - |
| Increase in advances to related parties | | - | 30,475,165 | 4,961,306 |
| Net cash used in investing activities | | (224,477,290) | (342,748,206) | (307,831,447) |
| **Cash flows from financing activities** | | | | |
| Increase in other non-current assets | | - | (86,751,480) | - |
| Proceeds from issuance of shares | 15 | - | 327,803,891 | 12,002,000 |
| Net proceeds (repayment) of short-term loans | 14 | (73,222,076) | 144,822,076 | 40,400,000 |
| Proceeds from borrowings | 14 | 363,670,816 | 97,065,010 | 230,711,381 |
| Payment of borrowings | 14 | (210,384,128) | (332,111,687) | (151,693,722) |
| Payment of finance lease liabilities | 25 | (2,888,976) | - | (31,359,363) |
| Interest paid | 14 | (21,055,442) | (44,577,929) | (36,473,649) |
| Dividends paid | 16,28 | (20,033,158) | - | - |
| Increase in advances from related parties | | - | 7,562,288 | 2,806,449 |
| Net cash from financing activities | | 36,087,036 | 113,812,169 | 66,393,096 |
| **Net increase in cash** | | 21,344,832 | 17,995,622 | 18,165,812 |
| Cash balance | | | | |
| Beginning of year | | 69,530,676 | 51,482,125 | 35,206,378 |
| Effect of foreign exchange rate changes on cash | | 2,690,415 | 52,929 | (1,890,065) |
| **End of year** | 5 | 93,565,923 | 69,530,676 | 51,482,125 |

(The notes on pages 1 to 51 are integral part of these consolidated financial statements.)

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

Notes to Consolidated Financial Statements
As at and for the year ended December 31, 2014
(With comparative figures and notes as at and for the years ended December 31, 2013 and 2012)
(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 Securities and Exchange Commission (SEC). On October 30, 2013, the Parent Company has completed its listing in the Philippine Stock Exchange (PSE) and became a public company. The Parent Company did not have any follow on offering subsequent to its initial public offering.

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 Board of Directors (BOD) approved the amendments made to the primary and secondary purpose of the Parent Company's Articles of Incorporation to include investment, 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. As at December 31, 2014, the SEC is yet to approve the above amendments submitted by the Parent Company.

As at December 31, 2014, the Parent Company has 160 shareholders each holding at least 100 common shares (2013 - 149). The Parent Company's major shareholders are its own directors holding 70.47% of its total issued shares (2013 - 70.89%).

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 392 employees as at December 31, 2014 (2013 - 337 employees).

As at December 31, 2014, the consolidated financial statements include the Parent Company and its Subsidiary, namely, Peak Flag SDN BHD (Note 2.2), collectively referred to as the "Group".

### 1.2 Approval of the consolidated financial statements

The consolidated financial statements of the Group as at and for the year ended December 31, 2014 were approved and authorized for issue by the Parent Company's BOD on March 5, 2015.

## Note 2 - 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.

### 2.1 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.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property and equipment - tugboats and available-for-sale financial assets.

Considering that the Parent Company has recognized a subsidiary in 2014, the Group has prepared these consolidated financial statements for the first time in accordance with PFRS.

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 disclosed in Note 4.

### 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, 2014:

- *Amendment to PAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities.* This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's consolidated financial statements.

- *Amendment to PAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets.* This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in PAS 36 by the issue of PFRS 13. This amendment did not have any impact in the Group's consolidated financial statements.

- *Philippine Interpretation IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of PAS 37, 'Provisions'.* The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group's consolidated financial statements is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these standards are expected to have a significant effect on or relevant to the consolidated financial statements of the Group, except the following set out below:

- *PFRS 9, 'Financial instruments',* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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 not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group does not expect a significant impact on its consolidated financial statements as a result of the adoption of this standard.

- *PFRS 15, 'Revenue from contracts with customers',* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group assessed that the new standard will not change its current revenue recognition policy.

There are no other standards, amendments or interpretations that are effective beginning after January 1, 2014 that would be expected to have a material impact on the Group.

## 2.2 Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiary, Peak Flag SDN BHD (“Peak Flag”), as at and for the year ended December 31, 2014. The subsidiary’s financial statements are prepared for the same reporting year as the Parent Company. The Group uses uniform accounting policies, any difference between the subsidiary and Parent company are adjusted properly. Details of the subsidiary are shown below.

| Name of subsidiary | Country of incorporation | Relationship | Percentage of direct ownership |
|---|---|---|---|
| Peak Flag | Malaysia | Subsidiary | 45% |

Peak Flag was incorporated and registered in Malaysia, having its registered address at Level 18 The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra Kuala Lumpur, primarily to carry on the business of providing tugboat harbor assist/ marine support services.

The subsidiary is under pre-operating stage as at December 31, 2014 and has a net asset of P10,725,649.

*(a) Subsidiary*

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.

On January 1, 2014, the Parent Company has obtained control over key operating polices 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. 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 | - |

In 2014, Peak Flag contributed to loss amounted to P1,482,655 (Note 8) to the consolidated profit or loss. It has no revenue contribution to the consolidated profit or loss.

*(b) 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 associates is initially recognized at cost and subsequently accounted for using the equity method.

Under the equity method, the carrying amount of the investment in associates 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.

### 2.3 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 deemed to be an equity instrument 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 recognized directly in profit or loss.

### 2.4 Cash

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

### 2.5 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 cash, trade receivables, advances to related parties, refundable deposits and escrow funds are presented under non-current assets in the consolidated statement of financial position.

*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 12), which is presented under non-current assets in the consolidated statement of financial position.

*(b) Initial recognition and subsequent 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 recognized at fair value plus transaction costs, which is approximately their invoice amount and are subsequently carried 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 recognized at fair value plus transaction cost, at the trade date. These financial assets are subsequently carried 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 assets classified as 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) Derecognition*

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

*(d) 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.

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 operating expenses in profit or loss.

Impairment testing of trade receivables is described in Note 2.9.

*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 consolidated statement of total comprehensive income on equity instruments are not reversed through profit or loss.

### 2.6 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) 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 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 financial liabilities at amortized cost consist mainly of trade and other payables (excluding unearned income and payables to government agencies for value-added tax, withholding and other taxes payable), advances from related parties, finance lease liabilities and borrowings.

*(b) Initial recognition and subsequent 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 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*

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

### 2.7 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, 2014 and 2013.

### 2.8 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 assets with quoted market price are 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 3.1) 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.

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 9).

The Group determines the fair value of its investment property, which is carried at cost (Note 2.13), 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 Company has no other significant non-financial assets and liabilities carried at fair value.

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).

### 2.9 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.

Trade receivables with average credit term of 30 days are measured at the original invoice amount (as the effect of discounting is immaterial), less any 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.

When a receivable is uncollectible, it is written off against the provision account for receivables. Receivables and its related provision for impairment are written off when the Group has determined that the receivable is uncollectible as they have already exerted all collection efforts, including filing a legal case. 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.

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.

### 2.10 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. These 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.

Other current assets consist substantially of input value-added tax and creditable withholding taxes which are recognized as assets in the period such input value-added tax and income tax payments become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group. These are derecognized when applied against output or income tax due or when written off.

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.

### 2.11 Property and equipment

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

Each year the Group may transfer 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 an 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. The Group has included these dry docking expenses as part of tugboat component.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their 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 2.14).

