NAVIGATING A STRONG FUTURE

HARBOR STAR
SHIPPING SERVICES, INC.

ANNUAL REPORT
2016

About the Cover

NAVIGATING A STRONG FUTURE

Dedicated in its vision to be the leading tug and marine services provider in the country, Harbor Star continues to set their sights even further year by year. In navigating a strong future, it entails commitment and hard work as growth and success does not happen overnight. Through the years, Harbor Star has been aggressive in exploring new opportunities and improving its services. With nearly 30 years of experience in the maritime industry, Harbor Star continues to grow and move full speed ahead to a promising future. A forward-thinking and proactive company like Harbor Star continues to innovate, adapt, and focus on its future plans to succeed. Its future plans include international expansion of current tug business, domestic chassis Roll-On Roll-Off ("Cha-Ro") Shuttle Service, Shipyard Business, Offshore Operations, Operating Maritime Educational Facilities and Institutions and venturing into renewable energy–a completely new service for the company. As a forward-thinking company, Harbor Star has been able to succeed in such a competitive environment making them grow and stand the test of time. Incorporated in this design is a compass, an instrument for determining direction; as well as M/V Rho Cas, a 9,180 BHP towing vessel and the most powerful of its kind in the Philippines, which Harbor Star takes pride in. This design portrays the growing reach of Harbor Star as well as its aim to conquer and compass the world as it continues to explore opportunities and navigate towards a strong future.

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Company Profile

Harbor Star Shipping Services, Inc. ("Harbor Star" or "the Company") is a leading integrated maritime service provider in the Philippines. Its service lines include harbor assistance, lighterage, towing, ship salvage, marine construction, repair & maintenance works and other marine services. The Company was registered with the Securities and Exchange Commission ("SEC") on 5 July 1988 under the name "Seatows, Inc". Its primary purpose is to engage in domestic and international towage, commerce and navigation in the carriage of goods and passengers by water upon the oceans seas, lakes, rivers, canals, bays, harbors, and other waterways.

Included in the purpose of its charter is to engage in domestic and international manning, recruitment, contracting, and ship and crew management for all types of vessels, including by not limited to container ships, break bulk carriers, tugboats, barges, landing craft transport, tankers, yachts, ferries, and such other floating assets engage in trade, business, and non-trade activities.

Also part of its business purpose as the Company seeks to diversify is to build, own, invest in, develop, manage, operate and/or carry on the general business of generating, distributing and storing electric power in accordance with existing laws, rules and regulations, derive from solar energy, other renewable energy sources and fuels, for lighting and power purposes, and electric power to private electric utilities, electric cooperatives, the spot market and/or other consumers, and for the carrying on of all business incident thereto, including developing, exploring, acquiring, investing in, building, rehabilitating, constructing, owning, maintaining and operating all necessary and convenient facilities, buildings, structures, machinery, sub-stations, transmission lines, poles, wires, and other things and devices, and other corporations or entities, and to acquire and hold water and flowage rights and to acquire, lease, hold, occupy or use land rights of way and easements therein.

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

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

In the same year, Harbor Star invested a 45% stake in Peak Flag Sdn. Bhd., a company engaged in the provision of tugboat harbor assist and marine support services in Malaysia. Finally, the year 2012 also saw the Company acquiring its first Anchor Handling Tug Supply ("AHTS") vessel, so as to cater to the offshore industry and towage in the international and domestic market.

On 30 October 2013, Harbor Star's common shares were listed in the Philippine Stock Exchange following the initial public offering of 30% of its shares.

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

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

On 11 August 2015, Harbor Star secured the approval of the SEC to expand its business scope to include international marine commerce; manning, recruitment, ship and crew management; operate liner feeder vessels and logistics operations; invest in, develop, manage
and/or operating in domestic and international shipyards, ports and terminals; and real estate development.

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

Domestically the Company expanded its presence by opening a Cebu branch office. Later in the year, Harbor Star opened a wholly-owned subsidiary, Harbor Star Subic Corp.

In 2016, Harbor Star secured its Contractor's License with the Philippine Contractors Accreditation Board ("PCAB"). The license authorizes the Company to engage in general construction and engineering in the Philippines.

Also in the same year, the Company signed an agreement with Guam Industrial Services, Inc. to establish a joint venture company ("JVC") to operate a floating dry dock and ship repair facilities in the Philippines. The JVC intends to commence commercial operations by 2017.

Towards the later part of the year, Harbor Star was engaged to carry out the wreck removal on the tugboat, M/V Salvage Titan, which ran aground off the coast of Sanchez Mira, Cagayan Valley on 23 December 2016.

As part of the its domestic expansion plans, the Company purchased a total of three (3) additional tugboats in 2016. The first tugboat M/T Lucida was acquired under the Corporation's subsidiary, Harbor Star Subic Corp. Meanwhile, M/T Merak and M/T Homan were purchased under the Parent Company.

MISSION

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

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

VISION

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

CORE VALUES

Honesty
Accountability
Reliability
Benevolence
Orderliness
Resourcefulness

Service-Oriented
Trustworthiness
Adaptability
Respect

SUBSIDIARIES

Peak Flag Sdn. Bhd.
Peak Flag Sdn. Bhd. ("Peak Flag") was incorporated in Malaysia on 18 October 2011. Peak Flag provides marine service at select ports in Malaysia which exhibit high vessel traffic and the opening of additional berthing area.

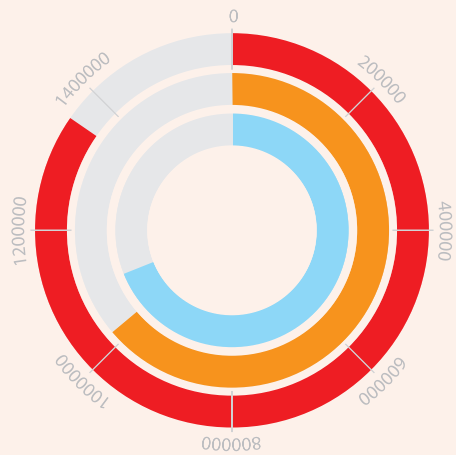
Peak Flag's commercial operations commenced in February 2015 with M/T Hamal operating at Malaysia's North port. Shortly after Peak Flag brought in an additional vessel, M/T Mirzam, which operated at Kuantan Port.

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

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

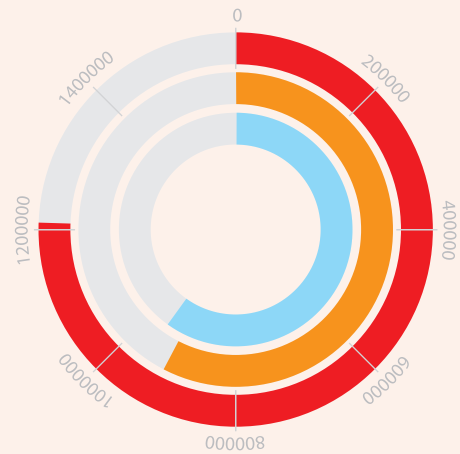
Financial Highlights

Net Revenue
(In PHP thousands)



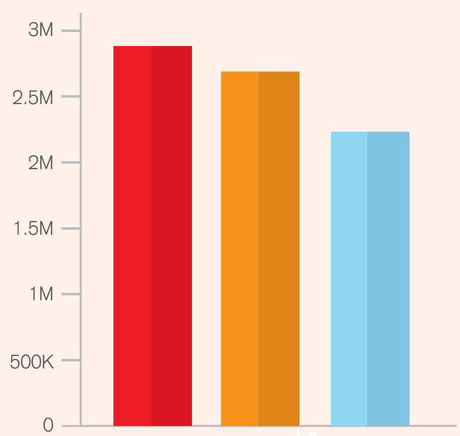
2016 ● **1,360,830** | 2015 ● **1,040,244** | 2014 ● **1,103,858**

Total Expenses
(In PHP thousands)



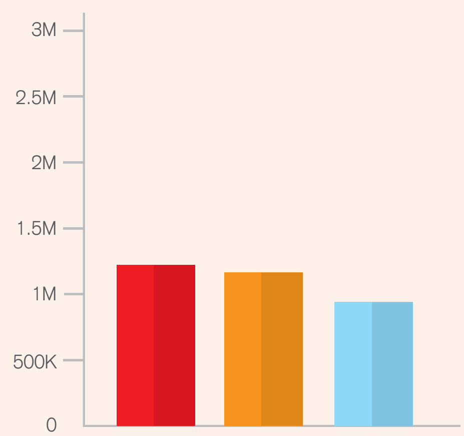
2016 ● **1,201,220** | 2015 ● **938,900** | 2014 ● **951,027**

Total Assets
(In PHP thousands)



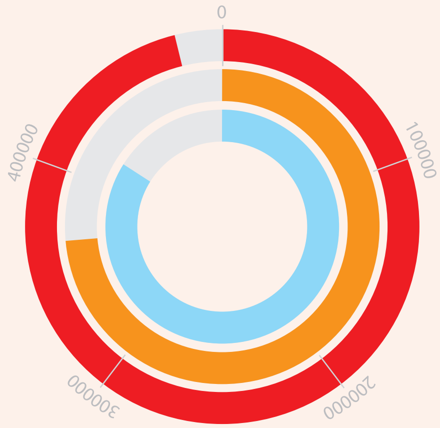
2016 ● **2,751,479** | 2015 ● **2,623,154** | 2014 ● **2,260,368**

Total Liabilities
(In PHP thousands)



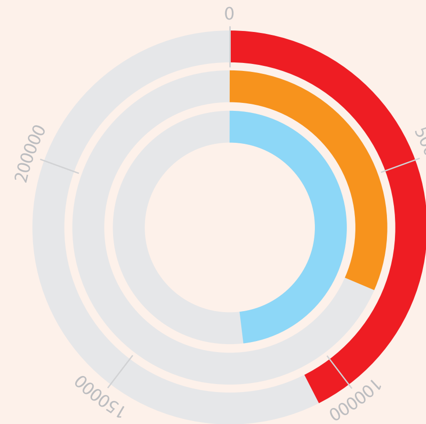
2016 ● **1,206,777** | 2015 ● **1,187,713** | 2014 ● **863,342**

EBITDA
(In PHP thousands)



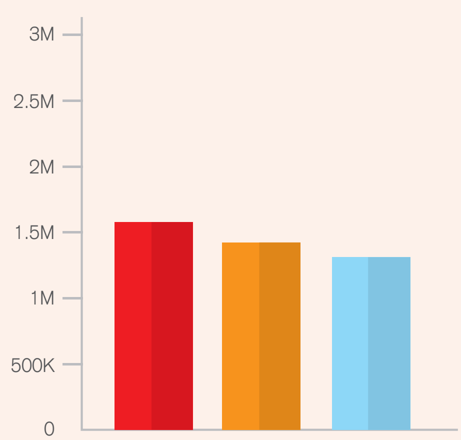
2016 ● **484,040** | 2015 ● **376,741** | 2014 ● **414,223**

Net Income
(In PHP thousands)



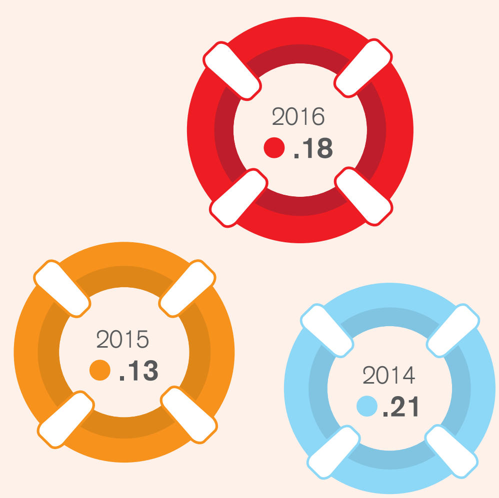
2016 ● **100,887** | 2015 ● **67,717** | 2014 ● **123,658**

Total Equity
(In PHP thousands)



2016 ● **1,544,702** | 2015 ● **1,435,441** | 2014 ● **1,397,026**

Earnings Per Share



Fellow Shareholders

2016 was a good year for Harbor Star. The dedication and hard work coupled with the tapering of the adverse effects of the 2014-2015 Manila port congestion resulted in a rewarding 49.0% increase from the previous year's net profit.