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

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

### 2.12 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 are amortized over their 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 balance sheet. 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, 2014, the Group's computer software is still in progress and recorded under Construction in progress (Note 10).

Relevant disclosures for Group's accounting policies on impairment of computer software are discussed in Note 2.14.

### 2.13 Investment property

Investment property is recognized as an asset, when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost of the investment 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.

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.

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.

### 2.14 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as land, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property and equipment, 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.

### 2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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 expired.

### 2.16 Borrowings and borrowing cost

*Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

The Group has no qualifying assets as at December 31, 2014 and 2013. All interest incurred by the Group is charged as finance cost in profit or loss.

### 2.17 Provisions

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

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

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

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

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent 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 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 are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax 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 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.

### 2.19 Employee benefits

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

*(a) Short-term employee benefits*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave when it is probable that settlement will be required and these are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

*(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. 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 corporate 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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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 employee benefit expense 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.

### 2.20 Share capital

Common shares, recognized at par value, are classified as equity.

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

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.

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.

### 2.21 Other comprehensive income

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

### 2.22 Retained earnings

Retained earnings represent the accumulated profit arising from the operations of the Group, less any dividends declared.

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.

### 2.23 Dividend distribution

Dividend distribution to the Group'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.

### 2.24 Deposits for future stock subscription

Deposit for future stock subscriptions generally represents funds received by the Parent Company, which it records as such with the view to applying the same payment for future additional issuance of shares or increase in share capital.

The Parent Company classifies a contract to deliver its own equity instruments under equity as a "Deposit for future stock subscription" from liability if and only if, all of the following elements are present as at end of reporting period:

a) The unissued authorized share capital of the Parent Company is insufficient to cover the amount of shares indicated in the contract;
b) There is BOD's approval on the proposed increase in authorized share capital;
c) There is shareholders' approval of said proposed increase ; and
d) The application for the approval of the proposed increase has been filed with the Philippine SEC on or before the end of the reporting period.

There must be a subscription agreement which among other things, states that the Parent Company is not a contractually obliged to return the consideration received and that the Parent Corporation is obliged to deliver the fixed number of its own shares of stock for a fixed amount of cash or property paid or to be paid by the contracting party.

In 2006 and 2008, the Parent Company's BOD approved the conversion of certain advances from shareholders amounting to P110 million to share capital supported by waivers from then current shareholders of their pre-emptive rights. In February 2012, the deposits for future stock subscriptions were applied and converted into share capital in support of the above increase in the Parent Company's capitalization. The dilutive effect of deposit for future stocks is reflected as additional share dilution in the computation of earnings per share in 2012. The Parent Company has no deposits for future stock subscription as at December 31, 2014 and 2013.

### 2.25 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, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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 in retained earnings.

As of December 31, 2014, cumulative translation differences recognized in equity amounted to P1,429,097.

**2.26 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 VAT and 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 collectibility of the related receivables is reasonably assured and specific criteria have been met as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

*(a) Sale of services*

Revenues are derived mainly from (i) harbor assistance, (ii) lighterage services, (iii) salvage income, (iv) and towing services. Income from harbor assistance is recognized when the service has been rendered. Lighterage fees are recognized during the lease period of the Company'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.

*(b) Interest income*

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

*(c) Dividend income*

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

*(d) Other income*

Other income is recognized in profit or loss when earned.

### 2.27 Costs and expenses

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

### 2.28 Leases - Group as lessee

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.

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 2.11.

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.

### 2.29 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, 2014 and 2013.

### 2.30 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.

### 2.31 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 Board of Directors that makes strategic decisions.

The Group's core service is providing harbor assistance and related services which substantially accounted the Group's total service revenue. Accordingly, the Group operates mainly in one reportable business and geographical segment which is the Philippines. Non-current assets of the Parent Company comprising tugboats, other marine vessel, building and improvements, transportation equipment, diving and oil spill equipment and furniture, fixtures and leasehold improvements are located substantially in the Philippines. Further, its subsidiary, located in Malaysia, is still in pre-operating stage as at reporting date. In this case, management views the Group's operations as a single unit and does not prepare a segmental analysis for financial reporting purposes.

### 2.32 Contingencies

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

### 2.33 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.

## Note 3 - Financial risk and capital management

### 3.1 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.

### 3.2 Components of financial assets and liabilities

*Financial assets*

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

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Cash | 5 | 93,565,923 | 69,530,676 |
| Trade receivables, gross | 6 | 212,930,892 | 218,819,571 |
| Advances to related parties | 24 | 9,389,948 | 9,383,619 |
| Available-for-sale | 12,7 | 810,000 | 970,000 |
| Refundable deposits | 7 | 137,283 | 1,151,031 |
| Escrow funds | 12 | - | 109,677,448 |
| | | 316,834,046 | 409,532,345 |

Trade receivables are gross of allowance for impairment amounting to P1,395,797 as at December 31, 2014 (2013 - P684,658).

Advances to employees amounting to P17,824,167 as at December 31, 2014 (2013 - P20,253,868) 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 25).

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 | 2014 | 2013 |
|---|---|---|---|
| Trade and other payables | 13 | 168,576,175 | 131,944,132 |
| Advances from related parties | 24 | 2,152,434 | 10,368,736 |
| Short-term loans | 14 | 112,000,000 | 185,222,076 |
| Borrowings | 14 | 366,703,690 | 210,384,128 |
| Finance lease liability | 25 | 40,121,350 | - |
| | | 689,553,649 | 537,919,072 |

Trade and other payable above excludes unearned income and payable to government agencies amounting to P8,647,344 and P3,715,596 as at December 31, 2014 (2013 - P8,926,413 and P3,844,476), which are considered non-financial liabilities.

### 3.3 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 Group's functional currency. Exposures to currency exchange rates arise from the Group's overseas transactions, which are primarily denominated in United States Dollar (USD) and Japanese Yen (JPY). The Group also maintains US Dollar-denominated bank accounts. Further, the Group has JPY loans from foreign suppliers, which have been used to fund the purchase of certain tugboats (Note 14). To mitigate the Group's exposure to foreign currency risk, non-Philippine Peso cash flows are monitored on a regular basis.

At December 31, 2014, if the Peso had weakened /strengthened by 1% (2013 - 2%), against the US Dollar with all other variables held constant, profit for the year and equity would have been P109,686 (2013 - P823,022) higher /lower, mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated cash in banks and trade receivables, and foreign exchange losses/gains on translation of US Dollar denominated borrowings. As at December 31, 2014, the Peso had weakened /strengthened by 1%, (2013 - 4%), against the Japanese Yen with all other variables held constant, profit for the year and equity would have been P394,945 (2013 - P1,053,978) higher /lower, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated cash in banks and trade payables.

In determining the significance of the amounts, the reasonable possible change in foreign exchange rate used by the Group in the sensitivity analysis is the rate of change in various foreign currencies using 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.