We remained focused on providing quality service to our base clients while staying true to our strategy of further developing and marketing our ancillary services. Harbor Star's consolidated service income grew by 30.8% to P1.4 billion from P1.0 billion the previous year.

The uptrend was due to increased ship calls in major ports, several high-value towing and salvage contracts, revenue contribution of Malaysia-based Peak Flag Sdn. Bhd., where Harbor Star owns a 45% stake, and a substantial contribution from our Diving and Marine Maintenance Unit which we strategically established in 2015.

Revenues were still led by harbor assistance which accounted for 76% of the group's total revenues, generating P1.0 billion from the previous year's P741.9 million.Towing services registered one of the highest increases in 2016, contributing P64.3 million in revenues, a 280.3% increase from P16.9 million in 2015. Harbor Star's marine maintenance contracts posted a 355% rise to P57.5 million from only P12.6 million in 2015. Meanwhile, salvage operations registered a 28.3% increment amounting to P39.9 million from P31.1 million. Revenues from other marine services hit P49.6 million, 40.5% higher than the P35.3 million registered in 2015.

Driven by the stronger revenues, the Group's gross profit increased by 16.9%, from P345.7 million in 2015 to P404.2 million in 2016.

On the other hand, lighterage services suffered a decline resulting from the slowdown in activities in the mining sector. Revenues from lighterage services, which contributed 7.8% to the total, fell to P106.0 million from P202.4 million. We, however, are still bullish with this service line as opportunities in the domestic and international logistics are abound.

Message to Our Stockholders

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

Laying the Pillars for a Strong Future

Harbor Star's ability to adapt and grow by expanding its horizons is one of the reasons why the Company is able to fortify its reputation as a stable and reliable marine services provider.

This year, Harbor Star continued to move toward its vision of becoming an industry player in East and Southeast Asia. We finally stabilized our presence in Malaysia when our tugboats were chartered for a medium-term contract by a reputable Malaysian oil and gas company. We continue to look for opportunities in Malaysia, Indonesia and Myanmar.

Our M/V Rho Cas is now known and recognized as a strong and reliable towing vessel in the region. She was engaged to render international towing jobs, one of which was a vessel tow from Sulu, Philippines to Hong Kong.

The Company entered into a joint venture with Guam Industrial Services, Inc. to operate floating dry dock facilities in the Philippines. The target customers will be both domestic and international vessels trading in the Philippines and its neighboring countries. We project to commence commercial operation by 2017.

To continue its domestic expansion plans, Harbor Star purchased three (3) additional tugboats in 2016: M/T Lucida, M/T Merak, and M/T Homam. All tugboats are already operating within the Philippines.

And in line with the plan to expand in the construction business, Harbor Star secured a Contractor's License with the Philippine Contractors Accreditation Board (PCAB) to engage in general construction and engineering. We believe this service line to be highly profitable and a major source of revenue once fully developed.

This year, Harbor Star continued to scale new heights, anchored firmly on its vision of becoming a major player in Southeast Asia as we go the extra mile – setting our sights even further.

Looking Ahead

In a rapidly changing market environment, flexibility and resiliency is essential. I am confident that our Company has the building blocks needed as we head to the future.

While short-term challenges remain, I am excited with what is in store for Harbor Star. Our company is capable of doing much more. Harbor Star will continue to face any test and opportunity proactively head-on.

We extend our gratitude to the most important resource we have–our strong and ever efficient team who work for countless hours to the best of their abilities to ensure that we operate safe and sound to serve our stakeholders. We also give our thanks to our Board of Directors for their unwavering effort and support.

We would not be successful without all your support, hard work, and dedication. We will continue to set our goals high while constantly improving serving our stakeholders.

With all your unfaltering support, I believe Harbor Star's best and most exciting days remain ahead.

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

LEADING the way in delivering indispensable maritime services, Harbor Star has gone from strength to strength–dedicated in offering only the highest quality to its stakeholders. The Company offers a wide range of maritime services such as harbor assistance, towing, lighterage, ship salvage, marine construction, repair and maintenance works, wreck removal, firefighting, oil spill abatement and recovery, handling hazardous chemicals, ship and crew management, as well as diving and underwater marine works.

Service Areas

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

The Company has established operations in fifteen (15) base ports all over the country, providing services to approximately 10,549 ships as of yearend 2016. The major ports that Harbor Star services include: the Manila International Container Terminal ("MICT"), Bataan, Batangas, Cagayan de Oro ("CDO"), and Davao.

The Fleet

The Company maintains and manages a fleet of forty (40) domestically and internationally classed tugboats, five (5) barges, a cargo vessel, an oil spill response vessel, and an Anchor Handling Tug Supply ("AHTS") vessel.

OPERATIONAL HIGHLIGHTS

LEADING the way in delivering indispensable maritime services, Harbor Star has gone from strength to strength – dedicated to offering only the highest quality to its stakeholders.

SERVICES

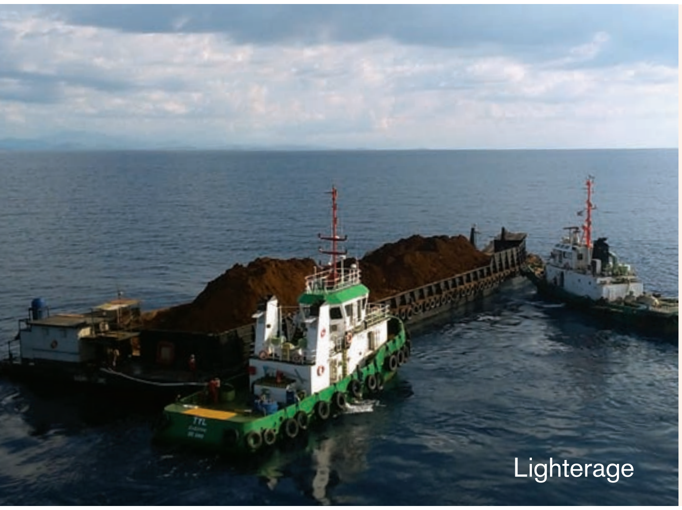
Harbor Star derives the bulk of its revenues from six (6) main service lines, namely; (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, (e) marine construction, repair & maintenance works, and (f) other marine services. Other services include oil and chemical spill response, diving and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

Harbor Assistance

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 2016, revenues from harbor assistance amounted to **P1.0 Billion**, equivalent to **76.7%** of total revenue.



Lighterage

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 2016, revenues from lighterage services amounted to **P106.0 million**, equivalent to **7.8%** of total revenue.

Towing

Towing

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

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

b. **Emergency towing** is when a vessel in distress needs - towing service.

As of 31 December 2016, revenues from towing services amounted to **P64.3 million**, equivalent to **4.7%** of total revenue.

Salvage

Salvage

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

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

b. **Wreck removal** - This includes refloating of vessels that ran aground, retrieval of vessels, among others.

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

As of 31 December 2016, revenue from salvage operations amounted to **P39.9 million**, equivalent to **2.9%** of total revenue.

Marine Construction, Repair & Maintenance Works

Marine Construction, Repair & Maintenance Works

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

As of 31 December 2016, revenues from marine construction contracts amounted to **P57.5 million**, equivalent to **4.2%** of total revenue.

Other Marine Services

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 include underwater repairs, and Single Buoy Moorings ("SBM") repair
e. Ship and crew management
f. Fire fighting
g. Offshore tug services

As of 31 December 2016, revenues from other marine services amounted to **P49.6 million**, equivalent to **3.6%** of total revenue.

TUGBOATS

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

MALAYSIA TUGBOATS

M/T Hamal
M/T Mirzam

AHTS

M/V Rho Cas

BARGES

Barge Centaurus
Barge Corvus
Barge Hydrus
Barge Kenram
Barge Lynx

OTHER MARINE VESSELS

M/V Cassopeia
M/V Wise

Safety, Quality, Maintenance and Compliance with Environmental Laws

ISO 9001:2008
Quality Management

OHSAS 18001:2007
Occupational Health and Safety Management

ISO 14001:2004
Environmental Management

Harbor Star has obtained international accreditations for its management systems, specifically ISO 9001: 2008 (Quality of Services), ISO 14001:2004 (Environment), and OHSAS 18001:2007 (Occupational Health and Safety). The Company was evaluated for all its major processes and enacted the necessary reforms to be in line with international standards. Having obtained these certifications, the Company consistently maintains its strict adherence to ISO protocol and procedures to ensure quality and safe service. Completing the three (3) accreditations from DNV-GL has made Harbor Star one of the few tugboat companies to attain IMS Certification.

The Company also has an established maintenance and dry docking program for its vessel fleet to minimize the potential for engine breakdown, engine overhauls, and other type of repairs, to ensure that all vessels shall at all times be in seaworthy condition. As of 31 December 2016, the Company spent P18.2 million for dry docking and maintenance of vessel fleet, representing 1.3% of total revenue.

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

The Company also complies with environmental laws by Department of Environment and Natural Resources ("DENR"), Maritime Industry Authority ("MARINA") and the Philippine Coast Guard ("PCG"). For the year ended 31 December 2016, Harbor Star incurred P1.6 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.

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

Compliance Officer

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

Compliance Officer :	**Adelia D. Vasquez**

Independent Director

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

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

Independent Directors :	**Jose S. Navarro**
	Manuel H. Puey

CORPORATE GOVERNANCE

Harbor Star is committed to conducting all aspects of its business to the highest ethical and legal standards.

BOARD COMMITTEES

Executive Committee

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

a) Approval of any action for which stockholders' approval is required

b) The filling of vacancies in the Board of Directors

c) The amendment or repeal of these By-laws or the adoption of new By-laws

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

e) Distribution of cash dividends to the stockholders, and

f) Such other matters as may be specifically excluded or limited by the Board of Directors

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

Executive Committee Member :

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

Audit Committee

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

Audit Committee Members:

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

Nominations Committee

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

Nominations Committee Members:

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

Compensation and Remuneration Committee

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

Compensation and Remuneration Committee Members:

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

Risk Management Committee

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

Among the Committee's key responsibilities are:

a) Implement an effective system to identify, monitor and assess risks

b) Review, on a quarterly basis, the Corporation's business for risk identification, mitigation and monitoring

c) Establish consistency and best practices rules in the managing, monitoring and reporting of risks

d) Identify risks, which maybe beneficial to the Corporation if properly managed and controlled

e) Ensure that risk-taking is an informed process within a pre-determined range

f) When deemed necessary, appoint a Risk Management Officer, and

g) Operationalize a Risk Management Program

Risk Management Committee Members:

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

Governance Committee

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

Governance Committee Members:

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

Corporate Social Responsibility

Harbor Star consistently invests its time and resources into protecting the environment and contributing to overall community development.

The company has focused particularly on the conservation of marine life and on the safety of the people residing in the Philippines' coastal areas. Beyond the numbers and business targets, Harbor Star takes to heart its responsibility to all its stakeholders and to bringing about progress that is inclusive for all.

A Flagship Initiative

Harbor Star partnered with the Coastal Conservation and Education Foundation, Inc. (CCEF) in its quest for innovative conservation initiatives that include mangrove rehabilitation and protection.

The Company made 2016 another year of unwavering commitment to preserving and rehabilitating the mangrove forests. Employees and community members of Barangay Banoyo helped plant additional seedlings that would replace fifty percent of the 30,962 total mangrove propagules that were destroyed by the typhoon. Through the joint efforts of the Company and the community, an additional 4,700 seedlings were planted, thus, bringing the total surviving mangroves to 26,700.

Harbor Star believes that it owes its success to the environment; therefore, the Company makes sure that the environment and the community in which it operates remains sustainable not only today but for the generations to come.

Environmental Awareness and Conservation

Apart from providing shelter for marine creatures, mangroves also sustain life on land. The mangrove forests are nesting and migratory grounds of birds, as well as home to a wide range of variety of reptile, amphibian, and mammal species.

In cognizance of this, Harbor Star aims to educate and develop environmental awareness among locals in the community on the importance of the mangrove forests. The Company conducts orientations together with the caretakers of the Adopt-A-Mangrove project to the barangay volunteers of Barangay Banoyo.

Barangay Banoyo, San Luis, Batangas has been visited by schools and private organizations who participate in the coastal clean-up and planting activities. This is seen as a learning destination for mangrove restoration initiatives.