The Group's foreign currency denominated monetary assets and liabilities at December 31 are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | In USD | In JPY | In USD | In JPY |
| *Assets* | | | | |
| Cash | 522,723 | 1,158,402 | 327,829 | 91,753 |
| Trade and other receivables | 276,857 | - | 1,105,361 | - |
| *Liabilities* | | | | |
| Trade and other liabilities | - | (246,863,481) | - | (84,989,164) |
| Borrowings | (558,250) | - | - | - |
| Net foreign currency assets (liabilities) | 241,330 | (245,705,079) | 1,433,190 | (84,897,411) |
| Year-end exchange rates | 44.72 | 0.37 | 44.41 | 0.42 |
| Peso equivalent | 10,792,278 | (90,910,879) | 63,647,968 | (35,656,913) |

For the years ended December 31, net foreign exchange gain (loss) charged to profit or loss are as follows:

| | Note | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Realized foreign exchange gain (loss) | | 1,822,016 | 863,064 | (2,800,772) |
| Unrealized foreign exchange gain (loss) | | 11,825,999 | 1,263,952 | (2,630,785) |
| | 22 | 13,648,015 | 2,127,016 | (5,431,557) |

Unrealized foreign exchange gain in 2014 is net of foreign exchange loss on borrowings amounting to P3,032,874, which is presented as part of finance cost in profit or loss.

*(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 securities in the consolidated statement of financial position.

At December 31, 2014 and 2013, 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, 2014 and 2013, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit for the year and equity would have been P2,945,372 and P2,769,243, respectively, 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.

### 3.4 Credit risk

Credit risk arises from deposits in cash with 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 Board. 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 ageing 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 | | Overdue and impaired |
|---|---|---|---|---|---|---|
| | | | | Up to 60 days | Over 60 days | |
| December 31, 2014 | | | | | | |
| Cash in banks | 5 | 90,480,942 | 90,480,942 | - | - | - |
| Trade receivables, gross | 6 | 212,930,892 | 146,464,566 | 24,719,482 | 40,351,047 | 1,395,797 |
| Advances to related parties | 24 | 9,389,948 | 9,389,948 | - | - | - |
| Refundable deposits | 7 | 137,283 | 137,283 | - | - | - |
| | | 312,939,065 | 246,472,739 | 24,719,482 | 40,351,047 | 1,395,797 |
| December 31, 2013 | | | | | | |
| Cash in banks | 5 | 68,589,717 | 68,589,717 | - | - | - |
| Trade receivables, gross | 6 | 218,819,571 | 125,352,902 | 35,709,943 | 57,072,068 | 684,658 |
| Advances to related parties | 24 | 9,383,619 | 9,383,619 | - | - | - |
| Refundable deposits | 7 | 1,151,031 | 1,151,031 | - | - | - |
| Escrow fund | 12 | 109,677,448 | 109,677,448 | - | - | - |
| | | 407,621,386 | 314,154,717 | 35,709,943 | 57,072,068 | 684,658 |

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 2014 and 2013. 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*

*(i) Neither past nor impaired*

*Cash in banks*

Credit risk exposure arising from cash arises from default of the counter party, with a maximum exposure equal to the fair value of financial assets. The Group has policies that limit the amount of credit exposure with financial institutions.

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

| | 2014 | 2013 |
|---|---|---|
| Universal banks | 82,141,759 | 50,820,466 |
| Commercial banks | 7,781,184 | 14,084,131 |
| Thrift banks | 557,999 | 3,685,120 |
| | 90,480,942 | 68,589,717 |

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand (Note 5).

*Trade receivables*

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. Trade receivables as at December 31, 2014 amounting to P146,464,566 (2013 - P125,352,902) 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, 2014 (2013 - P9,383,619) 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, 2014 and 2013 and no provision for impairment is required.

*Refundable deposits*

Refundable deposits amounting to P137,283 as at December 31, 2014 (2013 - P1,151,031) 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 and to third party suppliers which will be utilized within 12 months.

*Escrow funds*

Escrow funds amounting to P109.7 million as at December 31, 2013 that are neither past due nor impaired represents proceeds from the Parent Company's IPO. Escrow funds are restricted as to withdrawal for specified purpose as determined with prospectus submitted with the SEC. Escrow funds have been fully released in 2014.

*(ii) Past due but not impaired*

*Trade receivables*

Past due but not impaired trade receivables as at December 31, 2014 amounting to P65,070,529 (2013 - P92,782,011) 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.

*(iii) Overdue and impaired*

*Trade receivables*

As at December 31, 2014, trade receivables amounting to P1,395,797 (2013 - P684,658) were impaired and have been fully provided for with allowance for impairment. The individually impaired receivable relate to customers that are in unexpectedly difficult economic situations. These trade receivables were assessed by management as non-recoverable.

### 3.5 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 the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows except for borrowings. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

| | Notes | Gross amount | Due and demandable | Less than 3 months | 3-12 months | More than one year |
|---|---|---|---|---|---|---|
| *December 31, 2014* | | | | | | |
| Trade and other payables | 13 | 168,576,175 | - | 168,576,175 | - | - |
| Advances from related party | 24 | 2,152,434 | 2,152,434 | - | - | - |
| Short-term loans | 14 | 114,967,500 | | 22,135,000 | 92,832,500 | - |
| Borrowings | 14 | 410,606,612 | - | 3,508,806 | 146,622,888 | 260,474,918 |
| Finance lease liability | 25 | 40,121,350 | - | 726,518 | 2,245,930 | 37,148,902 |
| | | 736,424,071 | 2,152,434 | 194,946,499 | 241,701,318 | 297,623,820 |
| *December 31, 2013* | | | | | | |
| Trade and other payables | 13 | 131,944,132 | 95,222,974 | 32,213,273 | 4,507,885 | - |
| Advances from related party | 24 | 10,368,736 | 10,368,736 | - | - | - |
| Short-term loans | 14 | 190,837,290 | - | - | 190,837,290 | - |
| Borrowings | 14 | 233,780,906 | - | 1,791,472 | 116,760,701 | 115,228,733 |
| | | 566,931,064 | 105,591,710 | 34,004,745 | 312,105,876 | 115,228,733 |

Short term loans and borrowings at December 31, 2014 include the undiscounted cash flows on future interest payable of P2,967,500 and P43,902,922 (2013 - P5,615,214 and P23,396,778), 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.

The Group does not anticipate any material liquidity risk.

### 3.6 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 shareholder 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, 2014 and 2013.

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.

| | 2014 | 2013 |
|---|---|---|
| Total debt | 518,825,040 | 395,606,204 |
| Total equity | 1,173,258,442 | 1,036,113,200 |
| Debt-to-equity ratio | 0.44:1 | 0.38:1 |

The Group considers its total debt as follows:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Short-term loans | 14 | 112,000,000 | 185,222,076 |
| Borrowings | 14 | 366,703,690 | 210,384,128 |
| Finance lease liability | 25 | 40,121,350 | - |
| | | 518,825,040 | 395,606,204 |

The Group considers its total equity, except for revaluation surplus, as capital.

| | Note | 2014 | 2013 |
|---|---|---|---|
| Share capital | 15 | 605,238,580 | 605,238,580 |
| Additional paid-in capital | 15 | 121,632,762 | 121,632,762 |
| Retained earnings | | 446,387,100 | 309,241,858 |
| | | 1,173,258,442 | 1,036,113,200 |

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, 2014 and 2013.

## Note 4 - Critical accounting estimates, assumptions and judgments

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

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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 below.

*(a) Retirement benefit obligation*

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 obligations.

The Group 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 Group 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.

Other key assumptions for retirement obligations are based in part on current market conditions.

The possible effects of sensitivities surrounding these actuarial assumptions at reporting date are presented in Note 23.

*(b) Useful lives of property and equipment*

The Group's management determines the estimated useful lives for its property and equipment 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 in the estimated useful life of any property and equipment would increase the recorded cost of services, operating expenses and non-current assets. As shown in Notes 9 and 10, total depreciation expense charged to profit or loss or the year ended December 31, 2014 amounted to P211,454,091
(2013 - P165,899,386).

*(c) Revaluation of Tugboats*

The Group carries its tugboats at appraised value, with changes in fair value being recognized in other comprehensive income. 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 Company 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. The carrying amount of tugboats at appraised value as at December 31, 2014 amounted to P1,141,046,533 (2013 - P1,152,311,354).

### 4.2 Critical judgments in applying the Group's accounting policies

*(a) Recoverability of trade and other receivables*

Provision 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 collectibility. 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.

For the year ended December 31, 2014, the Group has recognized a provision for impairment of receivables amounting to P1,395,797 (2013 - P684,658) (Note 6).

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

Management believes that the carrying amount of trade and other receivables at December 31, 2014 and 2013 is recoverable.

*(b) Recoverability of input VAT*

Allowance for impairment of input VAT is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances that affects the collectibility of the claims. The amount and timing of recorded expenses for any period would therefore differ based on the assessment and judgment made. A change in allowance for impairment of input VAT would impact the Group's recorded expenses and current assets.

For the year ended December 31, 2014, the Group has recognized a provision for impairment of input VAT amounting to P12,306,405 (2013 - nil) (Note 12).

Management believes that the carrying amount of input VAT as of December 31, 2014 is recoverable considering future plans to expand domestic services.

Further, based on management assessment, out of the total carrying amount of input VAT, P49,362,645 presented under "Prepayments and other current asset in the consolidated statement of financial position, (2013 - P29,077,712) will be recovered in the next 12 months after reporting date. The remaining balance amounting to P95,147,968 presented under "Other non-current assets" will be recoverable beyond 12 months after the reporting date (2013 - P77,864,049).

*(c) Current and deferred income tax*

Significant judgment is required in determining the recorded income tax expense in the consolidated statement of total comprehensive income. 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 deferred income tax provisions in the period in which such determination is made.

Further, the recognition of deferred income tax 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 deferred income tax assets at the end of each reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its deferred income tax assets to be utilized. The Group's management believes that the deferred income tax assets at the end of each reporting period will be fully realized.

*(d) Impairment of investment in associate*

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

As at December 31, 2014 and 2013, 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.

*(e) Impairment of property and equipment*

The Group's property and equipment 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, 2014 and 2013, based on management's assessment and judgment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment may not be recoverable.

*(f) Lease agreements*

The Group follows the guidance of PAS 17 "Leases" to determine whether a lease is a finance 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. See Note 25 for related discussion on finance leases.

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

The Group 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 Group 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 and control of the entity is by that board; or power to cast the majority of votes at meetings of the BOD and control of the entity is by that board.

Having a significant influence based on the percentage ownership, the Parent Company considered Peak Flag as associate as at December 31, 2013. However, effective January 1, 2014, the Parent Company has gained control over the key economic decisions and policies affecting Peak Flag evidenced by the duly signed revised/amended shareholders' agreement. Thus, based on management's judgement and assessment, the financial statements of Peak Flag have been consolidated.

**Note 5 - Cash**

Cash at December 31 consist of:

| | 2014 | 2013 |
|---|---|---|
| Cash in banks | 90,480,942 | 68,589,717 |
| Cash on hand | 3,084,981 | 940,959 |
| | 93,565,923 | 69,530,676 |

Cash in banks pertain to cash deposit that earns interest at prevailing bank deposit rate. Interest income earned for the year ended December 31, 2014 amounted to P445,548 (2013 - P351,244; 2012 - P883,875) (Note 22).

**Note 6 - Trade and other receivables, net**

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

| | 2014 | 2013 |
|---|---|---|
| Trade receivables | 212,930,892 | 218,819,571 |
| Less: allowance for impairment of trade receivables | (1,395,797) | (684,658) |
| | 211,535,095 | 218,134,913 |
| Advances to officers and employees | 17,824,167 | 20,253,868 |
| | 229,359,262 | 238,388,781 |

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

| | Note | 2014 | 2013 |
|---|---|---|---|
| Beginning of year | | 684,658 | 684,658 |
| Provision for impairment | 20 | 936,139 | 33,177 |
| Written-off | | (225,000) | (33,177) |
| End of year | | 1,395,797 | 684,658 |

The creation and release of allowance for impaired receivables have been included in 'General and administrative expenses in the profit or loss (Note 20). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

**Note 7 - Prepayments and other current assets**

Prepayments and other current assets at December 31 consist of:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Input value added tax (VAT), net of output VAT-current | | 49,362,645 | 29,077,712 |
| Advances to suppliers | | 25,802,852 | 25,152,916 |
| Prepayments | | 24,236,851 | 17,822,359 |
| Refundable deposits | 25 | 137,283 | 1,151,031 |
| Investment in golf shares | | - | 970,000 |
| Others | | - | 1,350,000 |
| | | 99,539,631 | 75,524,018 |

Prepayments consists of mainly of 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 8 - Investments in shares of stock**

*(a) Associate*

The Group's investment in associate is accordingly presented in the consolidated statement of financial position using the equity method. Details of investment as at December 31, 2014 and 2013 are as follows:

| Name of associate | Country of incorporation | Relationship | Percentage of direct ownership |
|---|---|---|---|
| Great Eastern Tug Corporation | Philippines | Associate | 20% |

Great Eastern Tug Corporation (GETC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 9, 2002 with principal address at 11F Marc 2000 Tower, 1973 Taft Avenue, Malate, Manila. Its primary business is to own, charter in/out, operate and manage tugboats or domestic services.

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

| | Note | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Beginning of year | | 15,085,894 | 15,473,110 | 6,995,054 |
| Additions | | - | - | 7,205,724 |
| Share in net income (loss) | | 542,703 | (387,216) | 1,272,332 |
| Dividend received | | (109,800) | - | - |
| Recognition of Peak Flag as subsidiary | 2.2 | (5,564,344) | - | - |
| End of year | | 9,954,453 | 15,085,894 | 15,473,110 |

Set out below are the summarized financial information of GETC as at and for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Total current assets | 18,229,832 | 30,254,909 |
| Total non-current assets | 32,666,290 | 38,013,951 |
| Total current liabilities | (2,850,887) | (19,510,034) |
| Net equity | 48,045,235 | 48,758,826 |
| Total revenue | 13,376,071 | 21,692,405 |
| Total profit for the year | 2,713,516 | 6,270,820 |
| Total other comprehensive income | - | - |
| Total comprehensive income | 2,713,516 | 6,270,820 |

*(b) Subsidiary*

Set out below are the summarized financial information of Peak Flag as at and for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Total current assets | 10,634,520 | 12,365,209 |
| Total non-current assets | 410,827 | - |
| Total current liabilities | (319,698) | - |
| Net equity | 10,725,649 | 12,365,209 |
| Total loss for the year | 1,482,655 | 303,473 |
| Total other comprehensive income | - | - |
| Total comprehensive loss | 1,482,655 | 303,473 |
| Net cash used in operating activities | (2,847,451) | (152,796) |
| Net cash from financing activities | - | - |
| Net cash from investing activities | - | - |

Peak Flag is under pre-operating stage as at December 31, 2014 and 2013.