Harbor Star's sustainability efforts, in cooperation with local government units and various organizations, is a testament of the Company's unwavering commitment and dedication to preserving and protecting the environment.

Board of Directors Profile

GERONIMO P. BELLA, JR., 56, Filipino, Chairman of the Board and President. Mr. Bella, Jr. is the Chairman of the Board and President of the Company since 2006. Concurrently, Mr. Bella is the Chairman and President of Harbor Star Subic; a Director of Peak Flag Sdn. Bhd. and President of the Harbor Tugowners Association of the Phillipines, Inc. Prior to his present positions, he worked in Transpacific Towage, Inc. from 1978 to 1988 and Keppel Smit Transpacific from 1988 to 2000. Mr. Bella Jr. received his Bachelor of Science degree in Commerce, Major in Business Management from De La Salle University in 1983.

RICARDO RODRIGO P. BELLA, 50, Filipino, Director and Vice President. Mr. Bella is a Director and Vice President of the Company since 2006. Currently, he is a director in various corporations, namely, Harbor Star Subic Corp., Great Eastern Tug Corporation, Bellport Shipping Corporation, Bellridge Resources, Inc., and Mearnz Green Technology Proponents, Inc. Prior to joining Harbor Star, he served as the Vice President of Transpacific Towage, Inc. from 1983 to 1998. He pursued undergraduate studies in Business Management at De La Salle University in 1985.

IGNATIUS A. RODRIGUEZ, 47, Filipino, Director, Corporate Secretary, Chief of Staff to the President, Corporate Information Officer and Chief Information Officer. Mr. Rodriguez is a Director and the Corporate Secretary of the Company since 1998 and is the Chief of Staff to the Office of the President since 2011. In 2013, he was appointed Corporate Information Officer and acting Chief Information Officer. Concurrently, Mr. Rodriguez is a director of Harbor Star Subic Corp., and Peak Flag Sdn. Bhd. Mr. Rodriguez earned his Juris Doctor from the Ateneo Law School in 1996 and his Masters in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008.

DAMIAN L. CARLOS, 65, Filipino, Director. Mr. Carlos is a Director of Harbor Star Shipping Services, Inc. since 2009. As a member of the Philippine Military, Mr. Carlos was appointed as the first four Star Admiral of the Philippine Coast Guard and was designated as Deputy Commandant for Administration. He also served as the Senior Management Emigrant Service officer detailed with the Commission on Filipino Overseas under the Office of the President, Philippine Liaison officer Republic of the Philippines-Republic of Indonesia Border Committee, and Platoon Leader of the Philippines Marines. He obtained his Bachelor of Science degree from the Philippine Military Academy in 1974.

RYOTA NAGATA, 52, Japanese, Director. Mr. Nagata is a Director of the Company since 2011. Currently, he is also a Director of Harbor Star Subic Corp and the President of Philster Corporation. He started his career as a Sales Representative in Kirin Brewery Company Limited from 1987 to 1990. He was a Sales Representative from 1990 to 1996 in Naigai Corporation. In 2001 to 2008, he became the Vice President of Naigai Corporation and eventually became the President and CEO from 2008 to 2011. He obtained his Bachelor of Arts degree in Politics in Keio University, Japan in 1987.

JOSE S. NAVARRO, 64, Filipino, Independent Director. Mr. Navarro is an Independent Director of the Company since 2011. Currently, he is also an Independent Director for the Armed Forces and Police General Insurance Corporation ("AFPGEN") and serves as a consultant for Raquel Pawnshops Inc. Mr. Navarro is also an advisor to the National Advisory Group for Police Transformation and Development and to Raquel Group of Companies. He is also a member of the Philippine Council on Foreign Relations ("PCFR") and the Advisory Board of the National Police Commission ("NAPOLCOM"). He acquired his degree in Accounting from the Philippine School of Business Administration in 1980 and completed post graduate studies at the University of Asia and the Pacific in 1997, where he attended the Strategic Business Economics Program.

MANUEL H. PUEY, 69, Filipino, Independent Director. Mr. Puey is an Independent Directors of the Company since 2011. At present, Mr. Puey is the Chairman and President of Anna Cristina Farms, Anna Cristina Properties, Inc., Novi's Enterprises, Inc. He is also the current President of Negros Poultry Raisers Association, and the United Negrense Sugar Planters Association Inc. Prior to his appointment in the Company, Mr. Puey served as President and CEO of PNOC Shipping from December 2006 until May 2011. In 1971, he was the Chairman and CEO of Intermodal Shipping, Inc. He also served as Chairman of Skanfil Maritime Inc. in 1975. He acted as President of Transport Systems, Inc. and Hi Marketing Corp. in the years 1972 and 1974. He also served as Managing Director in Tokyo Pacific Shosi KK in 1973. Mr. Puey obtained degrees in Ship Management from Galbraith School of Shipping in London sometime in 1979.

Board of Directors

GERONIMO P. BELLA, JR.
Chairman of the Board

RICARDO RODRIGO P. BELLA
Director

IGNATIUS A. RODRIGUEZ
Director/Corporate Secretary

RYOTA NAGATA
Director

MANUEL H. PUEY
Independent Director

DAMIAN L. CARLOS
Director

JOSE S. NAVARRO
Independent Director

Key Officers

GERONIMO P. BELLA, JR.
President

RICARDO RODRIGO P. BELLA
Vice President

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

ADELIA D. VASQUEZ
Chief Finance Officer/Compliance Officer

DANY CLEO B. USON
Treasurer/Investor Relations Officer/
Corporate Planning Manager

Management Team


VIRGINIA MAY P. BELLA
Legal Services Manager


MARIA ELIZABETH E. BELLA
Procurement Officer-in-Charge


MARICEL V. BLANCO
Internal Audit Manager


EFFEL T. SANTILLAN
Human Resource Manager


LORENZO C. CARANZO
Operations Manager
Fleet


JAY-R L. CASTILLO
OHSE Manager

PEDRO C. MANGUSSAD, JR.
Technical Manager

ELIONARDA L. REFIL
General Services Manager

CECILIA MELANY G. NATIVIDAD
Accounting Manager

EDWIN G. AMEJANA
Commercial Manager

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

Statement of Management's Responsibility for Financial Statement

The management of Harbor Star Shipping Services, Inc. and its Subsidiaries (the "Group") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and such for internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of error.

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

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

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

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

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

MR. RICARDO RODRIGO P. BELLA
CHIEF OPERATING OFFICER

MS. ADELIA D. VASQUEZ
CHIEF FINANCIAL OFFICER

Signed this 6th of March, 2017

pwc

Isla Lipana & Co.

Independent Auditor's Report

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

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Harbor Star Shipping Services, Inc. and Subsidiaries (the "Group") as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2016 and 2015;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2016;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2016;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2016; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Our Opinion

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

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

Independence

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

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Our Audit Approach

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

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

Key audit matters

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

Key audit matter identified in our audit pertains to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to Note 29.24 to the consolidated financial statements for the discussion of Group's policy on revenue recognition and corresponding details. For the year ended December 31, 2016, the Group has recognized net revenue amounting to P1.4 billion (2015 - P1.0 billion; 2014 - P1.1 billion). This is an area of focus due to the Group's various revenue streams that are recognized under different contractual arrangements, which include harbour assistance, lighterage services, salvage income, towing services and construction. There is an inherent risk of cut-off due to nature of revenue.	We have addressed the matter by evaluating and validating of key controls surrounding the revenue recognition process, detailed testing of sales transactions including cut-off review and review of manual adjustments, if any. Our control testing and test of details covered all assertions surrounding revenue. Cut-off testing was performed by validating proper recognition of revenue recognized days before and after year-end through inspection of related documents that evidenced delivery of services rendered. The results of our procedures did not identify material exceptions and confirmed the absence of any manual adjustments to revenue accounts during the year and in the subsequent month.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
SEC A.N. (firm) as general auditors 0009-FR-4; Category A; effective until July 15, 2018
TIN 152-015-078
BIR A.N. 08-000745-42-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, with extended validity until April 30, 2017 pursuant to
Board Resolution No. 37 series of 2017

Makati City
March 10, 2017

Isla Lipana & Co.

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

We have audited the consolidated financial statements of Harbor Star Shipping Services, Inc. (the "Parent Company") and its Subsidiaries, collectively referred to as "the Group", as at and for the year ended December 31, 2016, on which we have rendered the attached report dated March 10, 2017. The supplementary information shown in the *Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration, a Map Showing the Relationships between and among the Parent Company and its Subsidiaries and Associate, Schedule of Financial Soundness Indicator as of December 31, 2016 and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2016*, as additional components required by Part I, Section 4 of Rule 68 of the SRC, and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the SRC Code, are presented for purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the SRC.

Isla Lipana & Co.

Roderick M. Danao
Partner
CPA Cert. No. 88453
P.T.R. No. 0011280, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1585-A, Category A; effective until September 27, 2019
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BOA/PRC Reg. No. 0142, with extended validity until April 30, 2017 pursuant to Board Resolution No. 37 series of 2017

Makati City
March 10, 2017

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2016 and 2015
(All amounts in Philippine Peso)

	Notes	2016	2015
ASSETS			
Current assets			
Cash	2	89,661,565	124,797,892
Trade and other receivables, net	3	383,672,875	329,609,853
Advances to related party	21	9,389,948	9,389,948
Prepayments and other current assets	4	97,637,828	53,395,343
Total current assets		580,362,216	517,193,036
Non-current assets			
Property and equipment at revalued amounts, net	6	1,624,756,635	1,552,387,405
Property and equipment at cost, net	7	344,056,533	370,638,834
Computer software, net	8	26,147,435	-
Investment properties	9	24,069,051	23,982,490
Investment in associate	5	12,631,291	10,924,435
Other non-current assets, net	10	139,455,495	148,028,048
Total non-current assets		2,171,116,440	2,105,961,212
Total assets		2,751,478,656	2,623,154,248
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	215,775,868	198,163,233
Short-term loans	12	190,000,000	196,000,000
Borrowings, current portion	12	229,527,485	253,635,382
Finance lease liability, current portion	22	3,350,424	3,155,782
Income tax payable		42,741,307	37,079,322
Total current liabilities		681,395,084	688,033,719
Non-current liabilities			
Borrowings, net of current portion	12	390,775,824	357,556,665
Finance lease liability, net of current portion	22	30,642,696	33,993,120
Deferred income tax liabilities, net	24	38,331,673	47,540,115
Retirement benefit obligation	20	65,631,257	60,589,258
Total non-current liabilities		525,381,450	499,679,158
Total liabilities		1,206,776,534	1,187,712,877
Equity			
Attributable to owners of the Parent Company			
Share capital	13	605,238,580	605,238,580
Additional paid-in-capital	13	121,632,762	121,632,762
Revaluation surplus, net of tax	6	148,758,268	183,225,484
Cumulative translation difference	29.23	(1,212,105)	1,793,195
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings		679,228,098	526,179,026
		1,553,485,603	1,437,909,047
Non-controlling interest		(8,783,481)	(2,467,676)
Total equity		1,544,702,122	1,435,441,371
Total liabilities and equity		2,751,478,656	2,623,154,248

Harbor Star Shipping Services, Inc. and Subsidiaries

Consolidated Statements of Total Comprehensive Income
For each of the three years in the period ended December 31, 2016
(All amounts in Philippine Peso)

	Notes	2016	2015	2014
Service income, net	15	1,360,830,025	1,040,243,517	1,103,857,628
Cost of services	16	(956,581,038)	(694,558,002)	(755,382,776)
Gross profit		404,248,987	345,685,515	348,474,852
General and administrative expenses	17	(205,556,511)	(208,490,115)	(172,420,614)
Other income, net	19	22,884,747	6,583,653	29,205,041
Operating profit		221,577,223	143,779,053	205,259,279
Finance cost				
Interest expense	12	(40,641,488)	(36,821,370)	(23,766,686)
Foreign exchange loss on borrowings	25	(2,086,027)	(1,396,810)	(3,032,874)
		(42,727,515)	(38,218,180)	(26,799,560)
Share in profit of associate	5	1,558,856	969,982	542,703
Profit before income tax		180,408,564	106,530,855	179,002,422
Income tax expense	24	(79,521,348)	(38,813,405)	(55,344,806)
Profit for the year		100,887,216	67,717,450	123,657,616
Other comprehensive income (loss)				
Items that will not be subsequently reclassified to profit or loss				
Remeasurements on retirement benefits, net of tax	20	4,014,924	(5,154,601)	(556,810)
Share in other comprehensive income of associate	5	148,000	-	-
Item that will be subsequently reclassified to profit or loss				
Fair value loss on available-for-sale financial assets		-	-	(160,000)
Total other comprehensive income (loss), net of tax		4,162,924	(5,154,601)	(716,810)
Total comprehensive income for the year		105,050,140	62,562,849	122,940,806
Profit attributable to:				
Owners of the parent		107,203,021	76,084,233	124,473,077
Non-controlling interest		(6,315,805)	(8,366,783)	(815,461)
		100,887,216	67,717,450	123,657,616
Total comprehensive income attributable to:				
Owners of the parent		111,365,945	70,929,632	123,756,267
Non-controlling interest		(6,315,805)	(8,366,783)	(815,461)
		105,050,140	62,562,849	122,940,806
Earnings per share				
Basic and diluted	14	0.18	0.13	0.21

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Changes in Equity
For each of the three years in the period ended December 31, 2016
(All amounts in Philippine Peso)

	Equity attributable to owners of the Parent Company								
	Share capital (Note 13)	Additional paid-in capital (Note 13)	Revaluation surplus (Note 6)	Cumulative translation difference (Note 29.23)	Fair value reserve on available-for-sale financial assets	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1, 2014	605,238,580	121,632,762	252,511,350	-	-	309,241,858	1,288,624,550	-	1,288,624,550
Comprehensive income									
Profit for the year	-	-	-	-	-	124,473,077	124,473,077	(815,461)	123,657,616
Other comprehensive loss									
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	(556,810)	(556,810)	-	(556,810)
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	-	(160,000)	-	(160,000)	-	(160,000)
Total comprehensive income	-	-	-	-	(160,000)	123,916,267	123,756,267	(815,461)	122,940,806
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,642,933)	-	-	34,642,933	-	-	-
Translation adjustments (Note 29.23)	-	-		(1,429,097)		1,358,489	(70,608)	(86,297)	(156,905)
Transactions with owners									
Change in control ownership (Note 29.2)	-	-		-		-	-	6,800,865	6,800,865
Declaration of cash dividends (Note 13)	-	-	-	-	-	(21,183,350)	(21,183,350)	-	(21,183,350)
Total transactions with owners	-	-	-	-	-	(21,183,350)	(21,183,350)	6,800,865	(14,382,485)
Balances at December 31, 2014	605,238,580	121,632,762	217,868,417	(1,429,097)	(160,000)	447,976,197	1,391,126,859	5,899,107	1,397,025,966
Comprehensive income									
Profit for the year	-	-	-	-	-	76,084,233	76,084,233	(8,366,783)	67,717,450
Other comprehensive loss									
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	(5,154,601)	(5,154,601)	-	(5,154,601)
Total comprehensive income	-	-	-	-	-	70,929,632	70,929,632	(8,366,783)	62,562,849
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,642,933)	-	-	34,642,933	-	-	-
Translation adjustments (Note 29.23)	-	-	-	3,222,292	-	(4,255,379)	(1,033,087)	-	(1,033,087)
Transactions with owners									
Declaration of cash dividends (Note 13)	-	-	-	-	-	(23,114,357)	(23,114,357)	-	(23,114,357)
Balances at December 31, 2015	605,238,580	121,632,762	183,225,484	1,793,195	(160,000)	526,179,026	1,437,909,047	(2,467,676)	1,435,441,371
Comprehensive Income									
Profit for the year	-	-	-	-	-	107,203,021	107,203,021	(6,315,805)	100,887,216
Other comprehensive income	-	-	-	-	-	-	-	-	-
Remeasurements on retirement benefits, net of tax (Note 20)	-	-	-	-	-	4,014,924	4,014,924	-	4,014,924
Share of other comprehensive income of associate (Note 5)	-	-	-	-	-	148,000	148,000	-	148,000
Total comprehensive income	-	-	-	-	-	111,365,945	111,365,945	(6,315,805)	105,050,140
Depreciation transfer of revaluation surplus (Note 6)	-	-	(34,467,216)	-	-	34,467,216	-	-	-
Translation adjustments (Note 29.23)	-	-	-	(3,005,300)	-	7,215,911	4,210,611	-	4,210,611
Balances at December 31, 2016	605,238,580	121,632,762	148,758,268	(1,212,105)	(160,000)	679,228,098	1,553,485,603	(8,783,481)	1,544,702,122

Harbor Star Shipping Services, Inc. and its Subsidiaries

Consolidated Statements of Cash Flows
For each of the three years in the period ended December 31, 2016
(All amounts in Philippine Peso)

	Notes	2016	2015	2014
Cash flows from operating activities				
Profit before income tax		180,408,564	106,530,855	179,002,422
Adjustments for:				
Share in profit of associate	5	(1,558,856)	(969,982)	(542,703)
(Reversal of) provision for impairment of trade receivables	3,17	(1,458,142)	18,448,896	936,139
Provision for impairment of input VAT	10,17	8,627,553	12,306,405	12,306,405
Depreciation and amortization	6,7,8,16,17	262,990,283	233,389,097	211,454,091
Retirement benefit expense	18,20	11,446,004	7,982,741	7,310,857
Unrealized foreign exchange loss (gain),net	25	721,760	3,159,930	(11,825,999)
Gain on sale of property and equipment	19	(17,859,837)	-	(1,307,997)
Interest income	2,19	(1,389,659)	(136,862)	(445,548)
Interest expense	12	40,641,488	36,821,370	23,766,686
Operating profit before changes in working capital		482,569,158	417,532,450	420,654,353
(Increase) decrease in:				
Trade and other receivables		(52,074,004)	(117,032,318)	19,030,248
Prepayments and other current assets		(44,197,325)	46,144,288	(55,925,937)
Advances to a related party		-	-	(6,329)
Other non-current assets		(55,000)	(58,725,453)	(4,301,032)
Increase (decrease) in:				
Trade and other payables		47,696,041	16,591,612	(27,240,621)
Advances from related parties		-	(2,152,434)	(8,216,301)
Cash generated from operations		433,938,870	302,358,145	343,994,381
Retirement obligation paid	20	(668,400)	-	-
Income taxes paid		(84,788,486)	(68,167,269)	(81,649,010)
Interest received		1,389,659	136,862	445,548
Net cash from operating activities		349,871,643	234,327,738	262,790,919
Cash flows from investing activities				
Acquisition of property and equipment	6, 7, 26	(385,289,734)	(451,139,094)	(280,242,253)
Proceeds from disposal of property and equipment		43,557,004	-	2,599,330
Acquisition of investment properties	9	(86,561)	(18,103,077)	-
Dividend received	5	-	-	109,800
Net cash used in investing activities		(341,819,291)	(469,242,171)	(277,533,123)
Cash flows from financing activities				
Net proceeds (payments of) from short-term loans	12	(6,000,000)	84,000,000	(73,222,076)
Proceeds from borrowings	12	181,592,011	568,365,688	363,670,816
Payment of borrowings	12	(174,566,777)	(325,274,139)	(210,384,128)
Payment of finance lease liabilities	22	(3,155,782)	(2,972,448)	(2,888,976)
Interest paid	12	(42,645,794)	(34,227,440)	(21,055,442)
Dividends paid	13, 26	-	(23,114,357)	(20,033,158)
Net cash (used in) from financing activities		(44,776,342)	266,777,304	36,087,036
Net (decrease) increase in cash		(36,723,990)	31,862,871	21,344,832
Cash balance				
Beginning of year		124,797,892	93,565,923	69,530,676
Effect of foreign exchange rate changes on cash		1,587,663	(630,902)	2,690,415
End of year	2	89,661,565	124,797,892	93,565,923

Harbor Star Shipping Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2016 and 2015 and
for each of the three years in the period ended December 31, 2016
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Business information

1.1 General information

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

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

On March 6, 2017, the Parent Company's Board of Directors (BOD) and shareholders approved the follow-on offering for P1 billion to fund the Parent Company's planned international fleet expansion, domestic feeder vessel services, shipyard business and renewable energy project.

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

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

On March 6, 2017, the Parent Company's BOD and shareholders approved the amendments made to the secondary purpose of the Parent Company's Articles of Incorporation to the business of power generation and operation of maritime schools, educational and training facilities.

As at December 31, 2016, the Parent Company has 140 shareholders each holding at least 100 common shares (2015 - 158). The Parent Company's major shareholders are its own directors holding 67.88% of its total issued shares (2015 - 70.15%). The remaining 32.12% of the total issued shares as at December 31, 2016 are held by the public (2015 - 29.85%).

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 490 employees as at December 31, 2016 (2015 - 416 employees).

As at December 31, 2016, the consolidated financial statements include the Parent Company and its Subsidiaries, namely, Peak Flag SDN BHD and Harbor Star Subic Corp., collectively referred to as the "Group".

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

	Relationship	% of interest held	Registered place of business/ Country of incorporation	Main activity
Harbor Star Subic Corp. (HSSC)	Subsidiary	100%	Philippines	HSSC was incorporated on September 17, 2015 and registered in the Philippines primarily to engage in marine-related ancillary services such as harbor assistance, towage, lighterage, oil spill response and underwater marine services. Its registered address, which is also its principal place of business, is located at Units 9 and 10, Alava Quay, Waterfront Road, Subic Bay Freeport Zone, Subic, Zambales.
Peak Flag SDN BHD (Peak Flag)	Subsidiary	45%	Malaysia	Peak Flag was incorporated and registered in Malaysia, primarily to carry on the business of providing tugboat harbor assist/ marine support services. Its registered address, which is also its principal place of business, is at Level 18 The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra Kuala Lumpur.
Great Eastern Tug Corporation (GETC)	Associate	20%	Philippines	GETC was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 9, 2002, primarily to own, charter in/out, operate and manage tugboats or domestic services. Its registered address, which is also its principal place of business, is located at 11F Marc 2000 Tower, 1973 Taft Avenue, Malate, Manila.

Critical accounting judgments

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

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

Having a significant influence based on the percentage ownership, the Parent Company initially considered Peak Flag as associate. However, effective January 1, 2014, the Parent Company has gained control over the key economic decisions and policies affecting Peak Flag under the duly signed amended shareholders' agreement including majority board representation. Consequently, based on management's judgment and continuous assessment of the Parent Company, Peak Flag is considered a subsidiary as at December 31, 2016 and 2015.

Non-controlling interest

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

	2016	2015
Total current assets	136,804,457	17,357,627
Total non-current assets	1,047,411	9,651,739
Total current liabilities	82,492,611	31,352,325
Total non-current liabilities	71,833,312	-
Net capital deficiency	(16,474,055)	(4,342,960)
Total revenue	40,492,249	8,481,374
Total expenses	51,975,530	23,693,707
Total loss for the year	11,483,281	15,212,333
Total comprehensive loss for the year	11,483,281	15,212,333
Net cash (used in) from operating activities	(7,490,040)	16,634,120
Net cash from financing activities	6,735,169	-
Net cash from investing activities	-	9,240,912

1.2 Approval of the consolidated financial statements

The consolidated financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 6, 2017. There were no events subsequent to date of the consolidated financial statements up to opinion date, March 10, 2017, which would require adjustments or disclosures in these consolidated financial statements.

<u>Note 2 - Cash</u>

Cash as at December 31 consist of:

	2016	2015
Cash in banks	85,530,387	120,952,347
Cash equivalents	2,550,219	1,519,663
Cash on hand	1,580,959	2,325,882
	89,661,565	124,797,892

Interest income earned from cash in banks and short-term placements for the year ended December 31, 2016 amounted to P1,389,659 (2015 - P136,862; 2014 - P445,548) (Note 19).