## Note 9 - Property and equipment at revalued amounts

On January 1, 2012, the Parent Company changed its estimated useful life for tugboats from five (5) to ten (10) years to eight (8) to twenty-six (26) years based on a comprehensive study and evaluation of the assets. The Parent Company engaged an independent valuation specialist to determine fair value as at December 31, 2011. The valuation was determined through recent market transactions on arm's length terms (market approach).

The Group accounted for the change in estimated useful lives of tugboats prospectively. There is no change in the estimated useful lives of the remaining property and equipment as at December 31, 2014 and 2013.

The management deems that the revalued amounts still approximate the fair value as at reporting date based on recent acquisition. The Group considers revaluing its assets in 2016.

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

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **As at January 1** | | | |
| Revalued Amount | | 2,235,705,133 | 1,617,160,923 |
| Accumulated depreciation | | (1,083,393,779) | (962,252,958) |
| **Net carrying amount** | | 1,152,311,354 | 654,907,965 |
| **Year ended December 31** | | | |
| Opening net carrying amount | | 1,152,311,354 | 654,907,965 |
| Additions | | 54,103,071 | 164,137,627 |
| Reclassification from property and equipment at cost | 10 | 92,138,336 | 454,406,583 |
| Depreciation | 19 | (157,506,228) | (121,140,821) |
| **Closing net carrying amount** | | 1,141,046,533 | 1,152,311,354 |
| **At December 31** | | | |
| 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 |

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 | 2014 | 2013 |
|---|---|---|---|
| **As at January 1** | | | |
| Cost | | 1,201,314,545 | 582,770,335 |
| Accumulated depreciation | | (409,733,691) | (319,452,587) |
| **Net carrying amount** | | 791,580,854 | 263,317,748 |
| **Year ended December 31** | | | |
| Opening net carrying amount | | 791,580,854 | 263,317,748 |
| Additions | | 54,103,071 | 164,137,627 |
| Reclassification from property and equipment at cost | 10 | 92,138,336 | 454,406,583 |
| Depreciation | | (108,016,324) | (90,281,104) |
| **Closing net carrying amount** | | 829,805,937 | 791,580,854 |
| **At December 31** | | | |
| 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 |

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

| | Note | 2014 | 2013 |
|---|---|---|---|
| Beginning of the year, gross of tax | | 360,730,500 | 391,590,217 |
| Amortization of revaluation increment through depreciation | | (49,489,904) | (30,859,717) |
| End of year, gross of tax | | 311,240,596 | 360,730,500 |
| Deferred tax liability | 26 | (93,372,179) | (108,219,150) |
| End of year, net of tax | | 217,868,417 | 252,511,350 |

A particular tugboat with net carrying amount of P18,733,137 was restricted as the Bureau of Customs (BOC) issued a seizure order covering the said tugboat (Note 27). The Group believes that this will not materially affect the operations of the Group.

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 14). The net carrying amounts of the tugboats used as collaterals are as follows:

| | 2014 | 2013 |
|---|---|---|
| CTBC (Philippines) Corporation (CTBC) | 480,245,919 | - |
| Rizal Commercial Banking Corporation (RCBC) | - | 355,494,727 |
| UCPB Leasing and Finance Corporation (UCPB LFC) | - | 188,544,852 |
| Allied Banking Corporation (ABC) | - | 151,735,740 |
| China Banking Corporation (CBC) | - | 92,819,528 |
| Land Bank of the Philippines Leasing Corporation (LBP) | - | 23,766,700 |
| | 480,245,919 | 812,361,547 |

## Note 10 - Property and equipment at cost

Details of property and equipment at December 31 follow:

| | Land | Barges | Building and building improvements | Transportation equipment | Diving and oil spill equipment | Furniture, fixtures and leasehold improvements | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|
| **As at January 1, 2013** | | | | | | | | |
| Cost | 31,556,011 | 206,799,754 | 24,751,645 | 36,624,176 | 79,221,083 | 2,706,596 | 288,170,010 | 669,829,275 |
| Accumulated depreciation | - | (19,452,071) | (10,924,598) | (22,409,642) | (59,621,517) | (2,509,827) | - | (114,917,655) |
| **Net carrying amount** | 31,556,011 | 187,347,683 | 13,827,047 | 14,214,534 | 19,599,566 | 196,769 | 288,170,010 | 554,911,620 |
| **Year ended December 31, 2013** | | | | | | | | |
| Opening net carrying amount | 31,556,011 | 187,347,683 | 13,827,047 | 14,214,534 | 19,599,566 | 196,769 | 288,170,010 | 554,911,620 |
| Additions | 8,000,000 | 8,207,135 | 925,056 | 4,359,178 | 5,425,544 | 163,777 | 182,718,275 | 209,798,965 |
| Disposals | | | | | | | | |
| Cost | - | - | - | (3,097,450) | (18,549) | - | - | (3,115,999) |
| Accumulated depreciation | - | - | - | 3,097,450 | 4,122 | - | - | 3,101,572 |
| Reclassification (Note 9) | - | - | - | - | - | - | (454,406,583) | (454,406,583) |
| Depreciation | - | (26,448,821) | (2,755,728) | (5,105,902) | (10,332,674) | (115,440) | - | (44,758,565) |
| **Closing 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 |
| **At December 31, 2013** | | | | | | | | |
| 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 9) | - | - | - | - | - | - | (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 |

As at December 31, 2014, the cost of fully depreciated property and equipment still used in operation amounted to P77,438,786 (2013 - P63,749,818).

As at December 31, 2014, the Group's unpaid acquisitions of property and equipment amounted to P126,099,008 (2013 - nil).

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

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Cost of services | 19 | 41,809,914 | 33,688,504 | 12,668,332 |
| General and administrative expenses | 20 | 12,137,949 | 11,070,061 | 17,335,614 |
| | | 53,947,863 | 44,758,565 | 30,003,946 |

Construction-in-progress as at December 31, 2014 mainly comprises of new tugboats being constructed in the Philippines and the on-going software development covering business processes of the Group including operations and administrative functions. Total cost incurred as at December 31, 2014 for the on-going software development amounted to P12,0183,81 (2013 - nil).

Construction-in-progress as at December 31, 2013 consists of one office unit and two parking slot at BG South Properties Inc. and tugboats undergoing specific alterations to properly fit the services offered by the Group.

Tugboats amounting to P92,138,336 were completed and transferred to "Property and equipment at revalued amounts" in 2014 (2013 - P454,406,583) (Note 9).

The carrying value of transportation equipment used as collateral on PNB and UCPB car loans amounted to P10.9 million as at December 31, 2014 (2013 - P2.7 million) (Note 14).

Barges include an asset held under finance lease with carrying amount of P68,694,432 as at December 31, 2014 (Note 25).

Certain barges were used as collateral to secure the loans obtained from various banks (Note 14). The carrying amounts of the barges used as collaterals are as follows:

| | 2014 | 2013 |
|---|---|---|
| CTBC (Philippines) Corporation (CTBC) | 91,998,143 | - |
| United Coconut Planters Bank (UCPB) | - | 99,661,105 |
| Malayan Bank Savings and Mortgage Bank (MBSMB) | - | 56,715,181 |
| | 91,998,143 | 156,376,286 |

**Note 11 - Investment property**

The Group's investment property is composed of parcels of land located in Barangay San Martin De Porres, Parañaque City covering a total area of three hundred fifty-six (356) square meters and Ayala Green Fields, Calamba Laguna covering a total area of three hundred seventy-seven (377) square meters which are held for capital appreciation with a carrying value of P4.2 million and P1.7 million, respectively. The estimated fair value as at December 31, 2014 and 2013 amounted to P7.9 million, based on the recent selling price per square meter.

There were no income earned nor direct operating expenses incurred related to the investment property for the years ended December 31, 2014 and 2013.

There was no movement in investment property during the reporting periods.

**Note 12 - Other non-current assets, net**

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

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Input VAT, net of output VAT | | 107,454,373 | 77,864,049 |
| Less: allowance for impairment of input VAT | | (12,306,405) | - |
| Input VAT, net | | 95,147,968 | 77,864,049 |
| Lease guarantee deposit | 25 | 4,301,032 | - |
| Investment in golf shares | | 810,000 | - |
| Escrow funds | 3.4 | - | 109,677,448 |
| Others | | 1,350,000 | - |
| | | 101,609,000 | 187,541,497 |

The Group classified portion of its input VAT as non-current asset since management believes that these will not be recovered in the next twelve months.

The movement in allowance for impairment of input VAT for the year ended December 31, 2014 follows:

| | |
|---|---|
| At January 1 | - |
| Provision for impairment (Note 20) | 12,306,405 |
| At December 31 | 12,306,405 |

Management believes that allowance for impairment of input VAT as at December 31, 2014 amounting to P12,306,405 (2013 - nil) is sufficient to cover potential unrecoverable amount from the input VAT claim.

The investment in golf shares is net of fair value loss amounting to P160,000 which is charged to other comprehensive income for the year ended December 31, 2014 (2013 - nil).

## Note 13 - Trade and other payables

Trade and other payables at December 31 consist of:

| | 2014 | 2013 |
|---|---|---|
| Trade payable | 103,023,094 | 86,438,275 |
| Accrued expenses | 60,147,526 | 37,044,867 |
| Unearned income | 8,647,344 | 8,926,413 |
| Payable to government agencies | 3,715,596 | 3,844,476 |
| Advances from officers and employees | 2,642,495 | 1,854,265 |
| Others | 2,763,060 | 6,606,725 |
| | 180,939,115 | 144,715,021 |

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, interest expense, 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 end of the reporting period.

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

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

Others mainly consist of payable to insurance companies which are expected to be settled in the first quarter of the subsequent year.

## Note 14 - Short-term loans and borrowings

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

| | 2014 | 2013 |
|---|---|---|
| Current | | |
| Short term loans | 112,000,000 | 185,222,076 |
| Current portion of long term borrowings | 133,432,673 | 113,319,118 |
| Non-current | | |
| Long-term borrowings | 233,271,017 | 97,065,010 |
| | 478,703,690 | 395,606,204 |

Short-term loans and long-term borrowings from local banks bear annual interest ranging from 4.75% to 13.5% in 2014 (2013 - 5.5% to 13.75%) subject to repricing. These loans are secured by chattel mortgages to certain Company-owned tugboats, barges, transportation vehicles and properties (Notes 9 and 10). These are payable in various installments maturing on various dates up to 2017.

Total interest expense from borrowings charged to profit or loss and presented in the consolidated statement of total comprehensive income for the year ended December 31, 2014 amounted to P23,766,686 (2013 - P44,577,929; 2012 - P36,473,649).

**Note 15 - Share capital and additional paid-in-capital**

Details of share capital and additional paid-in capital are as follow:

| | Number of shares | Share capital in Php | Additional paid-in-capital in Php | Total |
|---|---|---|---|---|
| At January 1, 2013 | 423,638,580 | 423,638,580 | - | 423,638,580 |
| Issuance of shares | 181,600,000 | 181,600,000 | 121,632,762 | 303,232,762 |
| At December 31, 2013 | 605,238,580 | 605,238,580 | 121,632,762 | 726,871,342 |
| Issuance of shares | - | - | - | - |
| At December 31, 2014 | 605,238,580 | 605,238,580 | 121,632,762 | 726,871,342 |

As at December 31, 2014 and 2013, the total authorized number of common shares is 1.5 billion with a par value of P1 per share.

On May 10, 2012, the Parent Company's BOD and shareholders approved another increase in authorized capital stock from P1 billion comprised of 1 billion shares with par value of P1 per share, to P1.5 billion comprised of 1.5 billion shares with par value of P1 per share. The SEC approved the increase of the authorized capital stock on September 11, 2012.

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

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

As discussed in Note 1.1, on October 30, 2013, the IPO of the Parent Company's share issued with an offer price of P1.88 per share resulted to the issuance of 181,600,000 shares resulting to capital stock 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.

## Note 16 - Dividend declaration

On July 4, 2011, the Parent Company's BOD approved the declaration of stock dividends amounting to P118 million divided into 118 million shares with par value of P1 per share in favor of the Parent Company's shareholders. The declaration was only approved by the SEC on January 19, 2012 and was distributed only on March 2012.

On May 10, 2012, the Parent Company declared stock dividends amounting to P143.6 million dividend into 143.6 million shares with par value of P1 per share, in favor of the Parent Company's shareholders. On September 11, 2012, the stock dividend was approved by SEC.

On February 6, 2013, the Parent Company's BOD approved the declaration of cash dividends amounting to P14.8 million equivalent to P0.03 per share, in favor of the Parent Company's existing shareholders of record as at December 31, 2012. In 2013, the stockholders agreed to offset their cash dividends against their advances from the Parent Company.

On June 2, 2014, the Parent Company's BOD approved the declaration of cash dividends amounting to P21.2 million equivalent to 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.

## Note 17 - Earnings per share

The calculation of earnings per share at December 31 are as follow:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Profit for the year attributable to the owners of the Parent Company | 124,473,077 | 108,481,763 | 148,286,927 |
| Weighted average number of common shares | 605,238,580 | 453,905,247 | 406,470,580 |
| Basic and diluted earnings per share | 0.21 | 0.24 | 0.36 |

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 18 - Service income, net

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Harbor assistance, net of discounts | 796,225,802 | 728,116,282 | 705,387,330 |
| Lighterage services | 125,514,847 | 120,582,576 | 48,615,062 |
| Towing services | 99,993,704 | 20,935,017 | 5,063,000 |
| Salvage income | 50,714,351 | 21,005,033 | 40,829,579 |
| Others | 31,408,924 | 8,056,589 | 7,368,918 |
| | 1,103,857,628 | 898,695,497 | 807,263,889 |

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 P92.2 million (2013 - P115.7 million; 2012 - P107.4 million).