Note 3 - Trade and other receivables, net

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

	2016	2015
Trade receivables	377,538,322	345,253,719
Allowance for impairment of trade receivables	(18,386,551)	(19,844,693)
	359,151,771	325,409,026
Advances to employees	24,521,104	4,200,827
	383,672,875	329,609,853

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

	Note	2016	2015
Beginning of year		19,844,693	1,395,797
(Reversal of) provision, net	17	(1,458,142)	18,448,896
End of year		18,386,551	19,844,693

For the year ended December 31, 2016, a net reversal of provision for impairment of trade receivables amounting to P1,458,142 (2015 - P18,448,896 charged; 2014 - P936,139 charged) was credited to general and administrative expenses (Note 17), as a result of management's assessment of collectability.

The Group has not written off any receivables for the years ended December 31, 2016, 2015 and 2014.

The carrying value of trade and other receivables as at December 31, 2016 and 2015 approximates their fair value as at reporting date.

Critical accounting judgment

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

In relation to receivables which are past due but not impaired, no provision for impairment for the years ended December 31, 2016, 2015 and 2014 has been determined by management to be necessary considering customer relationship and historical experience. Historically, the Group did not experience any material default from concerned customers.

Judgments related to provision for impairment of receivables are continually evaluated based on historical experiences and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Note 4 - Prepayments and other current assets

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

	Notes	2016	2015
Prepayments		54,843,554	27,962,122
Input value added tax (VAT), net of output VAT - current	10	42,326,012	21,605,543
Refundable deposits	22	468,262	226,262
Advances to suppliers		-	3,601,416
		97,637,828	53,395,343

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

Note 5 - Investment in associate

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

	2016	2015	2014
Beginning of year	10,924,435	9,954,453	15,085,894
Share in net profit	1,558,856	969,982	542,703
Share in other comprehensive income	148,000	-	-
Dividend received	-	-	(109,800)
Recognition of Peak Flag as subsidiary (Note 29.2)	-	-	(5,564,344)
End of year	12,631,291	10,924,435	9,954,453

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

	2016	2015	2014
Total current assets	41,714,179	29,750,828	18,229,832
Total non-current assets	21,876,387	27,103,063	32,666,290
Total current liabilities	434,111	2,231,716	1,123,857
Net equity	63,156,455	54,622,175	49,772,265
Total revenue	13,277,852	15,060,000	13,376,071
Total profit for the year	7,794,280	4,849,910	2,713,516
Total other comprehensive income	740,000	-	-
Total comprehensive income	8,534,280	4,849,910	2,713,516

	2016	2015	2014
Net assets, January 1	54,622,175	49,772,265	47,607,749
Profit for the year	7,794,280	4,849,910	2,713,516
Other comprehensive income	740,000	-	-
Dividends paid	-	-	(549,000)
Net assets, December 31	63,156,455	54,622,175	49,772,265
Group's share in %	20%	20%	20%
Group's share in net assets	12,631,291	10,924,435	9,954,453

Critical accounting judgment

Impairment of investment in associate

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

As at December 31, 2016 and 2015, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of its investment in associate may not be recoverable.

Note 6 - Property and equipment at revalued amounts, net

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

	Notes	2016	2015
As at January 1			
Revalued amount		2,976,704,459	2,381,946,540
Accumulated depreciation		(1,424,317,054)	(1,240,900,007)
Net carrying amount		1,552,387,405	1,141,046,533
Year ended December 31			
Opening net carrying amount		1,552,387,405	1,141,046,533
Additions		252,429,965	80,700,205
Disposal			
Cost		(68,487,105)	-
Accumulated depreciation		51,346,942	-
Reclassification from property and equipment at cost	7	45,446,759	514,057,714
Depreciation	16	(208,367,331)	(183,417,047)
Closing net carrying amount		1,624,756,635	1,552,387,405
At December 31			
Revalued amount		3,206,094,078	2,976,704,459
Accumulated depreciation		(1,581,337,443)	(1,424,317,054)
Net carrying amount		1,624,756,635	1,552,387,405

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	2016	2015
As at January 1			
Cost		1,942,313,871	1,347,555,952
Accumulated depreciation		(651,677,158)	(517,750,015)
Net carrying amount		1,290,636,713	829,805,937
Year ended December 31			
Opening net carrying amount		1,290,636,713	829,805,937
Additions		252,429,965	80,700,205
Disposal			
Cost		(68,487,105)	-
Accumulated depreciation		51,346,942	-
Reclassification from property and equipment at cost	7	45,446,759	514,057,714
Depreciation		(159,128,450)	(133,927,143)
Closing net carrying amount		1,412,244,824	1,290,636,713
At December 31			
Cost		2,171,703,490	1,942,313,871
Accumulated depreciation		(759,458,666)	(651,677,158)
Net carrying amount		1,412,244,824	1,290,636,713

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

	Note	2016	2015
Beginning of year		261,750,692	311,240,596
Amortization of revaluation increment through depreciation		(49,238,881)	(49,489,904)
End of year, gross of tax		212,511,811	261,750,692
Deferred income tax liability (at 30%)	24	(63,753,543)	(78,525,208)
End of year, net of tax		148,758,268	183,225,484

Certain tugboats were used as collateral to secure the loans obtained from various banks (Note 12).
As at December 31, 2016, the Group's tugboats used as collaterals have net carrying amount of P862,090,551 (2015 - P937,111,065).

Critical accounting estimates

Useful lives of property and equipment at revalued amount

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

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

Revaluation of tugboats

The Group carries its tugboats at appraised value, with changes in fair value being recognized directly in equity under revaluation surplus. The Group engaged independent valuation specialists in determining the fair value of its tugboats as at December 31, 2011. The Group reviews the fair value of its tugboats periodically every 3 to 5 years.

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

Management deems that the revalued amounts still approximate the fair value as at reporting dates with a significant number of tugboats only recently acquired. The Company is considering revaluing its tugboats in 2017.

Note 7 - Property and equipment at cost, net

Details of property and equipment at December 31 follow:

	Land	Barges	Building and building improvements	Transportation equipment	Diving and oil spill equipment	Furniture, fixtures and leasehold improvements	Construction equipment	Construction-in-progress	Total
As at January 1, 2015									
Cost	39,556,011	296,831,482	25,828,487	44,979,654	98,021,498	2,886,802	-	266,595,519	774,699,453
Accumulated depreciation	-	(79,608,156)	(16,373,521)	(24,753,154)	(81,183,772)	(2,757,241)	-	-	(204,675,844)
Net carrying amount	39,556,011	217,223,326	9,454,966	20,226,500	16,837,726	129,561	-	266,595,519	570,023,609
Year ended December 31, 2015									
Opening net carrying amount	39,556,011	217,223,326	9,454,966	20,226,500	16,837,726	129,561	-	266,595,519	570,023,609
Additions	-	31,980,704	259,868	6,795,605	18,611,372	983,435	-	306,368,590	364,999,574
Reclassification (Note 6)	-	-	-	-	-	-	-	(514,057,714)	(514,057,714)
Depreciation	-	(30,994,895)	(2,498,583)	(6,453,736)	(9,782,963)	(241,873)	-	-	(49,972,050)
Translation adjustments	-	-	-	-	-	(13,917)	-	(340,668)	(354,585)
Closing net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	-	58,565,727	370,638,834
At December 31, 2015									
Cost	39,556,011	328,812,186	26,088,355	51,775,259	116,632,870	3,870,237	-	58,906,395	625,641,313
Accumulated depreciation	-	(110,603,051)	(18,872,104)	(31,206,890)	(90,966,735)	(2,999,114)	-	-	(254,647,894)
Cumulative translation adjustments	-	-	-	-	-	(13,917)	-	(340,668)	(354,585)
Net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	-	58,565,727	370,638,834
Year ended December 31, 2016									
Opening net carrying amount	39,556,011	218,209,135	7,216,251	20,568,369	25,666,135	857,206	-	58,565,727	370,638,834
Additions	-	10,816,763	663,500	5,085,625	6,103,530	238,476	11,500,000	73,769,026	108,176,920
Disposal									
Cost	-	-	-	(11,110,901)	-	(128,587)	-	(8,137,663)	(19,377,151)
Accumulated depreciation	-	-	-	10,820,147	-	-	-	-	10,820,147
Reclassification (Notes 6 and 8)	-	-	-	-	1,516,031	-	-	(73,321,100)	(71,805,069)
Depreciation	-	(33,051,159)	(2,615,733)	(7,295,712)	(10,725,762)	(340,378)	(383,333)	-	(54,412,077)
Translation adjustments	-	-	-	-	(303,206)	(22,533)	-	340,668	14,929
Closing net carrying amount	39,556,011	195,974,739	5,264,018	18,067,528	22,256,728	604,184	11,116,667	51,216,658	344,056,533
At December 31, 2016									
Cost	39,556,011	339,628,949	26,751,855	45,749,983	124,252,431	3,980,126	11,500,000	51,216,658	642,636,013
Accumulated depreciation	-	(143,654,210)	(21,487,837)	(27,682,455)	(101,692,497)	(3,339,492)	(383,333)	-	(298,239,824)
Cumulative translation adjustments	-	-	-	-	(303,206)	(36,450)	-	-	(339,656)
Net carrying amount	39,556,011	195,974,739	5,264,018	18,067,528	22,256,728	604,184	11,116,667	51,216,658	344,056,533

As at December 31, 2016, the cost of fully depreciated property and equipment still used in operation amounted to P97,131,100 (2015 - P83,687,328).

As at December 31, 2016, the Group's unpaid acquisitions of property and equipment amounted to P42,155,598 (2015 - P66,838,447).

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

	Notes	2016	2015	2014
Cost of services	16	41,397,737	38,085,928	41,809,914
General and administrative expenses	17	13,014,340	11,886,122	12,137,949
		54,412,077	49,972,050	53,947,863

Construction-in-progress as at December 31, 2015 mainly comprise of on-going software development covering business processes of the Parent Company and of a new building being constructed, which remains uncompleted as at December 31, 2016.

In 2016, software development has been completed with a total cost of of P26,538,310 (Note 8) and was subsequently transferred and presented as computer software in the consolidated statements of financial position (2015 - amounted to P21,018,381 under construction in progress).

The net carrying value of transportation equipment and barges used as collateral to secure loans from various banks (Note 12) amounted to P9.8 million and P110.7 million, respectively, as at December 31, 2016 (2015 - P12.2 million and P106.1 million, respectively).

As at December 31, 2016, net carrying value of barge held under finance lease amounted to P74,666,935 (2015 - P76,890,554) (Note 22).

Critical accounting estimates

Useful lives of property and equipment at cost

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

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

Critical accounting judgment

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

As at December 31, 2016 and 2015, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their property and equipment may not be recoverable.

Note 8 - Computer software, net

The details of computer software, net as at December 31, 2016:

Year ended December 31, 2016	
Opening net carrying amount	-
Reclassification from property and equipment at cost (Note 7)	26,358,310
Amortization (Note 17)	(210,875)
Closing net carrying amount	26,147,435
At December 31	
Cost	26,358,310
Accumulated amortization	(210,875)
Net carrying value	26,147,435

Note 9 - Investment properties

As at December 31, 2016 and 2015, the Group's investment properties consist of parcels of land in various locations, which are held for capital appreciation.

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

	2016	2015
Beginning of year	23,982,490	5,879,413
Additions	86,561	18,103,077
End of year	24,069,051	23,982,490

The estimated fair value of the investment properties as at December 31, 2016 amounted to P28.9 million (2015 - P24.3 million), based on the selling price of similar properties (Note 29.7).

There were no income earned and no direct operating expenses incurred related to the investment properties for the years ended December 31, 2016, 2015 and 2014.

Critical accounting judgment

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

As at December 31, 2016 and 2015, based on management's assessment and judgment, there are no indications of impairment or changes in circumstances indicating that the carrying value of their investment properties may not be recoverable.

Note 10 - Other non-current assets, net

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

	Note	2016	2015
Input VAT, net of output VAT		166,179,826	166,179,826
Allowance for impairment of input VAT		(33,240,363)	(24,612,810)
Input VAT, net		132,939,463	141,567,016
Lease guarantee deposit	22	4,356,032	4,301,032
Available-for-sale financial assets		810,000	810,000
Others		1,350,000	1,350,000
		139,455,495	148,028,048

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

	Note	2016	2015
Beginning of year		24,612,810	12,306,405
Provision for impairment	17	8,627,553	12,306,405
End of year		33,240,363	24,612,810

Critical accounting judgment

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

Further, based on management assessment, out of the total carrying amount of input VAT as at December 31, 2016, P42,326,012, presented under "Prepayments and other current assets" in the consolidated statements of financial position (2015 - P21,605,543), will be recovered in the next twelve (12) months after reporting date. The remaining balance amounting to P132,939,463 presented under "Other non-current assets" will be recoverable beyond twelve (12) months after the reporting date (2015 - P141,567,016).

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

Note 11 - Trade and other payables

Trade and other payables at December 31 consist of:

	Note	2016	2015
Trade payable		141,050,433	103,406,305
Accrued expenses			
Fuel		19,263,420	14,502,050
Marketing		13,900,253	13,549,935
Interest		5,497,223	5,305,174
Tug assistance		3,300,869	1,414,980
Others		12,348,091	12,232,333
Unearned income		7,869,161	11,024,273
Advances from employees		5,189,959	3,685,047
Payable to government agencies		6,672,911	2,899,026
Advances from customers - construction contract	23	-	29,781,859
Others		683,548	362,251
		215,775,868	198,163,233

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

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

Unearned income pertains to advance collection from customers.

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

Note 12 - Short-term loans and borrowings

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

	2016	2015
Current		
Short-term loans	190,000,000	196,000,000
Current portion of long term borrowings	229,527,485	253,635,382
Non-current		
Long-term borrowings	390,775,824	357,556,665
	810,303,309	807,192,047

As at December 31, 2016 and 2015, the Group's unsecured short-term loans from local banks bear interest rates ranging from 4.5% to 5.5% and have maturity of one to three months from reporting date.

As at December 31, 2016, the Group's long term borrowings bear annual interest rate ranging from 4.5% to 13.65% (2015 - 7.51% to 14.65%) which are payable in various installments maturing on various dates up to 2022. These are secured by chattel mortgages to certain Group-owned tugboats (Note 6), transportation equipment and barges (Note 7).

The long-term borrowings agreement requires compliance by the Group to certain various covenants including, among others, the maintenance of financial ratios. As at December 31, 2016 and 2015, Parent Company had complied with those financial ratios.

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

Total interest expense from borrowings charged to profit or loss for the year ended December 31, 2016 amounted to P40,641,488 (2015 - P36,821,370; 2014 - P23,766,686). There are no qualifying assets as at December 31, 2016 and 2015, hence, no borrowing costs are capitalized.

The fair value of long-term borrowings approximate its carrying values as at December 31, 2016 and 2015.

Note 13 - Share capital and additional paid-in capital

Details of share capital as at December 31, 2016 and 2015 are as follows:

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

There were no issuance of shares for the years ended December 31, 2016 and 2015.

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

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

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

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

Dividend declaration

On June 2, 2014, the Parent Company's BOD approved the declaration of cash dividends amounting to P21.2 million (P0.035 per share), in favor of the Parent Company's existing shareholders of record as at June 17, 2014 and was paid on July 11, 2014.

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

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

Note 14 - Earnings per share

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

	2016	2015	2014
Profit for the year attributable to owners of the Parent Company	107,203,021	76,084,233	124,473,077
Weighted average number of common shares	605,238,580	605,238,580	605,238,580
Basic and diluted earnings per share	0.18	0.13	0.21

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

The Group has no potentially dilutive shares. Therefore, the amount reported for basic and diluted earnings per share is the same.

Note 15 - Service income, net

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

	Note	2016	2015	2014
Harbor assistance, net of discounts		1,043,687,401	741,913,577	796,225,802
Lighterage services		105,971,809	202,429,743	125,514,847
Towing services		64,249,585	16,894,364	99,993,704
Income from construction contract	23	57,466,091	12,628,855	-
Salvage income		39,850,400	31,060,024	50,714,351
Others		49,604,739	35,316,954	31,408,924
		1,360,830,025	1,040,243,517	1,103,857,628

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 P128.4 million (2015 - P78.7 million; 2014 - P92.2 million).

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

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

Note 16 - Cost of services

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

	Notes	2016	2015	2014
Depreciation	6,7	249,765,068	221,502,975	199,316,142
Personnel costs	18	181,507,307	142,653,209	138,879,762
Fuel and lubricants		140,518,049	127,668,490	224,590,722
Supplies and construction supplies		110,012,641	48,566,131	46,661,492
Outside services		74,746,493	46,099,142	32,090,491
Insurance		36,668,262	33,458,995	32,025,915
Rent	22	27,369,495	2,464,422	239,695
Repairs and maintenance		26,005,036	14,737,646	19,194,058
Charter hire		21,461,178	17,618,491	16,097,063
Port expense		12,354,814	10,001,269	10,729,496
Communication, light and water		10,255,743	8,184,279	5,562,210
Professional fees		9,128,313	5,654,747	5,983,650
Transportation and travel		4,647,206	2,422,737	5,817,909
Taxes and licenses		2,336,337	849,888	3,656,758
Others		49,805,096	12,675,581	14,537,413
		956,581,038	694,558,002	755,382,776

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

Note 17 - General and administrative expenses

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

	Notes	2016	2015	2014
Personnel costs	18	81,547,596	74,774,651	65,935,284
Transportation and travel		21,520,874	20,375,650	21,120,890
Representation and entertainment		17,404,819	13,958,003	13,773,821
Depreciation and amortization	7,8	13,225,215	11,886,122	12,137,949
Professional and management fees		13,115,980	15,183,661	10,463,779
Taxes and licenses		12,702,445	9,113,428	5,668,460
Provision for impairment of input VAT	10	8,627,553	12,306,405	12,306,405
Communications		6,276,436	4,590,153	3,891,769
Advertising and promotions		5,716,356	4,789,108	5,469,978
Supplies and construction materials		4,539,726	5,051,670	3,295,308
Outsourced services		3,958,070	1,259,185	1,175,988
Rent	22	3,952,866	3,244,919	1,245,398
Repairs and maintenance		3,405,067	2,735,345	2,233,939
Fuel and lubricants		2,388,986	1,791,326	2,752,192
Utilities		1,782,971	1,791,861	1,459,748
Insurance		1,077,269	2,234,313	1,642,827
(Reversal of) provision for impairment of trade receivables	3	(1,458,142)	18,448,896	936,139
Others		5,772,424	4,955,419	6,910,740
		205,556,511	208,490,115	172,420,614

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

Note 18 - Personnel costs

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

	Notes	2016	2015	2014
Cost of services				
Salaries and wages		102,852,396	77,177,172	69,586,165
Crew expense		41,927,555	33,569,578	41,146,551
Tug and barge operations		16,905,332	15,059,402	13,676,028
Retirement benefit expense	20	8,375,125	5,587,919	3,655,428
Other employee benefits		11,446,899	11,259,138	10,815,590
	16	181,507,307	142,653,209	138,879,762
General and administrative expenses				
Salaries and wages		68,219,001	65,267,625	55,458,088
Retirement benefit expense	20	3,070,879	2,394,822	3,655,429
Other employee benefits		10,257,716	7,112,204	6,821,767
	17	81,547,596	74,774,651	65,935,284
		263,054,903	217,427,860	204,815,046

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

Note 19 - Other income, net

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

	Notes	2016	2015	2014
Gain on sale of property and equipment		17,859,837	-	1,307,997
Insurance claims		2,490,741	3,022,242	7,163,779
Interest income	2	1,389,659	136,862	445,548
Foreign exchange (loss) gain, net	25	(1,623,152)	3,180,020	16,680,889
Ship management		-	-	1,388,905
Others		2,767,662	244,529	2,217,923
		22,884,747	6,583,653	29,205,041

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

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

Note 20 - Retirement benefit

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

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

	2016	2015
Present value of defined benefit obligation	65,631,257	60,589,258

The Parent Company does not have any plan assets.

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

	2016	2015
Beginning of year	60,589,258	45,242,801
Current service cost	8,400,904	5,933,900
Interest cost	3,045,100	2,048,841
Benefits paid	(668,400)	-
Remeasurement (gain) loss due to:		
Experience adjustments	4,151,531	10,675,928
Changes in financial assumptions	(8,390,402)	(3,312,212)
Changes in demographic assumptions	(1,496,734)	-
End of year	65,631,257	60,589,258

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

	2016	2015	2014
Current service cost	8,400,904	5,933,900	5,390,900
Net interest cost	3,045,100	2,048,841	1,919,957
Retirement benefit expense	11,446,004	7,982,741	7,310,857

Retirement benefit expense is included as part of personnel cost under cost of services (Note 16) and general and administrative expenses (Note 17).

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

	Note	2016	2015	2014
Due to change in financial assumptions		(8,390,402)	-	-
Due to change in demographic assumption		(1,496,734)	(3,312,212)	2,752,900
Due to experience		4,151,531	10,675,928	(1,957,457)
Remeasurement (gain) loss		(5,735,605)	7,363,716	795,443
Deferred income tax (benefit) expense	24	1,720,681	(2,209,115)	(238,633)
Remeasurement (gain) loss, net of tax		(4,014,924)	5,154,601	556,810

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

	Note	2016	2015	2014
Beginning of year		16,835,179	11,680,578	11,123,767
Remeasurement (gain) loss for the year		(5,735,605)	7,363,716	795,444
Deferred income tax effect	24	1,720,681	(2,209,115)	(238,633)
End of year, net of tax		12,820,255	16,835,179	11,680,578

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

	2016	2015
Less than one year	1,993,545	1,528,200
More than one year to five year	42,728,140	41,704,186
More than five years to 10 years	42,482,067	36,323,099
More than 10 years to 15 years	49,379,156	54,191,177
More than 15 years to 20 years	59,981,272	73,133,905
More than 20 years	197,097,124	183,588,090
Total expected payments	393,661,304	390,468,657

The average duration of the defined benefit obligation at the end of the reporting period is 18.20 years (2015 - 18.59 years)

There are no unusual or significant risks to which the Plan exposes the Parent Company. However, in the event a benefit claim arises under the Plan, the claim shall immediately be due and payable from the Parent Company.

Demographic assumptions

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy (including expectations for future improvements), plan experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension plan. The assumptions used in 2016 are consistent with those applied in 2015. Assumptions regarding future mortality experience are set based on advice from published statistics and experience within the industry.

Critical accounting estimate

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate and future salary increase. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.
The Parent Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Parent Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. A decrease in government bond yields will increase the defined benefit obligation. To manage this risk, the management plans to set-up plan asset with a registered trustee-bank and have a mix of debt and equity securities in the plan that will match the liabilities.

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

	2016	2015	2014
Discount rate	5.34%	5.09%	4.57%
Salary growth rate	5.00%	5.00%	5.00%

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

	2016			2015		
	Increase (decrease) in defined benefit obligation					
	Change in assumption	Increase in assumption	Decrease in assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rates	1%	(5,424,031)	6,724,108	1%	(5,616,474)	6,583,060
Salary growth rate	1%	6,616,481	(5,773,907)	1%	6,200,406	(5,407,820)

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

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

Note 21 - Related party transactions and balances

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

	Terms and conditions	2016	2015	2014
(a) Purchase of services				
Associate	Services rendered to the Parent Company are billed based on agreed prices. These are unsecured, non-interest bearing and are payable in cash within 30 days after invoice date.	5,607,388	6,964,286	5,892,857
(b) Advances to related party				
Entity under common control	Reimbursements from related party are billed at cost and collectible on demand. These receivables are unsecured and non-interest bearing, due on demand and are settled in cash.	-	-	6,329
(c) Advances from related parties				
Shareholders	Reimbursements to related parties are billed at cost and payable on demand. These payables are unsecured and non-interest bearing, due on demand and are settled in cash.	-	-	12,933,700

Intercompany balances eliminated in these consolidated financial statements pertain to the Parent Company's investments and advances to its subsidiaries amounting to P8,455,724 and P275,463,115, respectively, as at December 31, 2016 (2015 - P8,455,724 and P33,042,289, respectively).

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

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

	Terms and conditions	2016	2015
Advances to related party:			
Entity under common control	These are unsecured, non-interest bearing, due on demand and are to be settled in cash.	9,389,948	9,389,948

Key management compensation and benefits

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

	Terms and conditions	2016	2015	2014
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.	80,762,389	80,511,147	80,478,982
Retirement benefits	Retirement benefits are determined and payable in accordance with policies disclosed in Note 29.18. These will be settled upon retirement of key management.	999,776	999,776	999,776
Professional fees	Professional fees are paid to a director holding key position in the Parent Company.	20,000	110,000	120,000
		81,782,165	81,620,923	81,598,758

There are no amounts due from or payable to key management personnel arising from the above compensation arrangement, other than the retirement benefit obligation, at December 31, 2016 and 2015. 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, 2016, 2015 and 2014.