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

## Note 19 - Cost of services

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

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Fuel and lubricants | | 224,590,722 | 134,135,771 | 106,772,390 |
| Depreciation | 9,10 | 199,316,142 | 154,829,325 | 83,815,039 |
| Personnel costs | 21 | 138,879,762 | 112,836,677 | 77,527,083 |
| Supplies | | 46,661,492 | 37,405,490 | 32,425,241 |
| Outside services | | 32,090,491 | 27,754,026 | 23,649,804 |
| Insurance | | 32,025,915 | 40,332,842 | 25,743,821 |
| Repairs and maintenance | | 19,194,058 | 14,859,416 | 13,084,971 |
| Charter hire | | 16,097,063 | 23,530,230 | 23,350,165 |
| Port expense | | 10,729,496 | 8,045,158 | 9,419,900 |
| Taxes and licenses | | 3,656,758 | 1,874,226 | 4,705,409 |
| Others | | 32,140,877 | 21,596,775 | 15,934,025 |
| | | 755,382,776 | 577,199,936 | 416,427,848 |

Others mainly composed of expenses such as travel and transportation, survey and valuation fees, outsourced services, commission and utilities expenses.

## Note 20 - General and administrative expenses

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

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Personnel costs | 21 | 65,935,284 | 55,443,298 | 49,458,821 |
| Transportation and travel | | 21,120,890 | 11,878,833 | 10,545,148 |
| Representation and entertainment | | 13,773,821 | 8,657,949 | 6,005,819 |
| Provision for impairment of input VAT | 12 | 12,306,405 | - | - |
| Depreciation | 10 | 12,137,949 | 11,070,061 | 17,335,614 |
| Professional and management fees | | 10,463,779 | 4,504,498 | 15,831,771 |
| Taxes and licenses | | 5,668,460 | 2,737,629 | 8,523,824 |
| Advertising and promotions | | 5,469,978 | 2,644,860 | 4,236,313 |
| Communications | | 3,891,769 | 2,796,550 | 2,560,210 |
| Supplies | | 3,295,308 | 3,836,953 | 2,370,450 |
| Fuel and lubricants | | 2,752,192 | 3,043,392 | 1,157,115 |
| Repairs and maintenance | | 2,233,939 | 2,830,097 | 1,801,998 |
| Insurance | | 1,642,827 | 1,101,829 | 1,571,605 |
| Utilities | | 1,459,748 | 1,493,594 | 1,550,628 |
| Registration and membership fees | | 1,276,497 | 2,762,547 | 1,956,489 |
| Rent | 25 | 1,245,398 | 750,180 | 453,928 |
| Security Services | | 1,175,988 | 24,271 | 2,517,988 |
| Training and seminar fees | | 960,888 | 1,353,660 | 1,403,909 |
| Provision for impairment of trade receivable | 6 | 936,139 | 33,177 | 141,201 |
| Bank service charges | | 908,636 | 305,978 | 1,245,175 |
| Donation and contribution | | 80,950 | 171,800 | 298,570 |
| Others | | 3,683,769 | 11,071,629 | 3,328,546 |
| | | 172,420,614 | 128,512,785 | 134,295,122 |

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

## Note 21 - Personnel costs

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

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Cost of services | | | | |
| Salaries and wages | | 69,586,165 | 57,825,202 | 43,816,172 |
| Crew expense | | 41,146,551 | 29,350,558 | 17,881,745 |
| Tug and barge operations | | 13,676,028 | 13,368,037 | 8,749,550 |
| Retirement benefit expense | 23 | 3,655,428 | 4,702,460 | 3,370,107 |
| Other employee benefits | | 10,815,590 | 7,590,420 | 3,709,509 |
| | 19 | 138,879,762 | 112,836,677 | 77,527,083 |
| General and administrative expenses | | | | |
| Salaries and wages | | 55,458,088 | 49,184,835 | 47,512,285 |
| Retirement benefit expense | 23 | 3,655,429 | 2,015,340 | 766,111 |
| Other employee benefits | | 6,821,767 | 4,243,123 | 1,180,425 |
| | 20 | 65,935,284 | 55,443,298 | 49,458,821 |
| | | 204,815,046 | 168,279,975 | 126,985,904 |

## Note 22 - Other income (expense), net

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

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Foreign exchange gain (losses), net | 3.3 | 16,680,889 | 2,127,016 | (5,431,557) |
| Insurance claims | | 7,163,779 | 420,000 | - |
| Ship management | | 1,388,905 | 1,572,289 | - |
| Gain on sale of property and equipment | | 1,307,997 | 698,794 | 3,664,966 |
| Interest income | 5 | 445,548 | 351,244 | 883,875 |
| Loss on unclaimed deposits | | - | - | (10,733,333) |
| Others | | 2,217,923 | 2,251,531 | 1,426,427 |
| | | 29,205,041 | 7,420,874 | (10,189,622) |

Insurance claims pertain to reimbursement of insurance companies for the losses incurred by the Group from prior years' damages on its tugboats.

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

## Note 23 - 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:

| | 2014 | 2013 |
|---|---|---|
| Present value of define benefit obligation | 45,242,801 | 37,136,500 |

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

| | 2014 | 2013 |
|---|---|---|
| Beginning of year | 37,136,500 | 31,768,400 |
| Current service cost | 5,390,900 | 4,946,900 |
| Interest cost | 1,919,957 | 1,770,900 |
| Remeasurement (gain) loss due to: | | |
| Experience adjustments | (1,957,456) | (3,442,900) |
| Changes in financial assumptions | 2,752,900 | 2,093,200 |
| End of year | 45,242,801 | 37,136,500 |

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current service cost | 5,390,900 | 4,946,900 | 2,946,900 |
| Net interest cost | 1,919,957 | 1,770,900 | 1,189,318 |
| Retirement benefit expense | 7,310,857 | 6,717,800 | 4,136,218 |

Retirement benefit expense is included as part of personnel cost under cost of services and general and administrative expenses (Notes 19 and 20).

The amounts recognized in other comprehensive income for the years ended December 31 are as follow:

| | Note | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| On defined benefit obligation due to change in financial assumption | | 2,752,900 | 2,093,200 | 2,217,100 |
| On defined benefit obligation due to experience | | (1,957,457) | (3,442,900) | 6,325,525 |
| Remeasurement loss (gain) | | 795,443 | (1,349,700) | 8,542,625 |
| Deferred tax (benefit) expense | 26 | (238,633) | 404,910 | (2,562,788) |
| Remeasurement loss (gain), net of tax | | 556,810 | (944,790) | 5,979,837 |

The significant actuarial assumptions as at December 31 are as follow:

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 4.57% | 5.17% |
| Salary growth rate | 5.00% | 5.00% |
| Turn-over rate | A scale of 25% at age 20 decreasing to 0% at age 50 | A scale of 25% at age 20 decreasing to 0% at age 50 |

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

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | 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% | (4,470,100) | 5,265,200 | 1% | (4,083,900) | 4,826,400 |
| Salary growth rate | 1% | 4,946,800 | (4,298,300) | 1% | 4,592,800 | (3,974,800) |
| Turn-over rate | 1% | (2,004,600) | 2,552,900 | 1% | (1,187,000) | 1,386,400 |
| Net impact | | (1,527,900) | 3,519,800 | | (678,100) | 2,238,000 |

The above 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 liability recognized within the statement of financial position.

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

Shown below are the expected maturity analyses of the undiscounted benefit payments as at December 31:

| | 2014 | 2013 |
|---|---|---|
| Less than one year | 1,071,703 | 399,051 |
| More than one year to five years | 4,475,993 | 4,721,008 |
| More than five years to 10 years | 37,291,927 | 29,747,895 |
| More than 10 years to 15 years | 42,422,199 | 44,740,044 |
| More than 15 years to 20 years | 52,973,603 | 49,111,193 |
| More than 20 years | 128,391,050 | 159,264,444 |
| Total expected payments | 266,626,475 | 287,983,635 |

The average duration of the defined benefit obligation at the end of the reporting period is 18.30 years.