Note 22 - Lease commitments

(a) Finance lease

On February 27, 2014, the Parent Company entered into a finance lease agreement covering a specific barge for ten (10) years. The annual interest rate of the said agreement is 6%. The first monthly lease payment commenced in September 2014.

This agreement required the Parent Company to pay a lease guarantee deposit amounting to P4,356,032, which is presented within other non-current assets in the consolidated statement of financial position as at December 31, 2016 and 2015 (Note 10).

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

	2016	2015
Not later than 1 year	5,157,030	5,157,030
Later than 1 year but not more than 5 years	20,628,122	20,628,122
More than 5 years	13,752,082	18,909,112
Minimum lease payments	39,537,234	44,694,264
Future finance charges	(5,544,114)	(7,545,362)
Total finance lease liabilities	33,993,120	37,148,902

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

	2016	2015
Not later than 1 year	3,350,424	3,155,782
Later than 1 year but not more than five years	17,963,585	17,057,332
More than five years	12,679,111	16,935,788
	33,993,120	37,148,902

(b) Operating lease

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

These agreements require the Parent Company to pay refundable deposits which are presented within prepayments and other current assets in the consolidated statements of financial position. Refundable deposits amounted to P468,262 as at December 31, 2016 (2015 - P226,262) (Note 4).

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

	Notes	2016	2015	2014
Cost of services	16	6,161,631	2,464,422	239,695
General and administrative expenses	17	3,952,866	3,244,919	1,245,398
		10,114,497	5,709,341	1,485,093

The aggregate future lease payments arising from the Parent Company's non-cancellable lease agreements at December 31, 2016 amounted to P182,473 (2015 - P194,354).

Critical accounting judgment

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

Note 23 - Construction contract

In 2015, the Group has entered into an agreement with a third party to construct and repair a jetty in Quezon province. The project which was completed in 2016.

The details of the Group's construction contract for the years ended December 31, 2016 and 2015 are as follows:

	Notes	2016	2015
Contract revenue for the year	15	57,466,091	12,628,855
Less: contract costs	16	(59,964,383)	(6,667,463)
Gross profit		(2,498,292)	5,961,392

The amount of advance billings to customers for contract work as at December 31, 2016 and 2015 are as follows:

	Note	2016	2015
Contract revenue to date		70,094,946	12,628,855
Less: progress billings to date		(70,094,946)	(42,410,714)
	11	-	(29,781,859)

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

Note 24 - Income tax expense

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

	2016	2015
DIT assets		
Retirement benefit obligation	19,689,377	18,176,777
Allowance for impairment of receivables	5,515,965	5,953,408
Allowance for impairment of input VAT	216,528	7,383,843
	25,421,870	31,514,028
DIT liabilities		
Revaluation increment on property and equipment	(63,753,543)	(78,525,208)
Unrealized foreign exchange gains	-	(528,935)
	(63,753,543)	(79,054,143)
DIT liabilities, net	(38,331,673)	(47,540,115)

The maturity of DIT assets and liabilities are as follows:

	2016	2015
DIT assets:		
Expected to be recovered within 12 months	216,528	-
Expected to be recovered more than 12 months	25,205,342	31,514,028
	25,421,870	31,514,028
DIT liabilities		
Expected to be settled within 12 months	(15,375,906)	(15,375,906)
Expected to be settled more than 12 months	(48,377,637)	(63,678,237)
	(63,753,543)	(79,054,143)
	(38,331,673)	(47,540,115)

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

Peak Flag and HSSC have no DIT assets and liabilities as at December 31, 2016 and 2015.

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

	Note	2016	2015
Beginning of year		47,540,115	75,922,274
DIT credited to profit or loss		(10,929,123)	(26,173,044)
DIT charged (credited) to other comprehensive income	20	1,720,681	(2,209,115)
End of year		38,331,673	47,540,115

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

	2016	2015	2014
Current	90,450,471	64,986,449	85,317,208
Deferred	(10,929,123)	(26,173,044)	(29,972,402)
	79,521,348	38,813,405	55,344,806

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

	2016	2015	2014
Income tax computed at 30%	54,122,569	36,576,396	54,145,523
Adjustments to income tax resulting from:			
Non-deductible expenses	26,282,836	2,569,063	1,495,758
Interest income subjected to final tax	(416,400)	(41,059)	(133,664)
Share in profit of associates	(467,657)	(290,995)	(162,811)
Income tax expense	79,521,348	38,813,405	55,344,806

Critical accounting judgment

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

Note 25 - Foreign currency denominated monetary assets and liabilities

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

	In USD	In JPY
At December 31, 2016		
Assets		
Cash	403,937	1,899,164
Trade and other receivables	283,325	-
	687,262	1,899,164
Liabilities		
Trade and other liabilities	-	(90,459,028)
Borrowings	(255,107)	-
	(255,107)	(90,459,028)
Net foreign currency assets (liabilities)	432,155	(88,559,864)
Year-end exchange rates	49.55	0.43
Peso equivalent	21,413,280	(38,080,742)

	In USD	In JPY
At December 31, 2015		
Assets		
Cash	368,810	1,899,099
Trade and other receivables	269,793	-
	638,603	1,899,099
Liabilities		
Trade and other liabilities	-	(146,658,320)
Borrowings	(475,250)	-
	(475,250)	(146,658,320)
Net foreign currency assets (liabilities)	163,353	(144,759,221)
Year-end exchange rates	47.17	0.39
Peso equivalent	7,705,361	(56,456,096)

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

	Note	2016	2015	2014
Realized foreign exchange (loss) gain		(2,987,419)	4,943,140	1,822,016
Unrealized foreign exchange gain (loss)		1,364,267	(1,763,120)	14,858,873
	19	(1,623,152)	3,180,020	16,680,889

Unrealized foreign exchange loss, net on borrowings presented under finance cost in the consolidated statements of total comprehensive income for the year ended December 31, 2016 amounted to P2,086,027 (2015 - P1,396,810; 2014 - P3,032,874).

Note 26 - Supplemental disclosure to consolidated statement of cash flows

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

Non-cash investing activities in 2014 pertain to acquisition of property and equipment amounting to P152,687,776 using the escrow funds and finance lease amounting to P109,677,448 (Note 7) and P4,301,032 (Note 22), respectively.

Note 27 - Critical accounting estimates, assumptions and judgments

In preparing the Group's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as at the date of the consolidated financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed hereafter.

(a) *Critical accounting estimates and assumptions*

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

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

- Determining control over investments with ownership of less than half of the entity's total equity (Note 1.1)
- Recoverability of trade and other receivables (Note 3)
- Impairment of investment in associate (Note 5)
- Impairment of property and equipment (Notes 6 and 7)
- Impairment of investment properties (Note 9)
- Recoverability of input VAT (Note 10)
- Lease agreements (Note 22)
- Current and deferred income tax (Note 24)

Note 28 - Financial risk and capital management

28.1 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.

28.2 Components of financial assets and liabilities

Financial assets

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

	Notes	2016	2015
Cash	2	89,661,565	124,797,892
Trade receivables, gross	3	377,538,322	345,253,719
Advances to related parties	21	9,389,948	9,389,948
Refundable deposits	4	468,262	226,262
Available-for-sale financial assets	10	810,000	810,000
		477,868,097	480,477,821

Trade receivables are presented gross of allowance for impairment amounting to P18,386,551 as at December 31, 2016 (2015 - P19,844,693).

Advances to employees amounting to P24,521,104 as at December 31, 2016 (2015 - P4,200,827) are considered non-financial assets as these are mainly subject to liquidation.

Lease guarantee deposits amounting to P4,356,032 as at December 31, 2016 (2015 - P4,301,032) are also considered as non-financial asset as these will be applied as final payment at the end of the finance lease term (Note 10).

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	2016	2015
Trade and other payables	11	201,233,796	154,458,075
Short-term loans	12	190,000,000	196,000,000
Borrowings	12	620,303,309	611,192,047
Finance lease liability	22	33,993,120	37,148,902
		1,045,530,225	998,799,024

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

	Note	2016	2015
Unearned income	11	7,869,161	11,024,273
Payable to government agencies	11	6,672,911	2,899,026
Advances from customers - construction contract	11	-	29,781,859
		14,542,072	43,705,158

28.3 Market risk

(a) Foreign exchange risk

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

For the year ended December 31, 2016, if the US Dollar had strengthened/weakened by 0.19% (2015 - 0.16%) with all other variables held constant, pre-tax profit for the year and equity would have been P34,261 (2015 - P12,329) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US Dollar-denominated net foreign currency financial assets.

For the year ended December 31, 2016, if the Japanese Yen had strengthened/weakened by 1.88% (2015 - 2.5% weakened/strengthened) with all other variables held constant, pre-tax profit for the year and equity would have been P502,134 lower/higher (2015 - P1,411,402 lower/higher), mainly as a result of net foreign exchange losses/ gains on translation of Japanese Yen-denominated net foreign currency denominated monetary liabilities.

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

(b) Price risk

The Group is exposed to equity securities price risk because of the Group's proprietary shares in golf and country club classified as available-for-sale financial assets in the consolidated statement of financial position.

At December 31, 2016 and 2015, the Group's exposure to price risk is not considered significant.

(c) Cash flow and fair value interest rate risk

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

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

28.4 Credit risk

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

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

				Past due but not impaired		
	Notes	Gross amount	Neither past due nor impaired	Up to 60 days	Over 60 days	Overdue and impaired
December 31, 2016						
Cash	2	88,080,606	88,080,606	-	-	-
Trade receivables	3	377,538,322	174,897,610	35,815,446	148,438,715	18,386,551
Advances to related party	21	9,389,948	9,389,948	-	-	-
Refundable deposits	4	468,262	468,262	-	-	-
		475,477,138	272,836,426	35,815,446	148,438,715	18,386,551
December 31, 2015						
Cash	2	122,472,010	122,472,010	-	-	-
Trade receivables	3	345,253,719	241,237,887	42,412,308	41,758,831	19,844,693
Advances to related party	21	9,389,948	9,389,948	-	-	-
Refundable deposits	4	226,262	226,262	-	-	-
		477,341,939	373,326,107	42,412,308	41,758,831	19,844,693

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 2016 and 2015.

As at December 31, 2016 and 2015, the Company holds a maritime lien over the ships owned and operated by a government-owned corporation as security for a receivable amounting to P2,536,633. The fair value of the maritime lien amounted to P12,025,458.

Credit quality of fully performing financial assets

(a) Neither past nor impaired

Cash in banks

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

	2016	2015
Universal banks	65,620,799	108,059,482
Commercial banks	22,216,800	10,741,443
Thrift banks	243,007	3,671,085
	88,080,606	122,472,010

The remaining item in cash presented in the consolidated statement of financial position pertains to cash on hand amounting to P1,580,959 as at December 31, 2016 (2015 - P2,325,882) (Note 2).

Trade receivables

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As at December 31, 2016, trade receivables amounting to P174,897,610 (2015 - P241,237,887) which are neither past due nor impaired, are fully recoverable as a result of management's assessment of the credit worthiness of these customers and historical experience. To minimize credit risk, the Group transacts only with counterparties with good credit standing.

Advances to related parties

Advances to related parties amounting to P9,389,948 as at December 31, 2016 and 2015 that are neither past due nor impaired consist primarily of various charges and advances for working capital purposes. These advances are fully recoverable as at December 31, 2016 and 2015 and no provision for impairment is required.

Refundable deposits

Refundable deposits amounting to P468,262 as at December 31, 2016 (2015 - P226,262) pertain to deposits made to lessors for the lease of the Group's office space and warehouse, which are refundable at the end of the respective lease term.

(b) Past due but not impaired

Past due but not impaired trade receivables as at December 31, 2016 amounting to P184,254,161 (2015 - P84,171,139) are related to a number of independent customers with no history of default. Management has assessed based on credit worthiness and existing relationship with customers as well as historical experience that these accounts are fully collectible and therefore no provision for impairment is required.