## Note 24 - 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 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| (a) Purchase of services | | | | |
| Associate | Services rendered to the Group are billed based on agreed prices. These are payable within 30 days after invoice date, unsecured, and non-interest bearing. | 5,892,857 | 4,285,714 | 6,428,571 |
| (b) Advances to related party | | | | |
| Entity under common control | Reimbursements from related party are billed at cost and collectible on demand, unsecured and non-interest bearing. | 6,329 | 10,365,460 | 43,082,132 |
| (c) Advances from related parties | | | | |
| Shareholders | Reimbursements charged by related parties are billed at cost and payable on demand, unsecured and non-interest bearing. | 12,933,700 | 23,571,249 | 4,276,500 |
| Associate | | - | 67,883 | 2,806,449 |
| | | 12,933,700 | 23,639,132 | 7,082,949 |

Intercompany balances eliminated in these consolidated financial statements pertain to Parent Company's advances from Peak Flag amounting P498,296 and carrying amount of Parent Company's investment to Peak Flag amounting to P5,564,344 (Note 8) as at December 31, 2014.

The Group has no other intercompany transactions, including 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 | 2014 | 2013 |
|---|---|---|---|
| *Advances to related party:* Entity under common control | These are settled in cash, unsecured and non-interest bearing, collectible within credit terms but not later than 12 months from reporting date. | 9,389,948 | 9,383,619 |
| *Advances from related parties:* | | | |
| Shareholders | These are settled in cash, unsecured and non-interest bearing, payable within credit terms but not later than 12 months from reporting date. | 2,152,434 | 7,886,799 |
| Associate | | - | 2,481,937 |
| | | 2,152,434 | 10,368,736 |

*Key management compensation and benefits*

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

| | Terms | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| 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. | 80,478,982 | 80,454,809 | 79,657,039 |
| Retirement benefits | Retirement benefits are determined and payable in accordance with policies disclosed in Note 2. These will be settled upon retirement of key management. | 999,748 | 999,721 | 992,853 |
| Professional fees | Professional fees are paid to a director holding key position in the Parent Company. | 120,000 | 120,000 | 120,000 |
| | | 81,598,730 | 81,574,530 | 80,769,892 |

There are no amounts due from or payable to key management personnel arising from the above compensation arrangement at December 31, 2014 and 2013. 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, 2014, 2013 and 2012.

**Note 25 - Lease commitments**

*(a) Finance lease*

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

This agreement requires the Parent Company to pay a lease guarantee deposit which is presented within other non-current assets in the consolidated statement of financial position. Lease guarantee deposit amounted to P4,301,032 for the year ended December 31, 2014 (Note 12).

The aggregate future lease payments arising from the Parent Company's finance lease agreement at December 31 are as follows:

| | 2014 |
|---|---|
| Not later than 1 year | 2,972,448 |
| Later than 1 year but more than five years | 37,148,902 |
| | 40,121,350 |

*(b) Operating lease*

The Parent Company has various 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 statement of financial position. Refundable deposits amounted to P137,283 for the year ended December 31, 2014 (2013 - P1,151,031) (Note 7).

Rent expense from the foregoing lease agreements recognized in profit or loss amounts to P1,485,093 (2013 - P 1,253,547). Of the total rent expense, P239,695 (2013 - P503,367; 2012 - P2,694,554) is charged to cost of services (Note 19) and P1,245,398 (2013 - P750,180; 2012 - P453,928) is charged to general and administrative expenses (Note 20).

The aggregate future lease payments within one year arising from the Parent Company's non-cancellable lease agreements at December 31, 2014 amounted to P115,663 (2013 - P154,071).

## Note 26 - Income tax expense

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

| | 2014 | 2013 |
|---|---|---|
| DIT assets: | | |
| Retirement benefit obligation | 13,572,840 | 11,140,950 |
| Allowance for impairment of input VAT | 3,691,922 | - |
| Unearned income | 2,594,204 | 2,677,924 |
| Accrued expenses | 720,000 | - |
| Allowance for impairment of receivables | 418,739 | 205,397 |
| | 20,997,705 | 14,024,271 |
| DIT liabilities | | |
| Service income from salvaging services | - | (11,559,245) |
| Unrealized foreign exchange gains | (3,547,800) | (379,185) |
| Revaluation increment on property and equipment | (93,372,179) | (108,219,150) |
| | (96,919,979) | (120,157,580) |
| DIT liabilities, net | (75,922,274) | (106,133,309) |

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

| | 2014 | 2013 |
|---|---|---|
| DIT assets: | | |
| To be recovered within 12 months | 2,594,204 | 2,677,924 |
| To be recovered more than 12 months | 18,403,501 | 11,346,347 |
| | 20,997,705 | 14,024,271 |
| DIT liabilities | | |
| To be settled within 12 months | (18,394,771) | (26,785,401) |
| To be settled more than 12 months | (78,525,208) | (93,372,179) |
| | (96,919,979) | (120,157,580) |
| | (75,922,274) | (106,133,309) |

Peak Flag has no unrecognized DIT assets and liabilities as at December 31, 2014 as it is still at pre-operating stage.

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

| | 2014 | 2013 |
|---|---|---|
| Beginning of the year | (106,133,309) | (120,814,740) |
| DIT credited to profit or loss | 29,972,402 | 15,086,341 |
| DIT credited (charged) to other comprehensive income | 238,633 | (404,910) |
| End of the year | (75,922,274) | (106,133,309) |

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current | 85,317,208 | 62,043,083 | 68,440,050 |
| Deferred | (29,972,402) | (15,086,341) | (5,576,997) |
| | 55,344,806 | 46,956,742 | 62,863,053 |

On December 20, 2008, Revenue Regulations No. 16-2009 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income; "cost of sales" and "cost of services" will be allowed to be deducted from gross sales.

The Parent Company did not avail the Optional Standard Deduction (OSD) for the years ended December 31, 2014, 2013 and 2012.

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Income tax computed at statutory income tax rate of 30% | 54,145,523 | 46,631,552 | 63,344,994 |
| Adjustments to income tax resulting from: | | | |
| Non-deductible expenses | 1,495,758 | 314,398 | 164,921 |
| Share in net (profit) or loss of an associate | (162,811) | 116,165 | (381,700) |
| Interest income subjected to final tax | (133,664) | (105,373) | (265,162) |
| Income tax expense | 55,344,806 | 46,956,742 | 62,863,053 |

## Note 27 - Contingencies

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

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 has no legal basis since the Parent Company faithfully paid the proper duties and taxes supported by supplier documents and certificate of conversion authorizing the clearance of said tugboat. Furthermore, there is no pending assessment for additional taxes that should merit the issuance of said seizure order. This shall not materially affect the operations of the Group (Note 9).

## Note 28 - Supplemental disclosure to statement of cash flows

Non cash financing activities in 2012 pertains to receipt of tugboat from related party under common control with a fair value of P47 million as payment for the advances provided by the Group and claims receivable amounting to P22.5 million for the disposal of tugboat.

Non cash financing activities in 2013 pertains 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 while non-cash investing activities 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 12) and P43,010,32 (Note 25), respectively, and unpaid property and equipment acquisition amounting to P126,099,008 (Note 10).

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