(c) Overdue and impaired

As at December 31, 2016, trade receivables amounting to P18,386,551 (2015 - P19,844,693) were impaired and have been fully provided for with allowance for impairment. The individually impaired receivable from customers relate to customers that are in unexpectedly difficult economic situations. These trade receivables were assessed by management as non-recoverable.

28.5 Liquidity risk

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

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

	Notes	Gross amount	Due and demandable	Less than 3 months	3-12 months	More than one year
December 31, 2016						
Trade and other payables	11	201,233,796	-	201,233,796	-	-
Short-term loans	12	191,954,146	-	158,558,958	23,272,813	10,122,375
Borrowings	12	690,545,875	-	65,684,351	184,693,414	440,168,110
Finance lease liability	22	39,537,234	-	1,289,258	3,867,772	34,380,204
		1,123,271,051	-	426,766,363	211,833,999	484,670,689
December 31, 2015						
Trade and other payables	11	154,458,075	-	154,458,075	-	-
Short-term loans	12	196,581,250	-	-	196,581,250	-
Borrowings	12	655,194,887		7,878,000	256,352,192	390,964,695
Finance lease liability	22	44,694,264	-	1,289,258	3,867,772	39,537,234
		1,050,928,476	-	163,625,333	456,801,214	430,501,929

Short term loans and long-term borrowings at December 31, 2016 include the undiscounted cash flows on future interest payable of P1,954,146 and P70,242,566, respectively (2015 - P581,250 and P44,002,840, respectively).

The Group expects to settle above financial liabilities in accordance with their contractual maturity.

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

28.6 Capital management

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

The Group manages its capital structure and makes the adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2016 and 2015.

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

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

	2016	2015
Total debt	1,060,072,297	1,042,504,182
Total equity	1,405,939,440	1,252,890,368
Debt-to-equity ratio	0.75:1	0.83:1

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

	Notes	2016	2015
Trade and other payables		215,775,868	198,163,233
Short-term loans	12	190,000,000	196,000,000
Borrowings	12	620,303,309	611,192,047
Finance lease liability	22	33,993,120	37,148,902
		1,060,072,297	1,042,504,182

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

	Note	2016	2015
Share capital	13	605,238,580	605,238,580
Additional paid-in capital	13	121,632,762	121,632,762
Fair value reserve on available-for-sale financial assets		(160,000)	(160,000)
Retained earnings attributable to the owners of Parent Company		679,228,098	526,179,026
		1,405,939,440	1,252,890,368

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 Group is compliant with respect to this requirement as at December 31, 2016 and 2015.

Note 29 - 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.

29.1 Basis of preparation

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

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

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are summarized in Note 27.

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, 2016:

- PAS 1 (Amendments), Presentation of financial statements - Disclosure Initiative. The amendments provide clarifications on a number of issues, including:
  a) Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
  b) Disaggregation and subtotals – line items specified in PAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
  c) Notes – confirmation that the notes do not need to be presented in a particular order.
  d) Other comprehensive income arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

  According to the transitional provisions, the disclosures in PAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments. This amendment did not have significant impact to the consolidated financial statements of the Group.

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

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

Other standards, amendments and interpretations which are effective for the financial year beginning January 1, 2016 are not considered material or relevant to the Group.

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

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2016 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

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

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has three classification categories: amortized cost, fair value through OCI, and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI.

  The impairment rules of PFRS 9 introduce an expected credit losses model that replaces the incurred loss impairment model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The Group's initial assessment of the impact of PFRS 9 is that it is not significant, but will continuously evaluates until its effective date.

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

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

  Based on its assessment, management does not expect a significant impact on its consolidated financial statements as a result of the adoption of this standard but will continuously evaluates until its effective date.

- *PFRS 16, 'Leases' (effective January 1, 2019).* This standard replaces PAS 17 'Leases'. PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts) has been updated, lessors will also be affected by the new standard.

Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

There are no other standards, amendments or interpretations that are effective beginning after January 1, 2016 that would be expected to have a material impact on the Group.

29.2 Consolidation

(a) Business combination

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

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Parent Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

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

On January 1, 2014, the Parent Company 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 and had limited operating activities in 2015. Non-controlling interest at January 1, 2014 amounted to P6,800,865 calculated using the proportionate share of recognized identifiable net assets of the subsidiary.

The purchase price allocation is presented below:

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

(b) Subsidiaries

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

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

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

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

(c) Associate

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

Under the equity method, the carrying amount of the investment in associate is increased or decreased to recognize the Group's share of the net earnings (losses) and other comprehensive income of the associates after the date of acquisition. The Group's share in the net earnings (losses) and other comprehensive income of the associates is recognized in the Group's profit or loss. Items that have been directly recognized in the associates' equity are recognized in equity of the Group. Distributions received from the associates reduce the carrying amount of the investment.

If the Group's share in net losses of associates equals or exceeds its interest in the associates, the Group will discontinue recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate.

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

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

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

29.3 Cash

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

29.4 Financial assets

(a) Classification and presentation

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

(b) Recognition and measurement

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

Loans and receivables

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

Available-for-sale financial assets

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

(c) Impairment

Loans and receivables

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

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

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

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

Impairment testing of trade receivables is described in Note 29.8.

Available-for-sale financial assets

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

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

(d) Derecognition

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

29.5 Financial liabilities

(a) Classification and presentation

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

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

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

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

(b) Recognition and measurement

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

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

(c) Derecognition

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

29.6 Offsetting of financial instruments

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

The Group has no financial instruments that meet the offsetting criteria as at December 31, 2016 and 2015.

29.7 Fair value measurement

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

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

Specific valuation techniques used to value financial instruments include:

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

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

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

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

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

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

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

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

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

29.8 Trade and other receivables

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

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

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

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

Subsequent recoveries of amounts previously written-off are credited to 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.

29.9 Prepayments and other assets

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

Other assets consist substantially of input value-added taxes (VAT) which are recognized as assets in the period such input VAT become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group.

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

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

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

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

29.10 Property and equipment

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

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

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

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

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

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 29.13).

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

29.11 Computer software

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

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

Relevant disclosures for Group's accounting policies on impairment of computer software are discussed in Note 29.13.

29.12 Investment property

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

Investment properties consist of land in various locations. Land is initially recognized at cost and subsequently carried at cost less any impairment losses.

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

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

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

29.13 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as land, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property and equipment, computer software, investment properties, input VAT and investment in associate, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses, if any, are recognized in profit or loss as part of general and administrative expenses.

When impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. Reversals of an impairment loss are credited to the provision account in profit or loss.

29.14 Trade and other payables

Trade and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established or when the corresponding assets or expenses are recognized. These are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities.

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

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

29.15 Borrowings and borrowing cost

Borrowings

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

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

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

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

Borrowing costs

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

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

29.16 Provisions

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

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

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

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

29.17 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

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

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

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

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

29.18 Employee benefits

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

(a) Other short-term employee benefits

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

(b) Retirement benefit obligations

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

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

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

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

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

(c) Termination benefits

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

29.19 Share capital

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

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

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

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

29.20 Other comprehensive income

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

29.21 Retained earnings

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

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

29.22 Dividend distribution

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

29.23 Foreign currency transactions and translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiary

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

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

b) Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
c) All resulting exchange differences are recognized as cumulative translation differences as a separate line item under equity.

As at December 31, 2016, cumulative translation differences recognized in equity amounted to P1,212,105 loss (2015 - P1,793,195 gain).

29.24 Revenue recognition

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

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

(a) Sale of services

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

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

(b) Income from construction contracts

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

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

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

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

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

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

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

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

(c) Interest income

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

(d) Dividend income

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

(e) Other income

Other income is recognized in profit or loss when earned.

29.25 Costs and expenses

Costs and expenses are recognized:

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

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

29.26 Leases where Group is a lessee

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

(a) Operating lease

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

(b) Finance lease

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

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated consistent with that for comparable depreciable assets that are owned and the depreciation shall be calculated in accordance with the policy stated in Note 29.10.

29.27 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Parent Company and held as treasury shares.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Parent Company has two possible categories of dilutive potential common shares: convertible debt and share options. The Parent Company has no convertible debt nor share options as at December 31, 2016 and 2015.

29.28 Related party relationships and transactions

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

29.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the BOD that makes strategic decisions.

As at December 31, 2016 and 2015, the Group has one operating business segment which pertains to revenue and related economic activities arising from harbor assistance including those of Jetty construction services. In 2015, the Group started to operate in Malaysia creating two geographical segments as at December 31, 2016 and 2015.

Below are the geographical segments of the Group:

As at and for the year ended December 31, 2016

	Philippines	Malaysia	Elimination	Total
Revenue	1,320,337,775	40,492,250	-	1,360,830,025
Segment result	230,175,540	(8,598,317)	-	221,577,223
Share in net profit of associate	1,558,856	-	-	1,558,856
Finance costs	(39,842,550)	(2,884,965)	-	(42,727,515)
Income tax expense	(79,521,348)	-	-	(79,521,348)
Profit for the year	112,370,498	(11,483,282)	-	100,887,216

	Philippines	Malaysia	Elimination	Total
Segment assets	2,888,664,338	137,851,867	(275,037,549)	2,751,478,656
Segment liabilities	1,331,595,341	154,325,923	(279,144,730)	1,206,776,534
Capital expenditures	360,606,885	-	-	360,606,885
Depreciation and amortization	262,637,276	353,007	-	262,990,283
Non-cash expenses other than depreciation and amortization	20,073,557	-	-	20,073,557

As at and for the year ended December 31, 2015

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

	Philippines	Malaysia	Elimination	Total
Segment assets	2,630,468,460	27,009,365	(34,323,577)	2,623,154,248
Segment liabilities	1,188,226,029	31,352,325	(31,865,477)	1,187,712,877
Capital expenditures	426,751,704	9,240,912	-	435,992,616
Depreciation and amortization	233,364,139	24,957	-	233,389,096
Non-cash expenses other than depreciation and amortization	40,927,988	-	-	40,927,988

29.30 Subsequent events (or Events after the reporting date)

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


SUBIC OFFICE
MAKATI OFFICE
CEBU OFFICE
CAGAYAN DE ORO OFFICE
GENERAL SANTOS OFFICE
DAVAO OFFICE

HARBOR STAR OFFICES

HEAD OFFICE:

MAKATI
2224 A. Bonifacio Street corner Pres. Sergio Osmeña Highway,
Bangkal, Makati City, 1233, Philippines
Tel. Nos.: (+632) 886-3703 to 09   Fax No.: (+632) 887-2103
Email Add.: info@harborstar.com.ph

REGIONAL OFFICES:

CAGAYAN DE ORO
Unit 102, LYL Building, Kimwa Compound, Baloy, Cagayan De Oro City, 9000
Telefax: (+6388) 856-1594
Email Add.: cdo@harborstar.com.ph

CEBU
Unit 1, Benley Building, J. De Veyra Street,
North Reclamation Area, Brgy. Carreta, Cebu City, 6000
Tel No.: (+6332) 231-3070   Fax No.: (+6332) 231-2025
Email Add.: cebu@harborstar.com.ph

DAVAO
G/F SJRDC Bldg., Insular Village, Lanang, Davao City, 8000
Tel. No.: (+6382) 234-9798   Fax No.: (+6382) 235-2029
Email Add.: davao@harborstar.com.ph

GENERAL SANTOS
Unit 5, JMP3 Building, Makar National Highway, General Santos City, 9500
Tel. No.: (+6383) 302-1740   Fax No.: (+6383) 302-1745
Email Add.: rbchavez@harborstar.com.ph

SUBIC
Unit 9 &10, Alava Quay, Waterfront Road, Subic Bay Freeport Zone (SBFZ)
Tel. No.: (+6383) 302-1740   Fax No.: (+6383) 302-1745
Email Add.: jpramos@harborstar.com.ph

OVERSEAS OFFICE:

PEAK FLAG SDN. BHD.
No. 93-A, Lorong Sanggul, 1F, Bandar Puteri, 41200,
Klang, Selangor, Malaysia
Tel. No.: (+603) 5161-8618   Fax No.: (+603) 5161-9619
Email Add.: adev.pf@gmail.com

HARBOR STAR
SHIPPING SERVICES, INC.

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

www.harborstar.com.ph